

APPROVED
at the meeting of the
Supervisory Board of the
LLC "Rīgas ūdens" on 21
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INTERNAL AUDIT POLICY
Riga, 2024
Version 1.0

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I. GENERAL PROVISIONS

1. The purpose of the LLC "Rīgas ūdens" (hereinafter referred to as - the Company) **Internal Audit Policy** (hereinafter referred to as - the Policy) is to determine in the Company unified principles and tasks of the Internal Audit Department (hereinafter referred to as - IA), requirements for quality assurance and independence and objectivity of internal audit.
2. The operational principles of the Company's IA activities set out in the Policy are based on the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors¹, the Guiding Principles for the Professional Practice of Internal Auditing², and the Code of Ethics³.
3. Definitions of terms used in the Policy:
 - 3.1. *internal audit* - independent, impartial creation of assurance and consulting that adds value and improves the Company's operations by evaluating and improving the efficiency of risk management, control and governance processes through a systematic and organised approach, thereby contributing to the achievement of the Company's objectives;
 - 3.2. *internal control system* - a set of risk management, control and governance measures with the task to ensure the achievement of the Company's objectives, efficient operation, protection of assets, reliability of statements, compliance of operations with laws and regulations, and the establishment of which is the responsibility of the Company's Management Board (hereinafter referred to as - the Management Board);
 - 3.3. *risk* - a potential event that may affect the ability of the Company to provide quality and reliable public water management services, sustainable and safe use of water resources, and governance of strategic infrastructure, or to achieve the set Company's objectives and to implement the strategy. It is the impact of uncertainty (threats or opportunities) on expected outcomes.
 - 3.4. *creating assurance* - an impartial examination of evidence that is performed to provide the Company with an independent and impartial assessment on the governance, risk management and internal control processes;
 - 3.5. *consultancy* - an advisory or similar service, the nature and scope of which are agreed with the Supervisory Board of the Company (hereinafter referred to as - the Supervisory Board), the Management Board, a member of the Management Board or a head of a structural unit, and which is

¹ <https://www.theiia.org/en/standards/>

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/>

intended to add value and improve the Company's governance, risk management and internal control processes without the internal auditor taking a decision-making role.

4. Detailed risk management processes are set through separate internal Company regulations intended for the implementation of this Policy.
5. The Policy is binding on all the employees, the Management Board, and the Supervisory Board of the Company.

II. PRINCIPLES OF THE OPERATION OF THE INTERNAL AUDIT

6. Internal Audit's mission is to protect and strengthen the Company's value by providing independent and impartial assurance based on risk assessment, by providing advice (consulting) and raising awareness.
7. Internal audit contributes to the ability to serve the interests of the Company, enhances reputation and credibility among stakeholders and helps the Company achieve its objectives by implementing systematic processes and a disciplined approach to assess and improve the efficiency of risk management, internal control and governance processes.
8. The IA shall comply with the International Standards for the Professional Practice of Internal Auditing and the Guiding 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.
9. Internal audits of the IA shall be carried out according to a common methodology and in accordance with this Policy, the IA regulations and the Internal Audit Procedure approved by the Management Board.
10. Operation of the IA is functionally supervised by the Supervisory Board, and administratively the IA reports to the Management Board.
11. The IA employees carry out their work with integrity, care and responsibility, respect the confidentiality of information requirements and avoid situations that may interfere with the provision of an independent, impartial and competent assessment.
12. During the internal audit, the IA employees have access to all documents and computer records of the audited area and are entitled to participate in meetings, sessions and deliberations. The IA employees have the right to request any necessary explanations and information from the employees involved in the relevant inspection. The IA employees are liable for any unlawful disclosure of information received in the course of their duties.
13. Head of the IA prepares the medium-term strategic internal audit plan and the Annual Internal Audit Plan. The medium-term strategic internal audit plan and the annual plan are examined by the Management Board and approved by the

Supervisory Board.

14. Internal audit reports and action plans for the implementation of recommendations are submitted to the Management Board and to the Supervisory Board for consideration. Internal audit reports may also be sent to the shareholder and the external auditor, as required.
15. Head of the IA reports regularly (quarterly) to the Supervisory Board on the progress of execution of the Internal Audit Plan and submits a review (report) to the Supervisory Board on annual basis on the activities of the Internal Audit Department during the previous year and on the implementation of the internal audit plan.
16. The IA conducts an annual assessment of the efficiency of the Company's system of internal control, risk management and governance in all areas of the Company's business. The evaluation report is submitted to the Management Board and to the Supervisory Board for consideration.

