

**LAVASTONE LTD**

**RISK MANAGEMENT**

**AND**

**AUDIT COMMITTEE CHARTER**

## ***RISK MANAGEMENT & AUDIT COMMITTEE CHARTER***

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### **1. INTRODUCTION**

The risk management and audit committee plays an important role in providing insight of the organisation's governance, risk management and internal control practices. This oversight mechanism also serves to provide confidence in the integrity of these practices. The committee performs its role by providing independent insight to the Board and assists the Board and management by providing advice and guidance on the adequacy of the organisation's initiatives.

### **2. MANDATE**

Under the National Code of Corporate Governance for Mauritius (2016), Lavastone Ltd ('Lavastone') is recommended to establish an Audit committee and a Risk Committee. Lavastone's Board has opted for a combined approach, by establishing the 'Risk Management and Audit Committee' (RMAC), which oversees the risk and audit-related matters of its subsidiaries.

All audit and risk related matters for the subsidiaries of Lavastone (collectively referred to as "Lavastone Properties") are reported at their respective Board.

### **3. MEMBERSHIP**

- 3.1** The RMAC shall comprise of not less than **3** non-executive directors appointed by the Board, and the majority of the members should be independent. Members of the committee shall be appointed by the Board, in consultation with the Chairperson of the RMAC.
- 3.2** The Board shall appoint a Chairperson from the independent non-executive members of the committee and determine the period for which he or she shall hold office.
- 3.3** The Chairperson of the Board, the Managing Director, the CFO and any Executive director shall not be eligible to be appointed as Chairperson or member of the committee.
- 3.4** The Board shall satisfy itself that the Chairperson of the committee and at least one member of the RMAC have recent and relevant financial experience ideally with a professional qualification from one of the professional accountancy bodies.
- 3.5** The Board shall have the power at any time to remove any members from the Committee and to fill any vacancies created by such removal.
- 3.6** Only members of the committee have the right to attend committee meetings.
- 3.7** However, the Managing Director and the Chief Financial Officer shall be in attendance at meetings of the RMAC. The external auditors and internal auditors shall be invited to attend meetings of the committee on a regular basis and other non-members may be invited to attend all or part of any meeting as and when appropriate and necessary.
- 3.8** Appointments to the RMAC shall be for a period of up to three years extendable by no more than two additional three-year periods, so long as members continue to be independent.

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### **4. SECRETARY**

- 4.1** The Company Secretary, or his or her nominee, shall act as the Secretary of the RMAC and will ensure that the committee receives information and papers in a timely manner to enable full and proper consideration to be given to issues.

### **5. QUORUM**

- 5.1** The quorum necessary for the transaction of business shall be at least two members; one must be an independent director.

### **6. FREQUENCY OF MEETINGS**

- 6.1** The RMAC shall meet at least four times a year at appropriate intervals in the financial reporting and audit cycle and otherwise as required.
- 6.2** Outside the formal meetings, the RMAC Chairperson will maintain a dialogue with key individuals involved in the Company's governance, including the Board Chairperson, the CEO, the Chief Financial Officer, the external audit lead partner and the internal audit. The RMAC Chairperson, at his/her discretion, may invite other executives to attend and to be heard at meetings of the committee.

### **7. NOTICE OF MEETINGS**

- 7.1** Meetings of the RMAC shall be convened by the Secretary of the committee at the request of any of its members or at the request of the external audit lead partner or internal auditor if they consider it necessary.
- 7.2** Notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed and supporting papers, shall be forwarded to each member of the committee, any other person required to attend, no later than five working days before the date of the meeting.

### **8. MINUTES OF MEETINGS**

- 8.1** The Secretary shall minute the proceedings and decisions of all meetings of the RMAC, including recording the names of those present and in attendance.
- 8.2** Draft minutes of committee meetings shall be circulated no later than ten working days to all members of the committee. Once approved, minutes should be circulated to all other members of the Board unless it would be inappropriate to do so in the opinion of the committee Chairperson.

### **9. ANNUAL GENERAL MEETING (AGM)**

- 9.1** The RMAC Chairperson shall attend the annual general meeting to answer shareholder questions on the committee's activities.

