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# Emeren Group Ltd

## Internal Audit Policy

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2	Aug. 13th.2018	Chris Wang	Main contents revision/added English version
3	Oct.2023	Chris Wang	Updated the English version and the company name, revised the UFIDA system to MSD 365 system

## **Chapter I: General Provisions**

To standardize the internal audit work of the group, enhance internal control, ensure the stable development of the group's business activities, and safeguard the interests of investors, this system is formulated in accordance with the COSO, SOX Act, and Emeren Group Ltd Articles of Association. The system applies to Emeren Group Ltd group and its subsidiaries and branches.

The goal of the Internal Audit Department is to identify problems and correct lapses in the company by supervising and inspecting the authenticity and integrity of the company's financial information and business activities to evaluate and improve the effectiveness of risk management and internal control. Issue audit reports to provide independent, objective opinions as a reference for management to resolve major issues, and controls to add value and improve the operations of the group.

## **Chapter II: Organization Structure and Report**

**Article 1** The Internal Audit Dept. should report directly to the Chairman of the Audit Committee, and administratively report to the CFO and CEO in the production of the annual audit plan, audit objectives, and audit reports for approval of the Audit Committee.

**Article 2** The Internal Audit Dept. will submit the annual audit plan and audit objectives to the audit committee, CFO, and CEO at the beginning of each year. Internal audit reports should be submitted after the audit. The report covers but is not limited to financial reporting, capital management, revenue, inventory, fixed assets management, tax-related risks, investment and financing projects, related transactions, procurement, project engineering management, administration and human resources, and other SOX control points.

**Article 3** A quarterly report AC meeting IA Dept should be submitted to the Audit Committee at the end of each quarter and presented to the Board of Directors.

## **Chapter III: Empowerment and Responsibilities**

**Article 1** The Internal audit department is responsible for establishing and improving the company's internal auditing system, auditing procedures, and implementation rules.

**Article 2** The Internal Audit Dept. has the authorization of the audit committee to inspect and evaluate the integrity, rationality, and effectiveness of the internal control of the branch and subsidiaries.

**Article 3** The Internal Audit Dept. has the right to obtain and examine all relevant information of the company including but not limited to, accounting vouchers, financial statements, tax returns, expense ledgers, authorized approval records, list of fixed assets and inventory, summary of the conference, important contracts, invoices, final acceptance documents, payroll sheet, employee files, etc. The relevant documents and information provided to the internal audit department will be treated with caution and strictly confidential.

**Article 4** The Internal Audit Dept. should establish an Anti-fraud mechanism, determine the main contents of anti-fraud, and pay attention to and investigate possible and existing fraudulent practices in the internal audit process.

**Article 5** The Internal Audit Dept. should conduct senior executives' departure audits according to the company's relevant system and board's requirements.

**Article 6** The Internal Audit Dept. should maintain its independence in the process of formulating procedures and plans. the Internal Audit Dept. should not deliberately conceal or distort facts and report to management, and should not mitigate or increase the responsibilities of the personnel concerned. The branch, subsidiaries, and all functional departments should cooperate with the IA Dept. in performing audit duties, and should not hinder or interfere in the audit work.

**Article 7** The Internal Audit Dept. should arrange the issue follow-up examination in due course, and supervise the management of branches and Subsidiaries to formulate rectification measures and time for rectification. IA Dept. Should regularly supervise the implementation and incorporate them into the annual internal audit plan.

## Chapter IV Scope and Key Points of Internal Auditing

### **The scope of the internal audit includes:**

**Routine audits:** Financial statements, expense compliance, amortization ratio, large amount of non-operating funds, revenue, capital financing management, budget review, internal pricing, tax risk audit, related party transaction approval, fixed asset management, project management, quality control, procurement and cost control, supply chain management, inventory management, Investment and financing audit, administration and human resources, etc.

**Special audit:** Anti-fraud audit, senior executives leaving audit, project completion audit, warranty review, and so on.

### **Main points of internal auditing:**

#### **1. Subsidiary company system construction:**

(1) Review whether the internal control system of the company is sound and consistent with the direction of the management system of the Group.

(2) Focus on the inspection of the system implemented.

#### **2. Authorized approval control:**

(1) Review the company authorization system and evaluate whether it is logical.

(2) Review if there is any unapproved and exceeded authority approval phenomenon.

#### **3. Financial management audit:**

(1) Review the accuracy, authenticity, and completeness of financial information in subsidiaries, including the process of identifying, measuring, and reporting.

(2) Examine the correctness of the calculation of assets, liabilities, gains, and losses, and whether there is any phenomenon of negative or omission.

