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DIACEUTICS PLC

TERMS OF REFERENCE  
FOR THE AUDIT COMMITTEE

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DAC Beachcroft LLP  
100 Fetter Lane London EC4A 1BN UK  
tel: +44 (0) 20 7242 1011 fax: +44 (0) 20 7831 6630  
DX 45 London

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## 1. Constitution

The audit committee ("**Committee**") of Diaceutics PLC was constituted at a full meeting of the board of directors held on 14 March 2019 in accordance with the articles of association of the company.

## 2. Duties and terms of reference

### *Financial reporting*

- 2.1. 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.
- 2.2. The Committee shall review and challenge where necessary:
  - 2.2.1. the consistency of, and any changes to, accounting policies both on a year on year basis and across the company/group;
  - 2.2.2. the methods used to account for significant or unusual transactions where different approaches are possible;
  - 2.2.3. whether the company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
  - 2.2.4. the clarity of disclosure in the company's financial reports and the context in which statements are made; and
  - 2.2.5. all material information presented with the financial statements, such as the business review/operating and financial review and any corporate governance statement (insofar as it relates to the audit and risk management).
- 2.3. If the Committee is not satisfied with any aspect of the proposed financial reporting by the company, it shall report its views to the board of directors.
- 2.4. Where requested by the board of directors, the Committee should review the content of the annual report and accounts and advise the board of directors 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.

### *Internal controls and risk management systems*

- 2.5. The Committee shall:
  - 2.5.1. keep under review the effectiveness of the company's internal financial controls and risk management systems; and
  - 2.5.2. review and approve the statements to be included in the annual report concerning internal controls and risk management.

## *Compliance*

### 2.6. The Committee shall:

- 2.6.1. 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;
- 2.6.2. review the company's procedures for detecting fraud; and
- 2.6.3. review the company's systems and controls for the prevention of bribery and receive reports on non-compliance.

## *Internal audit*

### 2.7. The Committee shall:

- 2.7.1. monitor and review the effectiveness of the company's internal audit function in the context of the company's overall risk management system (if such function is established);
- 2.7.2. approve the appointment and removal of the head of the internal audit function (if such function is established);
- 2.7.3. consider and approve the remit of the 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 (if applicable). The Committee shall also ensure that such function (if established) has adequate standing and is free from management or other restrictions;
- 2.7.4. ensure the internal auditor has direct access to the chairman of the board of directors and the chairman of the Committee and is accountable to the Committee (if applicable);
- 2.7.5. review and assess the annual internal audit plan (if the company has established one);
- 2.7.6. review promptly all reports on the company from the internal auditors (if applicable);
- 2.7.7. review and monitor management's responsiveness to the findings and recommendations of the internal auditor (if applicable); and
- 2.7.8. meet the head of internal audit (if such function is established) 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 (if such function is established) shall be given the right of direct access to the chairman of the board of directors and to the Committee.

## *External audit*

### 2.8. The Committee shall:

- 2.8.1. consider and make recommendations to the board of directors, 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;
- 2.8.2. ensure that at least once every ten years the audit services contract is put out to tender to enable the Committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other audit firms and oversee the selection process and further ensure that all tendering firms have such access as is necessary to information and individuals during the tendering process;
- 2.8.3. oversee the relationship with the external auditor including (but not limited to):
  - 2.8.3.1. recommendations on their remuneration, including fees for audit or non-audit services and that the level of fees is appropriate to enable an effective and high quality audit to be conducted;
  - 2.8.3.2. approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
  - 2.8.3.3. 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;
  - 2.8.3.4. 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;
  - 2.8.3.5. agreeing with the board of directors a policy on the employment of former employees of the company's auditor, then monitoring the implementation of this policy (if required);
  - 2.8.3.6. 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;
  - 2.8.3.7. 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;
  - 2.8.3.8. seeking to ensure co-ordination with the activities of the internal audit function (if established); and

- 2.8.3.9. evaluating the risks to the quality and effectiveness of the financial reporting process and consideration of the need to include the risk of the withdrawal of their auditor from the market on that evaluation;
- 2.8.4. 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;
- 2.8.5. 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;
- 2.8.6. review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
  - 2.8.6.1. a discussion of any major issues which arose during the audit;
  - 2.8.6.2. any accounting and audit judgements;
  - 2.8.6.3. levels of errors identified during the audit; and
  - 2.8.6.4. the effectiveness of the audit;
- 2.8.7. review any representation letter(s) requested by the external auditor before they are signed by management;
- 2.8.8. review the management letter and management's response to the auditor's findings and recommendations; and
- 2.8.9. develop and implement a policy on the supply of non-audit services by the external auditor, taking into account any relevant ethical guidance on the matter.

### *Reporting*

- 2.9. The Committee chairman shall report formally to the board of directors on its proceedings after each meeting on all matters within its duties and responsibilities and shall also formally report to the board of directors on how it has discharged its responsibilities. The report shall include:
  - 2.9.1. the significant issues that it had considered in relation to the financial statements and how these were addressed; and
  - 2.9.2. the assessment of the effectiveness of the external audit process and its recommendations on the appointment/reappointment of the external auditor.
- 2.10. The Committee shall make whatever recommendations to the board of directors it deems appropriate on any area within its remit where action or improvement is needed.
- 2.11. The Committee shall compile a report to shareholders on its activities to be included in the company's annual report. The report shall include an explanation of how the Committee has addressed the effectiveness of the external audit process, the

significant issues that the Committee considered in relation to the financial statements and how these issues were addressed having regard to matters communicated to it by the auditor and all other information requirements set out in The QCA Corporate Governance Code (the "QCA Code").

