

## **SAREUM HOLDINGS PLC AUDIT & RISK COMMITTEE**

### **TERMS OF REFERENCE**

*Approved by the Board on 21 March 2019*

#### **1. THE AUDIT AND RISK COMMITTEE**

- 1.1. Is a sub-committee of the board and shall make recommendations to the board which retains the right of final decision;
- 1.2. Is made up of non-executive directors with a quorum of two;
- 1.3. Has the primary responsibility of reviewing the financial statements and the accounting principles and practice underlying them, liaising with the external and internal auditors and reviewing the effectiveness of internal controls; and
- 1.4. Will meet at least two times a year at appropriate times in the reporting and audit cycle and in any event sufficiently frequently and for long enough to perform its duties effectively.

#### **2. MEMBERSHIP**

- 2.1. The Audit & Risk Committee (“**The Committee**”) shall comprise at least two members, both of whom shall be independent non-executive directors (“**NEDs**”). Members of the Committee shall be appointed by the board, in consultation with the Committee Chairman.
- 2.2. Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the Chief Financial Officer (if any) and external auditors may be invited to attend for all or part of any meeting, as and when appropriate and necessary.
- 2.3. Appointments to the Committee are made by the board and 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.
- 2.4. The Committee Chairman, who must be an independent NED, shall be appointed by the Board. The Chairman of the Board shall not be Chairman of the Committee.

#### **3. SECRETARY**

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

#### **4. QUORUM**

The quorum necessary for the transaction of business shall be two.

#### **5. MEETINGS**

The Committee shall meet at least twice a year and otherwise as required

## **6. NOTICE OF MEETINGS**

- 6.1. Meetings of the Committee shall be called by the Secretary of the Committee at the request of the Committee Chairman.
- 6.2. Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee, any other person required to attend and all other NEDs, no later than five working days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees, as appropriate, at the same time. Committee meetings may be held by telephone by prior agreement of the Committee members.

## **7. MINUTES OF MEETINGS**

- 7.1. The Secretary shall minute the proceedings and resolutions of all Committee meetings, including the names of those present and in attendance.
- 7.2. Draft minutes of Committee meetings shall be circulated promptly to all members of the Committee. Once approved, minutes should be circulated to all other members of the board unless in the opinion of the Committee Chairman it would be inappropriate to do so.

## **8. ANNUAL GENERAL MEETINGS**

The Committee Chairman should attend the annual general meeting to answer any shareholder questions on the Committee's activities.

## **9. DUTIES**

The Committee should carry out the duties detailed below for the parent company, major subsidiary undertakings and the group as a whole, as appropriate.

The Committee shall:

- 9.1. Financial reporting: Monitor the integrity of the Group's financial statements, preliminary announcements and any other formal announcements relating to the Company's financial performance. In particular:
  - 9.1.1. Review and, where appropriate, report to the Board on the significant financial reporting issues and estimates and judgements made in connection with the preparation of the Group's financial statements, preliminary announcements and any formal announcements relating to the Group's financial performance;
  - 9.1.2. Review and challenge where necessary the clarity, completeness and appropriateness of disclosures in the Group's financial statements and consider whether the disclosures made are set properly in context, including, inter alia, the going concern statement to be made by the Board of the Company and the related information presented with the financial statements (including the strategic report and corporate governance statements relating to the audit);
  - 9.1.3. Review and approve all trading statements prior to public release;
  - 9.1.4. Review and challenge where necessary the significant accounting policies and practices of the Group, including as to their establishment, consistency and any changes to them;

