	AB LIETUVOS GELEŽINKELIAI Internal Audit
Internal Audit Policy	No. P/FN17/LTG/1 Version 05

APPROVED by:
the Board of AB Lietuvos Geležinkeliai
by Decision No. SPR-VL(LTG)-46/2024
of November 19, 2024

INTERNAL AUDIT POLICY



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1. INTRODUCTION

1.1. The main objective of the internal Audit Policy (hereinafter referred to as the Policy) is to define the key principles and goals for the internal audit activity management as well as organizing the activities within LTG Corporate Group.

1.2. The Policy has been drafted in line with the Standards.

1.3. As regards a company within LTG Corporate Group responsible for performing the functions of the public railway infrastructure manager the provisions of this Policy shall be effective and apply in so far they are not contrary to the legal acts regulating the requirements for impartiality of the management and financial transparency of the infrastructure manager, allocation of public railway infrastructure capacity, as well as the requirements for calculation and payment of the charge for the minimum access package.

1.4. The Policy is mandatory for all companies of the LTG group of companies, as well as for companies newly included in the LTG group of companies.

1.5. The provisions of the Policy must be applied, if there are inconsistencies between the internal legal requirements of LTG group companies and this Policy.

1.6. Any documents related with the internal auditing and processes shall be drafted in line with this Policy. All internal auditing, external assessments and/or auditing related issues shall be coordinated with the Head of Internal Audit or, as required, with the Audit Committee.


1.7. The Internal Audit Unit carries out and coordinates the internal audit operations across LTG Corporate Group and ensures that the requirements of the Policy and other legislation on internal auditing are followed on LTG Corporate Group level.

1.8. The implementation and application of the Policy is defined in detailing internal legislation (methodology and processes) approved by the LTG Head of Internal audit.

2. DEFINITIONS

2.1. The definitions used in this Policy shall mean:


Term	Definition
Audit Committee	An advisory committee established by the Board of AB Lietuvos Geležinkeliai, the function whereof is described in detail in the Regulations of the Audit Committee of AB Lietuvos Geležinkeliai.
LTG Corporate Group	The group of companies consisting of LTG and legal entities under direct or indirect control by it.
Executive-Level Management	LTG Chief Executive Officer and functional managers that are directly subordinate thereto and managers of companies important for ensuring national security.
The principles and standards in the Ethics and Professionalism domain of the Global Internal Audit Standards	The principles and standards developed by the Institute of Internal Auditors that outline the behavioral expectations for professional internal auditors, including chief audit executives, other individuals, and any entities that provide internal audit services. Conformance with these principles and standards instills trust in the profession of internal auditing, creates an ethical culture within the internal audit function, and provides the basis for reliance on internal auditors' work and judgment.
LTG Strategy	Business planning document that defines the general development direction of the LTG group of companies, operational goals and results to be achieved for a period of at least 10 years are determined.

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Term	Definition
Company	The Company belonging to the AB Lietuvos Geležinkeliai group of companies.
LTG, Company	Public limited liability company Lietuvos Geležinkeliai.
LTG Board	The collegial governing body of LTG.
Advisory Services	Services through which internal auditors provide advice to an organization's stakeholders without providing assurance or taking on management responsibilities. The nature and scope of advisory services are subject to agreement with relevant stakeholders.
Initiator of the advisory service	LTG and business unit boards, LTG and business unit Chief Executive Officers, Executive-Level Management, heads of LTG structural units, business unit managers, process, project, program managers and/or owners.
Subject-matter	Activity, process, project, program of the legal entities directly/indirectly controlled by LTG and LTG structural units or another subject-matter under assessment in the course of an assurance and/or advisory engagement.
Audited Entity	LTG, business units and/or their structural units where internal auditors conduct an assurance and/or advisory engagements.
Global Internal Audit Standards (Standards)	Global Internal Audit Standards issued by The Institute of Internal Auditors, consisting of 15 guiding principles that enable effective internal auditing. Each principle is supported by standards that contain requirements, considerations for implementation, and examples of evidence of conformance. Together, these elements help internal auditors achieve the principles and fulfill the Purpose of Internal Auditing.
Assurance Services	Objective assessment to provide assurance.
Assurance	Statement intended to increase the level of stakeholders' confidence about an organization's governance, risk management, and control processes over an issue, condition, subject matter, or activity under review when compared to established criteria.
Engagement	A specific internal audit assignment or project that includes multiple tasks or activities designed to accomplish a specific set of related objectives.
Business Unit	A company, except for LTG, which is a member of AB Lietuvos Geležinkeliai Group.
Internal Audit Unit	Internal Audit Unit at LTG, performing the internal audit function.
Head of IA	LTG Head of internal audit.

3. GENERAL PROVISIONS

3.1. **Purpose of internal audit** – to strengthen the organization's ability to create, protect, and sustain value by providing the LTG board and Executive-Level Management with independent, risk-based, and objective assurance, advice, insight and foresight. Internal audit shall be proactive, professional, and helpful advisor to the governing bodies of LTG Corporate Group and Executive-Level Management.

