

**Public Joint-Stock Company**  
**“Interregional Distribution Grid Company of the North-West”**



Appendix No.5  
to Minutes of session of the Board of  
Directors of  
IDGC of the North-West, PJSC  
dated 29.02.2016 No. 197/12

APPROVED  
by the Board of Directors of  
IDGC of the North-West, PJSC  
on 29.02.2016 (Minutes No. 197/12)

Quality Management System

**INTERNAL AUDIT POLICY**  
**of IDGC of the North-West, PJSC**

**(restated)**

Saint Petersburg  
2016

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## 1. Purpose and application scope

1.1 The Internal Audit Policy of IDGC of the North-West, PJSC (hereinafter - the “Policy”) has been elaborated for purposes of defining the core principles of organization and functioning of internal audit within IDGC of the North-West, PJSC (hereinafter - the “Company”) and assistance in shaping unified approaches to building, management and coordination of the internal audit function within Rosseti Group of Companies.

1.2 This Policy is an in-house regulatory document of the Company elaborated in accordance with the requirements of the legislation of the Russian Federation as well as with account for universally recognized practices and standards of internal audit activities. During elaboration of the Policy, the Company was guided by the following core documents:

- Federal Law No. 208-FZ “On Joint-Stock Companies” dated 26.12.1995;
- Federal Law No. 402-FZ “On Accounting” dated 06.12.2011;
- Federal Law No. 41-FZ “On the Accounts Chamber of the Russian Federation” dated 05.04.2013;
- Federal Law No. 273 “On fighting corruption” dated 25.12.2008;
- Resolution No. 696 of the Government of the Russian Federation “On approval of federal rules (standards) governing auditor activities” dated 23.09.2002;
- Corporate Governance Code recommended by Letter No. 06-52/2463 of the Bank of Russia “On the Corporate Governance Code” dated 10.04.2014;
- Order No. 13-62/pz-n of the FFMS of Russia “On the procedure of securities admission to organized trading” dated 30.07.2013;
- Recommendations No. PZ-11/2013 of the Ministry of Finance of Russia “Economic actor organizing and carrying out internal control of facts of economic life as may be executes, maintaining accounting records and drawing accounting (financial) statements”(Letter No. 07-04-15/57289 of the Ministry of Finance of the Russian Federation dated 25.12.2013);
- Order No. 86 of the Federal Agency for State Property Management “On approval of the methodological recommendations on organization of work of Audit Committees under the Board of Directors within joint-stock companies with participation of the Russian Federation” dated 20.03.2014;
- Order No. 249 of the Federal Agency for State Property Management “On approval of the methodological recommendations on organization of internal audit work within joint-stock companies with participation of the Russian Federation” dated 04.07.2014;
- Order No. 330 of the Federal Agency for State Property Management dated 03.09.2014 “On approval of methodological recommendations on building the internal audit function within holding structures with participation of the Russian Federation”;
- Methodological guidelines of the Federal Agency for State Property Management on preparation of regulatory documents governing the activities of state corporations and state-owned companies as well as open joint-stock companies as listed in Ordinance No. 91-r of the Government of the Russian Federation (endorsed by Instruction No. ISh-P13-4148 of the Government of the Russian Federation dated 24.06.2015);
- Listing rules approved by the management bodies of a stock exchange and registered by the Bank of Russia in accordance with the established procedure;
- International fundamentals of the professional practices of internal auditors adopted by the international Institute of Internal Auditors (inclusive of the International Professional Standards of Internal Audit);
- COSO concept and appendices “Internal control- integrated framework”(2013);
- COSO concept “Guidance on monitoring internal control systems” (2009);
- COSO concept “Enterprise risk management - integrated framework”(2014);

- International Standard GOST R ISO 31000–2010 “Risk management. Principles and regulations”(Order No. 883-STof the State Committee for Standardization, Metrology and Certification dated 21.12.2010);

- International Standard GOST R ISO 31010:2011 “Risk management.Risk evaluation methods”(Order No. 680-st of the Federal Agency for Technical Regulation and Metrology dated 01.12.2011);

- the Charter and other normative documents of the Company.

1.3 The Policy is based on best practices, the experience of front-rank global and Russian companies and has been elaborated for development and for the purposes of implementation of the provisions of:

- the Strategy for development of the electric power grid complex of the Russian Federation as approved by Ordinance No. 511-r of the Government of the Russian Federation dated 03.04.2013;

- the Strategy for development and improvement of the internal control system of Rosseti, OJSC and subsidiary and dependent companies of Rosseti, OJSC as approved by decision of the Board of Directors of Rosseti, OJSC on 10.02.2014 (Minutes No. 143);

- the Internal Audit Policy of Rosseti, PJSC (restated) approved by decision of the Board of Directors of Rosseti, PJSC on 16.11.2015 (Minutes No. 208).

1.4 This Policy determines:

- goals and tasks of the Internal Audit;

- the Internal Audit function organization form;

- the Internal Audit functions;

- the Internal Audit function discharge principles;

- the Internal Audit accountability;

- the Internal Audit authorities;

- the principles, procedure and character of the Internal Audit interaction with stakeholders;

- the Ethics Code and requirements to internal auditors of Rosseti Group of Companies;

- the Internal Audit responsibilities;

- the approaches to quality control assurance and evaluation of Internal Audit activities;

- other core approaches and principles applied by the Company during the Internal Audit function discharge.

1.5 The Internal Audit function discharge within the Company is performed based on unified approaches to building, management and coordination of the Internal Audit function established within Rosseti Group of Companies.

