

# 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 resides 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. The RMF further ensures that the Board of Terra Mauricia Ltd can discharge its responsibility to govern risk for the Group in accordance with the Companies Act and the Code of Corporate Governance for Mauritius.

Through the Audit and Risk Committee, the Board reviewed the RMF in 2020 with the assistance of Ernst & Young (EY), following the departure of the Group Risk Champion. Following the review, a Group Risk Management Committee was established in 2021 at managerial level to monitor the risk management of the Group's clusters.

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

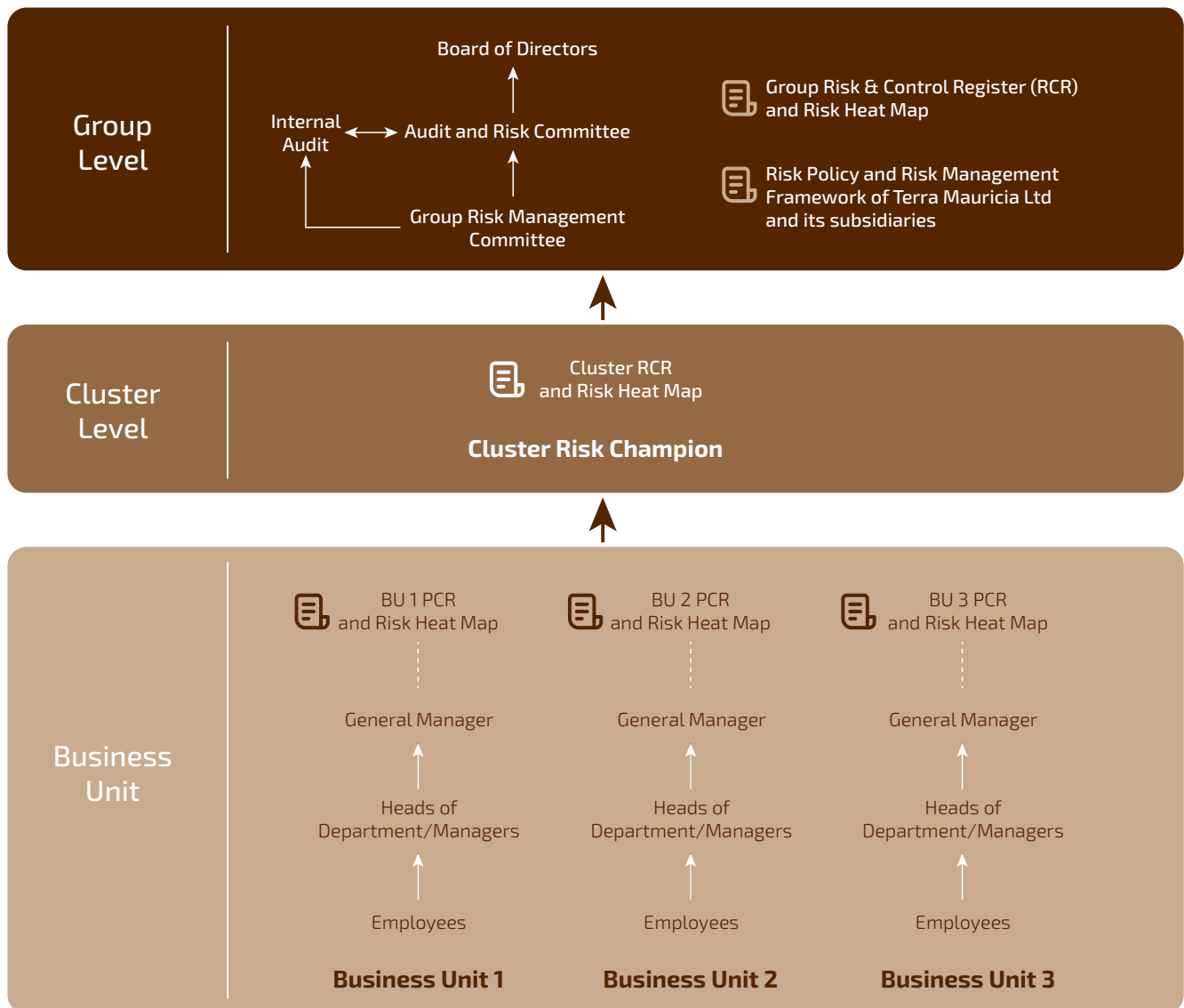


The Board, advised by the Audit and Risk Committee where appropriate, reviews the significant risks when taking decisions that could have a material impact on Terra. The Audit and Risk Committee's role and responsibilities regarding risk management include carrying out a robust assessment of the main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

