

November 2020

**TERMS OF REFERENCE  
OF THE AUDIT COMMITTEE  
(the "COMMITTEE")**

**1. MEMBERSHIP AND ATTENDANCE**

- 1.1 Until otherwise decided by the Board, the Committee shall comprise at least 3 (three) members who shall be independent Non-Executive Directors. The Chairman of the Board shall not be a member of the Committee.
- 1.2 Members of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee in consultation with the Chair of the Audit Committee. Appointments shall be for a period of up to three years which may be extended for up to two additional three-year periods, provided members continue to be independent.
- 1.3 At least one member of the Committee should have recent and relevant financial experience. The Committee as a whole shall have competence relevant to the sector in which the Company operates.
- 1.4 The Board shall appoint the Committee Chair. In the absence of the Committee Chair and/or an appointed deputy, the remaining members present shall elect one of their number present to chair the meeting.
- 1.5 Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the Board Chair, Chief Executive, Chief Financial Officer and other members of senior management may be invited to attend all or part of any meeting as and when appropriate.
- 1.6 The Committee shall ask a representative of the external auditor to attend at least the April and November Committee meetings within the annual cycle (see 4.3 below). The Committee may request the attendance of any personnel carrying out part or all of the internal audit at such meetings as the Committee shall decide. The Committee shall hold private discussions with the external auditor without management being present during at least one of the Committee meetings during the year.
- 1.7 The Company Secretary or any other person nominated by the Committee shall act as 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 issues.

**2. QUORUM**

Two (2) members of the Committee shall constitute a quorum. 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.

### **3. DUTIES**

The Committee should have oversight of the Group as a whole and, unless required otherwise by regulation should carry out the duties below for the parent company, major subsidiary undertakings and the Group as a whole, as appropriate.

#### **3.1 Internal control and risk management systems**

The Committee shall:

- 3.1.1 keep under review the adequacy and effectiveness of the Company's financial reporting and internal control policies and procedures for the identification, assessment, mitigation and reporting of the emerging and principal risks facing the Company; and
- 3.1.2 review and approve the statements to be included in the annual report concerning internal controls, risk management, including the assessment of emerging and principal risks, and the viability statement.

#### **3.2 Internal audit**

The Committee shall:

- 3.2.1 monitor and review the role and mandate of internal audit and review the effectiveness of the Company's internal audit function and work in the context of the Company's overall risk management system and the work of compliance, finance and the external auditor. Where the function is not performed through a dedicated, appointed individual the Committee shall consider annually whether there is a need for a dedicated internal auditor and, if there is, make a recommendation to the Board;
- 3.2.2 approve the appointment and termination of appointment of those persons carrying out the internal audit function;
- 3.2.3 consider and approve the structure, methodology and terms of reference for the internal audit process, shall review and approve the internal audit plan to ensure it is aligned to the key risks of the business, receive regular reports on the work carried out and shall be advised of any change or delay in the implementation of the audit plan;
- 3.2.4 ensure that internal audit has unrestricted scope, the necessary resources and access to information to enable it to fulfil its mandate, ensure there is open communication between different functions and that the internal audit function evaluates the effectiveness of these functions as part of the internal audit plan, and ensure that the internal audit function is equipped to perform in accordance with appropriate professional standards for internal auditors;
- 3.2.5 ensure that the process is given adequate priority and is free from management or other restrictions;
- 3.2.6 review reports from the internal audit team and review and monitor management's responsiveness to the findings and recommendations resulting from the internal audit;

- 3.2.7 ensure that all personnel associated with the internal audit process are be given direct access to the Board Chair and Chair of the Committee providing independence from the executive and accountability to the Committee;
- 3.2.8 carry out an annual assessment of the effectiveness of the internal audit function and as part of this assessment:
  - 3.2.8.1 meet with the person leading internal audit activities or, where the function is outsourced, the partner leading the outsourcing engagement without the presence of management to discuss the effectiveness of the function;
  - 3.2.8.2 review and assess the annual internal audit work plan;
  - 3.2.8.3 determine whether it is satisfied that the quality, experience and expertise of internal audit is appropriate for the business; and
  - 3.2.8.4 review the actions taken by management to support the effective working of the internal audit function;
- 3.2.9 consider whether an independent, third party review process is appropriate.