1.6 For purpose of assisting in enhancement of efficiency of the Rosseti Companies Group management in general inspection activities and actions are planned and performed with due consideration of affect of risks associated with processes inspected not only for the Company activity but also for the Group activity in general.

1.7 For purposes of ensuring the Internal Audit function discharge within Rosseti Group of Companies on a unified basis, permanent monitoring of the function discharge quality and control of its independence, representatives of the Internal Audit Subdivision of Rosseti, PJSC have the right to participate in sessions of the Board of Directors of the Company and the Audit Committee under the Board of Directors of the Company during consideration of issues associated with building and discharge of the Company Internal Audit function.

1.8 The Internal Audit function discharge form within the Company is creation of an Internal Audit Subdivision (separate structural subdivision) or engagement of an independent external organization (outsourcing). The decision on the most optimal form of the Internal Audit function discharge takes the Board of Directors of the Company (hereinafter referred to as the “Board of Directors”).

Creation, reorganization and liquidation of the Internal Audit Subdivision representing the Company’s structural subdivision are performed by order of the Company’s Sole Executive Body by

virtue of a decision of the Board of Directors of the Company with preliminary consideration by the Audit Committee under the Board of Directors of the Company (hereinafter referred to as the “Audit Committee”).

The head of the Internal Audit Subdivision is appointed to the position or dismissed by the Company’s Sole Executive Body by virtue of a decision of the Board of Directors of the Company. Approval of decisions on appointment or dismissal of the head of the Internal Audit Subdivision as well as determination of the remuneration due to them (with account for preliminary consideration by the Audit Committee) fall within the competence of the Board of Directors of the Company.

During selection of an external organization for discharge of the Company’s Internal Audit function one must ensure independence and objectivity, professionalism and competence of such organization and such organization personnel involvement into interaction with the Company

1.9 The Policy is approved by decision of the Board of Directors of the Company with account for preliminary consideration by the Audit Committee. Introduction of amendments to the Policy is performed according to the same procedure: by virtue of a decision of the Board of Directors of the Company with account for preliminary consideration by the Audit Committee.

Amendments to the Policy may be initiated by the Board of Directors, the Audit Committee, the Sole Executive Body, the Management Board, the head of the Company’s Internal Audit Subdivision as well as the head of the Internal Audit Subdivision of Rosseti, PJSC.

The head of the Company’s Internal Audit Subdivision performs elaboration and preparation of propositions on introduction of amendments to the Policy.

Amendments to the Policy are introduced in the following cases:

- amendments to the Russian Federation legislation;
- changes in the organizational structure and/or authorities of the Company’s managers;
- changes in the goals, objectives and functions of the Internal Audit;
- changes in authorities and occurrence of essential limitations of the Internal Audit activities;
- necessity of introduction of amendments to the Policy following the results of evaluation of the Internal Audit activities quality;
- occurrence of other conditions/events having an essential effect the Internal Audit activities.

1.10 With regard to subsidiary and dependent companies of the Company (hereinafter referred to as “SDCs”) this Policy contains provisions of general (methodological) character.

The Policy (including separate provisions hereof) is recommended for usage in SDCs as a framework for elaboration of in-house documents of such SDCs regulating the Internal Audit activities in the SDCs.

## 2. Terms and Definitions

The following terms are used herein, defined as follows:

**Internal Audit**<sup>1</sup> – activities related to provision of independent and objective guarantees and consultations aimed at improvement of the Company’s activities. Internal audit is meant to assist in achievement of the Company’s goals in the most efficient and economically feasible way, using a systemic and consistent approach to evaluation and improvement of the risk management, internal control and corporate governance systems efficiency.

In this Policy the term “Internal Audit” is used for definition of the structural subdivision fulfilling the function of the Internal Audit, - the Internal Audit Subdivision. For definition of Internal Audit as activities (function) the term “Internal Audit Function” is used.

**Provision of guarantees** - objective analysis of available audit evidence to provide independent evaluation of the processes of corporate governance, risk management and control within the Company.

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<sup>1</sup>In accordance with the Definition of the Internal Audit representing a core element of the internal audit International Professional Practices Framework (IPPF) adopted by the International Institute of Internal Auditors.

**Provision of consultations** - the Internal Audit activities related to provision of consultations, advice, recommendations aimed at rendering assistance and improvement of the processes of corporate governance, risk management and internal control, excluding assumption of responsibility for managerial decisions by the internal auditors.

**Rosseti Group of Companies** - the core shareholder of the Company - Rosseti, PJSC and the subsidiary and dependent companies of Rosseti, PJSC.

**The Company** - IDGC of the North-West, PJSC.

**SDCs** - subsidiary and dependent companies of IDGC of the North-West, PJSC are legal persons in authorized capital whereof the Company participates.

**CIA** – Certified Internal Auditor - international certificate for specialists in the field of Internal Audit.

**IFAC** – IFAC is International Federation of Accountants .

### **3. Goals and objectives of Internal Audit**

3.1 The goal of Internal Audit is assisting the Board of Directors and Executive Bodies of the Company in enhancement of efficiency of the Company management, improvement of their financial and economic activities, inter alia - by way of a systemic and consistent approach to analysis and evaluation of the systems of risk management, internal control and corporate governance as instruments for ensuring reasonable assuredness of achievement of the goals set to the Company.

