

# CLINUVEL PHARMACEUTICALS

## Audit and Risk Committee Charter

The Board of CLINUVEL PHARMACEUTICALS LIMITED (**Company**) has established an Audit and Risk Committee (the **Committee**). The purpose for which the Committee has been established and the powers of the Committee are set out in this document. It is noted that best corporate governance practice requires the terms of reference of the Committee to be made publicly available by the Company on its website.

### 1 Role and Objectives

The primary role of the Committee is to monitor and review, on behalf of the Board, the effectiveness of the control environment in the Company in the areas of operational and balance sheet risk, legal/regulatory compliance and financial reporting.

The overriding objective of the Committee is to provide an independent and objective review of financial and other information prepared by management, in particular that to be provided to members and/or filed with regulators, including:

- overseeing the Company’s discharge of its responsibilities with respect to:
  - (a) the financial statements, financial report and annual report;
  - (b) legal/regulatory compliance;
  - (c) financial controls;
  - (d) protection of capital; and
  - (e) risk management systems,

including ensuring that there are systems for reporting inconsistencies or problems with the Company’s systems, procedures and practices and that there are separate channels available for the Chief Financial Officer to consult with the Committee regarding the above matters;

- overseeing the Company’s relationship with external auditors including their reappointment, removal and independence.

The Committee meets and receives regular reports from its external auditors concerning matters that arise in connection with their audit. The Committee is also responsible for review of performance and nomination of the external auditors.

### 2 Membership of the Committee

The Committee should comprise at least 3 members. The Committee is currently comprised of 2 independent non-executive directors with the CEO as a third, non-voting member. The Board relies on and expects that each member of the Committee will bring their independent view and judgement to Committee proceedings and put aside any conflicts, business or other relationship that could materially interfere with – or could

reasonably be perceived to interfere with – the exercise of their unfettered and independent judgement.

The Chief Financial Officer and the external auditor are invited to attend all meetings of the Committee. Selected members of management may also attend meetings of the Committee by invitation.

All persons appointed to the Committee will be financially literate (able to read and understand financial statements) and have sufficient financial knowledge and understanding to allow them to discharge their responsibilities.

The Board will review the membership and charter of the Committee annually, in accordance with section 8.

### **3 Administrative matters**

Any member may, and the Company Secretary must on request from a member, convene a meeting of the Committee. Notice must be given to every Committee Member of every committee meeting but there is no minimum notice period and acknowledgment of receipt by all members is not required before the meeting may be validly held.

It is intended that the Committee will meet at least 2 times each year, or as often as the Committee members deem necessary in order to fulfil their role and objectives set out in this Charter. The quorum is at least 2 members.

Except as set out in this Charter, the Committee is subject to the Board's general policy for engaging or seeking advice from financial and legal advisers. The Committee has rights of access to management and to external auditors without management present and has rights to seek explanations and additional information.

The Company Secretary will attend all Committee meetings as minute secretary. All minutes of the Committee will be entered into a minute book maintained by the Company Secretary for that purpose and will be open at all times for inspection by any director.

### **4 Reporting**

It is intended that a report of the actions of the Committee and/or a copy of the minutes of the Committee meeting will be included in the Board papers for the Board meeting next following a meeting of the Committee. If a Committee meeting is held immediately prior to a Board meeting, the minutes to the Committee meeting will be included in the Board papers for the Board meeting subsequent to the immediate Board meeting.

Where the composition of the Committee comprises less than the full board, the Chair will, if requested, provide a brief oral report as to any material matters arising out of the Committee meeting. All directors may, within the Board meeting, request information of members of the Committee.

## **5 Responsibilities and functions**

### **5.1 Audit**

The Committee's role is primarily to assist the Board in the discharge of its responsibilities in relation to the reporting of financial information and the company's internal controls, the appropriate application and amendment of accounting policies, and

its relationship with, and the appointment, independence and remuneration of, the external auditor.

The following are intended to form part of the normal procedures for the Committee's audit responsibility on an annual basis:

- engaging in the pro-active oversight and monitoring of the Company's financial reporting and disclosure processes and overseeing and reviewing the outputs of that process (including review of the Company's financial statements for accuracy to ensure they reflect a true and fair view, as a basis for recommendation to, and adoption by the Board);
- to monitor the integrity of the financial statements of the Company, and any formal announcements relating to the Company's financial performance, reviewing significant financial reporting judgements contained in them;
- recommending to the Board the appointment, reappointment and removal of the external auditors
- providing a line of communication between the Board and the external auditors;
- reviewing, agreeing and approving the audit plan of the external auditors (including a review of the Company's risk management and internal compliance and control systems);
- evaluating the performance and effectiveness of the external auditor, including their independence and objectivity, and reviewing procedures for the rotation of external audit engagement partners;
- determining the reliability, integrity and effectiveness of accounting policies and financial reporting and disclosure practices;
- reviewing (in consultation with management and external auditors) the appropriateness of the accounting principles adopted by management in the composition and presentation of financial reports and approving all significant accounting policy changes;
- monitoring compliance with applicable accounting standards and other requirements relating to the preparation and presentation of financial reports
- setting out and developing the Company policy on the provision of non-audit services by the external auditor and ensuring compliance with, and implementation of, that policy;
- providing advice to the Board as to whether the Committee is satisfied that the provision of non-audit services by the external auditor is compatible with the general standard of independence, and an explanation of why those non-audit services do not compromise audit independence in order for the Board to be in a position to make the statements required by the *Corporations Act* to be included in the Company's Annual Report;
- review arrangements by which staff of the Company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The Committee's objective should be to ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow up action.