### 3.3 External audit

The Committee shall:

- 3.3.1 consider and make recommendations to the Board to be put to shareholders for approval at the AGM as regards the appointment, re-appointment and removal of the Company's external auditor. The Committee shall develop and oversee the selection process for new auditors in accordance with applicable Code and regulatory requirements, ensuring that all tendering firms have access to all necessary information and individuals during the tender process. If an auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required;
- 3.3.2 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 each year without management present, to discuss the auditor's remit and any issues arising from the audit;
- 3.3.3 approve the auditor's terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit. The Committee shall review and approve the annual audit plan and ensure it is consistent with the scope of the audit engagement. The Committee shall review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
  - 3.3.3.1 a discussion of any major issues which arose during the audit;
  - 3.3.3.2 any accounting and audit judgements;
  - 3.3.3.3 levels of errors identified during the audit; and
  - 3.3.3.4 the effectiveness of the audit;
- 3.3.4 oversee the relationship with the external auditor including (but not limited to):
  - 3.3.4.1 an annual assessment of the independence and objectivity of the external auditor taking into account relevant law, regulation the Ethical Standard

- and other professional and regulatory requirements and the Group's relationship with the auditor as a whole, including any threats to the auditor's independence and the safeguards applied to mitigate those threats including the provision of any non-audit services;
- 3.3.4.2 approving their remuneration, and ensuring that the level of fee is appropriate to enable an effective and high-quality audit to be conducted;
  - 3.3.4.3 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;
  - 3.3.4.4 maintaining a policy on the employment of former employees of the external auditor, taking into account the Ethical Standard and legal requirements, then monitoring the implementation of this policy;
  - 3.3.4.5 monitoring the auditor's process for maintaining independence, compliance with relevant law, regulation, other professional requirements and the Ethical Standard, including the guidance on the rotation of audit partner and staff;
  - 3.3.4.6 monitoring the level of fees paid by the Company to the external auditor compared to the overall fee income of the firm, office and partner and assess these in the context of relevant legal professional and regulatory requirements, guidance and Ethical Standard;
  - 3.3.4.7 assessing annually the auditor's qualifications, expertise and resources and the effectiveness of the audit process which shall include a report from the external auditor on its own quality procedures;
  - 3.3.4.8 seeking to ensure coordination of external audit with the activities of the internal audit function; and
  - 3.3.4.9 evaluating the risks to the quality and effectiveness of the financial reporting process in the light of the external auditor's communications with the Committee;
- 3.3.5 develop and recommend to the Board the Company's formal policy on the provision of non-audit services by the auditor, including prior 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:
- 3.3.5.1 threats to the independence and objectivity of the external auditor and any safeguards in place;
  - 3.3.5.2 the nature of the non-audit services;
  - 3.3.5.3 whether the external audit firm is the most suitable supplier of the non-audit service;
  - 3.3.5.4 the fees for the non-audit services, both individually and in aggregate, relative to the audit fee; and

- 3.3.5.5 the criteria governing compensation;
- 3.3.6 discuss with the external auditor the factors that could affect audit quality and review and approve the annual audit plan, ensuring it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team; and
- 3.3.7 review the findings and effectiveness of the external audit with the external auditor. This shall include but not be limited to:
  - 3.3.7.1 a discussion of any major issues which arose during the audit;
  - 3.3.7.2 the auditor's explanation of how the risks to audit quality were addressed;
  - 3.3.7.3 key accounting and audit judgements;
  - 3.3.7.4 the auditor's view of their interactions with senior management levels of errors identified during the audit;
  - 3.3.7.5 review any representation letter(s) requested by the external auditor before they are signed by management;
  - 3.3.7.6 review the management letter and management's response to the auditor's findings and recommendations;
  - 3.3.7.7 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; and
  - 3.3.7.8 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.

