

abcam

Abcam plc

Audit and Risk Committee

Terms of Reference

These Terms of Reference were adopted in place of the previous Terms of Reference by resolution of the Board passed on 18 July 2019.

1. **PURPOSE**

- 1.1 The scope of the Audit and Risk Committee ("Committee") is to monitor and review the formal arrangements established by the Board in respect of:
- 1.1.1 the financial and narrative reporting of Abcam plc ("Company") and its direct and indirect subsidiaries ("Group");
 - 1.1.2 the effectiveness of internal controls and the risk management framework;
 - 1.1.3 whistleblowing and fraud;
 - 1.1.4 internal audit, when formally established or similar activities; and
 - 1.1.5 external audit.
- 1.2 The Company is not listed on the main market and consequently is not required to have regard to the UK Corporate Governance Code. The Board is, however, committed to maintaining high standards of corporate governance and the Directors intend, so far as is practicable given the Company's size and constitution of the Board, to comply with the provisions of the UK Corporate Governance Code.
- 1.3 The purpose of the Committee is to provide formal and transparent arrangements for considering how to apply the principles relating to financial reporting, internal control and the identification and management of risk set out in the UK Corporate Governance Code as appropriate, on the basis set out in 1.1 above. The Committee is also responsible for maintaining an appropriate relationship with the Company's auditors.

2. **CONSTITUTION AND MEMBERSHIP**

- 2.1 The Audit and Risk Committee has been established as a committee of the Board by resolution of the Board.
- 2.2 The members of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee and in consultation with the chairman of the Audit and Risk Committee. The Committee shall comprise at least three members, a majority of whom shall be considered by the Board to be independent non-executive directors. Notwithstanding provision 24 of the UK Corporate Governance Code, the Chairman of the Company may be a member of, but not chair, of the Committee, provided that the Committee is satisfied that the Chairman's expertise and experience is such that it is possible to explain the Chairman's membership of the Committee as being of value to the Company. At least one member of the Committee should have significant recent and relevant financial experience.
- 2.3 The chairman of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee. In the absence of the chairman of the Committee, the members present shall select one of their number present (other

than the Chairman of the Company, if he is a member of the Committee) to chair the meeting.

2.4 Appointments to the Committee shall be for a period of up to three years, which may be extended by no more than two additional three-year periods, provided the director still meets the criteria for membership of the Committee.

2.5 The Company Secretary shall act as the Secretary of the Committee. Where the Secretary is also an executive director, the Committee may nominate one of its members to act as Secretary for any meeting which the Committee wishes to hold without executive directors being present. The secretary of the Committee 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.

3. **ATTENDANCE**

3.1 The Committee shall invite a representative of the external auditors to attend meetings of the Committee as appropriate. The Committee should have at least one meeting, or part of a meeting, with the external auditors without management being present.

3.2 The Committee may request other individuals such as the Chairman of the Company (if not already on the Committee), Chief Executive Officer, Chief Financial Officer and any relevant senior management to attend for all or part of meetings of the Committee, either regularly or by invitation, but such invitees have, (save in the case of the Chairman of the Company as appointed to the Committee in accordance with paragraph 2.2 above) no right of attendance.

4. **FREQUENCY OF MEETINGS, AND PROCEEDINGS**

4.1 The Committee will meet at least twice each year, having regard to the Company's financial reporting cycle, and at such other times as the chairman of the Committee shall think fit.

4.2 The external auditors may (through the chairman of the Committee) request a meeting of the Committee if they consider that one is necessary.

4.3 Meetings of the Committee shall be convened by the Secretary of the Committee at the request of any member.

4.4 Unless otherwise agreed by all members of the Committee, notice of meetings, confirming the venue, time and date together with an agenda, should normally be circulated to each member of the Committee, and to any other person required to attend, at least five working days prior to the date of the meeting.

4.5 Unless otherwise agreed by all members of the Committee, all relevant papers for each meeting should normally be circulated to each member of the Committee, to any other person required to attend, and to all other non-executive directors, at least three full working days prior to the date of the meeting.

- 4.6 Outside of the formal meeting programme, the Committee Chairman will maintain a dialogue with key individuals involved in the Company's governance, including the Company Chairman, the Chief Executive Officer, the Chief Financial Officer, the Company Secretary, the external audit lead partner and, if appointed, the Head of Internal Audit.
- 4.7 The quorum for meetings of the Committee shall be two members.
- 4.8 Each member of the Committee shall have one vote which may be cast on matters considered at the meeting. Decisions of the Committee will be made by majority vote.
- 4.9 If a matter that is considered by the Committee is one where a member of the Committee, either directly or indirectly has a personal interest, that member shall not be permitted to vote at the meeting.
- 4.10 In the event of an equality of votes, the chairman of the Committee will save where he has a personal interest, have a second or casting vote.