3.2 For the goals achievement, the Internal Audit completes objectives in the following areas:

1) adoption and application of unified approaches set within Rosseti Group of Companies to building, management and coordination of the Internal Audit function within the Company and SDCs;

2) conductance of Internal Audit, participation in other reviewing measures within the Company and SDCs;

3) provision of independent and objective guarantees in relation to efficiency of the systems of internal control, risk management and corporate governance as well as assisting the Executive Bodies and workers of the Company in elaboration and monitoring of execution of procedures and measures for improvement of the systems of internal control, risk management and corporate governance of the Company;

4) organization of efficient interaction of the Company with the internal auditor of the Company, the Auditing Commission of the Company as well as the persons rendering services for consulting in the field of risk management, internal control and corporate governance;

5) preparation of reports on the results of Internal Audit activities (including inter alia information on essential risks, deficiencies, the results and efficiency of execution of measures for elimination of the detected deficiencies, the results of execution of the plan of Internal Audit activities, the results of evaluation of the actual status, reliability and efficiency of the systems of internal control, risk management and corporate governance) and their provision to the Board of Directors of the Company (Audit Committee) and the Executive Bodies of the Company (Sole Executive Bodies/ Management Board).

3.3 Within the framework of internal and external evaluations of the quality of Internal Audit activities within the Company one performs evaluation of conformity of the goals and objectives set by the Policy to the goals and objectives established for Internal Audit by the corresponding Management Bodies of the Company. The results of evaluation are provided to the Board of Directors of the Company (Audit Committee), inter alia - for examination of the issue of the necessity to introduce amendments to the Policy.

3.4 During the Internal Audit organization the Company strives to apply the core principles and approaches reflected in the Code of Corporate Governance (recommended by Letter No. 06-52/2463 of the Bank of Russia dated 10.04.2014), in the Methodological recommendations on organization of internal audit work within joint-stock companies with participation of the Russian Federation approved by Order No. 249 of the Federal Agency for State Property Management dated 04.07.2014, in the

Methodological recommendations on building the internal audit function within holding structures with participation of the Russian Federation approved by Order No. 330 of the Federal Agency for State Property Management dated 03.09.2014, in the universally recognized standards governing activities in the field of Internal Audit, in particular, in the International Professional Standards of Internal Audit (enacted by the Institute of the Internal Auditors).

#### **4. Internal Audit functions**

For the goals achievement and the set objectives completion, the Internal Audit discharges the following functions:

1) to the extent of adoption and application of unified approaches established within Rosseti Group of Companies to building, management and coordination of the Internal Audit function within the Company and SDCs:

- elaboration of proposals on the most optimal form of discharge of the Internal Audit function within the Company and SDCs;

- carrying out activities for adoption of the unified principles of building of the Internal Audit functions within the Company and evaluation of implementation of the Internal Audit function which are established within Rosseti Group of Companies;

- elaboration and adoption of methodological documents regulating Internal Audit activities (policies, regulations, procedural rules, methodologies, guidelines and other documents) in accordance with the methodological documents elaborated by Rosseti, PJSC;

- generation of proposals on elaboration of documents determining the unified approaches and principles within Rosseti Group of Companies with regard to building, management and coordination of the Internal Audit function, participation in working groups for elaboration of documents concerning provision for Internal Audit activities;

- organization and conductance of measures for automation of the Internal Audit activities of the Company and SDCs.

2) to the extent of conductance of Internal Audit, participation in other reviewing measures within the Company and SDCs;

a) planning, organization and execution of Internal Audits of business processes (branches of activities), business functions, projects/plans/programms, structural and autonomous subdivisions and other review objects within the Company concerning the issues of ensuring:

- compliance with the requirements of the legislation, branch-specific regulatory legal instruments, in-house procedural rules, standards and other in-house documents (except for technical regulations, standards and rules governing activities related to operation of electric power grid facilities), contractual obligations;

- execution of instructions of state bodies of the Russian Federation concerning the issues of functioning and development of the electric power grid complex;

- execution of decisions/directions (instructions) of control bodies, requirements of organizational and administrative documents and other in-house documents;

- effectiveness, cost efficiency and effectiveness of activities;

- reliability, consistency, completeness and timeliness of preparation of accounting (financial) and managerial statements;

- preservation of assets.

b) implementation of the practice of conductance of topical audits by all the electric power grid companies forming part of Rosseti Group of Companies on a specific topic in accordance with the unified audit program;

c) conductance of reviews, completion of other missions by instruction of the Board of Directors (Audit Committee) and/or the executive bodies of the Company with regard to issues related to the Internal Audit competence;