(3) Focus on auditing the consistency of capital flow, accounting information, and real business, check whether there is a large amount of abnormal payment/expenses, triangle debt relationship, and consider tax risk caused by non-standard bookkeeping.

(4) Review if the accounting policies and accounting estimates are reasonably used by the company and all economic transactions are accounted for in the appropriate accounting period.

(5) Check whether the month-end closing list general is confirmed by the ledger accountant, capital manager, and finance manager.

(6) Examine if the division of duties in financial departments is reasonable and incompatible duties are separated from each other; Check whether the cashier is concurrently responsible for auditing and bookkeeping for income and expenditure, cost, asset, and liabilities.

(7) Check whether the subsidiaries process and report accounting information timely and accurately, whether the data truly reflect the financial situation and operating results, and whether there are any major problems hidden by the subsidiary companies.

(8) Examine if operation entertainment costs, office expenses, employee welfare, and travel expenses exceed the group cost standard.

(9) Focus on the examination of any false invoices, local tax invoices, IOUs, incomplete invoices, etc.

(10) Inspect whether the cost is true, check the approval email, reimbursement application, invoice content, private car odometer, etc., and large amounts of expenses required to provide the relevant proof. Focus on checking if fraud phenomenon exists in operation entertainment cost.

(11) Review of all accounting provisional estimates and adjustments is reasonable and has complete supporting documentation.

#### **4. Monetary fund management:**

(1) Focus on reviewing the authorization and approval procedures for large amounts of fund expenditure to check if there is any approval beyond authority and weak links in the internal control of funds. IA Dept should report any anomalies to company management in a timely manner.

(2) Check the safety of bank keys, cheques, seals, bills, and financial documents.

(3) Check the validity of the cash journal and if the cash on hand exceeds the upper limit stipulated by the financial regulations.

(4) Compare invoices and contracts with bank journals, check whether there are any anomalies in the payment method, any company business payments entered into personal accounts and any receivables are inconsistent with the actual recipients, If necessary, carry out an in-depth investigation.

#### **5. investment and financing audit:**

(1) The investment should be approved by the standard examination procedures; Review if the content of the investment agreement has been approved by the Group management and if the contract was performed without exceptions.

(2) Examine whether the feasibility of major projects is fully studied and evaluated before making the investment. Analyse the risks and returns and monitor the progress of investment projects.

(3) Evaluate the risk in the investment process, whether the responsibilities of both parties are clear and reasonable, conduct due diligence on investment projects, and check whether the integrity records, enterprise qualification, operating conditions, and financial conditions of the invested party are good or not.

(4) Examine the risks in the financing process, review the pressure of repayment on cash flow after the financing lease, and propose appropriate solutions.

#### **6. Tax risk audit:**

(1) Review whether the company has any special tax-related issues and communicate with the tax bureau, whether there is a corresponding Risk-avoiding Scheme and report to the management of the group.

(2) Verify the correctness of monthly, and quarterly VAT/income tax declarations and all accounting entries relating to tax-related transactions to see if they are accurately recorded in appropriate accounting periods.

(3) Review the tax delay charge, understand the situation, and propose appropriate solutions.

(4) Review the declaration and payment of stamp duty and other taxes such as property tax and land use tax.

(5) Carry out an investigation of the matching relationship among the VAT, corporate income tax, annual sales revenue, and net profit.

(6) Examine the input VAT invoices and Tax Bureau verification list to check if all the input taxes were deducted;

(7) Check the annual income tax clearance to see if the tax adjustment is reasonable and in compliance with pre-tax deduction in tax law.

(8) Audit the accounting accuracy and completeness of the deferred tax which should be signed by the Financial manager and director.

#### **7. Related party transaction audit:**

(1) Examine if the major related party transactions have been Pre-approved by the Audit Committee and CEO in advance.

(2) Examine whether there is a signed contract or agreement for each related party transaction and ensure the compared price with market price with no exception noted to judge if RPT will encroach on the interests of listed companies.

(3) Examine whether the related party transactions involve security, mortgage, pledge, and other restrictions on transfer, and whether it involves litigation, arbitration, and other major disputes;

(4) Summarize the audited figures of all related party transactions of each quarter and report to the Audit Committee at the Board of Directors meeting.

#### **8. Project management and engineering audit:**

(1) Review of the non-standard contract has been reviewed and amended by the legal department.

(2) Review whether the major contracts have been examined and amended by the finance and legal department, then approved by the CFO and CEO.

