

## **Indivior PLC**

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### **Terms of Reference of the Audit & Risk Committee**

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## **AUDIT & RISK COMMITTEE**

### **TERMS OF REFERENCE**

#### **1. PURPOSE AND DELEGATED AUTHORITY**

- 1.1 The purpose of the Audit & Risk Committee (the 'Committee') of the Board of Directors (the 'Board') of Indivior PLC (the 'Company') is to assist the Board's oversight of the Company's accounting and financial reporting processes, the systems of risk management and internal control over financial reporting and the audits of the Company's financial statements, as well as the quality and integrity of the Company's financial statements and reports and the qualifications, independence and performance of the firm or firms of certified public accountants engaged as the Company's independent outside auditors for the purpose of preparing or issuing an audit report or performing other audit, review or attest services (the 'Auditors').
- 1.2 The Board has delegated authority set out in these terms of reference to the Committee. The Committee may sub-delegate any of its powers and authority as it thinks fit including instructing employees or creating sub-committees to review and report to it on specific issues.
- 1.3 The members of the Committee must, in fulfilling their responsibilities as set out hereunder, comply with their duty under section 172 of the Companies Act 2006 to act in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, whilst having regard to the interests of employees, stakeholders and other matters as required by section 172.
- 1.4 The Policy of the Committee, in discharging these obligations, shall be to maintain and foster an open avenue of communication among the Committee, the Auditors and the Company's financial management.

#### **2. MEMBERSHIP AND QUORUM**

- 2.1 The members of the Committee shall be appointed by the Board and shall consist of at least three members, and where possible, one member of the Remuneration Committee. Each of the members of the Committee shall satisfy the independence requirements of the UK Corporate Governance Code (the 'Code'), Rule 10A-3(b)(1) of the Securities Exchange Act of 1934, and Rule 5605(a)(2) of the NASDAQ Stock Exchange ('NASDAQ') listing standards. The Committee as a whole shall have competence relevant to the sector in which the Company operates.
- 2.2 Each member of the Committee shall be able to read and understand fundamental financial statements, including the Company's balance sheet, income statement and cash flow statement, at the time of his or her appointment to the Committee, and each member shall not have participated in the preparation of the financial statements of the Company or any current subsidiary of the Company at any time during the past three years.
- 2.3 At least one member of the Committee shall have significant, recent and relevant past employment experience in finance or accounting, requisite professional certification in accounting, or any other comparable experience or background which results in the individual's financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities.
- 2.4 A quorum shall be two members. 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 vesting in or exercisable by the Committee.
- 2.5 The Chair of the Committee shall be appointed by the Board from amongst the independent non-

executive directors. The Chair of the Board shall not be a member of the Committee.

- 2.6 Committee members should serve for an initial period of up to three years, with the option to extend by no more than two additional three-year periods so long as the members continue to be independent.

### **3. SECRETARY**

The Company Secretary or his or her nominee shall act as the secretary of the Committee and shall ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to issues.

### **4. ATTENDANCE AT MEETINGS**

- 4.1 Only members of the Committee and any member of the Board have the right to attend Committee meetings. However, the Auditors, the Head of Internal Audit (where applicable) and the Chief Financial Officer shall be invited to attend the meeting of the Committee on a regular basis and other individuals, such as the Chair of the Board, the Chief Executive Officer, other directors, and representatives from the finance function, or other persons shall attend meetings at the invitation of the Committee as and when appropriate and necessary. The Committee may exclude from its meetings anyone with a personal interest in the matters to be discussed. The Committee should exercise independent judgement when evaluating the advice of external third parties and when receiving the views from other directors and management.
- 4.2 There should be at least one meeting a year, or part thereof, where the Committee meets the Auditors and the Head of Internal Audit without executive directors present.