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### **10. RESPONSIBILITIES OF THE COMMITTEE**

It is the responsibility of the RMAC to provide the Board with independent, objective advice on the adequacy of the management's arrangements with respect to the following aspects:

#### **10.1 FINANCIAL STATEMENTS**

- 10.1.1.** The RMAC will examine and review the quality and integrity of Lavastone Properties financial statements, including its annual and half-yearly reports, interim reports and any other formal announcement relating to the organisation's financial performance.
- 10.1.2.** The RMAC shall review and report to the Board on significant financial reporting issues and judgements which these financial statements contain having regard to matters communicated to the committee by the auditor.
- 10.1.3.** In particular, the RMAC shall review and challenge where necessary:
- a. The consistency of, and any changes to, significant accounting policies both on a year on year basis and across the cluster;
  - b. Compliance with accounting standards, local and international, compliance with stock exchange and legal requirements;
  - c. The methods used to account for significant or unusual transactions where different approaches are possible;
  - d. Significant adjustments resulting from the audit;
  - e. Whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements taking into account the views of the external auditor;
  - f. The clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made;
  - g. All material information presented with the financial statements, such as the business review and the corporate governance statements relating to the audit and to risk management;
  - h. Where the committee is not satisfied with any aspect of the proposed financial reporting by the Company, it shall report its views to the Board;
  - i. The basis on which the organisation has been determined a going concern;
  - j. Capital adequacy and internal controls; and
  - k. Compliance with the financial conditions of any loan covenants.

#### **10.2 INTERNAL AUDIT**

The committee shall:

- 10.2.1 Approve the appointment or termination of appointment of the head of internal audit;
- 10.2.2 Review and approve the charter of the internal audit function;

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- 10.2.3 Ensure the internal auditor has direct access to the Board Chairperson and to the committee Chairperson, and is accountable to the committee;
  - 10.2.4 Review and assess the annual internal audit work plan;
  - 10.2.5 Receive a report on the results of the internal auditor's work on a periodic basis;
  - 10.2.6 Review and monitor management's responsiveness to the internal auditor's findings and recommendations;
  - 10.2.7 Meet with the head of internal audit at least once a year without the presence of management; and
  - 10.2.8 Monitor and review the effectiveness of the Company's internal audit function, in the context of the Company's overall risk management system.

**10.3 EXTERNAL AUDIT**

The committee shall:

- 10.3.1 Consider and make recommendations to the Board, to be put to shareholders for approval at the AGM, in relation to the appointment, re-appointment and removal of the Company's external auditor; and
- 10.3.2 Ensure that at least once every ten years the audit services contract is put out to tender to enable the committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other audit firms; and in respect of such tender oversee the selection process and ensure that all tendering firms have such access as is necessary to information and individuals during the duration of the tendering process. Several firms should be screened and the committee should obtain written or verbal proposals to enable it to arrive at its recommendation.
- 10.3.3 If an auditor resigns, investigate the issues leading to this and decide whether any action is required.
- 10.3.4 Oversee the relationship with the external auditor including (but not limited to):
  - 10.3.4.1 Recommendations on their remuneration, including both fees for audit and non-audit services, and that the level of fees is appropriate to enable an effective and high quality audit to be conducted;
  - 10.3.4.2 Approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;

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- 10.3.4.3 Assessing annually their independence and objectivity taking into account relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services;
- 10.3.4.4 Satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the organisation (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity;
- 10.3.4.5 Agreeing with the Board a policy on the employment of former employees of the Company's auditor, and monitoring the implementation of this policy;
- 10.3.4.6 Monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partner, the level of fees paid by the organisation compared to the overall fee income of the firm, office and partner and other related requirements;
- 10.3.4.7 Seeking to ensure co-ordination between audit firms (where more than one audit firm is involved);
- 10.3.4.8 Seeking to ensure co-ordination with the activities of the internal audit function; and
- 10.3.4.9 Evaluating the risks to the quality and effectiveness of the financial reporting process and consideration of the need to include the risk of the withdrawal of their auditor from the market in that evaluation.
- 10.3.5 Meet regularly with the external auditor (including once at the planning stage before the audit and once after the audit at the reporting stage) and at least once a year, without management being present, to discuss the auditor's remit and any issues arising from the audit.
- 10.3.6 Review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team.
- 10.3.7 Consider whether any significant ventures, investments or operations are not subject to external audit.
- 10.3.8 Obtain assurance from the external auditor(s) that adequate accounting records are being maintained.

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- 10.3.9 Review the findings of the audit with the external auditor. This shall include but not be limited to the following:
  - 10.3.9.1 A discussion of any major issues which arose during the audit;
  - 10.3.9.2 Key accounting and audit judgements;
  - 10.3.9.3 Levels of errors identified during the audit; and
  - 10.3.9.4 The effectiveness of the audit process.
- 10.3.10 Review any representation letter(s) requested by the external auditor before they are signed by management.
- 10.3.11 Review the management letter and management's response to the auditor's findings and recommendations.
- 10.3.12 Develop and implement policy on the supply of non-audit services by the external auditor to avoid any threat to auditor objectivity and independence, taking into account any relevant ethical guidance on the matter.

## **11 NARRATIVE REPORTING**

- 11.1 Where requested by the Board, the RMAC shall review the content of the annual report and accounts and advise the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders and other stakeholders to assess the Company's performance, business model and strategy.

