

E-THERAPEUTICS PLC

AUDIT COMMITTEE

Terms of Reference

27 March 2015

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1. Membership

- 1.1 Members of the committee shall be appointed by the board. The committee shall comprise at least two members.
- 1.2 All members of the committee shall be independent non-executive directors at least one of whom shall have recent and relevant financial experience. The chairman of the board shall not be a member of the committee. The chairman of the board can be a member of, but not chair, the committee, provided he or she is not an executive director and was considered independent on appointment.
- 1.3 Only members of the committee have the right to attend committee meetings. However, other individuals such as the chairman of the board, Chief Executive, Finance Director, other directors, the heads of risk, compliance and internal audit and representatives from the finance function may be invited to attend all or part of any meeting as and when appropriate.
- 1.4 The external auditors will be invited to attend meetings of the committee on a regular basis.
- 1.5 Appointments to the committee shall be for a period of up to three years, which may be extended for further three year periods, provided the director remains independent.
- 1.6 The board shall appoint the committee chairman who shall be an independent non-executive director. In the absence of the committee chairman and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.

2. Secretary

The company secretary or his or her nominee shall act as the secretary of the committee.

3. Quorum

The quorum necessary for the transaction of business shall be two members. A duly convened meeting of the 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 committee.

4. Frequency of Meetings

The committee shall meet at least two times a year at appropriate times of the reporting and audit cycle.

5. Notice of Meetings

- 5.1 Meetings of the committee shall be convened by the chairman of the committee at the request of any of its members or at the request of external or internal auditors if they consider it necessary.
- 5.2 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 non-executive directors, no fewer than five working days prior to the date of the meeting. Supporting papers shall be sent to committee members and to other attendees as appropriate at the same time.

6. **Minutes of Meetings**

- 6.1 The secretary shall minute the proceedings and resolutions of all meetings of the committee, including recording the names of those present and in attendance.
- 6.2 The secretary should ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.
- 6.3 Minutes of committee meetings shall be circulated promptly to all members of the committee and, once agreed, to all members of the board, unless it would be inappropriate to do so.

7. **Annual General Meeting**

The chairman of the committee shall attend the company's annual general meeting prepared to respond to any shareholder questions on the committee's activities.

8. **Duties**

The committee shall carry out the duties below for the parent, major subsidiary undertakings and the group as a whole, as appropriate.

8.1 **Financial Reporting**

8.1.1 The committee shall monitor the integrity of the financial statements of the company, including its annual and half-yearly reports, interim management statements, preliminary results' announcements and any other formal announcement relating to its financial performance, reviewing significant financial reporting issues and judgements which they contain. The committee shall also review summary financial statements, significant financial returns to regulators and any financial information contained in certain other documents, such as announcements of a price sensitive nature.

8.1.2 The committee shall review and challenge where necessary:

- (a) the consistency of, and any changes to, accounting policies both on a year on year basis and across the group;
- (b) the methods used to account for significant or unusual transactions where different approaches are possible;
 - (i) whether the company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
 - (ii) the clarity of disclosure in the company's financial reports and the context in which statements are made; and
- (c) all material information presented with the financial statements, such as the operating and financial review and the corporate governance statement (insofar as it relates to the audit and risk management).

8.1.3 The committee shall review the annual financial statements of any pension funds where not reviewed by the board as a whole.

8.2 **Internal Controls and Risk Management Systems**

The committee shall:

- 8.2.1 keep under review the effectiveness of the company's internal controls and risk management systems; and
- 8.2.2 review and approve the statements to be included in the annual report concerning internal controls and risk management .

8.3 Compliance, whistleblowing and fraud

The committee shall:

- 8.3.1 review the adequacy and security of the company'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;
- 8.3.2 review the company's procedures for detecting fraud;
- 8.3.3 review the company's systems and controls for the prevention of bribery and receive reports on non-compliance.

8.4 Internal Audit

The committee shall:

- 8.4.1 consider the need for an internal audit function in the context of the company's overall risk management system;
- 8.4.2 monitor and review the effectiveness of any internal audit function;
- 8.4.3 approve the appointment and removal of the head of any internal audit function;
- 8.4.4 consider and approve the remit of any internal audit function and ensure it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards. The committee shall also ensure the function has adequate standing and is free from management or other restrictions;
- 8.4.5 review and assess any annual internal audit plan;
- 8.4.6 review promptly all reports on the company from any internal auditors;
- 8.4.7 review and monitor management's responsiveness to the findings and recommendations of any internal auditor; and
- 8.4.8 meet the head of internal audit (if appointed) at least once a year, without management being present, 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.