# Internal Controls and Risk Management (Cont'd)

## Risk-management organisation

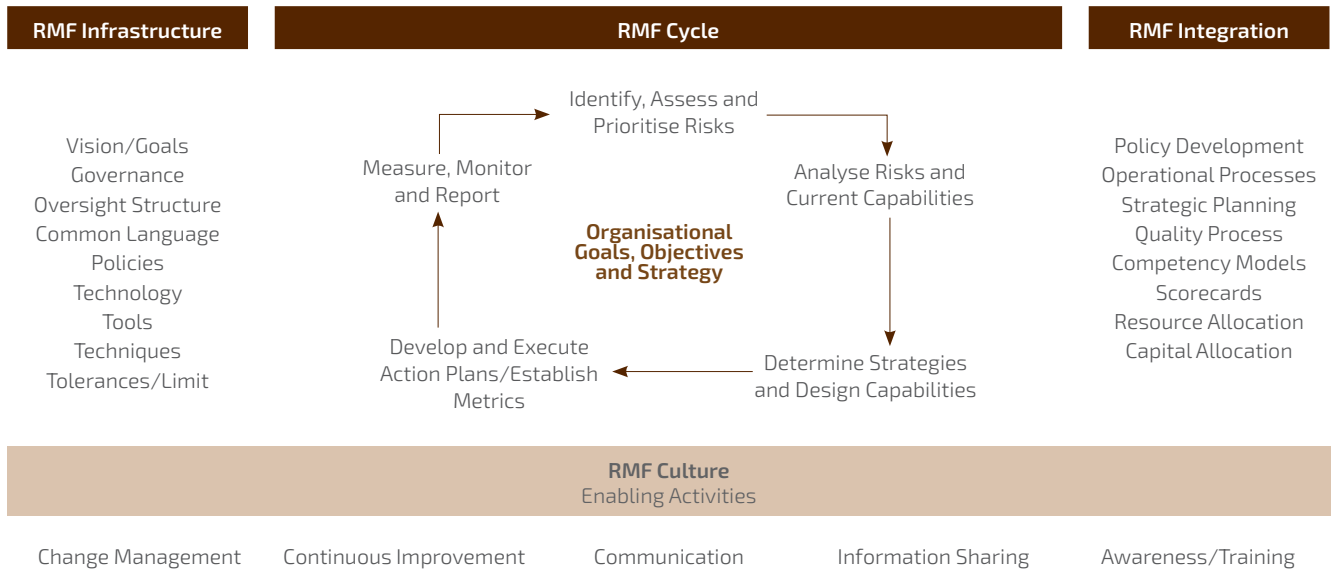
The governance structure and associated lines of communication that apply to the Group's RMF are illustrated below. There is a two-way relationship between the risk owners (employees) at business unit level and the Board of Directors (the Board) at Group level, whereby the guidance from the Board will 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 risk management approach.



The above model is replicated across the Group's clusters.

## Risk-management cycles

The graphic below illustrates the risk management cycles, including the main associated activities, the way these integrate 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 internal processes and modalities that are required to establish and sustain a robust risk management culture.



