Effective risk management and control is key to the delivery of our business strategy and objectives.

Our risk management and control processes are designed to identify, assess, mitigate and monitor significant risks, and provide reasonable but not absolute assurance that the Group will be successful in delivering its objectives.
Risk Management Process
Our strategy informs the setting of objectives across the business and is widely communicated. Strategic risks and opportunities are identified as an integral part of the strategy setting process. Operational, financial, compliance and emerging risks are identified as an integral part of our functional planning and budget setting processes.

The Board oversees the risk management and internal control framework and the Audit Committee reviews the effectiveness of the risk management process and the internal control framework.

Our Senior Executive Team (SET) owns the risk management process and is responsible for managing specific Group risks. The SET members are also responsible for embedding sound risk management in strategy, planning, budgeting, performance management, and operational processes within their respective Operating Segments and business units.

The Board and the SET together set the tone and decide the level of risk and control to be taken in achieving the Group’s objectives.

SET members present their risks, controls and mitigation plans to the Board for review on a rolling programme throughout the year. The SET is responsible for conducting self-assessments of their risks and the effectiveness of their control processes. Where control weaknesses are identified, remedial action plans are developed, and these are included in the risk reports presented to the Board.

Internal Audit coordinates the risk reporting process and provides independent assurance on the internal control framework.

COVID-19
We have continued to operate our normal risk management and control processes throughout the COVID-19 pandemic, including a formal assessment of emerging risks, climate risk and the potential longer term impact of COVID-19 on the business.

The operational impact of COVID-19 on the business during the last quarter of the financial year and the actions we have taken in response are described in various parts of the Strategic and Governance Reports. Whilst the virus has had a significant impact on how we conduct our day-to-day activities, we have continued to operate successfully throughout the pandemic in all of our worldwide locations. Following record demand in March as veterinarians stocked up on essential medicines, trading softened in the last quarter, but we have seen demand recover in most markets as lockdown restrictions are eased.

We have disclosed COVID-19 as an emerging risk and have also considered its impact on the principal risk profile. Given the uncertainty about the potential lifecycle of the virus and the impact of future events we will continue to monitor and respond to further changes where needed.

Dechra Culture
The Dechra Values are the foundation of our entire business culture including our approach to risk management and control. The Board expects that these Values should drive the behaviours and actions of all employees. We encourage an open communication style where it is normal practice to escalate issues promptly so that appropriate action can be taken quickly to minimise any impact on the business.

Internal Control Framework
Our internal control framework is designed to ensure:

- proper financial records are maintained;
- the Group’s assets are safeguarded;
- compliance with laws and regulations; and
- effective and efficient operation of business processes.

The Dechra Values are the foundation of the control framework and it is the Board’s aim that these values should drive the behaviours and actions of all employees. The key elements of the control framework are described below:

Management Structure
Our management structure has clearly defined reporting lines, accountabilities and authority levels. The Group is organised into business units. Each business unit is led by a SET member and has its own management team.

Policies and Procedures
Our key financial, legal and compliance policies that apply across the Group are:

- Code of Business Conduct and How to Raise a Concern;
- Delegation of Authorities;
- Dechra Finance Manual, including Tax and Treasury policies;
- Anti-Bribery and Anti-Corruption;
- Data Protection;
- Sanctions; and
- Charitable Donations.

Strategy and Business Planning
We have a five year strategic plan which is developed by the SET and endorsed by the Board annually. Business objectives and performance measures are defined annually, together with budgets and forecasts. Monthly business performance reviews are conducted at both Group and business unit levels.

Operational Controls
Our key operational control processes are as follows:

- Product Pipeline Reviews: We review our pipeline regularly to identify new product ideas and assess fit with our product portfolio, prioritise development projects, review whether products in development are progressing according to schedule, and assess the expected commercial return on new products.
- Lifecycle Management: We manage and monitor lifecycle management activities for our key products to meet evolving customer needs.
- Pricing Policies: We manage and monitor our national and European pricing policies to deliver equitable pricing for each customer group.
- Product Supply: We continue to develop our demand forecasting and supply planning processes, with monthly reviews of demand and production forecasts, inventory controls, and remediation plans for products that are out of supply.
How the Business Manages Risk continued

- Quality Assurance: Each of our manufacturing sites has an established Quality Management System. These systems are designed to ensure that our products are manufactured to a high standard and in compliance with the relevant regulatory requirements.
- Pharmacovigilance: Our regulatory team operates a robust system with a view to ensuring that any adverse reactions and product complaints related to the use of our products are reported and dealt with promptly.
- Financial Controls: Our controls are designed to prevent and detect financial misstatement or fraud and operate at three levels:
  - Entity Level Controls performed by senior managers at Group and business unit level;
  - Month end and year end procedures performed as part of our regular financial reporting and management processes; and
  - Transactional Level Controls operated on a day-to-day basis.

The key controls in place to manage our principal risks are described in further detail on pages 73 to 76.

Internal Audit provides independent and objective assurance and advice on the design and operation of the Group’s internal control framework. The internal audit plan seeks to provide balanced coverage of the Group’s material financial, operational and compliance control processes.

Improvements in 2020

We have continued to strengthen and improve our governance and control processes and the following changes have been implemented:

- New governance and oversight processes to provide transparency of performance, decisions and actions across the manufacturing and supply network;
- Recruitment of a new External Network Director and expansion of the external network team, including the appointment of a dedicated External Network Quality Director to improve our ability to manage the increased scale and complexity of our external supply network;
- Recruitment of a new Internal Network Director to strengthen the management of our internal manufacturing sites;
- We have continued to make improvements to our manufacturing, quality and supply processes, with additional investments in people and production facilities;
- Our financial control framework in Dechra Brazil has been completed; and
- Our Environmental, Social and Governance (ESG) strategy has been developed and a team to monitor its implementation has been established.

Plans for 2021

We will continue to refine and strengthen our internal control framework where required in response to changes in our risk profile and improvement opportunities identified by business management, quality assurance and internal audit.

Our Manufacturing and Supply processes continue to be the primary focus area for 2021.

We also plan to make further improvements and enhancements to our financial control framework and our Group policies.

Principal Risks

The SET has identified and agreed key risks with the Board. Of these, a number are deemed to be generic risks facing every business including failure to comply with financial reporting regulation, cybersecurity, IT systems failure and non-compliance with legislation. The risk profile below therefore details the nine principal risks that are specific to our business and provides information on:

- their prioritisation;
- how they link to Group strategy;
- their potential impact on the business; and
- what controls are in place to mitigate them.