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4. PRINCIPLES OF INTERNAL AUDIT

4.1. Auditors must follow the principles of ethics and professionalism specified in the Standards: demonstrate integrity, maintain objectivity, apply the knowledge, skills and abilities, exercise due professional care, maintain confidentiality.

4.2. Internal audit activities must be organized in accordance with all other principles set out in the Standards.

4.3. Auditors may not comply with one or more essential conditions, outlined under each of the standards in Domain III “Governing the Internal Audit Function”, when the Head of IA justifies the irrelevance of essential conditions or applied alternative procedures and this is coordinated with the LTG Board and Executive-Level Management.

5. INTERNAL AUDIT OPERATING MODEL

5.1. In LTG Corporate Group the internal audit functions as a third line based on the Three Lines Model which is designed to help organisations in setting structures and processes that best enable organisation to achieve their goals, enhance their governance and risks management.


5.2. In LTG Corporate Group the internal audit function is centralized and implemented through execution of standardised processes.

5.3. The internal audit function in LTG Corporate Group is carried out by the Internal Audit Unit. When the required competencies are not available for the function or if the available internal resources are insufficient, the Internal Audit Unit may use the assistance of consultants.

5.4. As regards the requirements of Article 24²(5) of the Railway Transport Code of the Republic of Lithuania related to the performance of the essential functions of public railway infrastructure manager, the Internal Audit Unit shall not assess the activity of AB LTG Infra in the area of implementation of the essential functions of public railway infrastructure manager, however in individual cases may assess the design of internal controls applied in the area of implementation of the essential functions of public railway infrastructure manager. The legal counsel of AB LTG Infra responsible for these functions are involved in dealing with issues related to the scope of auditing. If needed internally or on a recommendation of the Internal Audit after conducting a risk assessment and planning, or if instructed by the external authorities to perform an audit of implementation of the essential functions of public railway infrastructure manager, AB LTG Infra shall purchase external auditing services. Such audit results with the main findings, without disclosing confidential information, shall be submitted to the Internal Audit Unit. The LTG Board has the full right to get all information.

5.5. Internal auditors shall be provided with all the necessary information and data to perform their work, written and verbal explanations, with the exception of confidential information of the public railway infrastructure manager and data related to the performance of the essential functions of public railway infrastructure manager. Also, auditors must be given access to material assets and given the opportunity to use the services of other employees, as far as this is necessary for the performance of internal audit functions. In the case of restriction on information and/or access, the Internal Audit Unit must address the Audit Committee, which will decide on the validity of such request.

5.6. The Executive-Level Management must ensure (i.e., set up a system) that the Internal Audit Unit is informed in a timely manner about the initiated, ongoing external inspections within LTG Corporate Group and/or audits conducted by the National Audit Office of the Republic of Lithuania, the Ministry of Transport and Communications of the Republic of Lithuania, law enforcement authorities, external suppliers, external auditors or other institutions and organizations, their recommendations and information on the status of implementation of such recommendations, significant incidents and facts about the occurrence of risks.

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5.7. The independence of the internal audit in LTG Corporate Group is ensured by direct reporting of the Internal Audit Unit to LTG Board on the performance of its functions (see fig. 1). The key issues are addressed to LTG Board once they have been discussed in the Audit Committee. If there is an impact on the activities of Internal Audit, the Head of Internal Audit must notify the Audit Committee, and if the problem is not resolved, the LTG Board. The Internal Audit Unit reports on administrative issues to LTG Chief Executive Officer.

5.8. Internal auditor must refrain from assessing operations (providing assurance services) for which he was responsible for the previous one year. Internal auditors may provide assurance services relating to operations for which they previously provided advisory services provided that when Head of IA approves that the nature of the advisory services does not impair objectivity and assign resources such that individual objectivity of a specific auditor is managed. In order to ensure the independence and objectivity of the internal auditors, once a year the internal auditors must submit independence and objectivity statements to the Head of the IA in which they attest that there are no known objectivity impairments or disclose potential objectivity impairments, and incidents where independence may have been impaired. If there is a possible decrease in independence or objectivity in the audit activity, the Head of the IA must discuss these circumstances with the Executive-Level Management. The Audit Committee shall be informed in the case where the circumstances posing threats to independence or objectivity have not been eliminated in the audit activity. If the decrease of independence and objectivity of the auditors is real and affects the auditors' ability to independently and objectively perform their duties, the Head of IA must discuss this with the LTG Board and seek to resolve the situation. The content of information provided depends on the nature of circumstances. Once a year Head of the IA confirms to the LTG board the organizational independence of the internal audit function or exposes threats and risks. This includes communicating incidents where independence may have been impaired and the actions or safeguards employed to address the impairment.

5.9. The boards of the companies within LTG Corporate Group and the management are provided with regular information on the results of conducted internal audits and monitoring of the progress of the recommendations' implementation.