## Reporting on risks

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

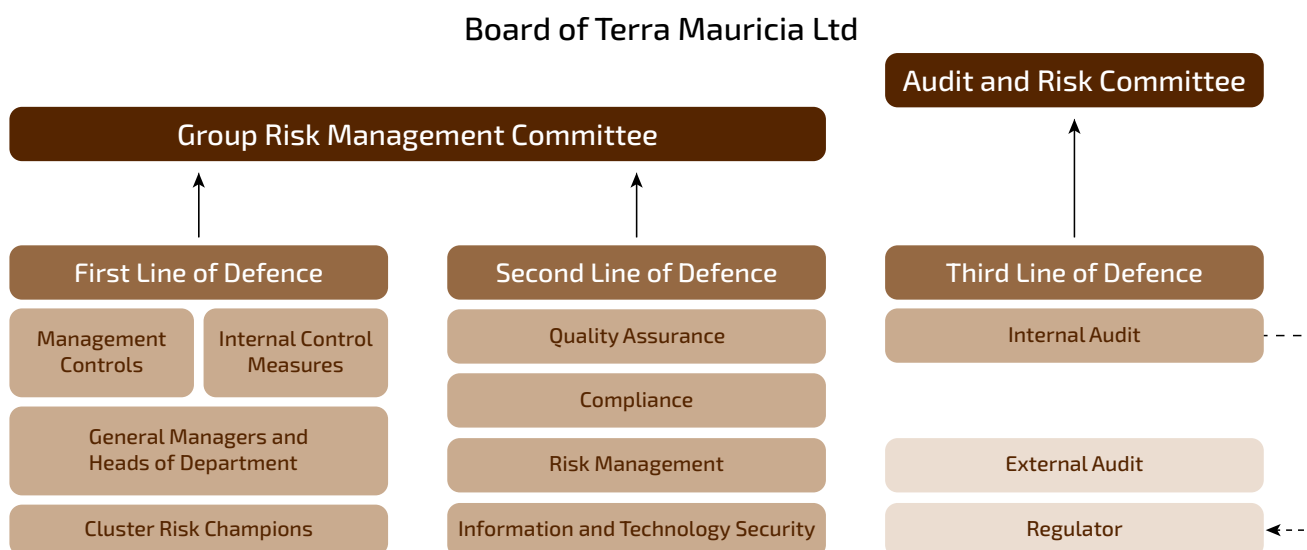
- Strategic – strategic risks are risks that arise from failure to achieve business strategy and objectives ;
- Financial – financial risks include areas such as financial sustainability, financial resources, market, foreign exchange, liquidity and credit risk ;
- Operational – operational risks are 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, and health and safety ; and
- Legal and regulatory compliance.

Some 21 main risks were identified and validated by management for the Group, together with their mitigating measures and controls. These risks cannot be eliminated, while controls and mitigating measures cannot provide absolute protection against factors such as unexpected events, errors or fraud.

# Internal Controls and Risk Management (Cont'd)

## Internal controls and audit

To ensure the effectiveness of the Group's RMF, the Board and senior management rely on several 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. Except for Grays, which has its own in-house internal auditor, and Terrarock, which retained the services of UHY & Co up to the end of 2022, EY performs the internal audit function and supports the Group in achieving its objectives, identifying and managing major risks, and complying with policies, laws and regulations.

The internal audit function reports directly to the Audit and Risk Committee (ARC) and administratively to management. It prepares an annual plan of its activities that the ARC reviews and approves to ensure that material risk areas are included and business processes are acceptably covered. The ARC also oversees the appointment, performance and independence of the internal audit function, as well as the completion of the approved internal audit plan. The ARC receives reports that detail the outcomes of internal audit assignments. This enables the ARC to oversee and ensures that gaps identified are effectively and timeously remediated by management to contain risks. In addition to areas covered by the annual internal audit plan, the ARC may request the internal audit function to review other areas it requires insights on.

## Internal Controls and Risk Management (Cont'd)

In assessing the internal auditors' performance, the ARC applies the following criteria:

- Skills and technical expertise of the internal auditors;
- Ability to listen and respond to Terra's expectations;
- Ability to demonstrate insights and knowledge of the business;
- Ability to proposing solutions and recommendations in response to observations noted;
- Timeliness of delivery;
- Scope and objectives of the internal audit visits are met and address the risk areas of the Group;
- Completion of planned internal audit visits in a year;
- Communication skills; and
- Overall experience with the internal auditors.

