

4.9. Internal and external audit

Internal audit helps enhance the Company's management efficiency and improve its financial and economic activities through a systematic and consistent approach to the analysis and evaluation of the risk management system and internal control as well as corporate governance as tools providing reasonable assurance that the Company's objectives will be achieved.



4.9.1. INTERNAL AUDIT

The PAO Sovcomflot Internal Audit Department (before February 2009: Internal Control Department) created in April 2006 is a standalone structural division of PAO Sovcomflot and operates in accordance with the regulations on the department. Regulations on the Internal Audit Department of PAO Sovcomflot (approved by the Board of Directors decision dated 26 May 2017, Minutes No. 163), with the amendments and additions approved by the PAO Sovcomflot Board of Directors on 26 February 2019, Minutes No. 179);

The Internal Audit Department reports functionally to the PAO Sovcomflot Board of Directors and administratively reports to the PAO Sovcomflot Chief Executive Officer (Clause 2.1 of the Regulations on the Internal Audit Department). The Internal Audit Department is led by its head, who is appointed and dismissed by order of the PAO Sovcomflot Chief Executive Officer based on a decision of the Board of Directors (Clause 1.4 of the Regulations on the Internal Audit Department). The Internal Audit Department has four employees.

The Internal Audit Department operates on the principles of legality, independence and objectivity, is governed by the legislation of the Russian Federation, International Standards for the Professional Practice of Internal Auditing, and internal regulations of Sovcomflot Group, and interacts in its work with the Audit Committee under the Board of Directors, the Auditing Commission and external auditors of PAO Sovcomflot as well as its subsidiaries and affiliates (Clause 5.5. of the Regulations on the Internal Audit Department).

The main tasks and functions of the Internal Audit Department include:

- Assessing the efficiency and monitoring the adequacy of the internal control, risk management and corporate governance systems;
- Checking the financial, management and other reports for completeness and accuracy;
- Checking the effectiveness of control measures and other risk management activities;
- Controlling compliance by PAO Sovcomflot with internal documents, procedures and regulations, and their conformity to the current legislation of the Russian Federation;
- Putting forward proposals on ways to improve the efficiency of the existing internal control and risk management system, including the correction of identified violations and deficiencies (Sub-clauses 3.2 and 3.3 of the Regulations on the Internal Audit Department).

To increase the quality of the internal audit function, it is subjected to an external assessment on a regular basis, based on a Group management's decision. An external assessment of the quality of the internal audit function in PAO Sovcomflot was conducted in December 2018 (the results of the external assessment were reviewed by the Board of Directors on 26 February 2019).