#### *Other matters*

- 2.12. The Committee shall:
- 2.12.1. have access to sufficient resources in order to carry out its duties, including access to the company secretary for assistance as required;
  - 2.12.2. 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;
  - 2.12.3. give due consideration to applicable laws and regulations, the provisions of the QCA Code, the QCA's Audit Committee Guide for Smaller Quoted Companies and the requirements of the London Stock Exchange's AIM Rules for Companies (as appropriate) and any other applicable laws and published guidelines regarding audit committees for listed companies;
  - 2.12.4. be responsible for co-ordination of the internal and external auditors;
  - 2.12.5. oversee any investigation of activities which are within its terms of reference and act as a court of the last resort;
  - 2.12.6. arrange for a periodic review of its own performance and, at least once a year, 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 of directors for approval; and
  - 2.12.7. consider such other matters as may be requested by the board of directors.

### **3. Membership**

- 3.1. The members of the Committee shall be appointed by the board of directors. All of the members of the Committee should be independent non-executive directors.
- 3.2. The Committee shall have at least two members and at least one member should have recent and relevant financial experience, ideally with a professional qualification from one of the professional accountancy bodies.
- 3.3. All members should have sufficient competence to understand, analyse and when necessary, challenge the management accounts and draft public financial statements.
- 3.4. Appointments to the Committee shall be for a period of up to three years, which may be extended by no more than two additional periods of up to three years, provided the director still meets the criteria for membership of the Committee.
- 3.5. At the date of formation of the Committee, it has been agreed that the members of the Committee will be Charles Hindson, Mike Wort and Julie Goonewardene and the Committee shall be chaired by Charles Hindson. A quorum shall be any two members of the Committee, one of whom shall have recent and relevant financial experience. The members of the Committee can be varied at any time by a majority resolution of

the existing members of the Committee save that any additional appointment must still be an independent non-executive director.

#### **4. Voting arrangements**

- 4.1. Each member of the Committee shall have one vote which may be cast on matters considered at the meeting. Votes can only be cast by members attending a meeting of the Committee.
- 4.2. 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.
- 4.3. Any matter to be determined by the Committee shall be decided by a majority of the votes cast at a meeting of the Committee called for such purpose.
- 4.4. Save where he has a personal interest, the chairman of the Committee will have a casting vote.

#### **5. Attendance at meetings**

- 5.1. The Committee will meet at least twice a year. The Committee may meet at other times during the year as agreed between the members of the Committee.
- 5.2. Outside of the formal meeting programme, the Committee chairman will maintain a dialogue with key individuals involved in the company's governance, including the chairman, chief executive, finance director, the external audit lead partner and head of internal audit.
- 5.3. Only members of the Committee have the right to attend Committee meetings. Other directors including the Finance Director and other individuals may be invited to attend all or part of any meeting as and when appropriate.
- 5.4. The company's external auditors may be required to attend Committee meetings, but not in the presence of any of the executive directors of the company, with a view to consulting with the Committee.
- 5.5. The company secretary or his or her nominee shall be 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.
- 5.6. Each member of the Committee shall disclose to the Committee:
  - 5.6.1. any personal, financial or other interest in any matter to be decided or discussed by the Committee; and/or
  - 5.6.2. any potential conflict of interest arising from a cross-directorship or otherwise; andany such member shall abstain from voting on resolutions of the Committee in relation to which such interest exists and from participating in the discussions concerning such resolutions and (if so required by the Board) shall resign from the Committee or absent himself from all or part of the meeting of the Committee in question.
- 5.7. The company secretary shall duly minute the existence of any interest disclosed under paragraph 5.6 above.

## **6. Notice of meetings**

- 6.1. Meetings of the Committee may be called by the secretary of the Committee at the request of any of its members or at the request of the external or internal (if applicable) auditors if they consider it necessary.
- 6.2. Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of the matters to be discussed at the meeting shall be forwarded to each member and any other person required to attend and all other non-executive directors no later than five working days before the date of the meeting. Any supporting papers shall be sent to each member of the Committee and any other attendees (as appropriate) at the same time.

## **7. Authority**

- 7.1. 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.
- 7.2. The Committee is authorised by the board of directors to examine any activity within its terms of reference and is authorised to have unrestricted access to the company's external auditors and to obtain, at the company's expense, professional advice on any matter within its terms of reference. The Committee is authorised to seek any information it requires from any employee or director, and all such employees or directors will be directed to co-operate with any request made by the Committee.

## **8. Reporting**

The proceedings and resolutions of meetings of the Committee, including the names of those present and in attendance, shall be minuted. Draft minutes of each meeting will be circulated to all members of the Committee. On finalisation and signature by the chairman, the minutes of each meeting will be submitted to the board of directors as part of the board papers for each full meeting of the board of directors as a formal record of the decisions of the Committee on behalf of the board of directors unless a conflict of interest exists or it is otherwise inappropriate to do so.

## **9. General matters**

- 9.1. The chairman of the Committee should make himself or herself available at each Annual General Meeting of the company to answer questions concerning the Committee's work during the preceding year.
- 9.2. The Committee has the right to publish in the Company's annual report, details of any issues that cannot be resolved between the Committee and the board of directors.