

**TERMS OF REFERENCE OF THE AUDIT COMMITTEE OF THE BOARD OF  
DIRECTORS OF CRODA INTERNATIONAL PLC (“the Committee”)**

**A. Membership**

1. The Committee will consist of at least three members, each appointed by the Board of Directors (the “**Board**”), on the recommendation of the Nomination Committee in consultation with the Chair of the Committee.
2. All members of the Committee will be non-executive directors who are independent in character and judgement and free from any business or other relationship or circumstance that are likely to affect, or could appear to affect, the exercise of their independent judgement. At least one member shall have recent and relevant financial experience and with competence in accounting and/or auditing.
3. The Board shall appoint the Chair of the Committee and determine the period for which they shall hold office. The Chair of the Board shall not be a member of the Committee.
4. The Company Secretary or their nominee shall act as the Secretary of the Committee.

**B. Meetings**

1. Meetings shall be held not less than four times a year as appropriate to coincide with key dates in the Company’s financial reporting cycle including once at the planning stage before the audit and once after the audit at the reporting stage.
2. A meeting of the Committee may be called by any member of the Committee or by the Secretary or, if they consider that one is necessary, the external auditors or the internal auditors.
3. The quorum for any meeting shall be two.
4. In the absence of the Chair of the Committee, the remaining members present shall elect one of their number to chair the meeting.
5. The Chair of the Board, the Group Chief Executive, the Chief Financial Officer, the Group Financial Controller, the Vice President – Risk and Assurance as the head of internal audit and a representative from the external auditors shall be invited regularly to attend meetings. Other people e.g. representatives of the finance function, may be invited to attend and speak at meetings at the request of the Chair of the Committee.
6. Outside of the formal meeting programme, the Chair of the Committee, and to a lesser extent the other Committee members, will maintain a dialogue with key individuals in the company involved in the company’s governance, including the Chair of the Board, the Group Chief Executive, the Chief Financial Officer, the external lead audit partner and the head of internal audit.

**C. Responsibilities**

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

**1. Financial reporting**

- 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 and reporting to the Board on significant financial reporting issues and judgements which they contain having regard to matters communicated to it by the auditor.
- 1.2 The Committee shall review and challenge where necessary:

- 1.2.1 the consistency of, and any changes to, accounting policies, both on a year on year basis and across the Company/Group;
  - 1.2.2 the methods used to account for significant or unusual transactions where different approaches are possible;
  - 1.2.3 whether the Company has adopted appropriate accounting principles and made appropriate estimates and judgements, taking into account the external auditor's views on the financial statements;
  - 1.2.4 the clarity and completeness of disclosure in the Company's financial statements and the context in which statements are made; and
  - 1.2.5 all material information presented with the financial statements, including the strategic report and the corporate governance statements relating to the audit and risk management.
- 1.3 The Committee shall review any other statements requiring Board approval which contain financial information first, where to carry out a review prior to Board approval would be practicable and consistent with any prompt reporting requirements under any law or regulation including the Listing Rules or Disclosure Guidance and Transparency Rules sourcebook.
  - 1.4 Where the Committee is not satisfied with any aspect of the proposed financial reporting by the Company, it shall report its views to the Board.

## **2. Narrative reporting**

The Committee should review the process of compiling the annual report and accounts and report to the Board on their findings. The Committee's report should assist the Board in determining whether, in the Board's view, the annual report and accounts when taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

## **3. Internal controls and risk management systems**

The Committee shall:

- 3.1 keep under review the Company's internal financial control systems that identify, assess, manage and monitor financial risks, and other internal controls and risk management systems and carry out a review of their effectiveness at least annually; and
- 3.2 review and approve the statements to be included in the annual report concerning internal controls and risk management.

## **4. Whistleblowing and fraud**

The Committee has overall responsibility for the Company's whistleblowing policy, and for reviewing the effectiveness of actions taken in response to concerns raised under the policy.

The Committee shall:

- 4.1. review the adequacy and security of the Company's arrangements for its employees 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;
- 4.2 review the Company's procedures for detecting fraud; and
- 4.3 review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance.

## **5. Internal audit**

The Committee shall:

- 5.1 monitor and review the effectiveness of the Company's internal audit function in the overall context of the Company's overall risk management system and the work of legal and compliance, finance and the external auditor;
- 5.2 approve the appointment and removal of the head of the internal audit function;
- 5.3 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. The Committee shall also ensure the function has adequate standing and is free from management or other restrictions;
- 5.4 review and assess the annual internal audit plan to ensure it is aligned to the key risks of the business, and receive regular reports on work carried out;
- 5.5 ensure the internal auditor has direct access to the Board Chair and to the Committee Chair, providing independence from the executive and accountability to the Committee;
- 5.6 carry out an annual assessment of the effectiveness of the internal audit function. As part of this assessment:
  - 5.6.1 meet with the head of internal audit without the presence of management to discuss the effectiveness of the function;
  - 5.6.2 review and assess the annual internal audit work plan;
  - 5.6.3 receive a report on the results of the internal auditor's work;
  - 5.6.4 determine whether it is satisfied that the quality, experience and expertise of internal audit is appropriate for the business; and
  - 5.6.5 review the actions taken by management to implement the recommendations of internal audit and to support the effective working of the internal audit function; and
- 5.7 consider whether an independent, third party review of processes is appropriate

## **6. External Audit**

The Committee shall:

- 6.1 consider and make recommendations to the Board, to be put to shareholders for approval at the AGM, in relation to the appointment, re-appointment and removal of the Company's external auditor. The Committee shall 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 in respect of such tender oversee the selection process and ensure that all tendering firms have such access as is necessary to information and individuals during the duration of the tendering process.
- 6.2 if an auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required;
- 6.3 oversee the relationship with the external auditor including (but not limited to):
  - 6.3.1 negotiation and approval of their fees for audit services, ensuring that the level of fees is appropriate to enable an effective and high quality audit to be conducted, and approval of other remuneration for non- audit services;
  - 6.3.2 approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;

- 6.3.3 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 any threats to the auditor's independence and safeguards applied to mitigate those threats, including the provision of any non-audit services;
- 6.3.4 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 and monitoring implementation of the Board's policy on the employment of former employees of the Company's auditors;
- 6.3.5 monitoring the auditor's processes for monitoring independence, its compliance with relevant UK law, regulation, other professional requirements and the FRC's Ethical Standard, including 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;
- 6.3.6 assessing annually their expertise and resources and the effectiveness of the audit process, which shall include a report from the external auditor on their own internal quality and compliance procedures;
- 6.3.7 seeking to ensure co-ordination with the activities of the internal audit function;
- 6.4 evaluate the risks to the quality and effectiveness of the financial reporting process in the light of the external auditor's communications with the Committee;
- 6.5 develop and recommend to the Board the Company's formal policy on the provision of non-audit services by the auditor, including approval of non-audit services by the Committee and specifying the types of non-audit service to be pre-approved, and assessment of whether non-audit services have a direct or material effect on the audited financial statements. The policy should include consideration of the following matters:
  - 6.5.1 threats to the independence and objectivity of the external auditor and any safeguards in place;
  - 6.5.2 the nature of the non-audit services;
  - 6.5.3 whether the external audit firm is the most suitable supplier of the non-audit service;
  - 6.5.4 the fees for the non-audit services, both individually and in aggregate, relative to the audit fee; and
  - 6.5.5 the criteria governing compensation.
- 6.6 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;
- 6.7 review and approve the annual audit plan and associated materiality levels, 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;
- 6.8 review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
  - 6.6.1 a discussion of any major issues which arose during the audit;
  - 6.6.2 the auditor's explanation of how the risks to audit quality were addressed;
  - 6.6.3 any key accounting and audit judgements;

- 6.6.4 levels of errors identified during the audit; and
- 6.6.5 the effectiveness of the audit process;
- 6.9 review any representation letter(s) requested by the external auditor before they are signed by management;
- 6.10 review the management letter and management's response to the auditor's findings and recommendations; and
- 6.11 review the effectiveness of the audit process, including an assessment of the quality of the audit, the handling of key judgements by the auditor, and the auditor's response to questions from the Committee.

## **7. Assurance and monitoring of the Group's sustainability disclosures**

The Committee shall:

- 7.1 provide assurance on the accuracy and reliability of the Group's sustainability disclosures, through the oversight of the control environment in relation to data and information used in support of the disclosures; and
- 7.2 review and approve the proposed annual plan for any required independent audit and assurance projects relevant to the Group's sustainability disclosures.

## **8. Reporting responsibilities**

- 8.1 The Secretary shall minute the proceedings of all Committee meetings, including the names of those present
- 8.2 The Secretary shall circulate the minutes of meetings of the Committee to all members of the Board.
- 8.3 The Committee Chair shall report formally to the Board on the proceedings of the Committee after each meeting on all matters within its duties and responsibilities and shall also formally report to the Board on how it has discharged its responsibilities. This report shall include:
  - 8.3.1 the significant issues that it has considered in relation to the financial statements (required under paragraph C.1.1) and how these were addressed;
  - 8.3.2 its assessment of the effectiveness of the external audit process (required under paragraphs C.6.3.6 and C.6.11) and its recommendation on the appointment or reappointment of the external auditor; and
  - 8.3.3 any other issues on which the Board has requested the Committee's opinion.
- 8.4 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 8.5 The Committee shall produce a report on its activities to be included in the Company's annual report. The report should 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; the review of the effectiveness of the Company's risk management and internal control systems; and all other information requirements set out in the UK Corporate Governance Code.
- 8.6 In the compiling the reports referred to in C.7.3 and C.7.5 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 and the inputs to the Board's viability statement. The

report to shareholders need not repeat information disclosed elsewhere in the annual report and accounts, but can provide cross-references to that information

- 8.7 The Chair of the Committee, or, in his unavoidable absence, an appointed deputy, shall attend the Company's Annual General Meeting to answer shareholders' questions.

## **9. Other matters**

The Committee shall:

- 9.1 have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required;
- 9.2 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;
- 9.3 give due consideration to laws and regulations, the provisions of the UK Corporate Governance Code and the requirements of the UK Listing Authority's Listing, Prospectus and Disclosure and Transparency Rules and any other applicable rules as appropriate;
- 9.4 be responsible for the co-ordination of the internal and external auditors;
- 9.5 oversee any investigation of activities which are within its terms of reference; and
- 9.6 at least once a year, review its own performance, 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.

In carrying out their responsibilities, Committee members must act in accordance with the statement of directors' duties set out in sections 171 – 177 of the Companies Act 2006.

## **D. Authority**

1. The Committee is authorised by the Board:
- 1.1 to seek any information it requires from any employee of the Company in order to perform its duties;
- 1.2 to investigate any matters within its terms of reference;
- 1.3 when necessary for the fulfilment of its duties, to obtain any outside legal or other professional advice, and to secure the attendance of external advisors at its meetings, at the Company's expense;
- 1.4 Call any employee to be questioned at a meeting of the Committee as and when required;
- 1.5 to commission any reports or surveys which it deems necessary to fulfil its obligations; and
- 1.6 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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