

DECHRA PHARMACEUTICALS PLC

AUDIT COMMITTEE

TERMS OF REFERENCE

1. Membership

- 1.1 The members of the Audit Committee (the Committee) shall be appointed by the Board, on the recommendation of the Nomination Committee in consultation with the Chair of the Audit Committee. The Board shall appoint the Chair of the Audit Committee. In the absence of the Chair and/or an appointed deputy at a Committee meeting, the remaining members present shall elect one of themselves to chair the meeting.
- 1.2 The members of the Committee shall be at least three non-executive directors.
- 1.3 All members of the Committee shall be independent non-executive directors. The members of the Committee, as a whole, must have competence relevant to the sector in which the Company is operating in and at least one member shall have recent and relevant financial experience ideally with a professional qualification from one of the professional accountancy bodies.
- 1.4 The Chair of the Board shall not be a member of the Committee.
- 1.5 Appointments to the Committee shall be for a period of up to three years, extendable by no more than two additional three-year periods, so long as members continue to be independent.
- 1.6 The quorum necessary for the transaction of business shall be two members.

2. Secretary

- 2.1 The Secretary of the Company or their nominee shall act as 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.

3. Attendance

- 3.1 Only members of the Committee have the right to attend Committee meetings.
- 3.2 The Chief Executive Officer, Chief Financial Officer, other members of the Board, the internal auditor, representatives of the external auditor and other non-members may be invited by the Chair of the Committee to attend all or any part of the meeting as and when appropriate and necessary.
- 3.3 Meetings of the Committee may be conducted when the members are physically present together or in the form of either a video or audio conference.

4. Frequency of Meetings

- 4.1 The Committee shall meet at least three times a year at appropriate intervals in the financial reporting and audit cycle of the Company and otherwise as required.
- 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, the external audit lead partner, the Group Head of Internal audit and Risk Assurance and the Group Financial Controller.

5. Authority

- 5.1 The Committee is authorised by the Board to:
 - 5.1.1 investigate any activity within its Terms of Reference;
 - 5.1.2 call any employee to be questioned at a meeting of the Committee as and when required;
 - 5.1.3 seek any information it requires from any Company employee in order to perform its duties;
 - 5.1.4 obtain at the Company's expense, independent legal or other independent professional advice on any matter it believes necessary to do so;
 - 5.1.5 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.
- 5.2 The Board will review the effectiveness of the Audit Committee annually.

6. Duties

The Committee shall carry out the duties below for the Group as a whole and the parent company.

- 6.1 Financial Reporting
 - 6.1.1 The Committee shall monitor the integrity of the financial statements of the Company, including its Annual and Half-Yearly Reports, preliminary announcement, and any other formal announcements relating to its financial performance, and review and report to the Board on significant financial reporting issues and judgements which these statements contain having regards to matters communicated to it by the external auditor;
 - 6.1.2 In particular the Committee shall review and challenge where necessary:

- 6.1.2.1 the application of, and any changes to, significant accounting policies both on a year on year basis and across the Group;
 - 6.1.2.2 the methods used to account for significant or unusual transactions where different approaches are possible;
 - 6.1.2.3 whether the Company has adopted appropriate accounting policies and made appropriate estimates and judgements, taking into account the views of the external auditor;
 - 6.1.2.4 the clarity and completeness of disclosures in the financial statements and the context in which statements are made; and
 - 6.1.2.5 all material information presented with the financial statements including the strategic report and corporate governance statements insofar as it relates to the audit and risk management.
- 6.1.3 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, Prospectus Rules, Disclosure Guidance and Transparency Rules sourcebook.
- 6.1.4 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.

6.2 Narrative reporting

Where requested by the Board, the Committee should review the content of the Annual Report and Accounts, Half-Yearly Reports and trading updates and advise the Board 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 and whether it informs the Board's statement in the annual report on these matters that is required under the Code .

6.3 Internal controls and risk management systems

The Committee shall on behalf of the Board which retains overall responsibility for risk management:

- 6.3.1 keep under review the company's internal financial controls systems that identify, assess, manage and monitor financial risks, and other internal control and risk management systems; and
- 6.3.2 review and approve the statements to be included in the Annual

Report concerning internal control, risk management, including the assessment of principal risks and emerging risks, and the viability statement.