- d) organization, planning and support of conductance of auditor reviews in SDCs;
  - e) participation of the workers of the Internal Audit Subdivision of the Company as elected members of auditing commissions or invited experts in the activities of the Auditing Commissions of SDCs;
  - f) participation in specialized (official) investigations into facts of abuses (fraud), infliction of damage to the Company and SDCs, improper, inefficient usage of resources and into other facts of mala fide/unlawful actions of workers and third parties;
  - g) informing the Board of Directors (the Audit Committee), the Sole Executive Body/the Management Board of the Company of the results of reviews, presentation of recommendations on elimination of violations and deficiencies detected in the course of reviews and proposals on enhancing the efficiency and effectiveness of the internal control, risk management and corporate governance systems, on improvement of the activities of the Company and SDCs;
  - h) monitoring of execution of plans of corrective measures aimed at elimination of violations and deficiencies detected in the course of reviews, implementation of recommendations and propositions on improvement of activities of the Company and SDCs;
  - i) organization and performance of post-audits in relation to business processes (branches of activities), business functions, projects/plans/programms, structural and autonomous subdivisions and other review objects.
- 3) to the extent of provision of independent and objective guarantees in relation to efficiency of the systems of internal control, risk management and corporate governance as well as assisting the Executive Bodies and workers of the Company in elaboration and monitoring of execution of procedures and measures for improvement of the systems of internal control, risk management and corporate governance of the Company:
- a) evaluation of efficiency of the internal control system including:
    - evaluation of the status of the internal (control) environment within the Company (inter alia - evaluation of such elements of the control environment as philosophy of the internal control system, honesty and ethical values, organizational structure, distribution of authorities and responsibilities, HR management);
    - evaluation of efficiency of implementation of the policy in the field of the internal control;
    - evaluation of the process of goal-setting within the Company, inter alia - determination of the adequacy of the criteria applied for analysis of the degree of completion (achievement) of the set goals;
    - detection of the internal control system deficiencies that did not allow (do not allow) to achieve the set goals;
    - evaluation of the risk management process;
    - evaluation of issues related to organization, building and execution of internal controls (control procedures) embedded in the processes;
    - evaluation of issues related to organization of information interaction (information exchange process) within the Company;
    - evaluation of the monitoring organization process within the Company, inter alia - of the results of adoption (implementation) of measures aimed at elimination of violations and deficiencies as well as the results of improvement of the internal control system;
  - b) evaluation of the risks management system efficiency including:
    - review for sufficiency and maturity of the elements of the internal control system within the Company for efficient risk management, inter alia - with regard to issues related to process organization, goal and objective setting, implementation of the provisions of the policy in the field of risk management, automation means, regulatory and methodological support, interaction of structural subdivisions within the framework of the risk management system, accounting, infrastructure inclusive of organizational structure etc.;
    - review for completeness of detection and correctness of evaluation of risks at all the management levels of the Company;



- review for efficiency of the control procedures of the Company and other risk management measures inclusive of efficiency of usage of the resources allocated for the purposes concerned;
  - conductance of analysis of information on the risks having actualized within the Company (inclusive of violations, facts of failure to achieve the goals set, facts of legal proceedings etc. as may be detected following the review results);
  - c) evaluation of corporate governance including:
    - review for compliance with the ethical principles and corporate value of the Company;
    - review of the procedure of the Company setting goals and monitoring/controlling their achievement;
    - review of the level of regulatory support on information interaction procedures (inter alia - in connection with risk management and internal control issues) at all the management levels of the Company including interaction with stakeholders;
    - review for ensuring the rights of shareholders inclusive of controlled companies and efficiency of interaction with stakeholders;
    - review of the procedure for disclosure of information on the activities of the Company;
  - d) provision of consultations to the executive bodies of the Company of the Company with regard to issues related to internal control, risk management and corporate governance (subject to preservation of independence and objectivity of internal audit).
- 4) The internal audit functions to the extent of organization of efficient interaction of the Company with the internal auditor of the Company, the Auditing Commission of the Company as well as the persons rendering services for consulting in the field of risk management, internal control and corporate governance are reflected in Section 8 “Internal Audit interaction with stakeholders” hereof.
- 5) The internal audit functions to the extent of preparation of reports on internal audit activities results and their provision to the Board of Directors (Audit Committee) and the executive bodies of the Company (Sole Executive Body/Management Board) are reflected in Section 8 “Internal Audit interaction with stakeholders” hereof.
- 6) The internal audit also discharges other functions aimed at achievement of the goals and completion of the objectives specified hereby.

## **5. Internal Audit function discharge principles. Internal Audit accountability**

5.1 The Internal Audit function within the Company is discharged based on compliance with the following functions:

- Independence;
- Honesty;
- Objectivity;
- Confidentiality;
- Professional competence.

The said principles are disclosed in the Ethics Code of internal auditors of Rosseti Group of Companies (appendix hereto).

5.2 During discharge of the Internal Audit function, independence is achieved through demarkation of the functional and administrative accountability of internal audit.

The Internal Audit is functionally report to the Board of Directors and administratively - to the Sole Executive Body of the Company.

5.2.1 The Board of Directors, within the framework of their competence determined by the Charter of the Company, carries out control and organization of activities of the Internal Audit Subdivision including:

- Approval hereof and of amendments hereto;
- Annual approval of the internal audit activities plan, a report on execution of such internal audit activities plan and the budget of the Internal Audit Subdivision;

- Approval of decisions on appointment or dismissal of the head of the Internal Audit Subdivision as well as determination of the amount of remuneration due to them;

- Consideration of substantial restrictions of the internal audit authorities and other restrictions that may negatively affect performance of internal audit activities.

5.2.2. Information on the progress in execution of the internal audit activities plan and on the results of the Internal Audit function discharge and other aspects affecting internal audit activities is provided to the Audit Committee at least on a quarterly basis.

The head of the Internal Audit Subdivision conducts meetings with the Audit Committee or Chairman of the latter dedicated to issues pertaining to the internal audit competence at least on a quarterly basis.

5.2.3. The administrative accountability of the Internal Audit to the Sole executive Body of the Company, in particular, stipulates:

- allocation of the funds as may be required for carrying out internal audit within the approved budget;

- obtainment of reports on internal audit activities;

- administration of the policy and activity procedures of the Internal Audit Subdivision;

- provision of support in interaction of the Internal Audit Subdivision with subdivisions of the Company and SDCs.