#### 3.4 **Financial reporting**

- 3.4.1 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, including reviewing significant financial reporting issues and the accounting judgements which they contain and review and report to the Board on significant financial reporting issues and judgements which those statements contain having regard to matters communicated to it by the auditor;
- 3.4.2 In particular, the Committee shall review and challenge where necessary:
  - 3.4.2.1 the consistency of, and any changes to, accounting policies both on a year on year basis and across the Group;
  - 3.4.2.2 the extent to which the financial statements are affected by any significant or unusual transactions and the methods used to account for such transactions where different approaches are possible;
  - 3.4.2.3 decisions requiring a major element of judgement and whether the Company has adopted appropriate accounting policies and made appropriate estimates and judgements, taking into account the external auditor's views on the financial statements;

- 3.4.2.4 the clarity and completeness of disclosures in the financial statements and the context in which statements are made;
- 3.4.2.5 significant adjustments resulting from the audit;
- 3.4.2.6 the going concern assumption and viability statement;
- 3.4.2.7 whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
- 3.4.2.8 compliance with stock exchange and other legal requirements;
- 3.4.2.9 all material information presented with the financial statements, such as the business review/operating and financial review and the corporate governance statement (insofar as it relates to the audit and risk management);
- 3.4.2.10 compliance with the Company's statement on internal control systems and the policies and process for identifying and assessing business risks and the management of those risks by the Company;
- 3.4.2.11 all material information presented with the financial statements, including the strategic report and the corporate governance statements relating to the audit and to risk management;
- 3.4.2.12 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, Prospectus Rules and Disclosure Guidance and Transparency Rules sourcebook; and
- 3.4.2.13 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.

### **3.5 Reporting responsibilities**

- 3.5.1 The Committee Chair shall report formally to the Board on its proceedings after each meeting on all matters within its duties and how it has discharged its responsibilities;
- 3.5.2 The Committee shall make whatever recommendations to the Board it deems appropriate upon any matter within its remit where action or improvement is needed;
- 3.5.3 The Committee shall produce a report to shareholders on its activities to be included in the Company's annual report. The report should include:
  - 3.5.3.1 the significant issues that the Committee considered in relation to the financial statements, and how these issues were addressed;
  - 3.5.3.2 an explanation of how the Committee has assessed the independence and effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor, and information on

the length of tenure of the current audit firm and when a tender was last conducted and advance notice of any retendering plans;

3.5.3.3 if the external auditor provides non-audit services, an explanation of how auditor objectivity and independence is safeguarded having regard to matters communicated to it by the auditor and all other information requirements set out in the Code; and

3.5.3.4 any other issues on which the Board has requested the Committee's opinion;

3.5.4 Where requested by the Board, the Committee shall provide advice on whether the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy and whether it informs the Board's statement in the annual report on these matters that is required under the Code; and

3.5.5 The Committee shall ensure that appropriate statements on the going concern basis of accounting and longer term viability are included in the annual report.

3.6 In compiling the reports referred to in 3.5.1 and 3.5.3, 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 could provide cross-references to that information.

### 3.7 **Compliance, whistleblowing and fraud**

The Committee shall:

3.7.1 review the adequacy and security of the Company's arrangements for its employees and contractors to raise concerns, anonymously and 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;

3.7.2 review the Company's procedures for detecting fraud; and

3.7.3 review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance.

### 3.8 **Other matters**

The Committee shall:

3.8.1 have access to sufficient resources in order to carry out its duties, including access to the Company Secretary as required;

3.8.2 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;

- 3.8.3 give due consideration to laws and regulations, the provisions of the Code and the requirements of the FCA's Listing Rules, Prospectus Rules, Disclosure Guidance and Transparency Rules and any other applicable rules, as appropriate;
- 3.8.4 be responsible for oversight of the coordination of the internal and external auditors;
- 3.8.5 oversee any investigation of activities which are within its terms of reference;
- 3.8.6 work and liaise as necessary with all other Board committees ensuring interaction between committees and with the Board is reviewed regularly, taking particular account of the impact of risk management and internal controls being delegated to different committees;
- 3.8.7 at least annually, 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; and
- 3.8.8 make available these Terms of Reference to shareholders through the Company website.

