

# INTERNAL CONTROLS and Risk Management

Terra's success as an organisation depends on its ability to identify and exploit the 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's. Terra takes an embedded approach to risk management that puts risk and opportunity assessment at the core of the leadership team agenda.

## INTERNAL CONTROLS AND AUDIT

The Board, through the Audit and Risk Committee is responsible for ensuring an effective internal control system, which comprises the following:

- Key processes for monitoring the system of internal control through a detailed organisational structure, including the delegation of responsibilities from the Board to Board Committees, the Group Managing Director, members of Senior Management and heads of operating units
- Procedures for identifying business risks and controlling their impact on the Group
- Group's policies for preventing or detecting fraud
- Ensuring compliance with relevant regulatory and legal requirements
- Reviewing the effectiveness of the work performed by the internal audit function and the external auditors
- Reviewing cases of employee conflict of interest, misconduct or fraud, or any other unethical activity by employees or the Group.

The internal audit function of the Group is outsourced to Ernst & Young (EY), except at Grays, which has its own in-house internal auditor, and 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 Committee.

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

During 2018, EY performed four internal audit visits, which were in line with the audit plan approved by the Audit and Risk Committee. EY also performed one special assignment at Grays at the request of the Audit and Risk Committee. UHY Ltd performed three visits at Terrarock Ltd, while Grays' internal auditor realised two assignments and submitted two follow-up reports. Findings and observations made were discussed with management of the respective business units, action plans to address internal control gaps were agreed with management, incorporated in the internal audit reports and reported to the Audit and Risk Committees. A new plan has been proposed for the period 2019-2021.

## RISK-MANAGEMENT FRAMEWORK

The role and responsibilities of the Audit and Risk Committee regarding risk management consist in 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 keeping under review the effectiveness of internal controls and risk management.

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. These reviews consider the level of risk that Terra is prepared to take in pursuit of the business strategy and the effectiveness of the management controls in place to mitigate risk exposure.

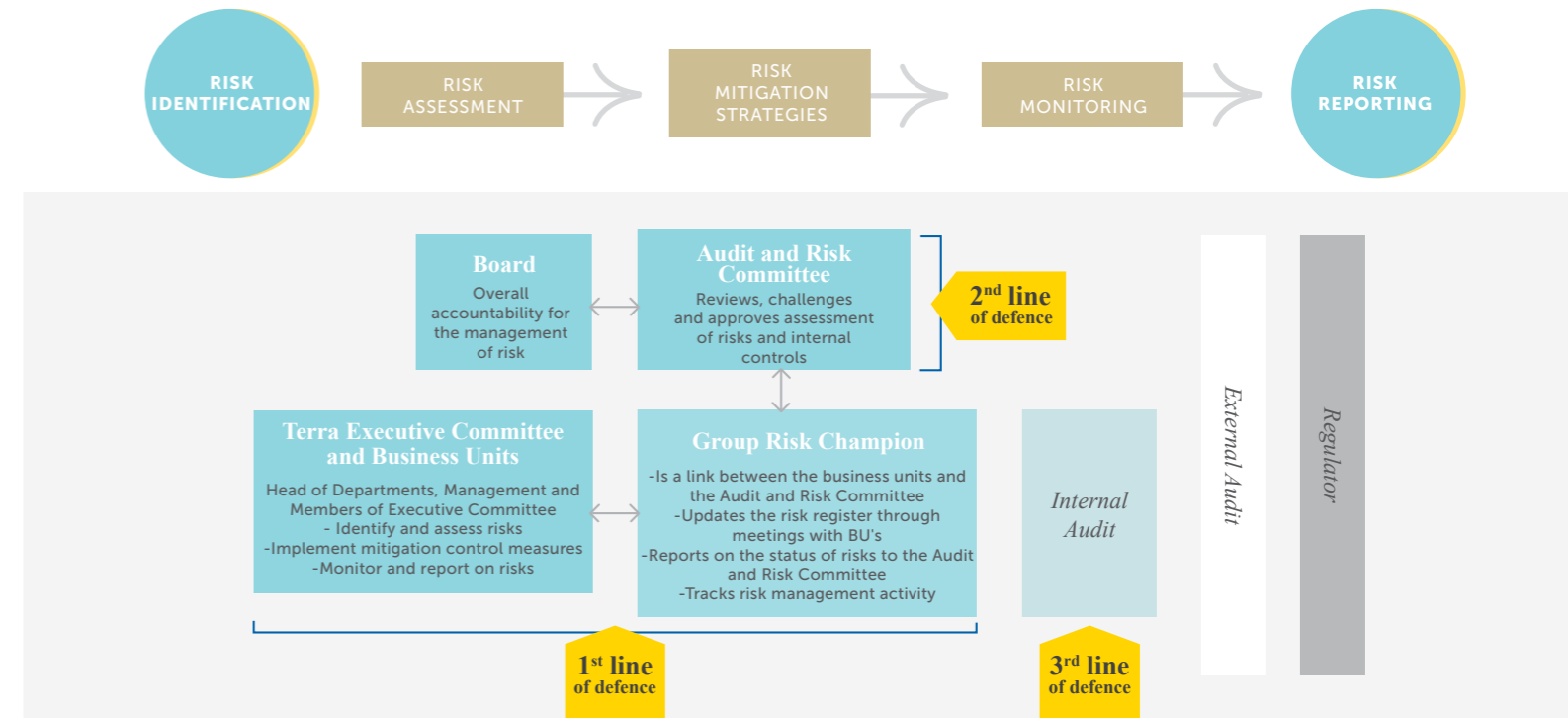
In 2018, the Board, through the Audit and Risk Committee, reviewed the assessment of risks, internal controls and procedures in operation within Terra. They also considered the effectiveness of any remedial action taken during the year. Data protection controls were also implemented following the promulgation of the Data Protection Act and General Data Protection Regulation.

## RISK MANAGEMENT – ACCOUNTABILITY AND RESPONSIBILITY

Terra applies the three-lines-of-defence approach, with the aim of bringing about a greater understanding of the roles and responsibilities throughout the various risk-management and control functions. This also assists executive management, the Audit and Risk Committee, and ultimately the Board to have confidence that the control framework within the organisation is operating efficiently and effectively.

Terra has adopted the principles of Enterprise Risk Management (ERM) to ensure an effective risk management system and value creation. Our risk management practice is not intended to impede

business but is a useful tool to help management link strategy-setting process and performance. Our risk management approach comprises risk identification based on the business objectives while risk mitigation strategies are devised to ensure achievement of goals. We are continually reinforcing our risk management practices so that we move up the maturity curve for achieving a robust ERM system.



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. It also includes environmental, social and governance related risks.

- **Strategic** – strategic risks are risks that arise from business strategy and objectives and risks failing to achieve the same
- **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 its strategic plan. They include human capital, environment, stakeholder relations, technology, information system, data and cyber security, health and safety
- **Legal and regulatory compliance.**

Some 35 main risks were identified and validated by management for the Group, together with their mitigating measures and controls. The material issues impacting the value creation of each cluster are shown in their respective operational review on pages 22 to 39. It is to be noted that those risks cannot be completely eliminated and that controls and mitigating measures cannot provide absolute protection against factors such as unexpected events, errors or fraud.

*Margaret Wong Ping Lun*

**Margaret Wong Ping Lun**  
Chairperson of the Audit and Risk Committee  
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