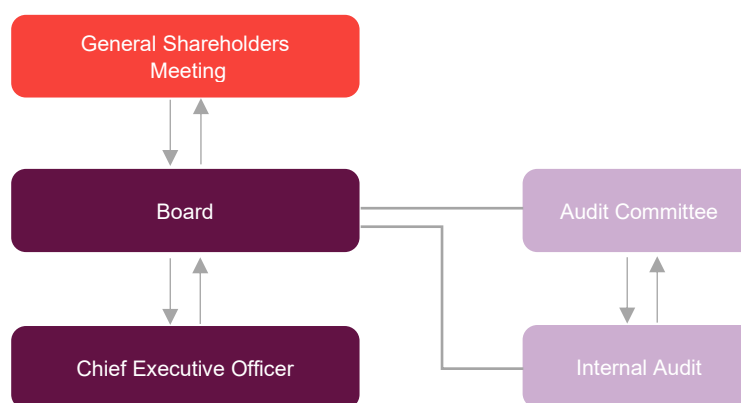



Figure 1. Accountability of the Internal Audit

5.10. The Internal Audit Unit cooperate with the Audit Committee and fulfils its requests and assignments.

5.11. LTG Board approves the annual Internal Audit plan, the annual budget (as part of LTG Group's overall budget) and the remuneration of the Head of Internal Audit. The Head of Internal Audit shall, at least once a year, report to LTG Board and the Audit Committee on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan and budget as well as conformance with the Standards.

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5.12. The Head of Internal Audit has the right to directly communicate and cooperate with the Audit Committee and LTG Board. However, the aim should be to make LTG Chief Executive Officer familiar with the information before it is presented to the Audit Committee and LTG Board.

5.13. The internal audit activity must assist in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

5.14. In accordance with the Standards, the risk of possible fraud is assessed during each audit while anti-corruption system or its individual elements are evaluated periodically as per ISO 37001:2016.

5.15. The internal audit function is implemented through:

5.15.1. The internal audit function development plan, which sets out the activities of the Internal Audit Unit, is consistent with and complementary to LTG's Strategy, provides measurable performance indicators and parameters. The plan is approved by the LTG board based on the recommendation of the Audit Committee.

5.15.2. Five main internal audit processes:

5.15.2.1. **Planning of the internal audit activity** – In order to properly plan the internal audit activities a risk-based plan which determines the priorities of the internal audit activity that are consistent with the goals of LTG Corporate Group is drawn up.

5.15.2.2. **Auditing (assurance)** – The internal auditor's objective assessment of evidence to provide opinions or conclusions regarding an audit subject, entity, operation, function, process, system, or other subject matters. Generally, three parties are participants in assurance process: (1) the person or group directly involved with the entity, operation, function, process, system, or other subject matter – the process owner, (2) the person or group making the assessment – the internal auditor, and (3) the person or group using the assessment – the user.


5.15.2.3. **Advisory Services** – are advisory in nature and are generally performed at the specific request of an engagement client. The nature and scope of the advisory engagement are subject to agreement with the engagement client. Advisory Services generally involve two parties: (1) the person or group offering the advice – the internal auditor, and (2) the person or group seeking and receiving the advice – the engagement client.

5.15.2.4. **Progress monitoring** – The purpose of the process is to monitor the actions taken on the implementation of the recommendations. The Head of Internal Audit Unit must establish and maintain a progress monitoring process. This process is designed to monitor and identify whether the actions planned by the management are being implemented successfully and whether the Executive-Level Management has avoided assuming an unacceptable risk level.

5.15.2.5. **Reporting to and informing the management** – The process includes periodic reporting on the results of internal audit and on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan, budget, sufficiency of resources as well as conformance with the Standards. Reporting must also include significant risk exposures, control issues and other matters that need the attention of Audit Committee, LTG Board and the Boards of companies of the LTG group companies.

5.15.3. The Quality Assurance and Improvement Program is developed in accordance with the Standards and Internal Audit Methodology No. M/FN17/LTG/1 on purpose to improve the quality of internal audit services. The Head of Internal Audit is responsible for development and maintenance of the Quality Assurance and Improvement Program. The results, scope, frequency, conclusions of the program's evaluations, action plans, as well progress made in implementing the agreed actions must be communicated to the Audit Committee and LTG Board.

5.16. Internal Audit Methodology No. M/FN17/LTG/1 and Standards of Processes provide more details on the implementation of this Policy across LTG Corporate Group.

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6. FINAL PROVISIONS

6.1. The Policy and any amendments thereto shall be approved by LTG Board considering the recommendations of the Audit Committee.

6.2. The Policy shall be subject to revision not less than once a calendar year or as a result of changes in the legislation of Republic of Lithuania regulating the activities of LTG Corporate Group or auditing activities, or upon occurrence of material changes to LTG's Strategy, or when the Standards change.

6.3. The Head of Internal Audit shall initiate and coordinate the revision and update of the Policy.

6.4. The Policy is applied to the extent that is not contrary to the laws of the Republic of Lithuania and/or other valid regulatory regulations.

6.5. The Policy is published publicly on the LTG website.