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

- 4.1 The Committee shall meet not less than 4 (four) times a year, in January, April/May, September and November. The Committee may meet at such other times as the Chair of the Committee shall require.
- 4.2 Outside of the formal meeting programme, the Committee Chair will maintain a dialogue with key individuals involved in the Company's governance, including the Board Chair, the Chief Executive Officer, the Chief Financial Officer and the external audit lead partner .
- 4.3 Meetings will be arranged to coincide with the publication of the Company's financial statements, allowing, whenever practicable, at least 3 (three) working days prior to a Board meeting where accounts or financial statements are to be approved. The schedule of matters to be reviewed by the Committee during its annual cycle of meetings is set out in Appendix 1. This schedule will be regularly reviewed by the Committee.

#### **5. NOTICE OF MEETINGS**

- 5.1 Meetings of the Committee shall be called by the Secretary and held at the request of any Committee member or upon the request of the external auditor or any member of the internal audit team.
- 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 Committee member, any other person required to attend and all other Non-Executive Directors, no less than 5 (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.
- 5.3 Meetings of the Committee may be held by telephone or video conference facility.



## **6. MINUTES OF MEETINGS**

- 6.1 The Secretary shall minute the proceedings and decisions of all meetings of the Committee, including recording the names of those present and in attendance and the existence of any conflicts of interest.
- 6.2 Draft minutes of Committee meetings shall be circulated promptly to all members of the Committee. Once approved, minutes should be circulated to all other members of the Board, unless, exceptionally, it would be inappropriate to do so.

## **7. ENGAGEMENT WITH SHAREHOLDERS**

The Committee Chair should attend the annual general meeting to answer any shareholder questions on the Committee's activities. In addition the Committee Chair shall engage with shareholders as appropriate on significant matters related to the Committee's areas of responsibility.

## **8. AUTHORITY**

The Committee is authorised:

- 8.1 to seek any information it requires from any employee of the Company in order to perform its duties;
- 8.2 to obtain, at the Company's expense, outside legal or other professional advice on any matter if it believes it necessary to do so;
- 8.3 to call any employee to attend and be questioned at a meeting of the Committee as and when required; and
- 8.4 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. If the Board has not accepted the Committee's recommendation on the external auditor appointment, reappointment or removal, the annual report should include a statement explaining the Committee's recommendation and the reasons why the Board has taken a different position.

## **9. DEFINITIONS**

**"Board"** means the board of directors of the Company from time to time.

**"Code"** means the UK Corporate Governance Code as amended from time to time.

**"Ethical Standard"** means FRC Revised Ethical Standard December 2019.

**"Group"** means Avon Rubber p.l.c. and its subsidiaries from time to time.

**"Listing Rules"** means the rules published by the Financial Conduct Authority and contained in the Listing Rules sourcebook which is part of the FCA handbook.

**Originally approved September 2004  
Last reviewed November 2020**

## APPENDIX 1

### Matters for review by the Audit Committee

1.	<b>Meetings</b>	<b>Frequency</b>
	Meet the internal and external auditors, without management, to review matters relating to the Committee's remit and any issues arising from the audit.	At least annually  The Committee normally meets x4 each year in September (year end audit plan), November (year-end report), January (internal audit) and April/May (interim report)
2.	<b>Skills, experience and training</b>	
	Review the need for training for members of the Committee on principles of and developments in financial reporting and related company law.	Ongoing  External auditors update the Committee on developments at each meeting as required
	Provide new members with induction training	Upon a new member joining the Committee
3.	<b>Relationship with the board</b>	
3.1	Review the Committee's terms of reference and its effectiveness, recommending any changes to the terms of reference to the board.	Annually  Review Terms of Ref in September. Effectiveness part of annual Board and Committee evaluation
3.2	Prompt the board to review the Committee's effectiveness.	Annually  <b>Within annual evaluation</b>
4.	<b>Role and responsibilities</b>	
	<b><i>Financial reporting</i></b>	
4.1	Review significant financial reporting issues and judgments made in the preparation of the company's financial statements, interim reports, preliminary announcements and related formal statements.	Ongoing as documents fall to be issued  <b>Each meeting</b>
4.2	Consider whether the company has adopted appropriate accounting policies. Review the clarity and completeness of the disclosures in the financial statements.	Ongoing as documents fall to be issued  First sentence – Each meeting  Second sentence - April/May (half year) and November (full year)
4.3	Review information presented with the financial statements, including the strategic report, operational and financial review, and corporate governance statements relating to	Ongoing as documents fall to be issued  <b>Mainly November</b>

