

# Audit Committee report



**Jane Moriarty**  
Chair of the  
Audit Committee

*“On behalf of the Board, I present the report of the Audit Committee for the financial year ended 25 September 2021.”*

## Introduction

I was appointed as Chair of the Audit Committee on 20 July 2021 after Colin Rutherford stepped down from the Board and also as chair of the Committee on 19 July 2021. I take this opportunity to thank Colin for the excellent work he has done in chairing this Committee and how, as a result, I was able to seamlessly pick up this role.

During the period, as the purpose and effectiveness of external and internal audit procedures came under increasing public scrutiny, the Committee maintained an appropriate level of engagement with the Chief Financial Officer and the Group Risk Director, other key individuals and their teams who collectively provide an appreciation and rigorous insight into how the Group functions and reports. The Committee is always very grateful for the detailed instruction these interactions provide and this, in turn, significantly assists towards the promotion and efficient execution of the Committee's oversight role, ensuring confidence in reporting to the wider Board.

The continued but changing impact of Covid-19 in relation to the overall governance and key controls operated across the business in a remote working environment presented significant challenges. Many of these were dealt with in FY 2020 but some new aspects emerged during the period. Therefore, in order to provide assurance to the Audit Committee that key financial controls continued to operate as expected, an independent review was again undertaken by the Group Risk Director. Findings confirmed that a good level of assurance continued, and no material weaknesses were identified. The outputs from this review were reported to senior management and to the Audit Committee, providing comfort that despite the Company furloughing a number of staff, coupled with the inherent risks associated with increased remote working, the implications were minimal and key controls were unaffected.

## Engagement with external auditors, internal auditors and other third-party advisers

The Committee continued to engage formally, regularly and at an appropriate level of detail with our external auditors, internal auditors (also externally resourced) and other third-party advisers as necessary. This has enabled the Committee to maintain an appropriate understanding of how our auditors and advisers interact and test our comprehensive risk functions. The Committee's engagement during the whole of the auditing and advisory process conveys confidence in their collective fieldwork conclusions.

It is also important to note the Committee's role in overseeing the well-considered provision of adequate resources by the Group, ensuring that any additional non-audit services required during the year were obtained where necessary and the Financial Reporting Council (FRC) and its evolving reporting requirements are adhered to.

## Audit Committee report *continued*

### Effectiveness of internal controls and group assurance and risk function

The above efforts provided the Committee with a clear and detailed understanding of the principal financial and operational risks throughout the period. The Committee continued to focus on challenging the effectiveness of internal controls, the robustness of assurance and risk management processes and in assessing the importance of, and acting as required upon, all reported information received from our external and internal auditors and third-party advisers.

The Committee remains committed to maintaining an open and constructive dialogue on relevant audit matters with all shareholders. Therefore, should you have any comments or questions on any aspects of this report, or indeed the wider financial statements, may I respectfully ask you to please email myself, care of Adrian Brannan, Group Risk Director, at [company.secretariat@mbplc.com](mailto:company.secretariat@mbplc.com)

### Remit and membership of the Audit Committee

The main purpose of the Audit Committee is to review and maintain oversight of Mitchells & Butlers' corporate governance, particularly with respect to financial reporting, internal control and risk management. The Audit Committee's responsibilities also include:

- reviewing the processes for detecting fraud, misconduct and internal control weaknesses;
- reviewing the effectiveness of the Group Assurance function; and
- overseeing the relationship with the external and internal auditors and other third-party advisers.

At the date of the 2021 Annual Report, the Audit Committee comprised three independent Non-Executive Directors: Jane Moriarty (Chair), Dave Coplin and Susan Murray. In accordance with 2018 Code Provision 24 the Board considers that Jane Moriarty has significant, recent and relevant financial experience. Biographies of all of the members of the Audit Committee, including a summary of their respective experience, appear on pages 50 to 52.

The Audit Committee continued to meet at least quarterly during FY 2021. In each case, appropriate papers were distributed to the Committee members and other invited attendees, including, where and to the extent appropriate, representatives of the external audit firm, the internal Group Assurance function and other third-party advisers.