- 9.1.5. Consider whether the Group has adopted appropriate accounting standards and policies and, where necessary, made appropriate estimates and judgements;
  - 9.1.6. Review and challenge where necessary the methods used to account for significant or unusual transactions where the accounting treatment is open to different approaches;
  - 9.1.7. Review and monitor any significant adjustments arising from the audit; and
  - 9.1.8. Review and challenge where necessary the Group's disclosure controls and procedures, including reviewing reports of the Group's Disclosure Committee.
- 9.2. Narrative reporting: Advise the Board on whether, taken as a whole, the Annual Report and Accounts is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.
- 9.3. Internal controls: Ensure that the Committee effectively reviews the appropriateness and completeness of the Company's system of internal control, reviews the report which identifies high level control issues classified as critical under the Company's risk matrix that require or are subject to remedial action and ensure that the Committee considers whether the necessary actions are being taken to remedy any significant failings or weaknesses.
- 9.4. External audit: Oversee the Group's relationship with the external auditors and assess the effectiveness of the external audit process. In particular:
- 9.4.1. General – Maintain regular, timely, open and honest communication with the external auditors, ensuring the external auditors reports to it on all relevant matters to enable the Committee to carry out its oversight responsibilities. Monitor, and discuss with the external auditors, the Group's relationship with the external auditors. At least once a year, meet with the external auditors without executive directors or executive management present. The Chairman of the Committee should also normally be available before each Committee meeting to meet the external auditors for private discussions;
  - 9.4.2. Appointment and tendering – Review and make recommendations to the Board, to be put to shareholders for approval at the Annual General Meeting, in relation to the appointment, reappointment and removal of the external auditors. Recommend to the Board that the external audit is put out to tender as often as is required by applicable law, rules, regulations and best practice. If the Committee recommends considering the selection of possible new external auditors, initiate and oversee a fair tendering and selection process. Periodically assess the qualifications, expertise and resources of the external auditors. If the external auditor resigns, investigate the issues giving rise to the resignation and consider whether any action is required;
  - 9.4.3. Remuneration and other terms of engagement – Agree the remuneration to be paid to the external auditors in respect of audit and non-audit services to be provided and the other terms of engagement of the external auditors, including the terms of the engagement letter issued by the external auditors at the start of each audit;
  - 9.4.4. Annual audit cycle – At the start of each annual audit cycle, ensure that appropriate plans are in place for the audit. Obtain from the external auditors in connection with any audit, a timely written report relating to the Group's annual audited financial statements, including prompt notification of any significant audit findings and any significant problems encountered in carrying out the audit. Review, with the external auditors, the findings of their work. Review and monitor management's responsiveness in remedying the external auditors' findings and recommendations.

Review, and approve on behalf of the Board, the audit representation letters before signature. As part of the on-going monitoring process and at the end of the annual audit cycle, assess the effectiveness of the audit process, reporting to the Board if appropriate;

9.4.5. Independence and objectivity, including the provision of non-audit services – Assess, annually, the independence and objectivity of external auditors, taking into consideration relevant law, regulations and professional requirements and ethical standards for auditors. Agree the Group’s policy on the provision of non-audit services by the external auditor, and monitor the application of the policy (and the provision of these services) and review and recommend to the Board, annually, changes to the policy. Agree with the Board the Group’s policy for the employment of former employees of the external auditor, and monitor the application of the policy. Monitor the external auditor’s compliance with the Ethical Standards for Auditors relating to, *inter alia*, the rotation of audit engagement partners and other related regulatory requirements. Recommend to the Board the identity and replacement from time to time the external audit engagement partners.

9.5. Risk management: Review, on behalf of the Board, management’s recommendations on financial and operational risk, in particular:

9.5.1. Consider and recommend to the Board the Company’s risk appetite for financial and operational risk;

9.5.2. Review, on behalf of the Board, the Company’s risk profile for financial and operational risk; and

9.5.3. Commission, receive and consider reports on key financial and operational risk issues.

9.6. Whistleblowing: Review the adequacy and security of the Group’s arrangements for its employees and contractors to raise complaints and concerns, in confidence, about possible wrongdoing in financial reporting or other matters and ensure that these arrangements allow proportionate and independent investigation of those matters and appropriate follow up action.

9.7. Capital raising: Receive, at each meeting during a period of due diligence in connection with the issuance or placement of ordinary shares in Sareum Holdings plc, a report from the Chairman of the Committee (or another nominated member in the Chairman’s absence) that confirmation (verbal or otherwise) has been received from the lead underwriter(s) that they are satisfied with the due diligence process.

9.8. Litigation: Review the Litigation Report and the proposed litigation statement for inclusion in the statutory accounts. Additionally, have in place procedures for receiving evidence from external and internal lawyers relating to breaches of securities law, fiduciary duties or other similar violations.

9.9. Work and liaise as necessary with all other Board committees.

## **10. REPORTING RESPONSIBILITIES**

10.1. The Committee Chairman shall report to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.

10.2. The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

- 10.3. The Committee shall ensure that provisions regarding disclosure of information, including the UK Companies Act 2006 (“CA 2006”) and AiM Rules for Companies, are fulfilled as appropriate and compile a report of the work of the Committee in discharging its responsibilities for inclusion in the Annual Report, including the issues dealt with by the Committee.

## 11. OTHER MATTERS

The Committee shall:

- 11.1. Have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required.
- 11.2. 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.
- 11.3. Give due consideration to laws, regulations and any relevant published guidelines or recommendations including but not limited to the provisions of the CA 2006, the QCA Code (or any other governance Code which the Board should subsequently adopt), the requirements of the AiM Rules for Companies and Disclosure and Transparency Rules (as applicable to AIM companies) and any other applicable rules, as appropriate.
- 11.4. 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.

## 12. AUTHORITY

The Committee is authorised by the board to obtain, at the company’s expense, outside legal or other professional advice on any matters within its terms of reference.