III. INDEPENDENCE AND IMPARTIALITY OF THE INTERNAL AUDIT

17. The IA takes care that its independence and impartiality are ensured.
18. The independence and impartiality of the IA officer is impaired if:
 - 18.1. he has or may have a conflict of personal and official interests (personal or pecuniary interest in the performance of his/her duties based on a family or other personal relationship or business relationship with an employee, client or supplier involved in the area being audited);
 - 18.2. during the last year, he/she has managed or carried out a work assignment related to an internal audit object or carried out advisory activities in relation to an internal audit object.
19. The IA officer is required to disclose all known relevant facts and circumstances that may affect the independence and objectivity of the internal audit. If, in accordance with Paragraph 18.2, independence or impartiality of that officer is impaired or compromised, he shall inform the Head of the IA. Duties related to a given work assignment where the IA officer's independence or impartiality is impaired or compromised shall be assigned to another IA officer.
20. The IA officer may carry out consulting activities by participating in working groups, provided that this does not impair the independence and impartiality of the internal audit. The decision to involve the officer in consultative activities shall be taken by the Head of the IA.
21. An IA officer is not authorised to:
 - 21.1. carry out the day-to-day processes of the Company, other than the execution of the IA's own processes;
 - 21.2. approve the Company's transactions, other than the IA's own

- transactions, or keep records of transactions;
- 21.3. give orders to other employees of the Company.
22. The Head of the Internal Audit Department shall approve the independence of the Internal Audit Department on annual basis by providing in the report provided for in Paragraph 15 or report on the circumstances that have impaired it.

IV. INTERNAL AUDIT TASKS

23. To prepare and submit to the Management Board and the Supervisory Board for review and approval an internal audit plan (strategic plan and annual plan), prepared on the basis of the risk assessment carried out and containing internal audit priorities that are consistent with the Company's objectives.
24. To conduct internal audits in accordance with the internal audit plan approved by the Supervisory Board and harmonised with the Management Board, as well as to conduct unplanned internal audits in any of the Company's areas of operation on behalf of the Management Board or the Supervisory Board.
25. Through internal audits, to assess adequacy and efficiency of the Company's governance, risk management and internal control processes and make recommendations for their improvement, in particular with regard to:
- 25.1. the achievement of the set strategic and annual objectives;
- 25.2. the reliability, timeliness and accuracy of the information;
- 25.3. the effectiveness and efficiency of functions of the structural units, processes and plans, including the allocation of responsibilities and performance evaluation;
- 25.4. asset protection;
- 25.5. compliance with laws, internal regulations, decisions, contracts and other documents, as well as understanding of ethical standards and the Company's values.
26. To prepare internal audit reports and send them to the heads of the responsible structural units for their views and action plans on the report's findings, conclusions and recommendations. Following the harmonisation of the report and the action plan for the implementation of the recommendations with the relevant member of the Management Board, they shall be submitted for consideration to the Management Board and subsequently to the Supervisory Board.

If the head of the structural unit to be audited, the relevant member of the Management Board or the Management Board disagrees with the findings, conclusions or recommendations set out in the audit report, the IA shall ensure that opinion of the Management Board is also submitted to the Supervisory

Board, when submitting the report and the action plan for the implementation of the recommendations.

27. To monitor the implementation of internal audit recommendations.
28. Subject to the requirements of independence and impartiality of internal audit and without jeopardising the implementation of the internal audit plan, at the request of the Supervisory Board, the Management Board or the head of the structural unit - to conduct other types of inspections and provide consultations on the Company's governance, risk management and internal control processes and possible improvements thereto.
29. To assess the efficiency of the internal control system, risk management and governance in all areas of the Company's operation.
30. To prepare and submit to the Management Board and the Supervisory Board annual assessment of the efficiency of the Company's internal control system, risk management and governance in all areas of the Company's operation for the reporting year.
31. To develop, maintain and evaluate internal audit quality assurance and improvement system.
32. To prepare and submit to the Management Board and the Supervisory Board, on a quarterly basis (for quarterly results) and annually (for the reporting year), a performance report on the internal audit activity for the period in question.

V. INTERNAL AUDIT QUALITY ASSURANCE

33. The IA Quality Assurance and Improvement System is a set of measures to ensure monitoring of the value, efficiency, competence and compliance of internal audit work with the International Standards for the Professional Practice of Internal Auditing, the Guiding Principles for the Professional Practice of Internal Auditing and the Code of Ethics, developed by the Institute of Internal Auditors.
34. The IA Quality Assurance and Improvement System is developed and implemented by the IA.
35. An essential component of the IA Quality Assurance and Improvement System is the knowledge and skills of the IA staff, which must be provided at such a level and to the extent necessary to enable them to carry out quality internal audits. For this reason, where necessary, other specialists of the Company or external specialists may be involved in conducting the IA internal audit.
36. The IA staff continuously improve their knowledge and skills and upgrade their qualifications, as a minimum, to the extent and in the directions defined by the IA.
37. The IA Quality Assurance and Improvement System includes internal continuous,

internal periodic and external evaluation.

38. Internal continuous evaluation through day-to-day monitoring of the internal audit progress and evaluation of the IA operation shall be carried out by the Head of the IA.
39. The internal periodic evaluation shall be carried out no later than within two years from the last internal periodic or external evaluation.
40. The external evaluation shall be carried out at least every five years by a qualified external evaluator.
41. Based on the results of the internal periodic and external evaluation, the IA shall prepare an Internal Audit Quality Improvement Action Plan and submit it to the Management Board and the Supervisory Board.

VI. FINAL PROVISIONS

42. The policy is developed and updated by the Head of the IA.
43. To ensure efficient application of policies, the Management Board and the Supervisory Board continuously supervise implementation of the Company's policies. The Policy shall be reviewed and updated as necessary, but at least annually.
44. The Company ensures that its employees are familiarised the Policy following the procedure set in the Company. The Policy is available via the Company's management information system and on its website.

VII. REVISION STATUS

Version number	Date of revision	Result of the revision
V.1.0		