### **5. FREQUENCY OF MEETINGS**

- 5.1 Meetings shall be held not less than four times a year to coincide with key dates in the Company's financial reporting cycle, and at such other times as the Chair of the Committee shall require.
- 5.2 The Auditors or the Head of Internal Audit may request a meeting if they consider that one is necessary.
- 5.3 Outside the formal meeting programme, the Chair of the Committee shall maintain a dialogue with key individuals involved in the Company's governance, including the Chair of the Board, the Chief Executive Officer, the Chief Financial Officer, the Auditors' lead partner and the Head of Internal Audit.

### **6. AUTHORITY**

The Committee is authorised by the Board to:

- 6.1 Investigate any activity within its terms of reference;
- 6.2 Seek any information that it requires from any employee of the Company and all employees are directed to co-operate with any request made by the Committee;
- 6.3 Engage outside legal, accounting or other independent professional advisors and secure the attendance of outsiders with relevant experience and expertise if it considers this necessary or appropriate to carry out its responsibilities. The Committee is empowered, without further action by the Board, to cause the Company to pay the compensation of such advisors as established by the Committee;
- 6.4 Cause the Company to pay the ordinary administrative expenses of the Committee that are

necessary or appropriate in carrying out its duties; and

- 6.5 Carry out its duties for any parent company, major subsidiary undertakings and the Group as a whole, as appropriate.

The Committee shall have available appropriate funding from the Company as determined by the Committee for payment of compensation to any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company.

## **7. DUTIES – EXTERNAL AUDITOR AND THE AUDIT PROCESS**

The duties of the Committee shall be to:

- 7.1 consider, and make recommendations, to be put to shareholders for approval at the Annual General Meeting (the 'AGM'), on the evaluation, appointment, reappointment and removal of the Auditors (including resolution of disagreements between management and the Auditors, including regarding financial performance) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company;
- 7.2 ensure that at least once every ten years the audit services contract is put out to tender to enable comparison of the quality and effectiveness of the services provided by the incumbent Auditors 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;
- 7.3 if the Auditors resign, investigate the issues leading to this and decide whether any action is required;
- 7.4 be directly responsible for the relationship with the Auditors, including, but not limited to, the following:
- (a) approve the remuneration to be paid to the Auditors, including the fees for both 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;
  - (b) pre-approval of the terms of engagement of all audit and permitted non-audit and tax services that may be provided by the Auditors including the scope of the audit and any engagement letter issued at the start of each audit;
  - (c) devise procedures to assess annually the independence and objectivity of the Auditors, taking into consideration relevant professional and regulatory requirements and the relationship with the Auditors as a whole, including the provision of any non-audit services;
  - (d) seek reassurance that the Auditors and its staff have no family, financial, employment, investment or business relationship with the Company (other than those in the normal course of business) which could adversely affect the Auditors' independence and objectivity (including the receipt from the Auditors of a formal written statement delineating all relationships between the Auditors and the Company) and annually seek information from the Auditors about policies and processes for maintaining independence and monitoring compliance;
  - (e) annually assess the qualifications, expertise and resources of the Auditors and the effectiveness of the audit process, such assessment to include a report from the Auditors on its own internal quality procedures; monitor the external audit firm's compliance with

applicable ethical guidance relating to the rotation of audit partners, the level of fees that the Company pays as a proportion of the overall fee income of the firm, office and partner and other related regulatory requirements;

