

Internal controls and risk management

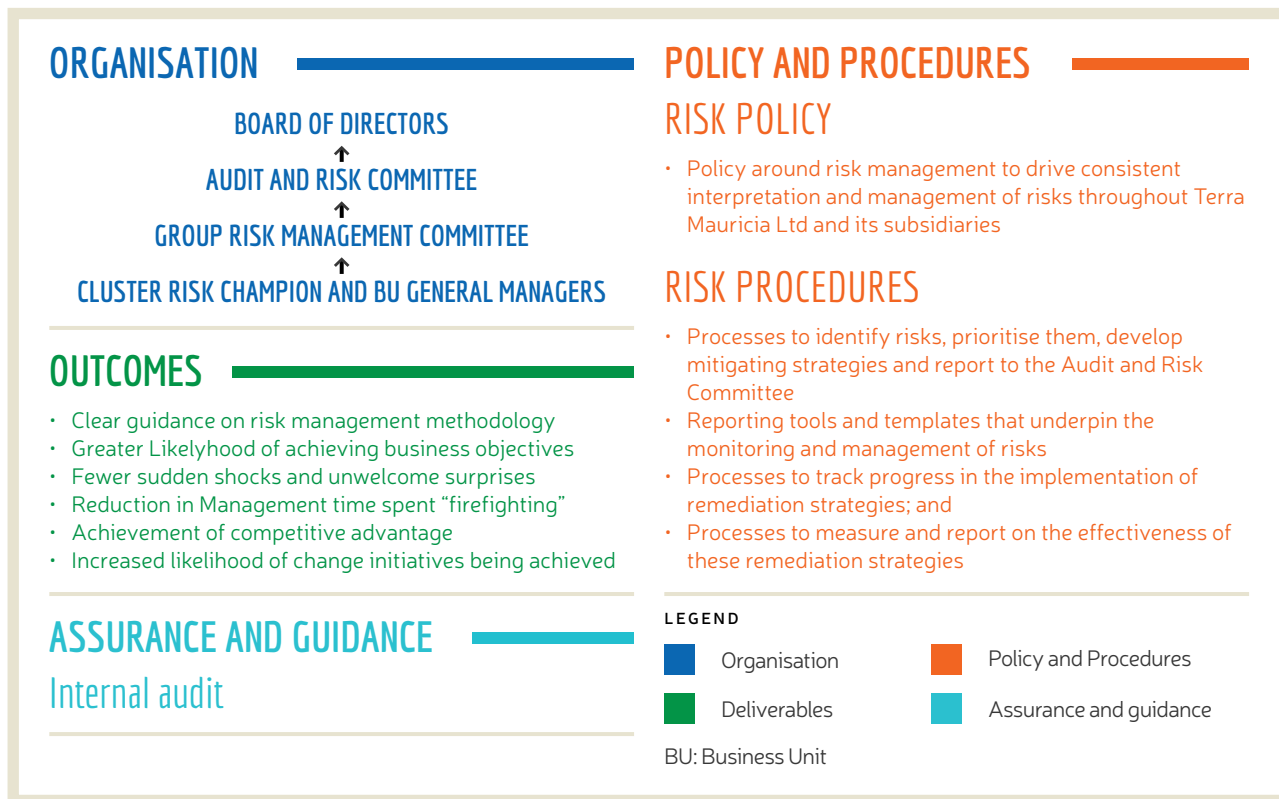
Terra's success as an organisation depends on its ability to identify and manage risks that can prevent it from achieving its objectives, including both downside risks as well as upside risks related to opportunities generated by its business and the markets it operates in. While ultimate responsibility for risk management rests with the Board, the effective day-to-day management of risk is in the way Terra conducts its business and the culture of its team. Terra takes an embedded approach to risk management that puts risk assessment at the core of the leadership team agenda.

RISK MANAGEMENT FRAMEWORK

The Group's risk management framework (RMF) is the management structure and set of procedures by which the Group enacts its Risk Policy and ensures that the Board of Terra Mauricia Ltd is able to discharge its responsibility for the governance of risk for the Group in accordance with the Companies Act and the Code of Corporate Governance for Mauritius.

