

# **CIRCASSIA PHARMACEUTICALS PLC**

(the **Company**)

## **TERMS OF REFERENCE FOR THE AUDIT AND RISK COMMITTEE**

(approved at a meeting of the board of directors of the Company held on 21 February 2014 and amended at a meeting of the Audit and Risk Committee on 23 September 2014 and at a meeting of the board of directors on 5 December 2018 and to take effect from date of Admittance to AIM)

### **Constitution**

1. It is resolved that a committee of the board be established, to be known as the audit and risk committee.

### **Membership**

2. The audit and risk committee shall be appointed by the board, on the recommendation of the nomination committee in consultation with the chairman of the audit and risk committee, in accordance with the Company's articles of association.
3. All members of the audit and risk committee shall be independent non-executive directors. The audit committee shall consist of a minimum of two members. At least one committee member shall have recent and relevant financial experience. The chairman of the board shall not be a member of the audit and risk committee.
4. The current members of the audit and risk committee can be found on the website.
5. The chairman of the audit and risk committee shall be an independent non-executive director and shall be appointed by the board on the recommendation of the nomination committee from among the members of the audit and risk committee. Where the committee is comprised of three members, in the absence of the chairman of the audit and risk committee (and/or an appointed alternate member), the members present at any meeting of the committee shall elect one of their number to chair the meeting.
6. The chairman and member(s) shall be listed each year in the Company's annual report.
7. Each member shall hold office as a committee member for a period of up to three years, which may be extended by no more than two additional periods of up to three years, so long as the member continues to be an independent non-executive director.
8. If any member of the audit and risk committee is unable to act for any reason, the chairman of the audit and risk committee may appoint another independent non-executive director of the Company agreed by the other members of the audit and risk committee to act as that member's alternate.

9. The company secretary or his or her nominee shall be the secretary of the audit and risk committee. The company secretary shall ensure that the committee receives information and papers in a timely manner to enable full and proper consideration to be given to issues.
10. Each member of the audit and risk committee shall disclose to the committee:
  - (a) any personal financial interest (other than as a shareholder) in any matter to be decided by the audit and risk committee; or
  - (b) any potential conflict of interest arising from a cross-directorship.

Any such member shall abstain from voting on resolutions of the audit and risk committee in relation to which such interest exists and from participating in the discussions concerning such resolutions and (if so requested by the board) shall resign from the audit and risk committee.

## **Meetings**

11. The audit and risk committee shall meet at least three times a year, to coincide with key dates within the financial reporting and audit cycle and otherwise as the chairman of the committee shall require. A meeting shall be held as soon as reasonably practicable upon a request for such meeting by the Company's external auditors.
12. No one other than the chairman and members of the audit and risk committee is entitled to be present at a meeting of the audit and risk committee. The chairman and members of the audit and risk committee shall, however, have the discretion to decide if other individuals may be invited to attend for all or part of any meeting, as and when appropriate and necessary. The external auditor and chief financial officer will be invited to attend meetings of the audit and risk committee on a regular basis.
13. It is expected that the external audit lead partner will be invited regularly to attend meetings, as well as the chief financial officer. At least once a year, the audit and risk committee shall meet with the external and internal auditors, without management, to discuss matters relating to its remit and any issues arising from the audit.
14. The quorum for meetings of the audit and risk committee shall be two members present throughout the meeting in person or by telephone. A duly convened meeting of the audit and risk committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the audit and risk committee.
15. Meetings of the audit and risk committee shall be called by the secretary of the committee at the request of any member or at the request of external or internal auditor if they consider it necessary.
16. Unless otherwise agreed, notice of each meeting confirming the venue, date and time together with an agenda of items to be discussed and supporting papers, where appropriate, shall be forwarded to each member of the audit and risk committee and any person invited to attend and all other non-executive

directors no later than five working days prior to the date of the meeting. All reasonable efforts shall be made to give notice of meetings of the audit and risk committee to all members of it and to arrange such meetings so that members are able to attend them.

17. A member of the audit and risk committee may participate in committee meetings by telephone.
18. In the event of an equality of votes, the chairman of the audit and risk committee shall have a casting vote.
19. The secretary of the committee shall prepare minutes of proceedings and decisions for all meetings of the audit and risk committee, including the names of those present and in attendance, and, after approval and signature by the chairman of the audit and risk committee, shall circulate the minutes to all members of the audit and risk committee and to the chairman of the board and, once agreed, to all other members of the board, unless it would be inappropriate to do so in the opinion of the audit and risk committee chairman.
20. The chairman of the audit and risk committee shall be available to answer questions about the committee's activities at the annual general meeting of the Company. All members of the audit and risk committee shall also attend the annual general meeting.
21. Outside of the formal meeting programme, the audit and risk committee chairman shall communicate on a continual basis with key individuals involved in the Company's governance, including the board chairman, the chief executive, the chief financial officer, the external audit lead partner, the head of internal audit (if the function exists) and the Chief Compliance Officer.