## **12 INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM**

The RMAC shall:

- 12.1 Keep under review the adequacy and effectiveness of the company and its subsidiaries systems of internal control, including internal financial control and business risk management and maintaining effective internal control systems;
- 12.2 Review and approve the statements to be included in the annual report concerning internal controls and risk management;
- 12.3 Review and approve related party transactions to be disclosed by the Group;
- 12.4 Review the risk profile and **Business Risk Register** (BRR);
- 12.5 Review and provide recommendations on significant risk exposures and control issues, including fraud risks, governance issues and other matters needed or requested by Senior management and the Board;
- 12.6 Review and provide recommendations on the adequacy of the combined assurance being provided;
- 12.7 Review and provide recommendations on the risk management processes established and maintained, in accordance with the **Group Risk**

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**Management Guideline**, and the procedures in place to ensure that they are operating as intended;

- 12.8 Review the adequacy of the **Group Insurance covers**;
- 12.9 Receive and review reports on a regular basis from management on Health and Safety matters, credit risk portfolio and Key Performance Indicators (KPI).

### **13 WHISTLEBLOWING AND FRAUD**

The RMAC shall:

- 13.1 Review the adequacy and security of the organisation's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action;
- 13.2 Review the cluster's procedures for detecting fraud;
- 13.3 Review the cluster's systems and controls for the prevention of bribery and receive reports on non-compliance;
- 13.4 Enquire with management, internal and external auditors to ensure that the Company has appropriate anti-fraud programs and controls in place to identify potential fraud and ensure that investigations are undertaken if fraud detected.

### **14 BUSINESS CONDUCT**

- 14.1 Lavastone's Board has set up a Corporate Governance Committee (CGC) to oversee all governance issues relating to the business activities of the Company and all its subsidiaries.
- 14.2 However, if any governance issues are identified in the normal course of an audit and reported to the RMAC, these will be referred to and discussed by the latter at the level of the CGC.

### **15 REPORTING RESPONSIBILITIES**

- 15.1 The RMAC Chairperson shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities and shall also formally report to the Board on how it has discharged its responsibilities. This report shall include:
  - 15.1.1 The significant issues that is considered in relation to the financial statements and how these were addressed;

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- 15.1.2 Its assessment of the effectiveness of the internal audit and external audit process and its recommendation on the appointment or reappointment of the external auditor; and;
  - 15.1.3 Any other issues on which the Board has requested the Committee's opinion.
- 15.2 The RMAC shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 15.3 The RMAC shall compile a report on its activities to be included in the Company's annual report. In compiling the report, the RMAC should exercise judgement in deciding which of the issues it considers in relation to the financial statements are significant, but should include at least those matters that have informed the Board's assessment of whether the Company is a going concern.

## **16 REMUNERATION**

- 16.1 Having regard for the functions performed by the members of the RMAC in addition to their functions as directors in relation to the activities of the Committee, members of the Committee may be paid such special remuneration in respect of their appointment as shall be fixed by the Board. Such special remuneration shall be in addition to the annual fees payable to directors.
- 16.2 The Chairperson of the RMAC shall, in addition to his or her remuneration as member, receive a further sum as determined by the Board.

## **17 AUTHORITY**

The RMAC is authorised to:

- 17.1 Seek any information it requires from any employee of the organisation in order to perform its duties;
- 17.2 Obtain, at the organisation's expense, independent legal, accounting or other professional advice on any matter it believes it necessary to do so;
- 17.3 Call any employee to be questioned at a meeting of the committee as and when required; and
- 17.4 Have the right to publish in the organisation's annual report, details of any issues that cannot be resolved between the committee and the Board.

## **18 OTHER MATTERS**

The RMAC shall:

- 18.1 Have access to sufficient resources in order to carry out its duties, including access to the Company secretariat for assistance as required;

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- 18.2 Establish and communicate its requirements for information, which will include the nature, extent and timing of information. Information will be provided to the RMAC **at least 1 week** prior to each meeting.
- 18.3 Be provided with appropriate and timely training, both in the form of an induction programme for new members and on an on-going basis for all members;
- 18.4 Give due consideration to laws and regulations, the Code, SEM Listing Rules and any other applicable rules, as appropriate;
- 18.5 Be responsible for co-ordination of the internal and external auditors;
- 18.6 Oversee any investigation of activities which are within its terms of reference;
- 18.7 Work and liaise as necessary with all other Board committees; and
- 18.8 Arrange for periodic reviews of its own performance and, **at least annually**, review its constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board.
- 18.9 Review this charter as and when required, subject to the approval of the Board.

**REVIEWED BY LAVASTONE RMAC ON 31 JANUARY 2019**

**ADOPTED BY LAVASTONE BOARD OF DIRECTORS ON 08 FEBRUARY 2019**