	the audit and to risk management.	
4.4	Where requested by the Board, the Committee shall provide advice on whether the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. The Committee shall review the appropriateness of the Company's statements on the going concern basis of accounting and longer term viability to be included in the annual report.	Mainly November
5.	<b>Internal controls and risk management systems</b>	
5.1	Review systems established to identify, assess, manage and monitor emerging and principal risks facing the Company.	Board reviews risk in September. Internal audit report in April/May and November External auditors review control systems in November
5.2	Review reports received from management on the effectiveness of risk management systems.	<b>As above</b>
5.3	Review and approve the statements included in the annual report in relation to internal control and the management of risk.	Annually - November
6.	<b>Compliance, whistleblowing and fraud</b>	
6.1	Review whistleblowing arrangements to ensure they provide for a proportionate and independent investigation and follow up action.	<b>Code of Conduct reviewed in September</b>
6.2	Review procedures for detecting fraud	<b>Ongoing- each meeting</b>
6.3	Review the systems and controls for the prevention of bribery and receive reports on non-compliance	<b>Code of Conduct reviewed in September</b> Ongoing- each meeting
7.	<b>Internal audit process</b>	
7.1	Monitor and review the effectiveness of the internal audit function. Where there is no such function, consider whether there is a need for one.	Annual review of internal audit process and meet with internal audit lead (or engagement partner where outsourced)- January Internal audit reports to the Committee in April/May and November

7.2	Review and approve the internal auditor's remit.	Annually –January.
7.3	Review reports from the internal audit team and monitor management's responsiveness to the findings and recommendations.	Internal audit reports to the Committee in April/May and November
8.	<b>Appointment</b>	
8.1	Provide recommendation for appointment, reappointment and removal of auditors.	Annually – September
8.2	In connection with 4.14, assess the qualification, expertise, resources and independence of external auditors and the effectiveness of the audit process.	Annually - September
9.	<b>Terms and remuneration</b>	
	Approve terms of engagement and remuneration to be paid to the external auditor.	Annually - September
10.	<b>Independence, including provision of non-audit services</b>	
10.1	Review the relationships between the company and the external audit firm and form a view as to whether the auditor's judgement or independence is impaired.	Annually - November
10.2	In connection with 10.1 <sup>1</sup> , require audit firm confirmation that the auditors and their staff have no family, financial, employment, investment or business relationship with the company (other than in the normal course of business). Seek information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including rotation of audit partners and staff.	Annually  The November external auditors' report attaches their independence letter and quality procedures report
10.3	In connection with 10.1 monitor application of the company's policy for the employment of former employees of the external auditor, particularly those who have been part of the audit team.	Ongoing
10.4	Monitor the level of fees that the company pays for the external audit in proportion to the overall fee income of the audit firm.	<b>November</b>

10.5	In connection with 10.1 monitor application of the company's policy in relation to provision of non-audit services by the auditor.	<b>November</b>
11.	<b>Annual audit cycle</b>	
11.1	Review the auditor's overall work plan including planned levels of materiality and proposed resources to execute the plan.	At the start of each annual audit cycle in September
11.2	Review with the external auditors the findings of their work. Discuss major issues, key accounting and audit judgements and review levels of errors identified during the audit.	<b>April/May and November</b>
11.3	Review the audit representation letters before signature by management.	<b>April/May and November</b>
11.4	Review the management letter (or equivalent) as part of the ongoing monitoring process.	<b>April/May and November</b>
11.5	Assess the effectiveness of the audit process including the robustness and perceptiveness of the auditors in handling key accounting and audit judgements and their commentary on systems of internal control. Obtain feedback on the conduct of the audit from the Finance Director.	At the end of each annual audit cycle <b>April/May</b>
12.	<b>Communication with shareholders</b>	
	Chair of the Committee to be present at the AGM to answer questions through the Chair, on the report of the Committee's activities.	<b>January/February</b>