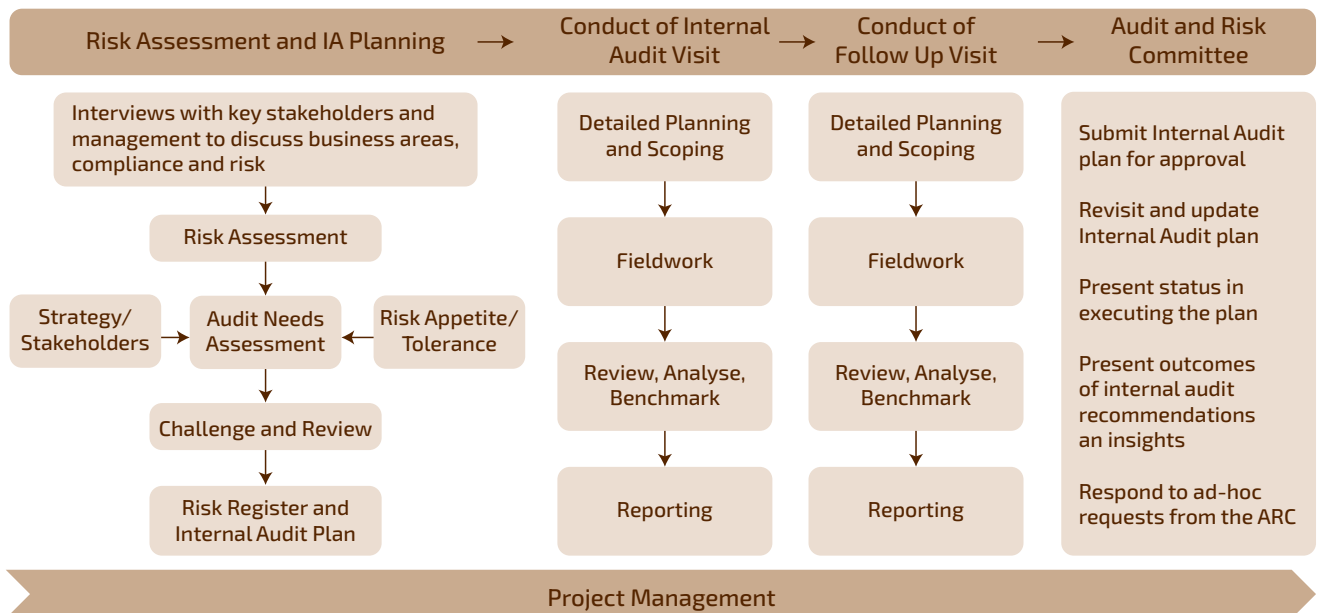
To enable it to perform effectively, the internal audit function has unrestricted access to the Company's records and information, as well as to Terra's employees and management team.

The internal audit function adds value to the Group by helping management answer the following key questions related to the areas reviewed by the internal auditors:

- What risks are we exposed to?
- How effective are our controls in containing the key risks?
- What are the root causes of the control gaps observed?
- What do we need to do to better contain these risks?
- How can we make better use of what we have?
- How can we do things better?
- How can we build resilience?
- How do we compare to others?
- What are the leading practices we could adopt?

The framework adopted by the internal audit function is summarised below.

### Core Delivery Framework



# Internal Controls and Risk Management (Cont'd)

Preparation of the internal audit plan involves conducting a risk assessment exercise at Group and entity levels to identify and rank the main risks they are exposed to, and thereby identify what areas need to be audited and in what order of priority. Highly ranked risks that have corresponding auditable controls are typically prioritised for audit. This exercise involves collaboration among the members of the ARC, the internal audit function and management to draw out consensus on material risks areas that warrant attention from the internal auditors.

The internal audit function typically executes its assignments through the following five main phases, which are consistent with its methodology and aligned to the Institute of Internal Auditors (IIA) standards and leading internal audit practices.

