

REGULATIONS

# **AUDIT AND RISK COMMITTEE REGULATIONS**

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# Document Development and Approval:

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# Contents

Acronyms and Abbreviations.....	iv
Definitions.....	iv
1 Introduction .....	5
1.1 Purpose .....	5
1.2 Application .....	5
2 Duties and Responsibilities.....	6
3 Composition .....	7
4 Work Procedure .....	7



# Acronyms and Abbreviations

A full list of acronyms and abbreviations can be found in RBR Glossary of Terms and Abbreviations. The following acronyms and abbreviations are used throughout this document:

Abbreviation	Definition
ARC	Audit and Risk Committee [of RB Rail]
MB	Management Board [of RB Rail]
SB	Supervisory Board [of RB Rail]

## Definitions

The following terms are used throughout this document:

Term	Definition
Audit and Risk Committee	A body established by SB to provide recommendations on audit and risk management matters to facilitate effective and qualitative decision adoption process in SB
Chairman	Chairman of ARC
Company Secretary	An employee of RB Rail who provides legal and administrative support to SB and established SB committees, and reports to the Chairman of SB
Internal Auditor	Internal Auditor of RB Rail
Member(s)	Member(s) of ARC
RB Rail	RB Rail AS, Reg. No 40103845025, a joint stock company registered at the Enterprise Register of the Republic of Latvia
Regulations	Audit and Risk Committee Regulations



# 1 Introduction

## 1.1 Purpose

ARC is a corporate oversight body that operates in accordance with the requirements of legal acts, observing the principles of good corporate governance.

Regulations define the main duties and responsibilities, composition and work procedure of ARC to facilitate the decision adoption process within SB with relation to audit, budgeting and risk management matters.

## 1.2 Application

Regulations establishes rights and obligation to ARC Chairman and Members, MB members, Internal Auditor and Company Secretary.



## 2 Duties and Responsibilities

1. ARC primary duties and responsibilities are aimed to assist SB decision making process by providing recommendations for the decisions on:

- 1.1. external audit matters,
- 1.2. internal audit matters,
- 1.3. RB Rail budgeting process and annual budget performance assessment,
- 1.4. risk management framework,
- 1.5. internal governance documents to be approved by SB related to the matters above.

2. With respect to external audit matters, ARC shall:

2.1. be promptly informed by MB on any initiated external audit (statutory annual audit, external audits by national audit institution(s) or other audit bodies) process and responses provided by RB Rail to external auditor;

2.2. be provided with an opportunity to meet with external auditor to review and to understand the scope of the audit engagement;

2.3. confirm the independence of the selected statutory external auditors by reviewing statements from the auditors on relationships between the auditors and RB Rail. When necessary, ARC shall engage in the dialogue with statutory external auditor and MB with respect to any disclosed relationships;

2.4. be informed by MB on the results of the relevant audit and disputable issues identified during the audit;

2.5. review the external audit results and discuss the results with MB and the external auditor as well as shall track the implementation of external audit recommendations if such provided.

3. With respect to internal audit matters, ARC shall:

3.1. review the annual internal audit plan and changes thereof,

3.2. review the internal audit results and discuss the results with MB and the Internal Auditor as well as shall track the implementation of internal audit recommendations,

3.3. recommend SB to decide on unplanned internal audits and advise Internal Auditor on the scope of approved unplanned internal audits;

3.4. to hold meetings with Internal Auditor on the regular basis at least quarterly to discuss:

3.4.1. ongoing and upcoming audits;

3.4.2. emerging activities within RB Rail that may impact internal audit annual plan and introduce unplanned audits;

3.4.3. any matters that ARC or Internal Auditor believes should be discussed privately such as independence of internal audit function, objectivity, challenges, demand for resources etc.

3.5. review internal regulatory framework with respect to internal audit or changes thereof and suggest the document for SB approval.

4. With respect to RB Rail budgeting, ARC shall:



- 4.1. regularly meet with MB during the budgeting process and to provide recommendations on the process;
- 4.2. regularly (at least quarterly) assess the performance of the RB Rail annual budget (actual vs budget);
- 4.3. promptly inform SB if any material deficiencies are identified with respect to the budget performance.
- 5. With respect to risk management, ARC shall:
  - 5.1 regularly i.e. at annually review the major risk exposure, implementation of risk management measures and its effectiveness;
  - 5.2 annually review the risk management framework to evaluate its adequacy, effectiveness, continued application and relevance;
  - 5.3 hold regular i.e. at least annual meetings in order to discuss issues and matters warranting ARC attention, including but not limited to their assessment of the effectiveness of risk management framework and the possible improvements.
- 6. MB shall ensure all the necessary support to ARC for the fulfilment of duties and responsibilities including but not limited to the information provision and the participation at ARC meetings upon Chairman's request.
- 7. Chairman and Members perform their duties in good faith in accordance with the requirements of the law and other regulations governing the activities of ARC.

## 3 Composition

- 8. ARC shall be composed of Chairman and 2 (two) Members selected and appointed by SB. As a general rule, the appointed Committee's Chairman and Members term corresponds to the term of elected SB members.
- 9. Chairman of ARC:
  - 9.1. convenes ARC meetings whenever necessary at least on the quarterly basis;
  - 9.2. approves ARC meetings' draft agenda;
  - 9.3. presides ARC meetings;
  - 9.4. invites MB to present the position and submit relevant documents on ARC related matters for ARC discussion and decisions;
  - 9.5. informs SB on the adopted ARC decisions.

## 4 Work Procedure

- 10. Notices of convocation shall be dispatched by Chairman or upon respective delegation by Company Secretary to ARC members at least 2 (two) working days prior to the date of the meeting, stating the date and time, place and agenda of the meeting. Such period of notice may be shortened in case of urgency.



11. ARC meetings may be held and ARC decisions adopted:

11.1. in presence when ARC members participate in person,

11.2. via electronic communications such as videoconference platforms (e.g. Microsoft Teams etc), or

11.3. via correspondence using post or e-mail.

12. ARC meetings shall be held in English language.

13. ARC decisions are adopted if at least two participants of the meeting exercising voting rights vote in favour of the respective decision. If Chairman or a Member has a special interest with regard to a resolution on any of ARC meeting agenda's items, he/she shall not exercise voting rights with respect to that resolution. In such case, the respective voting rights shall not be counted towards the total number of voting rights and the decision may be adopted by voting in favor of the decision by at least two participants of the meeting exercising voting rights.

14. ARC decisions are not binding to SB nor MB and are deemed to facilitate the decision adoption process at SB level.

15. As a general rule, minutes of ARC meetings are taken by Company Secretary unless Chairman decides otherwise. The minutes are approved by Chairman and Members and signed electronically by Chairman.

16. All meeting materials including minutes of meeting shall be kept and be available to ARC Chairman, Members and Internal Auditor electronically on a server maintained by RB Rail.

17. Company Secretary:

17.1. assists Chairman on the organization of ARC meetings and distribution of the meeting minutes for the review;

17.2. provides legal assistance to Chairman and Members with respect to the agenda items and documents reviewed by ARC to ensure compliance of the decisions with governing laws;

17.3. ensures storage of ARC meeting minutes on server accessible to Chairman, Members and Internal Auditor;

17.4. provides extracts from the minutes upon the necessity;

17.5. executes other tasks as per request of Chairman or any Member.

18. ARC submits a written report to SB on the annual basis covering main activities and the tasks accomplished in the reporting year.