5. **REPORTING**

- 5.1 The Secretary shall minute the proceedings and resolutions of all meetings of the Committee. Minutes of Committee meetings shall be circulated promptly to all members of the Committee and, once agreed, to all members of the Board unless in the opinion of the Committee chairman it would be inappropriate to do so (for example a conflict of interests exists) and to the external auditors.
- 5.2 The Committee or its chairman shall formally report to the Board of the Company at least once each year on such matters as the Annual Report and the relationship with the external auditors and shall also formally report to the Board on how it has discharged its responsibilities. This report shall include:
- 5.2.1 the significant issues that it considered in relation to the financial statements (required under paragraph 6.1) and how these were addressed;
 - 5.2.2 its assessment of the effectiveness of the external audit process (required under paragraph 6.28.5) and its recommendation on the appointment or reappointment of the external auditor;
 - 5.2.3 its assessment of the principal risks inherent and emerging in the business and the effectiveness of the system of internal control necessary to monitor and manage such risks; and
 - 5.2.4 any other issues on which the Board has requested the Committee's opinion.
- 5.3 The Committee shall make whatever recommendations to the Board that it deems appropriate in the context of the scope of its responsibilities.

- 5.4 The Committee shall prepare a report each year to be included in the Company's annual report and accounts.
- 5.5 The chairman of the Committee should be present at the Company's annual general meeting to respond to questions on matters within the responsibility of the Committee.
- 5.6 When reporting to the Board or compiling any report to shareholders the Committee 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. The report to shareholders need not repeat information disclosed elsewhere in the annual report and accounts, but could provide cross-references to that information.

6. **DUTIES OF THE COMMITTEE**

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

The duties of the Committee are:

Financial Statements and Narrative reporting

- 6.1 to monitor the integrity of the financial statements of the Company, and any formal announcements relating to the Company's financial performance and review significant financial reporting judgements contained in them.
- 6.2 to keep under review and challenge where necessary the consistency of accounting policies, both on a year to year basis and across the Group.
- 6.3 to review and challenge where necessary the Company's financial statements (including the actions and judgements of management in relation to them), before submission to the Board, taking into account, in particular:
 - 6.3.1 accounting policies and practices year on year and within the Group, and any changes in them;
 - 6.3.2 decisions requiring a major element of judgement;
 - 6.3.3 the extent to which the financial statements are affected by any unusual transactions or circumstances;
 - 6.3.4 the clarity and completeness of disclosures;
 - 6.3.5 significant adjustments resulting from the audit;
 - 6.3.6 the going concern assumption;
 - 6.3.7 compliance with accounting standards;
 - 6.3.8 the views of the external auditor;

- 6.3.9 compliance with stock exchange and other regulatory and legal requirements;
- 6.4 to consider management's response to any major external or internal audit recommendations.
- 6.5 to review and challenge where necessary the operating and financial/business review and corporate governance statement insofar as it relates to audit matters or risk management.
- 6.6 to report its views to the Board where it is not satisfied with any aspect of the proposed financial reporting by the Company.
- 6.7 where requested by the Board, to 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.

Effectiveness of Internal Control and Risk Management Framework

- 6.8 to keep under review the adequacy and effectiveness of the financial reporting and internal control policies and systems of the Company and its subsidiaries, covering all material controls, including financial, operational and compliance controls, and the procedures for the identification, assessment, management and reporting of risks.
- 6.9 advise the Board on the Company's overall risk appetite, tolerance and strategy.
- 6.10 oversee and advise the Board on the current risk exposures of the Company and future risk strategy.
- 6.11 keep under review the Company's overall risk assessment processes that inform the Board's decision making
- 6.12 review regularly and approve the parameters used in these measures and the methodology adopted;
- 6.13 set a standard for the accurate and timely monitoring of large exposures and certain risk types of critical importance.
- 6.14 review the Company's capability to identify and manage new risk types and emerging risks
- 6.15 before a decision to proceed is taken by the board, advise the board on proposed strategic transactions including acquisitions or disposals, ensuring that a due diligence appraisal of the proposition is undertaken, focussing in particular on risk aspects and implications for the risk appetite and tolerance of the company, and taking independent external advice where appropriate and available.
- 6.16 to review and approve the statements to be included in the annual report.

Whistleblowing and Fraud

6.17 The Committee shall:

6.17.1 review the Company's procedures for detecting fraud; and

6.17.2 review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance.

Internal Audit

6.18 to review at least annually the need for an internal audit function.

6.19 to consider applications for the post of and appoint the head of the internal audit function, and to consider any dismissal of that post holder.

6.20 to consider and approve the terms of reference of the internal audit function, to consider the planned programme of internal audits and the reasons for any changes or delays in the programme.