6.4 Compliance, raising a concern and fraud

The Committee shall:

- 6.4.1 review the Company's procedure for detecting, monitoring and managing the risk of fraud;
- 6.4.2 review the adequacy and security of the company's arrangements for its employees, contractors and external parties to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters; and
- 6.4.2 review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance; and
- 6.4.3 review regular reports from the Compliance Officer and keep under review the adequacy and effectiveness of the Company's compliance function.

6.5 Internal audit

The Committee shall:

- 6.5.1 approve the appointment or termination of appointment of the internal auditor;
- 6.5.2 review and approve the role and mandate of internal audit, monitor and review the effectiveness of its work, and annually approve the internal audit charter ensuring it is appropriate for the current needs of the Company;
- 6.5.3 review and approve 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;
- 6.5.4 ensure 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 its internal audit plan, and ensure that the internal audit function is equipped to perform in accordance with appropriate professional standards for internal auditors;
- 6.5.5 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;

- 6.5.6 carry out an annual assessment of the effectiveness of the internal audit function, and as part of this assessment:
 - 6.5.6.1 meet with the head of internal audit without the presence of management to discuss the effectiveness of the function;
 - 6.5.6.2 review and assess the annual internal audit work plan;
 - 6.5.6.3 receive a report on the results of the internal auditor's work;
 - 6.5.6.4 determine whether it is satisfied that the quality, experience and expertise of internal audit is appropriate for the business; and
 - 6.5.6.5 review the actions taken by management to implement the recommendations of internal audit and to support the effective working of the internal audit function;
- 6.5.7 monitor and assess the role and effectiveness of the Company's internal audit function, in the context of the Company's overall risk management system and the work of finance and the external auditor; and
- 6.5.8 consider whether an independent, third party review of internal audit processes is appropriate.

6.6 External audit

The Committee shall:

- 6.6.1. consider and make recommendations to the Board, to be put to shareholders for approval at the Annual General Meeting, in relation to the appointment, reappointment and removal of the external auditor;
- 6.6.2 develop and oversee the tender selection procedure for the appointment of the audit firm, in accordance with applicable code and regulatory requirements, ensuring that all tendering firms have access to all necessary information and individuals during the tendering process;
- 6.6.3 if an external auditor resigns, investigate the issues leading to this and decide whether any action is required;
- 6.6.4 oversee the Company's relations with the external auditor including (but not limited to):
 - 6.6.4.1 approve their remuneration, including both fees for audit and non-audit services, and ensure that the level of fees is appropriate to enable an effective and high-quality audit to be conducted; and

- 6.6.4.2 approve their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit.
- 6.6.5 assess annually the external auditor's independence and objectivity taking into account relevant UK law, regulation, the Ethical Standard and other professional 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;
- 6.6.6 satisfy itself that there are no relationships between the external auditor and the Company (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity;
- 6.6.7 agree with the Board a policy on the employment of former employees of the Company's external auditor, taking into account the Ethical Standard and legal requirements, and monitor the application of this policy;
- 6.6.8 monitor the external auditor's processes for maintaining independence, its compliance with relevant law, regulation, other professional requirements and the Ethical Standard, including the guidance on the rotation of audit partner and staff;
- 6.6.9 monitor 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 the Ethical Standard;
- 6.6.10 assess annually the qualifications, expertise and resources, and independence of the external auditor and the effectiveness of the external audit process, which shall include a report from the external auditor on their own internal quality procedures;
- 6.6.11 seek to ensure coordination of the external audit with the activities of the internal audit function;
- 6.6.12 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;
- 6.6.13 develop and recommend to the Board the Company's formal policy on the provision of non-audit services by the external auditor, including the prior approval of non-audit services by the Committee, 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:

- 6.6.13.1 threats to the independence, taking into account the relevant regulations and ethical guidance in this regard and objectivity of the external auditor and any safeguards in place;
 - 6.6.13.2 the nature of the non-audit services;
 - 6.6.13.3 whether the external audit firm is the most suitable supplier of the non-audit service;
 - 6.6.13.4 the fees for the non-audit services, both individually and in aggregate, relative to the audit fee; and
 - 6.6.13.5 the criteria governing compensation.
- 6.6.14 meet regularly with the external auditor, including once before the audit commences to discuss the nature and scope of 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 the auditor's remit and any issues arising from the audit;
- 6.6.15 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;
- 6.6.16 review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
- 6.6.16.1 a discussion of any major issues which arose during the audit;
 - 6.6.16.2 the external auditor's explanation of how the risks to audit quality were addressed;
 - 6.6.16.3 key accounting and audit judgements;
 - 6.6.16.4 the auditor's view of their interactions with senior management; and
 - 6.6.16.5 levels of errors identified during the audit.
- 6.6.17 review the effectiveness of the audit process, including an assessment of the quality of the audit, the handling of key judgments by the auditor, and the auditor's response to questions from the committee, taking into consideration relevant UK professional and regulatory requirements;
- 6.6.18 review the management letter and management's response to the external auditor's findings and recommendations; and

- 6.6.19 review any representation letter(s) requested by the external auditor before it is (they are) signed by management.

7. Other Matters

The Committee shall:

- 7.1 have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required;
- 7.2 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;
- 7.3 give due consideration to laws and regulations, the provisions of the Code and published guidance and the requirements of the FCA's Listing Authority's Listing, Prospectus and Disclosure and Transparency Rules and any other applicable rules, as appropriate;
- 7.4 oversee any investigations of activities which are within its Terms of Reference;
- 7.5 work and liaise as necessary with all other Board Committees, and review the interaction between the Committees and with the Board, taking particular account of the impact of risk management and internal controls being delegated to different committees;
- 7.6 be responsible for oversight of the coordination between the internal and external auditors; and
- 7.7 arrange for periodic reviews of its own performance and, at least annually, review its constitution and Terms of Reference and recommend any changes it considers necessary to the Board for approval.

8. Reporting Responsibilities

- 8.1 The Committee Chair shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities and shall also formally report to the Board on how it discharged its responsibilities. This report shall include:
 - 8.1.1 the significant issues that it considered in relation to the financial statement and how these were addressed;
 - 8.1.2 its assessment of the effectiveness of the external audit process, the approach taken to the appointment or reappointment of the external auditor, length of tenure of the audit firm, when a tender was last conducted and advance notice of any retendering plans; and
 - 8.1.3 any other issues on which the Board has requested the Committee's opinion.

- 8.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 8.3 The Committee shall compile a report on its activities to be included in the Company's Annual Report. The report should describe the work of the Committee, including:
- 8.3.1 the significant issues that it considered in relation to the financial statements and how these were addressed;
 - 8.3.2 an explanation of how the Committee has assessed the independence and the effectiveness of the external audit process, the approach taken to the appointment or reappointment of the external auditor, length of tenure of the audit firm, when a tender was last conducted and advance notice of any retendering plans;
 - 8.3.3 in the case of the Board not accepting the Committee's recommendation on the external auditor appointment, reappointment or removal, a statement explaining its recommendation and the reasons why the Board has taken a different position;
 - 8.3.4 the Committee's policy for approval of non-audit services, and if permitted by the policy, the external auditor provides non-audit services an explanation of how auditor independence and objectivity are safeguarded, having regard to matters communicated by the external auditor, and why the Committee concluded it was in the Company's interest to purchase the services from the external auditor. The Committee will also provide the ratio of fees paid for audit services compare to non-audit fees; and
 - 8.3.5 all other information set out in the Corporate Governance Code.
- 8.4 In compiling the reports referred to in 8.1 and 8.3, 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.

9. **Minutes**

- 9.1 The Secretary shall minute the proceedings and decisions of all meetings of the Committee, including recording the names of those present and in attendance.
- 9.2 Draft minutes of Committee meetings shall be agreed with the Committee Chair and then circulated promptly to all members of the Board unless it would be inappropriate to do so in the opinion of the Committee Chair.

- 9.3 A resolution in writing and signed by all Committee members will be as effective as a resolution passed at a Committee meeting. Any written resolution shall be tabled and noted at the next meeting of the Committee.

10. Engagement with Shareholders

- 10.1 The Committee Chair should attend the Annual General Meeting to answer shareholder questions on the Committee's activities. In addition, the Committee Chair should engage with shareholders on any questions they have on significant matters related to the Committee's areas of responsibility.