## **Duties**

22. The audit and risk committee should carry out the duties below for the parent Company and the group as a whole, as appropriate.
23. The duties of the audit and risk committee shall be:
  - (a) External Auditors
    - (i) to consider and make recommendations to the board, for it to put to the shareholders for their approval in general meeting in relation to the appointment, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor;
    - (ii) if the board does not accept the audit and risk committee's recommendation on the appointment, re-appointment and removal of external auditors, to prepare a statement explaining the committee's recommendation which shall be included in the annual report and in any papers recommending appointment or re-appointment together with the board's reasons for taking a different position;

- (iii) to meet regularly with the external audit lead partner and other audit partners and staff including once at the planning stage before the audit and once after the audit at the reporting stage and in accordance with the section headed 'meetings' above;
- (iv) to review the engagement letter with the external auditor at the start of each audit; to discuss with the external auditors before the audit commences and keep under review the scope and results of the audit, as well as whether the level of fee payable is appropriate for the provision of those services; and ensure co-ordination where more than one audit firm is involved;
- (v) to review and monitor annually the external auditor's independence, objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services;
- (vi) to ensure that at least once every ten years the audit services contract is put out to tender and, in respect of such tender, to oversee the selection process and ensure that all tendering firms have such access as is necessary to information and individuals during the tendering process;
- (vii) to satisfy itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the company (other than in the ordinary course of business);
- (viii) to agree with the board a policy on the employment of former employees of the company's auditor, then monitor the implementation of this policy;
- (ix) to monitor the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partner, the level of fees paid by the company compared to the overall fee income of the firm, office and partner and other related requirements;
- (x) to assess annually the qualifications, expertise and resources of the auditor and the effectiveness of the audit process, which shall include a report from the external auditor on their own internal quality procedures;
- (xi) to seek to ensure co-ordination with the activities of the internal audit function;
- (xii) to evaluate the risks to the quality and effectiveness of the financial reporting process and to consider the need to include the risk of the withdrawal of their auditor from the market in that evaluation;
- (xiii) to develop and implement a policy on the provision of non-audit services by the external auditor, taking into account relevant

ethical guidance; and to report to the board identifying any matters in respect of which it considers that action or improvement is needed and make recommendations as to the steps to be taken (so as to ensure that the provision of such services does not impair the external auditor's independence and objectivity);

- (xiv) to consider the auditors' work plan for the annual and any interim audit and proposed resources in light of the scope of the audit;
  - (xv) to monitor the planned programme of audits and to ascertain the reason for any change or delay in the programme;
  - (xvi) to review with the external auditors (in the absence of management if necessary), the results of their work in conducting the annual and any interim audit, including:
    - (A) any major issues that arose during the course of the audit;
    - (B) key accounting and audit judgements;
    - (C) levels of errors identified during the audit, obtaining explanations from management and, where necessary, the external auditors as to why certain errors might remain unadjusted; and
    - (D) any reservations that the external auditors may have and other matters that they wish to raise;
  - (xvii) to review the audit representation letters before signature by management, giving particular consideration to matters where representation has been requested that relates to non-standard issues;
  - (xviii) to review the external auditors' management letter and management's response;
  - (xix) at the end of the annual audit cycle, to assess the effectiveness of the audit process; and
  - (xx) if the external auditor resigns, to investigate the issues leading to such resignation and to consider whether any action is required.
- (b) Internal Audit (if function exists)
- (i) to review and approve the internal audit function's remit, having regard to the role fulfilled by the external audit function;
  - (ii) to ensure that the head of internal audit has direct access to the chairman of the Company and to the audit and risk committee and that the internal auditor has direct access to the board and audit and risk committee chairman and is accountable to the audit and risk committee;

- (iii) to monitor and review the effectiveness of the internal audit function in the context of the company's overall risk management system , as well as to consider and approve the remit of the internal audit function, ensure that it is adequately resourced, has access to the information necessary to enable it to fulfil its mandate, and is able to perform in accordance with appropriate professional standards for internal auditors. The audit and risk committee shall also ensure the function has adequate standing and is free from management or other restrictions;
  - (iv) if the Company has no internal audit function, to annually consider the need for one and make a recommendation to the board;
  - (v) to approve the appointment or termination of appointment of the head of internal audit;
  - (vi) to review and assess the annual internal audit plan;
  - (vii) to receive a report on the results of the internal auditor's work on a periodic basis;
  - (viii) to review reports addressed to the committee from the internal auditor; and
  - (ix) to review and monitor management's responsiveness to the findings and recommendations of the internal auditor.
- (c) Financial reporting
- (i) to monitor the integrity of the financial statements of the Company including its annual and half-yearly reports, interim management statements, and any other formal announcements relating to the Company's financial performance, reviewing significant financial reporting issues and judgements contained in them.
  - (ii) the audit and risk committee shall focus particularly on:
    - (A) considering significant accounting policies, any changes to them and any significant estimates and judgements;
    - (B) the methods used to account for significant or unusual transactions where different approaches are possible;
    - (C) where the accounting treatment is open to different approaches, considering whether the Company has adopted appropriate accounting standards and, where necessary, made appropriate estimates and judgements taking into account the views of the external auditor;
    - (D) reviewing the clarity and completeness of disclosures in the financial reports and statements and considering whether the disclosures made are set properly in context; and