- (f) agree with the Board and monitor the Company's policy for the employment of former employees of the Auditors, and overseeing the implementation of this policy;
- (g) develop, implement and keep under review, the Company's policy in relation to the provision of non-audit services by the Auditors and routinely monitor the appropriateness and quantum of spend on non-audit services to avoid any threat to auditor independence and objectivity taking into account legal and regulatory requirements and any relevant ethical guidance on the matter;
- (h) evaluate the risks to the quality and effectiveness of the financial reporting process and consider in that evaluation the risk of the withdrawal of the Auditors from the audit market;
- (i) 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;
- (j) review with the Auditors the findings of its work, including, but not limited to, the following:
  - (i) any major issues that arose during the course of the audit and have subsequently been resolved and those issues that have been left unresolved;
  - (ii) key accounting and audit judgements, including critical accounting policies and significant changes thereto;
  - (iii) levels of errors identified during the audit;
  - (iv) obtaining explanations from management and, where necessary, the Auditors, as to why certain errors might remain unadjusted; and
  - (v) the effectiveness of the audit process;
- (k) review the audit representation letters before signature by management and give particular consideration to matters where representation has been requested that relate to non-standard issues; and
- (l) review and monitor the content of the Auditors' management letter, in order to assess whether it is based on a good understanding of the Company's business and establish whether recommendations have been acted upon and, if not, the reasons why they have not been acted upon.

## **8. DUTIES – INTERNAL AUDIT FUNCTION**

The duties of the Committee shall be to:

- 8.1 review the internal audit programme and ensure that the internal audit function has unrestricted scope, the necessary resources and access to information to enable it to fulfil its mandate, and is equipped to perform in accordance with appropriate professional standards for internal auditors;
- 8.2 ensure that the Head of Internal Audit has direct access to the Chair of the Board and to the Committee and is accountable to the Committee, and meets with the Committee at least once

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a year without the presence of management;

- 8.3 review and assess the annual internal audit work plan;
- 8.4 receive a report on the results of the work of the internal audit function on a periodic basis;
- 8.5 review and monitor management's responsiveness to the findings and recommendations of the internal audit function;
- 8.6 monitor and assess the role and effectiveness of the internal audit function in the overall context of the Company's risk management system and consider whether an independent third-party review of internal audit effectiveness and process is appropriate;
- 8.7 approve appointment or dismissal of the Head of Internal Audit; and
- 8.8 review and annually approve the internal audit charter and ensure that it is appropriate to the current needs of the Company.

## **9. DUTIES – FINANCIAL REPORTING**

The Committee shall monitor the integrity of the financial statements of the Company including its strategic report, interim management statements, preliminary announcements and related formal statements and shall review, and challenge where necessary, the actions and judgements of management in relation to the Company's financial statements, strategic report, interim management statements, preliminary announcements and related formal statements in connection with the quarterly, half year and year-end external reporting process paying particular attention to:

- 9.1 the consistency of, and any changes to critical accounting policies and practices both on a year on year basis and across the Company and group;
- 9.2 whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the Auditors;
- 9.3 the extent to which the financial statements are affected by any significant or unusual transactions in the year and how they are disclosed including the methods used to account for such transactions where different approaches are possible;
- 9.4 the clarity and completeness of disclosures in the Company's financial reports and the context in which statements are made;
- 9.5 all material information presented with the financial statements, such as significant adjustments resulting from the audit, the going concern assumption, viability statement, the strategic report and the corporate governance statements relating to the audit and to risk management; and
- 9.6 compliance with laws and regulations, including the rules of any other stock exchange on which the Company's securities are traded, the provisions of the Code, the rules and regulations of the Securities and Exchange Commission, the NASDAQ listing standards, and the requirements of the UK Listing Authority's Listing, Prospectus and Disclosure Guidance and Transparency Rules and any other applicable rules, as appropriate.

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.

## **10. DUTIES – NARRATIVE REPORTING**

Where requested by the Board, the Committee should review the content of the Company's annual report and financial statements and advise the Board on whether, taken as a whole, it is fair, balanced and understandable, so as to inform the Board's statement in the annual report on these matters as required by the UK Corporate Governance Code, and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

## **11. DUTIES – INTERNAL CONTROL AND RISK MANAGEMENT**

The duties of the Committee shall be to:

- 11.1 assess the scope and effectiveness of the systems established by management to identify, assess, manage and monitor internal financial controls, non-financial controls and risks, including carrying out a robust assessment of the Company's principal and emerging risks;
- 11.2 review and approve management's and the internal auditor's reports on the effectiveness of the systems for internal control, financial reporting and risk management prior to inclusion in the annual report;
- 11.3 consider the major findings of internal investigations and management's response; and
- 11.4 work and liaise as necessary with all other Board committees, taking particular account of the impact of internal controls and risk management being delegated to different committees.