6.21 to ensure that the internal audit function is adequately resourced, and has appropriate standing in the Company and is free from management or other restrictions.

6.22 to review the management of financial matters and the freedom allowed to the internal auditors.

6.23 to review and monitor management's responsiveness to the internal auditors findings and recommendations.

6.24 to review promptly all reports on the Company from the internal auditors, meet the head of internal audit at least once a year, without management being present, and to discuss their remit and any issues arising from the internal audits carried out. In addition, the head of internal audit shall be given the right of direct access to the chairman of the board and to the Committee.

6.25 to monitor and review the effectiveness of the Company's internal audit function, in the context of the Company's overall risk management system.

External Audit

6.26 to make recommendations to the Board in relation to the appointment, re-appointment and removal of the external auditors and to approve the remuneration and terms of engagement of the external auditors. On behalf of the Board to manage the tender process for the appointment of auditors at least every ten years.

6.27 to monitor and review the external auditors' independence, objectivity and effectiveness, taking into consideration relevant UK professional and regulatory requirements and the levels of audit and non-audit work carried out by the external auditors.

6.28 to oversee the selection process, consider and make recommendations to the Board in relation to the appointment and re-appointment of the Company's

external auditors, and to ensure that the key partners within the appointed firm are rotated in line with ethical standards from time to time.

- 6.29 to investigate any issues which result in or are connected to the resignation of external auditors and decide whether any action is required.
- 6.30 to meet with the external auditors at least twice each year, including at the audit planning stage, when the nature and scope of the audit, quality control procedures and steps taken by the auditors in response to regulatory and other requirements will be considered, and post audit at the reporting stage.
- 6.31 to 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.
- 6.32 to review any management letters from the auditors and management's responses.
- 6.33 to review any representation letter(s) requested by the external auditors before they are signed by or on behalf of the Board.
- 6.34 review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
 - 6.34.1 a discussion of any major issues which arose during the audit;
 - 6.34.2 key accounting and audit judgements;
 - 6.34.3 levels of errors identified during the audit; and
 - 6.34.4 the effectiveness of the audit process.
- 6.35 to keep under review the relationship with the external auditors including (but not limited to):
 - 6.35.1 the independence and objectivity of the external auditors;
 - 6.35.2 agreeing with the Board a policy on the employment of former employees of the Company's auditor, and monitoring the implementation of this policy.
 - 6.35.3 the consideration of audit fees which should be paid, as well as any other fees which are payable to auditors in respect of non-audit activities;
 - 6.35.4 satisfying 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) which could adversely affect the auditor's independence and objectivity;
 - 6.35.5 assessing 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;
 - 6.35.6 seeking to ensure co-ordination with the activities of the internal audit function;

- 6.35.7 discussions with the external auditors concerning such issues as compliance with accounting standards and any proposals which the external auditors have made in relation to the Company's internal auditing standards.
- 6.36 to develop and implement policy on the engagement of the external auditors to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the relevant external audit firm, specifying types of non-audit work:
 - 6.36.1 from which the external auditors are excluded;
 - 6.36.2 for which the external auditors can be engaged following approval from the Committee; and
 - 6.36.3 for which a case by case decision from the Committee is necessary.

Other matters

- 6.37 to give due consideration to relevant laws and regulations including the provisions of the UK Corporate Governance Code, the requirements of the AIM Rules for Companies and any other applicable rules as appropriate.
- 6.38 to have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required.
- 6.39 to 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.
- 6.40 to co-ordinate the internal and external auditors.
- 6.41 to review the Company's procedures by which staff may raise concerns about possible improprieties in matters of financial reporting or other matters, and to ensure that arrangements are in place for proportionate and independent investigation of such matters and for appropriate follow-up action.
- 6.42 to oversee any investigation of activities which are within its terms of reference, and to act as a court of last resort.
- 6.43 to review at least once a year the Committee's own performance, constitution and terms of reference, and make recommendations to the Board as necessary, to ensure that it is operating at maximum effectiveness.
- 6.44 to work with and liaise as necessary with all other Board committees.

7. AUTHORITY

- 7.1 The Committee is authorised by the Board to investigate any activity or state of affairs within its terms of reference.
- 7.2 The Committee is authorised to seek any information it requires from any employees or officers of the Company, in order to perform its duties and to call any member of staff to be questioned at a meeting of the Committee as and when required.

- 7.3 The Committee is authorised by the Board, at the Company's expense, to obtain expert advice from the Company's auditors, professional advisers or otherwise, and to take independent professional advice and to require the attendance of outsiders with relevant experience and expertise if it considers it necessary.
- 7.4 The Committee have the right to publish in the Company's annual report, details of any issues that cannot be resolved between the Committee and the Board.