- (E) reviewing all material information presented with the financial statements, such as the strategic report, directors' report and the corporate governance statement (insofar as it relates to the audit and risk management);
  - (iii) to report its views to the board where it is not satisfied with any aspect of the financial reporting by the Company.
- (d) Narrative reporting

Where requested by the board, the audit and risk committee should 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 to assess the Company's performance, business model and strategy.
- (e) Internal Control, Risk Management and Compliance
  - (i) to keep under review the adequacy and effectiveness of Company's internal financial controls (that is, the systems established to identify, assess, manage and monitor financial risks) and to review the group's internal control and risk management systems;
  - (ii) to review the adequacy and security of arrangements by which staff and contractors of the Company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters, so as to ensure that arrangements are in place for the proportionate and independent investigation of such matters, and for appropriate follow-up action;
  - (iii) to review the Company's procedures for detecting fraud;
  - (iv) review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance;
  - (v) review the adequacy and effectiveness of the Company's anti-money laundering systems and controls;
  - (vi) review regular reports from the Compliance Officer and keep under review the adequacy and effectiveness of the Company's compliance function; and
  - (vii) to consider the major findings of internal investigations and management's response.

24. The audit and risk committee is authorised by the board to investigate any activity within the scope of its duties.

## Reporting responsibilities

25. The reporting responsibilities of the audit and risk committee shall be:
  - (a) to review the statement by the directors to be included in the annual accounts on the going concern status of the Company and the group and any supporting assumptions and qualifications;
  - (b) to assist the board by preparing a statement for inclusion in the directors' report (to shareholders as contained in the annual report) describing the roles and responsibilities of the audit and risk committee and actions taken by the committee to discharge those responsibilities; as well as listing the names and qualifications of all members of the committee, the number of committee meetings and attendance by each member;
  - (c) to produce for the board's approval the statement for inclusion in the annual report in relation to internal control and the management of risk;
  - (d) where there is no internal audit function, to set out the reasons for the absence of such a function in the relevant section of the annual report; and
  - (e) if the external auditor provides non-audit services, to provide an explanation for inclusion in the annual report of how auditor objectivity and independence is safeguarded.
26. The chairman of the audit and risk committee shall report formally to the board on its proceedings after each meeting on all matters within its duties and responsibilities. This report shall include:
  - (a) the significant issues that it considered in relation to financial statements and how these were addressed;
  - (b) its assessment of the effectiveness of the external audit process and its recommendation on the appointment or re-appointment of the external auditor; and
  - (c) any other issues on which the board has requested the audit and risk committee's opinion.
27. The audit and risk committee shall make whatever recommendations to the board it deems appropriate on any area within its remit where action or improvement is needed.
28. The audit and risk committee shall report formally to the board on its activities to be included in the Company's annual report. The report should include:
  - (a) an explanation of how the audit and risk committee has addressed the effectiveness of the external audit process;

- (b) the significant issues that the audit and risk committee considered in relation to financial statements and how these issues were addressed, having regard to matters communicated to it by the auditor; and
  - (c) all other information requirements set out in the Quoted Companies Alliance (QCA) Code.
29. The audit and risk committee has the right to publish in the Company's annual report, details of any issues that cannot be resolved between the audit and risk committee and the board.

### **Performance, resources and training**

30. The audit and risk committee shall also:
- (a) make available these terms of reference, explaining the role and the authority delegated to it by the board, by including the information on the Company's website;
  - (b) consider other topics, as defined by the board;
  - (c) 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 for approval;
  - (d) be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members;
  - (e) give due consideration to laws and regulations, the provisions of the QCA code, and the requirements of the AIM rules for Companies, relevant Prospectus and relevant Disclosure and Transparency rules, all MAR and any other applicable Rules as appropriate; and
  - (f) oversee any investigation of activities which are within its terms of reference.
31. The audit and risk committee is authorised by the board to obtain outside legal, accounting or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise, if it reasonably considers this necessary, at the Company's expense. The audit and risk committee shall have access to the external auditors as required.
32. The audit and risk committee shall have access to the services of the company secretariat on all audit and risk committee matters including (but not limited to) assisting the chairman in planning the audit and risk committee's work, drawing up meeting agendas, maintenance of minutes, drafting of material about its activities for the annual report, collection and distribution of information and provision of practical support.

33. The audit and risk committee is authorised to seek any information it requires from any employee of the Company or group Company in order to perform its duties and shall have access to the head of internal audit (if there is one).
34. The audit and risk committee has the right to publish in the Company's annual report details of any issues that cannot be resolved between the audit and risk committee and the board.