

POLICY

INTERNAL AUDIT POLICY

RBCR-AUD-POL-Z-00001

Revision: 1.0

Author: Ilmārs Tilgalis

Date: 22.12.2022



Co-financed by the Connecting Europe
Facility of the European Union

DOCUMENT DEVELOPMENT AND APPROVAL

Ownership	
Document Owner	Internal audit

Approved by	Decision No.	Date
Supervisory Board	14/182/2022	22.12.2022

DOCUMENT HISTORY

This document has been issued and amended as follows:

Revision	Issue Date	Author	Issue purpose	Description of changes
1.0	22.12.202	Ilmārs Tilgalis	First issue	New Document is developed setting up Internal audit: operating principles, tasks, main scope, independence and objectivity, and quality assurance.

CONTENTS

ACRONYMS AND ABBREVIATIONS	4
DEFINITIONS	4
1 Introduction	6
1.1 Purpose	6
1.2 Application	6
2 Operating Principles of IA	7
3 Operational tasks of IA	7
4 Scope of IA	7
5 Independence and Objectivity of IA	8
6 Quality assurance of IA	8
PROCESS CONTROL	9
REVIEW AND UPDATE OF THE DOCUMENT	9
REFERENCES	9

ACRONYMS AND ABBREVIATIONS

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

Abbreviation	Definition
ARC	Audit and Risk Committee
IA	Internal audit
MB	Management Board [of RB Rail]
Policy	Internal audit Policy
RBR	RB Rail including its branches in Estonia, Latvia, and Lithuania.
SB	Supervisory Board [of RB Rail]

DEFINITIONS

The following terms are used throughout this document:

Term	Definition
Add value	The internal audit activity adds value to the organization (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management, and internal control processes.
Assurance	An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and internal control processes for RB Rail.
Consulting	Advisory and similar services, the nature and scope of which have been agreed with the RBR Supervisory Board, Audit and Risk Committee, Management Board, Chief Officer, or Director of a Unit and which are intended to add value and improve an organization's governance, risk management, and internal control processes without the internal auditor assuming management responsibility.
Control Processes	The policies, procedures (both manual and automated), and activities that are part of a control framework, designed and operated to ensure that risks are contained within the level that an organization is willing to accept.
Employee(s)	Employee(s) of RBR.
Governance	The combination of processes and structures implemented by SB and MB to inform, direct, manage, and monitor the activities of the organization toward the achievement of its objectives.
Independence	The freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner.
Internal audit	An activity that provides independent, objective assurance and consulting services designed to add value and improve an organization's operations. The internal audit activity helps an

	organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and internal control processes.
Internal auditor(s)	A trained professional/s employed by RBR to provide independent and objective evaluations within RBR.
Objectivity	An unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others.
RB Rail	RB Rail AS, Reg. No 40103845025, a joint stock company registered at the Enterprise Register of the Republic of Latvia.
Risk	An uncertain event or condition that, if it occurs, has an effect on process or project objective. Threats are events that, when occurred, can negatively impact the objective, whereas opportunities are events that, when occurred, can positively impact the process or project outcome.
Risk Management	A company-wide discipline that ensures that risks from all potential sources are identified, assessed, evaluated, managed, monitored and reported with the purpose of achieving risk management objectives and strategic targets.

1 Introduction

1.1 Purpose

1. The purpose of the IA policy is to establish uniform principles and tasks of IA to ensure high-quality operation of the IA, compliance with the requirements of independence and objectivity.

1.2 Application

2. This policy applies to RBR.

2 Operating Principles of IA

3. Operations of the IA is functionally supervised by the SB and the ARC, but administratively it is subordinated to the Chief Executive Officer.
4. IA carries out risk-oriented planning, identifying the priorities of internal audits, preparing the strategic and annual plan of IA, which is reviewed by the MB and the ARC, but approved by the SB.
5. IA reports on RBR are submitted to the ARC. IA reports are presented to the MB before submission.
6. The summary of internal audit activities performed during the year is submitted once a year to the MB, the ARC, and the SB.
7. In its activities, IA complies with the *International Standards for the Professional Practice of Internal Auditing* and the *Core Principles for the Professional Practice of Internal Auditing* developed by the Institute of Internal Auditors as well as the *Code of Ethics* of the Institute of Internal Auditors.
8. While performing internal audits, MB shall ensure that IA is provided with access to all information, premises and other material values related to the audited area and a right to participate in meetings/sittings/discussions. IA has a right to request and receive explanations and information from the Employees involved in the area under review. Internal auditor is responsible for the confidentiality of any non-public information received in the course of their duties
9. IA participates in the review of whistleblower reports within the scope of its competence.

