

**EDEN RESEARCH PLC**

**AUDIT COMMITTEE TERMS OF REFERENCE**

**ADOPTED BY THE BOARD**

**NB: These Terms of Reference are adopted by the Board, where applicable.**

**1 MEMBERSHIP**

- 1.1 The members of the Audit Committee shall be appointed by the Board from amongst the non-executive directors.
- 1.2 The Audit Committee shall have at least two members. The members shall be independent non-executive directors who are independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgment. A quorum shall be two members.
- 1.3 The Audit Committee's chairman, who shall be an independent non-executive director, shall be appointed by the Board on the recommendation of the Nomination Committee. The Board shall determine how long the Chairman shall hold office.
- 1.4 Appointments to the Audit Committee shall be for a period for up to three years, which may be extended for two further three-year periods, provided the director remains independent.
- 1.5 If a member is unable to act for any reason, the chairman of the Audit Committee may appoint another non-executive director as an additional member provided always that the majority of members of the committee shall be independent.

**2 SECRETARY**

The secretary of the Audit Committee shall be the secretary of the Company or such other person as the Audit Committee may appoint.

**3 ATTENDANCE AT MEETINGS**

- 3.1 The Audit Committee may invite any person it thinks appropriate to join the members of the Audit Committee at its meetings.
- 3.2 The Chief Financial Officer and a representative of the external auditors shall normally attend meetings of the Audit Committee.

- 3.3 At least once a year the Audit Committee shall meet with the external auditors without the Chief Financial Officer or any other executive director present except at the invitation of the Audit Committee.
- 3.4 The Chairman of the Audit Committee shall attend the Company's Annual General Meeting prepared to respond to any shareholder questions on the Audit Committee and its activities and responsibilities.

#### **4 FREQUENCY OF MEETINGS**

- 4.1 At least three meetings shall be held each year. These meetings shall be convened by the secretary of the Audit Committee at the request of its chairman.
- 4.2 Additionally, any of the chairman of the Company, the Chief Financial Officer and the external auditors may ask the secretary of the Audit Committee to convene a meeting if he/they consider that such a meeting is necessary or appropriate.
- 4.3 At least 21 days' notice of any meeting of the Audit Committee shall be given, although such notice period may be waived or shortened with the consent in writing of all the members of the Audit Committee for the time being. Notice of the meeting shall confirm the venue, time and date together with an agenda of items to be discussed. Notice shall be sent to each member of the Audit Committee, any other person required to attend and all other non-executive directors. Supporting papers shall be sent to Audit Committee members and to other attendees as appropriate at the same time.

#### **5 VOTING ARRANGEMENTS**

- 5.1 Each member of the Audit 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 Audit Committee.
- 5.2 If a matter that is considered by the Audit 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.
- 5.3 Save where he has a personal interest, the Chairman will have a casting vote.
- 5.4 All decisions of the Audit Committee shall be reported formally to the Board by the Audit Committee Chairman. The Audit Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed and shall compile a report on its activities to be included in the Company's annual report.

## 6 **AUTHORITY**

The Audit Committee is authorised by the Board:

- 6.1 to investigate any activity within its terms of reference;
- 6.2 to obtain any information it requires from any employee;
- 6.3 to obtain outside legal or other independent professional advice at the Company's expense;  
and
- 6.4 to instruct external professional advisers to attend any meeting if it considers this necessary or appropriate at the Company's expense.

## 7 **FUNCTION AND DUTIES**

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

7.2 The duties of the Audit Committee shall be:

7.2.1 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 judgments contained in them;

7.2.2 to review the Company's internal audit function and financial controls and to:

7.2.2.1 approve the appointment and removal of the head of the internal audit function;

7.2.2.2 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. The Audit Committee shall also ensure the function has adequate standing and is free from management or other restrictions;

7.2.2.3 review and assess the annual internal audit plan;

7.2.2.4 review promptly all reports on the Company from the internal auditors;

7.2.2.5 review and monitor management's responsiveness to the findings and recommendations of the internal auditor; and

7.2.2.6 meet the head of internal audit 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 Audit Committee.