## 5.2 Risk

The Committee's specific function with respect to risk management is to review and report to the Board, at least annually, that:

- the Company's ongoing risk management program effectively identifies all areas of potential risk, including:
  - economic outlook and share market activity;
  - changing government policy (Australian and overseas);
  - competitors' products;
  - customer demand;
  - legal proceedings commenced against the Company;
  - occupational health and safety and equal opportunity law;
  - research and development programs;
  - clinical trial and other R & D costs;
  - loss of key personnel; and
  - failure of the Company's technology/intellectual property;
- adequate policies and procedures have been designed and implemented to manage identified risks. This may involve undertaking the following options:
  - cease the activities because the risk is too large for the anticipated benefits;
  - transfer the risk to another party;
  - minimise the risk to the extent that it is appropriate; or
  - not alter the risk due to an acknowledgment that the risk cannot be efficiently reduced and it is appropriate for the Company to be subject to that risk;
- a regular program of audits is undertaken to test the adequacy of and compliance with prescribed policies; and
- proper remedial action is undertaken to redress areas of weakness.

The following are intended to form part of the normal procedures for the Committee's risk responsibility:

- evaluating the adequacy and effectiveness of the management reporting and control systems used to monitor adherence to policies and guidelines and limits approved by the Board for management of balance sheet risks;
- evaluating the adequacy and effectiveness of the Company's financial and operational risk management control systems by reviewing risk registers and reports from management and external auditors;
- evaluating the structure and adequacy of the Company's own insurances on an annual basis;

- reviewing and making recommendations on the strategic direction, objectives and effectiveness of the Company’s financial and operational risk management policies;
- overseeing the establishment and maintenance of processes to ensure that there is:
  - an adequate system of internal control, management of business risks and safeguard of assets; and
  - a review of internal control systems and the operational effectiveness of the policies and procedures related to risk and control,
 and preparing reports to the Board;
- evaluating the Company’s exposure to fraud and overseeing investigations of allegations of fraud or malfeasance;
- overseeing the proper evaluation of the adequacy and effectiveness of the Company’s legal compliance control systems;
- providing recommendations as to the propriety of related party transactions; and
- outlining the risks identified by the Company’s internal processes and the procedures for managing these risks in the Company’s risk register which should mirror any documented Business Plan.

## 6 Implementation of responsibilities and functions

It is intended that the methods by which the responsibilities and functions of the committee will be implemented include:

- evaluating the independence of both the non-executive directors and the external auditors;
- reviewing the appropriateness of the accounting principles adopted by management in the composition and presentation of financial reports and assessing the management processes supporting external reporting;
- overseeing the financial reports and the results of external audit of these reports (including assessing whether external reporting is consistent with committee members’ information and knowledge and is adequate for shareholder needs) and examining the external auditor’s evaluation of internal controls and management’s response;
- assessing the performance of the external auditors and determining whether the audit committee is satisfied that independence in the external audit function has been maintained having regard to the provision of non-audit services;
- determining whether new policies or training should be implemented to safeguard against possible risks or non-compliance with applicable laws, regulations or Company policies;
- monitoring compliance with the Company’s policies and procedures that recognise the Company’s business, environmental and statutory responsibilities ;
- reporting to the Board the results of the committee’s review of risk management and internal compliance and control systems.

## 7 Relationship with the external auditor

The committee provides a link between the external auditor and the Board and has the responsibility and authority to recommend to the Board the appointment and removal of the external auditor and to review the terms of their engagement.

The committee requires that a person may not play a significant role in managing the audit for the external auditor (normally the lead and review auditor) for more than 5 out of any 7 successive years and that the external auditor:

- submit on a periodic basis to the committee, a formal written statement delineating all responsibilities and work completed by the auditor;
- consider whether the external auditor’s provision of non-audit services to the company (if any) is compatible with maintaining the independence of the external auditor; and
- if applicable, recommend that the Board take appropriate action in response to the external auditor’s report to satisfy itself of the external auditor’s independence.

## 8 Review

The Board will, at least once in each year:

- review the membership and charter of the Committee to determine its adequacy for current circumstances. Where necessary, the Board, upon the recommendation of the Committee, may by resolution, alter the responsibilities, functions or membership of the Committee. The Committee may also recommend to the Board the formal adoption of the revised charter for future operations of the Committee;

The Committee will, at least once in each year:

- oversee the preparation of any report or other disclosures to be included in the Company’s annual report or other communications to shareholders relating to the external auditors and the Company’s financial statements.
- meet separately with the external auditors to (independently of management) discuss the results of their audits;
- prepare and consider any report or other disclosures to be included in the company’s annual report or other communications to shareholders on the relationships between the external auditors and the company (including disclosure of non-audit services); and
- review with management and the external auditor, the financial report to be included in the annual report including:
  - the external auditor’s responsibilities under generally accepted accounting standards;
  - significant accounting policies;
  - management judgements and accounting estimates;
  - adjustments arising from the audit; and
 the external auditors’ judgements about the quality, not just the acceptability, of accounting principles as applied in the financial report.