5.3. Independence and objectivity of internal audit within the Company are ensured through:

a) direct access of the head of the Internal Audit Subdivision to the Board of Directors of the Company (Audit Committee) and to the Sole Executive Body of the Company;

b) demarcation of internal audit authorities and duties from the activities of other structural subdivisions of the Company including the following:

- the head of the Internal Audit Subdivision can not be entrusted with duties unrelated to carrying out internal audit;

- the Internal Audit Subdivision can not include subdivisions and workers those activities is unrelated to carrying out internal audit;

c) no limitations of internal audit authorities, inter alia - during determination of the internal audit activities plan and of the scope of auditor reviews to be conducted, rights of access to documentation, employees and assets of the Company, resource restrictions of internal audit performance;

d) ensuring individual objectivity and independence of internal auditors through conductance of measures aimed at prevention of potential and existing conflicts of interests and biased attitudes inclusive of prohibition to conduct reviews in the areas the auditor has been responsible for during the year that preceded the review as well as internal audit evaluation.

5.4 Internal audit neither cancels or duplicates the functions of other workers and subdivisions of the Company and SDCs, inter alia - to the extent of their discharging current and preventive control functions. The internal audit is not entitled to participate in agreement and taking of decisions within the framework of financial and business activities of the Company and SDCs.

5.5. The Company adopts a risk-oriented approach to discharge of the internal audit function stipulating planning and conductance of review measures based on evaluation of risks for concentration of attention on the most vulnerable objects and branches of activity (transition from “periodical” reviews to reviews focused on key problems and issues).

5.6 During conductance of an auditor review the approaches must be complied with stipulating an optimal ratio of the methods and resources applied as well as reasonable sufficiency of the scope and character of the auditor procedures used for achievement of the auditor review goals.

5.7 The Company strives to see to it that internal audit expenditures are not in excess of the advantages obtained as a result of the review activities.

## **6. Requirements to internal auditors**

The following requirements are applicable to workers of the Internal Audit Subdivision - internal auditors:

1) qualification requirements

The internal auditors must preferably have:

- a higher economic (financial) or legal education got at Russian higher education institutions having a state accreditation and universally recognized foreign higher education institutions;
- auditor/professional accountant qualification certificate issued in accordance with the requirements of the legislation of the Russian Federation or a CIA certificate of the International Institute of Internal Auditors/internal auditor qualification attested by the International Federation of Accountants – IFAC;
- knowledge and skills required for achievement and completion of the internal audit goals and objectives inclusive of knowledge the key risks and control procedures and of the industry sector specificity to an extent sufficient for completion of the objectives as may be set;
- membership in a professional association of internal auditors.

2) requirements to personal qualities

The internal auditors must possess a totality of the following personal qualities:

- immaculate business (professional) reputation;
- integrity (being truthful, sincere, honest, discreet and prudent);
- openness (perception of alternative ideas or points of view);
- diplomacy (capability to interact with people in a tactful way);
- attentiveness and power of observation (taking notice of characteristic and substantial details);
- persistence (persevering an orientation at the goal achievement);
- resolution (timely decision-taking based on logical considerations and analysis);
- self-sufficiency (independent action and function discharge simultaneous with effective cooperation with the others).

3) requirements to compliance with the Ethics Code of internal auditors

When discharging their professional duties, the internal auditor must be guided by the Ethics Code of internal auditors of Rosseti Group of Companies (appendix hereto). Evaluation of the external auditors' activities conformity to the Ethics Code requirements is conducted in accordance with the Program for internal audit activities evaluation (guarantee) and quality enhancement elaborated and applied within the Company.

## **7. Internal Audit authorities and responsibilities**

7.1 When carrying out their activities, the head and workers of the Internal Audit Subdivision have the following authorities:

- 1) without hindrance access any assets, documents, accounting records, IT systems and resources and other information on the activities of the Company and SDCs (including that in electronic form) within the framework of discharging their official duties as well as copy such documents and information;
- 2) use information resources and software for internal audit purposes;
- 3) request from the Company and SDCs and obtain in written form (hardcopy or an electronic medium) documents, material, explanations and other information in accordance with review objectives<sup>2</sup>;
- 4) access all buildings, facilities, premises, offices and production, household and utility sites of the Company and SDCs for completion of internal audit objectives;
- 5) carry out photo and video shooting as well as sound recording in the course of the review conductance;

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<sup>2</sup>The said documents and information shall be furnished within 2 (Two) business days from the request receipt moment unless a longer term specified in the request.

6) conduct interviews with workers of the Company and SDCs (having previously informed the worker's line manager) in connection with issues related to implementation of internal audit objectives and functions;

7) obtain assistance as may be required from workers of the Company and SDCs within the framework of conductance of reviews inclusive of unscheduled ones as well as performance of other internal audit activities;

8) request from the Company and SDCs any information as may be required for controlling the course execution of the plan of corrective measures for elimination of violations and deficiencies detected following the results of reviews and analysis of corrective measures effectiveness;

9) participate in conferences and sessions of the working bodies of the Company (committees, commissions, work groups etc.) subject to preservation of the balance of independence and objectivity of internal audit and non-involvement in the operational activities of the Company;

10) elaborate and submit proposals on issues related to internal auditors professional training, retraining and qualification upgrade;

11) demand from the persons in charge for elimination of detected violations and deficiencies:

- timely elaboration, approval and execution of plans of measures for elimination of detected violations and deficiencies;

- timely provision of reports on the execution status of measures;

- provision of specifying of supporting information and documents on the execution status of plans of measures;

12) carry out other actions required for achievement of goals and completion of objectives of internal audit.