- 7.2.3 unless expressly addressed by a separate board risk committee composed of independent directors, or by the board itself, to review the Company's internal control and risk management systems and in each case ensure the same are proper, effective and adequate and adequately resourced;
- 7.2.4 to monitor and review the scope and results of the external audit and its cost effectiveness;
- 7.2.5 to make recommendations to the board, for it to put to the shareholders for their approval in general meeting, in relation to the appointment, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor;
- 7.2.6 to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
- 7.2.7 to develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm;
- 7.2.8 to keep under review the non-audit services provided by the external auditors to the Company and the fees payable by the Company for those services, including with a view to ensuring a balance between value for money and the maintenance of the external auditors' objectivity taking into account relevant professional and regulatory requirements, and to:
  - 7.2.8.1 satisfy 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);
  - 7.2.8.2 agree with the Board a policy on the employment of former employees of the Company's auditor, then monitoring the implementation of this policy;
  - 7.2.8.3 monitor the auditor's compliance with the 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;

- 7.2.8.4 assess 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;
  - 7.2.8.5 seek to ensure co-ordination with the activities of the internal audit function; and
  - 7.2.8.6 meet regularly with the external auditor, including at least once at the planning stage before the audit and once after the audit at the reporting stage;
- 7.2.9 to review, before submission of the relevant documents to the Board, the half year financial results, the preliminary announcement of annual results, the annual accounts and the accompanying reports to shareholders and any other announcement regarding the Company's results or other financial information, focusing particularly on:
- 7.2.9.1 any changes in accounting policies and practices;
  - 7.2.9.2 major judgmental areas;
  - 7.2.9.3 significant adjustments resulting from the audit;
  - 7.2.9.4 the "going concern" assumption;
  - 7.2.9.5 the extent to which the financial statement are affected by any unusual transactions;
  - 7.2.9.6 compliance with accounting standards taking into account the views of the external auditor;
  - 7.2.9.7 the clarity of disclosure and the context in which statements are made; and
  - 7.2.9.8 compliance with London Stock Exchange and legal requirements and good corporate governance practices;
- 7.2.10 to review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement and:
- 7.2.10.1 to review the findings of the audit with the external auditor. This shall include but not be limited to: a discussion of any major issues which arose during the audit; any accounting and audit judgements; and levels of errors identified during the audit;

- 7.2.10.2 to review any representation letter(s) requested by the external auditor before they are signed by management;
- 7.2.10.3 to review the management letter and management's response to the auditor's findings and recommendations; and
- 7.2.10.4 to 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;
- 7.2.11 to review the annual financial statements of the pension funds where they are not reviewed by the Board as a whole;
- 7.2.12 to review the Company's arrangements for its employees to raise concerns in confidence, about possible wrongdoing in financial reporting or other matters. The Audit Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow-up action;
- 7.2.13 to review the Company's procedures for detecting fraud;
- 7.2.14 to consider the major findings of any internal investigations and management's response to them;
- 7.2.15 to consider such other topics, as may be requested by the Board;
- 7.2.16 to meet the Board formally at least once each year to discuss matters such as the annual report and the relationship with the external auditors;
- 7.2.17 to report to the board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken; and
- 7.2.18 to conduct an annual review of the Audit Committee's own work, constitution, performance and these terms of reference to ensure it is operating at maximum effectiveness and shall make recommendations of any changes to the Board.

## **8 REPORTING TO SHAREHOLDERS**

- 8.1 The Audit Committee should report annually on the Board's behalf to the Company's shareholders. Its report should accompany the directors' report in the Company's annual report and accounts.
- 8.2 The chairman of the Audit Committee should attend the Company's annual general meeting for the purpose of handling any questions or enquiries at the meeting about the latest audit.

9 **MINUTES**

The secretary of the Audit Committee shall circulate the minutes of each meeting of the Audit Committee and, once agreed, to all members of the Board (unless a conflict of interest exists) and to the external auditors.