## **12. DUTIES – COMPLAINTS AND FRAUD ARRANGEMENTS**

The duties of the Committee shall be to establish and review the adequacy and security of the Company's:

- 12.1 procedures for (i) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and (ii) the confidential, anonymous submission by employees of the Company of concerns regarding questionable financial reporting, accounting or auditing matters. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow-up action;
- 12.2 procedures for detecting fraud; and
- 12.3 systems and procedures for the prevention of bribery and receive reports on non-compliance.

## **13. REPORTING**

- 13.1 The Secretary shall circulate the minutes of meetings of the Committee to all members of the Board unless it would be inappropriate to do so in the opinion of the Chair of the Committee.
- 13.2 The Chair of the Committee shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities including: the significant issues that it considered in relation to the financial statements and how these were addressed; its assessment of the effectiveness of the external audit process and its recommendation on the appointment or re-appointment of the Auditors; and any other issue on which the Board has requested the Committee's opinion. The report shall include how these responsibilities were discharged.
- 13.3 The Committee shall undertake a review of its terms of reference and of its own effectiveness at least annually and recommend any necessary changes to the Board.
- 13.4 The Committee shall compile a report on its role and responsibilities and the actions it has

taken to discharge those responsibilities.

- 13.5 This report shall be disclosed in the annual report and should specifically include:
- (a) a summary of the role of the Committee;
  - (b) the names and qualifications of all members of the Committee during the period;
  - (c) the number of Committee meetings and attendance by each member;
  - (d) an explanation of how the Committee has addressed the independence and effectiveness of the external audit process and the approach taken to the appointment or reappointment of the Auditors, information on the length of tenure of the current audit firm and when a tender was last conducted, advance notice of any retendering plans and any contractual obligations that have acted to restrict the Committee's choice of external auditor;
  - (e) 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 Auditors, and all other information set out in the Code. The Committee will need to exercise judgement in deciding which of the issues it considers 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; and
  - (f) in relation to the provision of non-audit services by the Auditors, the reason(s) why the Committee approved management's decision to use the Auditors for each specific engagement over the required threshold (as set under the Group's financial policy on non-audit services), details of how it has ensured that auditor objectivity and independence is safeguarded, details of the fees paid to the external auditor for audit and non-audit services and the ratio of audit to non-audit work, and an explanation of the non-audit services provided and why the Committee concluded that it was in the interests of the Company to purchase them from the external auditor.
- 13.6 In compiling its reports the Committee should exercise judgement in deciding which of the issues it considers are significant in relation to the financial statements but should include at least those matters that have informed the Board's assessment of whether the Company is a going concern. The report to shareholders need not repeat information disclosed elsewhere in the annual report and financial statements, but could provide cross-references to that information.
- 13.7 The Committee shall maintain oversight and approve or ratify related party transactions as necessary in line with the terms of the Company's Related Party Transaction Policy.
- 13.8 Where disagreements between the Committee and the Board cannot be resolved, the Committee shall report the issue to the shareholders as part of the report on its activities in the Company's annual report.
- 13.9 If the Board does not accept the Committee's recommendation regarding the appointment, reappointment or removal of the Auditors, the Committee shall include a statement explaining its recommendation and reasons why the Board has taken a different stance in the annual report.
- 13.10 The Chair of the Committee should attend the AGM and respond to any questions from shareholders on the Committee's activities and its responsibilities.



#### **14. TRAINING**

The Committee members should receive periodic training (including an induction programme for new members) and be entitled to attend training courses on corporate governance and financial reporting related matters to assist in the performance of their duties.