7.2 The head of the Internal Audit Subdivision has the right to:

1) participate in sessions/conferences of the Board of Directors, committees under the Board of Directors and executive bodies of the Company;

2) familiarize themselves with the current and perspective plans activity plans/programs, reports on execution of plans and programs, draft decisions and decisions of the Board of Directors, committees under the Board of Directors and executive bodies of the Company;

3) engage workers of structural subdivisions of the Company and SDCs as experts or third party experts for completion of individual objectives within the framework of internal audit activities following the procedure as established by in-house documents of the Company.

7.3. For purposes of excluding occurrence of a conflict of interests, the head and workers of the Internal Audit Subdivision must abstain from:

1) conductance of reviews in the fields of activities that they were responsible for during a year before the review;

2) participation in reviews and other missions in case of financial, property-related, kinship-conditioned or other concernment in the activities of the review objects;

3) participation in other activities that could impair their impartiality or be perceived as thus impairing;

4) management of workers of other subdivisions except for cases when such workers have been appointed to participate in performance of the review and other missions within the framework of internal audit activities.

7.4 The head and workers of the Internal Audit Subdivision have no right to:

- fail to disclose all the substantial facts as may be known to them when such disclosure may entail misrepresentation of the auditor report data;

- use or disclose any confidential information without the corresponding authorities to do so except for cases where such information disclosure is stipulated by the requirements of the legislation.

7.5 In case of occurrence of any substantial restrictions of the authorities of the Internal Audit Subdivision or other restrictions that can negatively affect the internal audit activities or of a conflict of interests, the workers of the Internal Audit Subdivision communicate the facts to the head of the Internal

Audit Subdivision with the latter further informing the Board of Directors of the Company (Audit Committee), the Sole Executive Body of the Company as well as the head of the Internal Audit Subdivision of Rosseti, PJSC.

7.6 The liability of the head and workers of the Internal Audit Subdivision is determined by the conditions of their employment contracts, position descriptions, the regulations on the Internal Audit Subdivision and other organizational and administrative in-house regulatory documents of the Company and is inclusive of (but not limited to) liability for substandard completion or non-completion of the objectives and functions entrusted to them, failure to execute workplace discipline requirements, loss of and/or damage to material valuables and documents, disclosure of details representing a secret protected by the laws of the Russian Federation and in-house documents of the Company.

## **8. Internal Audit interaction with stakeholders**

8.1 Within the framework of their activities, the internal audit carries out interaction with the Board of Directors of the Company (Audit Committee) in the following core aspects:

1) conductance of internal audits based on the plan of internal audit activities approved by the Board of Directors (and preliminarily considered by the Audit Committee);

2) conductance of other reviews and fulfilment of other missions in accordance with decisions/instructions of the Board of Directors of the Company (Audit Committee) to the extent of the internal audit competence;

3) exercise of the right of the head of the Internal Audit Subdivision to participate in sessions of the Board of Directors of the Company (committees under the Board of Directors) as well as directly access the Board of Directors of the Company (Audit Committee);

4) ensuring preliminary consideration of the plan of internal audit activities, a report on execution of the plan of internal audit activities and of the budget of the Internal Audit Subdivision as well as of the Policy of the Company in the field of internal audit/amendments thereto by the Audit Committee (for further submittal for approval to the Board of Directors of the Company);

5) presentation of reports on progress in execution of the plan of internal audit activities (including those incorporating information on the results of individual auditor and auditing reviews, substantial risks detected, the results and efficiency of execution of measures aimed at elimination of deficiencies detected, on the results of discharge of the internal audit function as well as on other aspects affecting the internal audit activities) to the Audit Committee;

6) ensuring submittal of the results of an annual evaluation of the condition and efficiency of internal control, risk management and corporate governance systems, the core trends in the activities of the Company and SDCs, of the practice of discharge of the internal audit function within the Company including information on the existence/nonexistence of restrictions on the activities and on ensuring independence of internal audit and sufficiency of resource provision for consideration to the Board of Directors of the Company (Audit Committee);

7) conductance of a meeting of the head of the Internal Audit Subdivision with the Audit Committee or Chairman of the latter dedicated to issues pertaining to the internal audit competence at least on a quarterly basis;

8) provision of the results of internal and external evaluation of the internal audit activities quality to the Board of Directors of the Company (Audit Committee).

8.2 The internal audit carries out with the executive bodies of the Company in the following core aspects (with preservation of the balance of independence and objectivity of internal audit and non-involvement in the operational activities of the Company and SDCs):

1) conductance of other reviews and fulfilment of other missions in accordance with the plan of internal audit activities and instructions of the executive bodies of the Company (to the extent of the internal audit competence);

2) exercise of the right of the head of the Internal Audit Subdivision to participate in conferences/sessions of the executive bodies of the Company as well as directly access the Sole Executive Body of the Company;

3) informing of the results of reviews, presentation of recommendations on elimination of violations and deficiencies detected in the course of reviews and proposals on enhancing the efficiency and effectiveness of the internal control, risk management and corporate governance systems, on improvement of the activities of the Company and SDCs.