The revised RMF illustrated below is designed to enable a continual process for identifying, evaluating, managing and reporting significant risks identified across the components of the Group.

In 2020, the Board, through the Audit and Risk Committee, decided to review the RMF with the assistance of Ernst & Young (EY), following the departure of the Group Risk Champion. Following the review, a Group Risk Management Committee was set-up at managerial level to monitor the risk management of the Group's clusters.

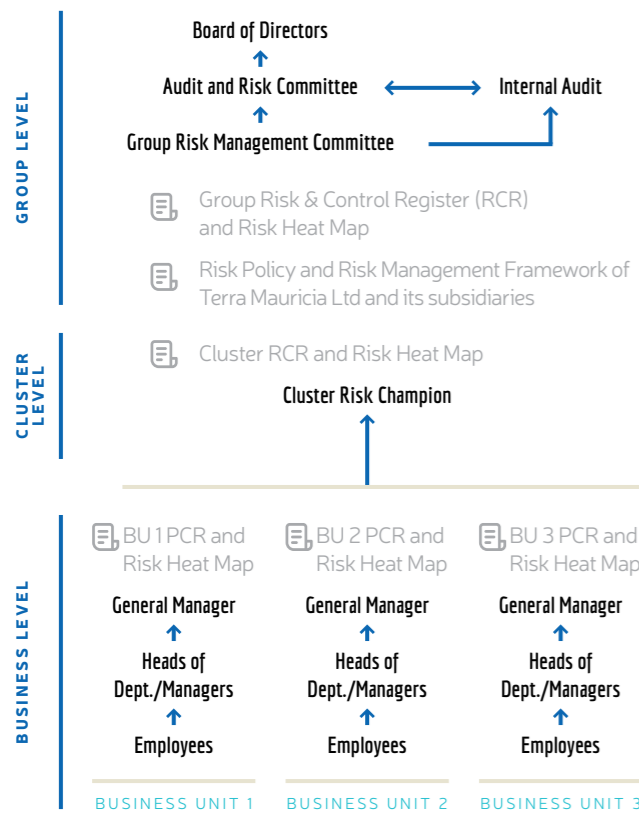


The Board, advised by the Audit and Risk Committee where appropriate, reviews the significant risks when taking decisions that could have a material impact on Terra. The role and responsibilities of the Audit and Risk Committee regarding risk management include carrying out a robust assessment of the main risks facing Terra, including those that would threaten its business models, future performance, solvency and liquidity. The Committee also has the task of reviewing the Group's capability to identify and manage new types of risk and the effectiveness of internal controls and risk management. It also evaluates the level of risk that Terra is prepared to take in pursuit of the business strategy.

Internal controls and risk management (cont'd)

RISK MANAGEMENT ORGANISATION

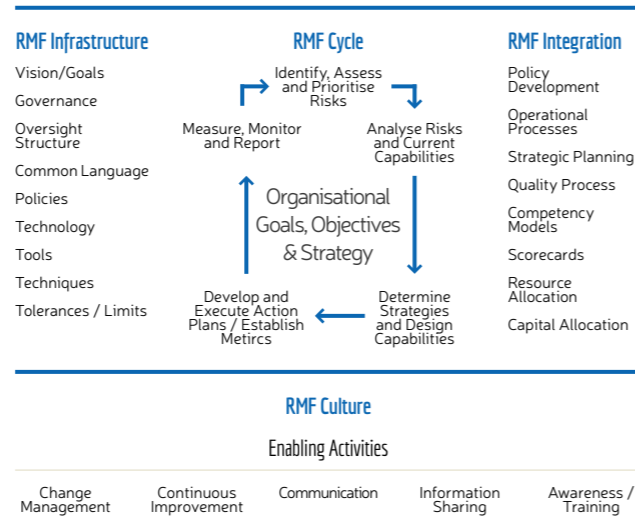
The governance structure and associated lines of communication that apply to the Group's RMF are illustrated below. There is a two-way relationship between the risk owners (employees) at business unit (BU) level and the Board of Directors (the Board) at Group level, whereby the guidance from the Board will be cascaded down to the risk owners through established lines of communication. Risk registers and risk heat maps are established at business unit level, consolidated at cluster level and elevated at Group level for reporting purposes to the Board. This model allows for a top-down and bottom-up approach to risk management to operate.