8.5 External Audit

The committee shall:

- 8.5.1 consider and make recommendations to the board, to be put to shareholders for approval at the annual general meeting, in relation to the appointment, re-appointment and removal of the company's external auditor. The committee shall oversee the selection

process for new auditors and if an auditor resigns the committee shall investigate the issues leading to this and decide whether any action is required;

- 8.5.2 oversee the relationship with the external auditor including (but not limited to):
- (a) recommendations on their remuneration, whether fees for audit or non audit services and that the level of fees is appropriate to enable an adequate audit to be conducted;
 - (b) approval of their terms of engagement and remuneration, including any engagement letter issued at the start of each audit and the scope of the audit;
 - (c) assessing annually their independence and objectivity taking into account relevant UK professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non audit services;
 - (d) 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);
 - (e) agreeing with the board a policy on the employment of former employees of the company's auditor, then monitoring the implementation of this policy;
 - (f) monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the company compared to the overall fee income of the firm, office and partner and other related requirements;
 - (g) assessing annually their qualifications, expertise and resources and the effectiveness of the audit process which shall include a report from the external auditor on their own internal quality procedures; and
 - (h) seeking to ensure co-ordination with the activities of any internal audit function;
- 8.5.3 meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage. The committee shall meet the external auditor at least once a year, without management being present, to discuss their remit and any issues arising from the audit;
- 8.5.4 review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement;
- 8.5.5 review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
- (a) a discussion of any major issues which arose during the audit,
 - (b) any accounting and audit judgements;
 - (c) levels of errors identified during the audit; and
 - (d) the effectiveness of the audit.
- 8.5.6 review any representation letters requested by the external auditor before they are signed by management;
- 8.5.7 review the management letter and management's response to the auditor's findings and recommendations; and

- 8.5.8 develop, recommend to the board and keep under annual review a policy on the supply of non audit services by the external auditor, taking into account any relevant ethical guidance on the matter, including guidance issued by the Financial Reporting Council.

8.6 Reporting Responsibilities

- 8.6.1 The committee chairman shall report formally to the board on its proceedings after each meeting on all matters within its duties and responsibilities.
- 8.6.2 The committee shall make whatever recommendations to the board it deems appropriate on any area within its remit where action or improvement is needed.
- 8.6.3 The committee shall compile a report to shareholders on its activities to be included in the company's annual report. This should explain to shareholders how, if the auditor provides non-audit services, auditor objectivity and independence is safeguarded.

8.7 Disclosure of Information to Auditors

- 8.7.1 The committee shall take all requisite steps to ensure that all directors are aware of their responsibilities under section 418 of the Companies Act 2006 to make the auditors aware of all relevant audit information and the committee shall take all requisite steps to ensure that if the committee is aware of any such information or believes that any director of the Company is aware of such information, that such information is passed to the auditors of the Company.
- 8.7.2 Relevant audit information is information needed by the Company's auditors in connection with preparing their report and might be information beyond that requested specifically by the auditors.
- 8.7.3 In order to fulfil this responsibility, the committee shall make enquiries of all directors of the Company and of the auditors for this purpose.

8.8 Other Matters

The committee shall:

- 8.8.1 have access to sufficient resources in order to carry out its duties, including access to the company secretary for assistance as required;
- 8.8.2 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;
- 8.8.3 give due consideration to laws and regulations, the provisions of any corporate governance code adopted by the board and the requirements of the AIM Rules and any other applicable rules as appropriate;
- 8.8.4 be responsible for co-ordination of the internal and external auditors;
- 8.8.5 oversee any investigation of activities which are within its terms of reference; and
- 8.8.6 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.

9. Authority

The committee is authorised:

- 9.1.1 to seek any information it requires from any employee of the company in order to perform its duties;
- 9.1.2 to obtain, at the company's expense, outside legal or other professional advice on any matters within its terms of reference;
- 9.1.3 to call any member of staff to be questioned at a meeting of the committee as and when required; and
- 9.1.4 to 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.

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