8.3 The internal audit carries out interaction with the external auditor of the Company in the following core aspects:

1) evaluation of the internal auditor operation quality, preparation of a conclusion following the results of such evaluation, presentation of the evaluation results for consideration to the Audit Committee, ensuring stakeholders' informing;

2) participation in determination of selection and qualification criteria, consideration of tender documentation, determination of the essential conditions of a contract and conductance of an open tender for selection of the external auditor of the Company;

3) assisting the external auditor in provision of information on the condition of the internal control system with the Company;

4) participation in discussion of the external auditor's conclusion on the condition of the internal control system;

5) participation in settlement of disagreements arising in the course of external auditor reviews;

6) conductance of meetings with the external auditor of the Company at least on an annual basis, in particular - during evaluation of the external auditor's conclusions concerning the accounting (financial) statements of the Company.

8.4 The internal audit carries out interaction with the Auditing Commission of the Company in the following core aspects:

1) organization and coordination of interaction of structural subdivisions of the Company with the Auditing Commission of the Company;

2) preparation and provision of information and conclusion within the framework of the internal audit competence;

3) organizational support of the activities of the Auditing Commission of the Company;

4) organization of elaboration of corrective measures following the results of auditor reviews aimed at elimination of the detected violations/deficiencies and implementation of recommendations of the Auditing Commission of the Company;

5) control over performance of corrective measures aimed at elimination of the detected violations/deficiencies and implementation of recommendations of the Auditing Commission of the Company.

8.5 The internal audit interacts with the subdivision(s) carrying out methodological support and coordination of internal control and risk management activities inclusive of exchange of information on risks, building of control procedures, execution of the requirements and procedures established within the Company.

8.6 The internal audit interacts with other participants of the internal control system of the Company in connection with issues related to the internal audit competence as well as with other stakeholders carrying out monitoring and evaluation of the internal control system in individual branches of activity.

8.7 For purposes of generation and application of unified approaches to building, management and coordination of the internal audit functions within Rosseti Group of Companies, the Internal Audit Subdivision of the Company carries out interaction with the Internal Audit Subdivision of Rosseti, PJSC - the shareholder of the Company responsible for implementation of the Strategy for development of the electric power grid complex of the Russian Federation as approved by Ordinance No. 511-r of the Government of the Russian Federation dated 03.04.2013 in pursuance of Order No. 1567 of President of the Russian Federation "On Open Joint-Stock Company "Rosseti" dated 22.11.2012 in the following core

aspects (with account for compliance with the legislation on joint-stock companies, corporate requirements and restrictions):

1) participation in elaboration of unified requirements to the approaches to discharge of the internal audit function within Rosseti Group of Companies;

2) initiation of elaboration and timely update of the Charter of the Company, the Regulations on the Audit Committee under the Board of Directors of the Company, the Internal Audit Policy of the Company and other regulatory documents of the Company to the extent of issues related to internal audit control, organization and functioning;

3) participation in elaboration of unified documents of methodological character (methodologies, instructions, regulations, standards and other documents) determining the approaches and principles of the internal audit function discharge and regulating internal audit activities;

4) implementation of the practice of conductance of topical audits by all the electric power grid companies forming part of Rosseti Group of Companies on a specific topic in accordance with the unified audit program.

8.9 The head of the Internal Audit Subdivision elaborates the scheme (map) for interaction of internal control actors and other stakeholders carrying out monitoring and evaluation of the internal control system in individual branches of activity (“guarantee map”) - the document determining the responsibility spheres of the internal control system actors and other stakeholders with regard to individual risks of the Company.

8.10 The internal audit interacts with state supervision bodies as well as other stakeholders following the procedure as stipulated by the legislation of the Russian Federation and the corresponding in-house regulatory documents of the Company in connection with issues related to the internal audit competence.

## **9. Quality control and evaluation of internal audit activities**

9.1 For purposes of ensuring proper control and evaluation of internal audit activities as well as for detection of the directions for its improvement, the internal audit manager elaborates and adopts a program for internal audit evaluation (guarantee) and quality enhancement within the framework whereof one carries out:

- continuous monitoring of internal audit activities quality;
- periodical internal and external evaluations of internal audit activities quality;

9.2 During conductance of continuous (current) quality monitoring, the internal audit manager carries out:

1) supervision over conductance of reviews and other internal audit activities;

2) sampling expert review of working documents generated in the course of the review conductance inclusive of review for completeness of reflection of the required audit evidence on the observations and conclusions made in the course of audit procedures execution;

3) interaction with the reviewed subdivisions and other stakeholders in connection with issues related to the internal audit competence;

4) other actions as may be required for continuous (current) audit and evaluation of internal audit activities.

9.3. Periodical internal evaluation of internal audit operation quality are conducted by the internal auditor by way of self-evaluation at least once a year.

9.4. An external evaluation of internal audit activities quality is conducted by an independent external expert at least every five years.

9.5 The results of external and internal evaluation are presented to the Board of Directors of the Company (Audit Committee).

## **10. Regulatory support of internal audit activities**

Internal audit activities within the Company are regulated through elaboration and adoption of the following core documents based on the standard documents as approved by Rosseti, PJSC:

- 1) this Policy;
- 2) Ethics Code of internal auditors of Rosseti Group of Companies establishing the principles and expectations determining the behavior of internal auditors during discharge of their official duties;
- 3) Regulations on the Internal Audit Subdivision representing an organizational regulatory document of the Company and determining the organizational issues related to internal audit activities;
- 4) Position descriptions of workers of the Internal Audit Subdivision;
- 5) Guidelines for internal audit activities planning;
- 6) Guidelines for conductance of internal audit reviews;
- 7) Programs for evaluation (guarantee) of internal audit activities quality enhancement;
- 8) Schemes (maps) of internal audit interaction with the actors of the internal control system and other stakeholders carrying out monitoring and evaluation of the internal control system in individual branches of activity (“guarantee maps”);
- 9) Methodologies, instructions, regulations, standards and other documents determining the approaches and principles of the internal audit function discharge and regulating internal audit activities.