The above model is replicated across the clusters of the Group.

RISK MANAGEMENT CYCLES

The graphic below illustrates the risk management cycles including the main activities associated with risk management, the way risk management integrates with the core processes and activities of Terra Mauricia Ltd and its subsidiaries, the infrastructure that enables risk management (in terms of policies, guidance and tools) and the activities needed to establish and sustain a risk management culture.



REPORTING ON RISKS

Our risk reporting process involves risk classification into four main categories that take into account the external and internal environment of all the business units in the Group. It also includes environmental, social and governance related risks.

- Strategic – strategic risks are risks that arise from failure to achieve business strategy and objectives;
- Financial – financial risks include areas such as financial sustainability, financial resources, market, foreign exchange, liquidity and credit risk;
- Operational – operational risks are risks related to internal practices, processes and systems that are adequate to achieve the associated operational strategic plan. They include human capital, environment, stakeholder relations, technology, information system, data and cyber security, health and safety; and
- Legal and regulatory compliance.

Some 18 main risks were identified and validated by management for the Group, together with their mitigating measures and controls. These risks cannot be completely eliminated and controls and mitigating measures cannot provide absolute protection against factors such as unexpected events, errors or fraud.

INTERNAL CONTROLS AND AUDIT

To ensure the effectiveness of the Group's RMF, the Board and senior management rely on a number of line functions – including monitoring and assurance functions – within the organisation. Terra adopts the 'Three Lines of Defence' model as illustrated below:



FIRST LINE OF DEFENCE

Under the first line of defence, operational management has ownership, responsibility and accountability for directly assessing, controlling and mitigating risks.

SECOND LINE OF DEFENCE

The second line of defence consists of activities covered by several components of internal governance (compliance, risk management, quality, IT and other control departments). This line of defence monitors and facilitates the implementation of effective risk management practices by operational management and assists the risk owners in reporting adequate risk related information up and down the organisation.

THIRD LINE OF DEFENCE

Internal audit forms the organisation's third line of defence. The internal audit function of the Group is outsourced to EY, except in the case of Grays, which has its own in-house internal auditor, as well as Terrarock, which has retained the services of UHY & Co. The internal auditors have a direct reporting line to the Audit and Risk Committees and maintain an open and constructive communication channel with the executive management team. They also have direct access to the chairpersons of the Committees and the Board. This reporting structure allows the internal auditors to remain independent and to report all items of significance to the Board and the Audit and Risk Committees. As the internal audit function is outsourced, it is therefore not possible to list on the website the structure, organisation and qualifications of this function.

A risk-based methodology is applied, where the internal auditors first establish a preliminary understanding of the business, operations and key risks through discussion with the Audit and Risk Committees, directors and management, and review of the risk register to identify high risk areas. A three-year plan is then established and rolled out with internal audit visits conducted at the business units. Internal audit reports are communicated and discussed at the Audit and Risk Committees. Follow-up visits are conducted where significant high-risk issues have been reported in prior internal audit reports.

During 2020, EY performed four internal audit visits, which were in line with the audit plan approved by the Audit and Risk Committee. UHY & Co performed one visit at Terrarock Ltd, while Grays' internal auditor completed four new assignments and submitted one investigative and four follow-up reports. EY also performed a review at Grays on the implementation of Oracle/Fusion applications. Findings and observations were discussed with management at the respective business units; action plans to address internal control gaps were agreed and incorporated in the internal audit reports and reported to the Audit and Risk Committees.

We are continually reinforcing our risk management practices so that we move up the maturity curve for achieving a robust ERM system.

Margaret Wong Ping Lun
Chairperson of the Audit and Risk Committee
14 July 2021