	1 Plan and Scope	2 Conduct Fieldwork	3 Review Findings	4 Issue Report	5 Conduct Follow Up
Approach	<ul style="list-style-type: none"> <li>Meet with appointed contact person to agree on audit project scope, objective and communication protocols</li> <li>Confirm appropriate resources required to execute the audit program</li> <li>Agree audit timelines</li> </ul>	<ul style="list-style-type: none"> <li>Conduct understanding interviews and review key business documentation</li> <li>Formulate audit programs including risk and control matrices (RACM)</li> <li>Assess the design of controls through interviews with relevant personnel, review of process documentation and 'walkthrough' of the control</li> <li>Assess the effectiveness of controls in operation via execution of the test work program</li> </ul>	<ul style="list-style-type: none"> <li>Review and analyse findings from fieldwork conducted</li> <li>For issues identified, perform root cause analysis and impact analysis to understand the materiality and 'why' the issue has occurred</li> <li>Identify any compensating controls associated with the preliminary findings</li> <li>Draft the report in a pre-agreed format and structure</li> <li>Submit draft report to management for preliminary comments and validation</li> </ul>	<ul style="list-style-type: none"> <li>Close comments and agree with management on content of draft report</li> <li>Collect management comments and remediation actions, and include these in the internal audit report</li> <li>Finalise the report and release</li> </ul>	<ul style="list-style-type: none"> <li>Agree with management timing for follow up audits</li> <li>Agree which remediation actions have been implemented to date and plan to independently confirm that these are operating effectively</li> <li>Interview relevant management for status update inquiry and determine required test</li> <li>Verify that action plans for each finding have been implemented</li> <li>Verify reasons for failing to implement any action plans and recommend way forward to close out any remaining issues</li> </ul>
Deliverables	<ul style="list-style-type: none"> <li>Mobilise the project team and assign roles</li> <li>Confirmed scope and objectives</li> <li>Project schedule, plan and timelines</li> </ul>	<ul style="list-style-type: none"> <li>Audit program including RACM</li> <li>Audit Working Papers and supporting documents</li> </ul>	<ul style="list-style-type: none"> <li>Preliminary List of Issues</li> <li>Draft Audit Report</li> </ul>	<ul style="list-style-type: none"> <li>Final Audit Report including management actions</li> </ul>	<ul style="list-style-type: none"> <li>Follow-up Report including the status for each action plan within the issued reports</li> </ul>

← Continuous project management and status updates as agreed in communication protocol →

## Internal Controls and Risk Management (Cont'd)

Remedial actions to address findings are identified with the relevant management teams, who assign responsibility and a deadline to each action to enforce accountability to remediate these gaps. The internal auditor also performs desktop follow-up reviews on the audit exercises conducted to ensure that the necessary remedial actions have been duly and effectively implemented.

EY has a specialist team of internal auditors in Mauritius who are part of a larger multi-disciplinary consulting team. It leverages this team to ensure that the internal audits conducted at Terra are resourced with the appropriate mix of experience, knowledge and skills. Members of this team are university graduates who hold recognised international qualifications in their respective fields (e.g. ACCA, Institute of Chartered Accountants of England & Wales, Certified Internal Auditors (CIA), Certified Information Systems Auditor (CISA), Certified in Risk and Information Systems Control (CRISC)). This team can advise Terra on improvements needed, and share leading practices based on first-hand experience of working across many geographies for EY clients. Members of this specialist team are continuously trained in leading internal audit.

EY maintains the independence and objectivity of its staff who are part of the internal audit team through strict EY independence related policies that apply to all staff, regular training and awareness on these subjects, as well as regular verification of the compliance of partners and executives with EY independence-related policies.

The following audit reviews were carried out and tabled at the ARC meetings during the year under review:

- Terragri Review of Satellite Stores and Capitalisation of Plantation Costs;
- Terra Mauricia Cybersecurity Final Report;
- Terrarock – Follow Up Audit of Capital Expenditure Review;
- Terrarock – Follow Up Audit of Stock Management;
- Novaterra – Review of Revenue Management; and
- Novaterra Review of Working Capital Management.



**Kalindee Ramdhonee**  
Chairperson of the Audit and Risk Committee

27 April 2023