Appendix  
to the Internal Audit Policy of  
IDGC of the North-West, PJSC

## **Ethics Code of internal auditors of Rosseti Group of Companies**

The Ethics Code of internal auditors of Rosseti Group of Companies (hereinafter - the “Ethics Code”) is the document determining the professional principles of internal audit activities and establishing the rules for internal auditors’ conduct.

The goal of the Ethics Code consists in maintenance and propagation of high ethical standards of the internal auditor profession within Rosseti Group of Companies.

The Ethics Code is addressed to all workers discharging internal audit functions.

The Ethics Code includes two core components:

- 1) principles pertaining to internal audit profession and practice;
- 2) rules of conduct determining the norms of conduct of internal auditors helping them to interpret and practically apply the professional principles.

Trust in internal audit and confidence of its reliability are significantly conditioned by the internal auditors complying with the professional principles and the rules of conduct as established by this Ethics Code.

The Audit Committee, the management of the Company, the reviewed structural subdivisions of the Company and other objects of review must be absolutely sure of accuracy and consistency of internal audit reports and conclusions as well as justice and impartiality of the internal auditors.

### **1. Internal audit principles**

#### **1.1 Independence**

Internal auditors must be free from conditions that may threaten impartial discharge of their duties. This principle helps to execute audit in an impartial way and to express objective judgments.

#### **1.2 Honesty**

The internal auditor’s honesty is the foundation underlying trust in the auditor’s opinions.

#### **1.3 Objectivity**

The internal auditors demonstrate a topmost level of professional objectivity in the process of collection, evaluation and transfer of information on the audit object. The internal auditors conduct a weighted evaluation of all relevant circumstances and are not susceptible to the influence of their own interests and those of other persons in their judgements.

#### **1.4 Confidentiality**

The internal auditors respectfully handle confidential information as they may receive in the process of their activities and do not disclose information other than having the corresponding authorities to do so except for cases where such information disclosure is dictated by legal or professional duties.

#### **1.5 Professional competence**

The internal auditors apply the knowledge, skills and experience required for the internal audit activities.

## 2. Internal auditor's rules of conduct

### 2.1. Independence

- 1) For achieving the degree of independence required for efficient discharge of their duties:
  - the internal auditors must carry out their activities in compliance with the principle of operational management independence;
  - the internal audit manager must have the right to directly and without hindrance inform the top executive management and the Board of Directors of the Company (Audit Committee) .
- 2) The internal auditors express an opinion independent of influence factors capable to compromise it and act honestly displaying objectivity and professional skepticism. Professional skepticism is understood as critical evaluation of the weight of the evidence obtained and study of evidence contradicting any documents and declarations of the management or calling in question the consistency of such documents and declarations.
- 3) The internal audit is not entitled to participate in agreement and taking of decisions within the framework of financial and business activities of the Company and SDCs. For purposes of ensuring objectivity during conductance of follow-up control, the internal auditor has no right to vote at sessions of committees and commissions, participate in agreement of draft budgets, contracts and payments etc.
- 4) Internal audit can not be conducted by persons carrying out activities and (or) discharging the functions to be reviewed during the period under review and for 12 months after discontinuation of such activities or discharge of such functions.

### 2.2. Honesty

The internal auditors:

- 1) must fulfil their work in an honest, bona fide and responsible way;
- 2) must act within the framework of regulatory legal instruments and disclose the corresponding information whenever required by such regulatory legal instruments and the professional standards;
- 3) must abstain from knowing participation in campaigns and actions discrediting the internal audit profession or the organizations forming part of Rosseti Group of Companies;
- 4) must respect legally and ethically justified goals of activities of Rosseti Group of Companies and contribute to their achievement.

### 2.3 Objectivity

Objectivity is an individual quality of the internal auditor.

The internal auditors:

- 1) must not tolerate conflicts of interests or participate in any activities and relations that may impair their impartiality (or be perceived as thus impairing) or be in conflict with the interests of the Company and/or SCs;
- 2) must disclose any substantial facts as any be known to them if such facts nondisclosure may misrepresent reports on the audit object;
- 3) must separate facts from speculations;
- 4) must give up conductance of a review in case their relatives occupy leading positions within the audited subdivision of the Company/any other object to be reviewed.

### 2.4 Confidentiality

The internal auditors:

- 1) must comply with the rules concerning confidentiality of information received in the course of discharge of their duties;
- 2) must not use information in their personal interests or in any other manner in conflict with the law and the goals of the activities of the Company and/or SCs;
- 3) must comply with the principle of confidentiality after termination of employment relations with the Company/SC. In case of job change, the internal auditors have the right to use the

obtained experience but, however, must not use or disclose confidential information obtained as a result of professional and/or business relations.

### **2.5 Professional competence**

The internal auditors must:

- 1) participate only in missions for completion whereof they have sufficient professional knowledge, skills and experience;
- 2) discharge their functions in accordance with this Ethics Code as well as the internal audit professional standards applied within the Company;
- 3) take into account the complexity, substantiality and significance of issues with regard where to guarantees or consultations are provided to the Board of Directors (Audit Committee) as well as evaluate the probability of substantial errors, unlawful actions or failure to comply with procedures;
- 4) continuously upgrade their professional mastery as well as efficiency and quality of their activities.