3 Operational tasks of IA

10. To assess and help to improve the effectiveness of risk management, internal control and governance processes, promoting the achievement of RBR goals and increasing value.
11. To prepare and submit the RBR IA plan that is based on a risk criteria's set by IA to the MB and the ARC for review and to the SB for approval.
12. To carry out internal audits of RBR in accordance with the approved IA plan as well as to carry out *ad-hoc* internal audits at the request of SB.
13. In compliance with the requirements for IA independence and objectivity and without jeopardizing the execution of the IA plan, at the request of the SB, ARC, MB, heads of divisions or heads of departments, provide consultations on topics related to risk management, internal control and governance processes of RBR and their possible improvements.

4 Scope of IA

14. To assess the adequacy and effectiveness of risk management, internal control, and governance processes of RBR and make recommendations for their improvement, especially in relation to:
 - 14.1. achievement of set strategic and annual goals.

- 14.2. reliability, timeliness and accuracy of financial and operational information and how this information is identified.
- 14.3. effectiveness and efficiency of functions and processes, incl. segregation of duties and performance appraisal.
- 14.4. operational compliance with laws, statutes, internal regulations, decisions of SB and MB, contracts and other documents, as well as understanding of ethical norms and values of RBR.
- 14.5. effective and efficient use of assets and resources, control, and safeguarding of assets (incl. protection against losses)

5 Independence and Objectivity of IA

- 15. IA observes independence and objectivity in its activities.
- 16. The responsibility of an Internal auditor is to disclose all known circumstances and facts that may affect the independence and objectivity of the IA or create a conflict of interest in the IA activity.
- 17. An IA employee may provide consultations and participate in working groups, if this does not impair the independence and objectivity of IA service.
- 18. In the annual results report, the IA confirms the independence and objectivity of its activity, the absence of a conflict of interest, or informs about events and circumstances that have impaired it.

6 Quality assurance of IA

- 19. The responsibility of the IA is to create and improve the *quality assurance and improvement program*, the purpose of which is to ensure the monitoring of the value, efficiency, competence, and compliance of the IA work with the *International Standards of the Professional Practice* of IA, the *Core principles of the Professional Practice* of internal auditing and the *Code of Ethics* developed by the Institute of Internal Auditors.
- 20. The internal auditor will communicate to the MB and submit for information to the SB on the IA activity's quality assurance and improvement program, including results of internal assessments (both ongoing and periodic) and external assessments conducted at least once every five years by a qualified, independent assessor or assessment team from outside RBR.

PROCESS CONTROL

- 21. The policy is implemented by the IA.
- 22. The policy implementation is monitored by the SB and the ARC.

REVIEW AND UPDATE OF THE DOCUMENT

- 23. The policy is reviewed and updated as necessary by IA, but not less than every 3 (three) years.

REFERENCES

Ref:	Document Number:	Document Title:
Internal Governance Documents		
1.	1.11 / 2 / 6	Supervisory Board regulations
2.	1.11 / 2 / 2	Audit and Risk committee regulations
3.	RBCR-AUD-RGL-Z-00001	Internal audit regulations
4.	10.5.	Whistleblowing policy
External Documents		
5.	N/A	International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors ¹
6.	N/A	Core Principles for the Professional Practice of Internal Auditing of the Institute of Internal Auditors ²
7.	N/A	Code of Ethics of the Institute of Internal Auditors ³

¹ <https://www.theiia.org/en/standards/international-professional-practices-framework/>

² <https://www.theiia.org/en/standards/what-are-the-standards/core-principles/>

³ <https://www.theiia.org/en/standards/what-are-the-standards/mandatory-guidance/code-of-ethics/>