(3) Review the project contract payment approval process: check Land certificates, Property ownership certificates, Fire control materials, Production licenses, Product qualification certificates, Safety appraisal certificates, Financial reports, Real estate verification, Electricity bills, Business licenses, Legal person ID, Owner factory building drawings/photos, Lease agreement, Access approval, etc.

(4) Examine the effectiveness of the project contract payment approval process: check construction plan, project weekly report, monthly report of Engineering materials, Sub-item acceptance record form, Construction technology documents, Completion drawings, High-voltage power supply and purchase contract, Grid-connected acceptance report, Confirmation list of supply materials, EPC contract, Load report, Design drawings, Grid-connected acceptance sheet, PPAs, dispatch agreement, and completion acceptance report.

(5) Review the contract payment approval form to see if there is approval of the Technical Director, Financial Director, Legal Director, Investment Analysis Manager, CFO, and CEO; Review the payment request information to determine if the payment terms have been met;

(6) Check the accuracy and integrity of the construction settlement vouchers in the MSD system. Ensure the income and cost of project settlement are confirmed in the correct accounting period.

(7) Examine all the engineering and project-related costs to see if they were properly capitalized.

(8) Check accounts receivable, revenue, and other operating income, review if the amount and time of settlement are in line with the rules of addition or deduction in the terms of the contract;

(9) Check prepayment and other receivables to see if the Project warranty was returned timely; Do investigation on special cases to see if the problems are properly solved: Quality problems, owner's losses caused by construction, cracks in components, and disaster losses;

(10) Examine whether the initial budget of project investment covers all possible costs, whether the project sales price forecast meets market expectations, check whether there are unreasonable expenses occur after the project is submitted for construction led to a sharp decline in IRR.

#### **9. Procurement and cost management**

(1) Review the company's procurement plan, procurement procedures, and actual usage, and evaluate whether there is wastefulness;

(2) Purchasing control: investigate the market situation, check the authenticity of the supplier's quotation, and make tripartite inquiries according to the relevant purchasing system to select the best one;

(3) Focus on verifying the loss of funds problem of favoritism fraud caused by improper behavior in the procurement process;

(4) Examine whether there are restrictive mechanisms for procurement decision-making, ensure supervisory mechanisms for procurement planning, approval, payment, and acceptance are guaranteed;

(5) Examine the necessity of component procurement and service procurement, evaluate the price and total amount, if there are abnormal situations inconsistent with the project schedule and budget, carry out investigation;

(6) Examine whether the purchase payments of overseas subsidiaries have been approved by the CEO, if there are unapproved payments, investigate the reasons, the relationship between suppliers, and management, the flow of funds, and the authenticity of the purchase.

#### **10. Management of fixed assets:**

(1) Check the acquisition, use, and disposal of fixed assets and inventory, Check the asset class, code, name, status of use and life; Review the correctness of depreciation method and residual rate, whether there is accelerated depreciation, and whether there is a impairment of fixed assets.

(2) Verify purchase contracts, invoices, and completion acceptance of new fixed assets, check whether the accounting vouchers, amount, and abstract are correct or not;

(3) Check whether there is a regular count for fixed assets and inventory by the fixed assets management and use department.

(5) Review whether the physical assets are in accordance with the bookkeeping if there are any big discrepancies caused by asset loss, damage, theft, and other circumstances, relevant staff should take responsibility and be punished by the Group's "RS-FN-FA.01 fixed assets Management Policy."

(6) Verify the internal allocation and sales approval process, the flow of fixed assets sold funds, and accounting handling.

#### **11. Administrative and human resources audits:**

(1) Judge the rationality of the organizational structure of the company and the division of responsibilities of all departments.

(2) Observe the integrity and ethics of the company's management, examine the rationality of the management behaviors and centralization of administrative authority, do investigate if there are management behaviors exceed the established control procedures;

(3) Review the employee labor contract, whether the employee file is complete and properly filed, and check the truthfulness of the employee ID card, academic degree certificate, and professional qualification certificate.

(4) Audit integrity of staff entry and exit process; review training system content, frequency, and performance appraisal implementation.

(5) Review the reasonableness of staffing, promotion, and salary adjustment.

(6) Review the competencies, professional knowledge, and skills of employees and managers.

(7) Verify the implementation of the company's reward and punishment, and review if the calculation and payment of bonus are correct and reasonable.

(8) Check whether the calculation and pay records of payroll, and employee social security were correct or not.

(9) Check the employee's annual leave and sick leave approval process, review the sickness leave, and salary deduction; check attendance records to see if there are employees who are often late, leave early, or are absent.

(10) Check whether the use or borrowing of company seals has been recorded and approved.

#### **12. Budget management audit:**

(1) Examine whether the company has established a sound budget management system and the budget should be reasonable and in line with the group business strategy and objectives;

(2) Examine whether the employee's travel expenses and project management budget are approved in advance by the management and separated with the final reimbursement and whether the budgets are in accordance with the group budget management system and procedures.

(3) Analyze the difference between budgets and actual costs then require a budget discrepancy report. The financial manager and director should explain the specific reasons and report to the group management if the difference is big.

### **13. Anti-fraud audit:**

(1) Standardize group fraud case handling and reporting procedures, responsible for the fraud case reporting investigation and obtaining evidence, submit the Fraud Investigation Report to the management, and deal with the employees with corrupt/cheating behaviors severely.

(2) Conduct a special audit of the case which seriously violates the laws or company regulations, misappropriates the company's assets or seeks improper interests; false records, misleading statements, or major omissions in financial reports or information disclosure; management abuse of power, corruption, collusion, fraud, significant waste of company funds or resources, etc.

### **14. Senior Executive exit audits:**

(1) Evaluate the performance of duties and economic responsibilities of senior executives above the director level; Examine whether there is any malpractice, gross negligence, or fraud.

(2) If the company's economic losses are caused by the executives, the compensations are required. The employee will be handed over to the Bureau of Public Security if there is a serious violation of the law.

(3) Issue a special Senior Executive exit audit report to the management after the senior executive exit audit.

In addition to all the above, the IA Dept should carry out other audit work arrangements from the Audit Committee, CFO, and CEO.

## **Chapter V Working procedures of Internal Audit institutions**

**Article 1** The internal audit department should formulate the annual audit objectives, and plans according to the strategy of the group management and the actual situation of the company, which should be implemented after the approval of the audit committee. The internal audit department formulates the detailed schedule according to the approved internal audit work plan and arranges the audit business implementation.

**Article 2** The Audit Department should give the Audit Notice to the audited one week in advance, however, the special audit can be delivered in real-time if unethical or illegal activity is suspected. The responsible person should arrange for the preparation of relevant materials and provide the necessary working conditions.

**Article 3** If the internal audit department finds there are major anomalies that may or have suffered significant losses should immediately report to the board of directors and the management of the group.

**Article 4** The internal audit department should identify the main existing deficiencies of internal control, and then propose audit recommendations. The relevant responsible person should respond to corrective measures to audit matters in time, including the cause of the problem, and when and how to improve the situation.

**Article 5** After confirming the audit communication reply form, the internal audit department should assess the risk of material weakness that may result from fraud or mistake, evaluate whether the financial statements fairly reflect all transactions and matters, propose risk aversion plans, and submit the internal audit report to the board of directors and the audit committee.

**Article 6** The internal audit Dept. should regularly supervise the completion of the rectification and trace relevant important matters to evaluate the effectiveness of the implementation, and report the rectification situation to the management of the group.

**Article 7** The Internal Audit Dept. should organize and keep the audit manuscripts and audit reports in a unified manner. Audit manuscripts and audit reports should be used as essential documents of the company and not be disclosed to any other institution or individual. If so, will be processed according to the terms of the company's confidentiality agreement.

## **Chapter VI Code of Ethics**

**Article 1** Employees of the Internal Audit Dept. should comply with CIA regulations: be impartial, objective, diligent, responsible, honest, and confidential.

**Article 2** Employees of the Internal Audit Dept. should remain loyal to the company, and refuse to participate in activities that violate the company's system and affect the independence and impartiality of internal audit.

**Article 3** Employees of the Internal Audit Dept. should not accept any gifts and unconventional business hospitality from the audited unit.

**Article 4** Employees of the Internal Audit Dept. should use the information obtained in the course of their work with caution and strictly prohibit the use of any confidential information for the benefit of any organization or individual or for acts harmful to the interests of the company.

**Article 5** Employees of the Internal Audit Dept. should obtain sufficient and conclusive evidence to support the findings of the audit report. The contents, time, and sources of audit evidence should be recorded in the working paper. The important facts obtained should be fully disclosed in the audit report, especially for false accounting records, transfer of assets, corruption, favoritism, and illegal practices.

**Article 6** Members of the Internal Audit Department should have professional competence in auditing business, professional knowledge in auditing, financial management, procurement, engineering management, and human resources, familiarity with SOX act, US GAAP, and internal audit procedures, familiarity with the relevant laws, regulations, company system and business model of the company. The internal audit department should strive to continuously improve proficiency and better serve the management level.

## **Chapter VII Supplementary provisions**

This system should come into effect from the date of approval by the board of directors and audit committee, the internal audit department has the right to modification and interpretation.