When appropriate, the Audit Committee augments the skills and experience of its members with advice from internal and external audit professionals, for example, on matters such as developments in financial reporting. Audit Committee meetings are also attended, by invitation, by other members of the Board including the Chairman, the Chief Executive and the Chief Financial Officer, the Company Secretary and General Counsel, the Group Risk Director and representatives of the external auditor, Deloitte LLP. The Audit Committee also has the opportunity to meet privately with the external auditor not less than twice a year, without any member of management present, in relation to audit matters.

The remuneration of the members of the Audit Committee is set out in the Report on Directors' remuneration on page 88.

### Summary terms of reference

A copy of the Audit Committee's terms of reference is publicly available within the Investor section of the Company's website: [www.mbplc.com/pdf/audit\\_committee\\_terms.pdf](http://www.mbplc.com/pdf/audit_committee_terms.pdf)

The Audit Committee's terms of reference were approved by the Committee and adopted by the Board in 2013. Those terms of reference specifically provide that they will be reviewed annually. They have been reviewed and updated as appropriate each year since and no changes were felt to be needed when they were reviewed in September 2021. Accordingly, in FY 2021 no material changes were made to the terms of reference of the Audit Committee, but the work of the Audit Committee will be kept under review with the expectation that any such matters which come to light are included in the next annual review.

The Audit Committee is authorised by the Board to review any activity within the business. It is authorised to seek any information it requires from, and require the attendance at any of its meetings of, any Director, member of management, and any employees, who are expected to co-operate with any request made by the Audit Committee.

The Audit Committee is authorised by the Board to obtain, at the Company's expense, external legal or other independent professional advice and secure the attendance of outsiders with relevant experience and expertise, if it considers this necessary.

The Chair of the Audit Committee reports to the Board meeting following each Committee meeting on the Committee's work and the Board receives a copy of the minutes of each meeting.

The role and responsibilities of the Audit Committee are to:

- review the Company's public statements on internal control, risk management and corporate governance compliance;
- review the Company's processes for detecting fraud, misconduct and control weaknesses and to consider the Company's response to any such occurrence;
- review management's evaluation of any change in internal controls over financial reporting;
- review with management and the external auditor, Company financial statements required under UK legislation before submission to the Board;
- establish, review and maintain the role and effectiveness of the internal audit function, Group Assurance and the risk function, whose objective is to provide independent assurance over the Group's significant processes and controls, including those in respect of the Group's key risks;
- assume direct responsibility for the appointment, compensation, resignation, dismissal and the overseeing of the external auditor, including review of the external audit, its cost and effectiveness;
- pre-approve non-audit work to be carried out by the external auditor and the fees to be paid for that work together with the monitoring of the external auditor's independence;
- oversee the process for dealing with complaints received by the Group regarding accounting, internal accounting controls or auditing matters and any confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters; and
- adopt and oversee a specific Code of Ethics for all corporate employees which is consistent with the Company's overall statement of business ethics.

### Key activities of the audit committee

Audit matters are reviewed at quarterly Audit Committee meetings throughout the year at which detailed reports are presented for review. The Audit Committee commissions reports from external advisers, the Group Risk Director or Company management, either after consideration of the Company's major risks or in response to developing issues.

During the year, in order to fulfil the roles and responsibilities of the Audit Committee, the following matters were considered:

- the suitability of the Group's accounting policies and practices;
- half year and full year financial results;
- the scope and cost of the external audit;
- the external auditor's full year report;
- reappointment and evaluation of the performance of the external auditor, including recommendations to the Board, for approval by shareholders, on the reappointment of the Company's auditor and on the approval of fees and terms of engagement;
- as set out in more detail later in this report, the review of a tender process for the external auditor appointment;
- non-audit work carried out by the auditor and trends in the non-audit fees in accordance with the Committee's policy to ensure the safeguarding of audit independence;
- the co-ordination of the activities and the work programmes of the internal and external audit functions;
- the arrangements in respect of Group Assurance including its resourcing, external support, the scope of the annual internal audit plan for FY 2021, the level of achievement of that plan and the scope of the annual internal audit plan for FY 2022;

- periodic internal control and assurance reports from Group Assurance;
- review of outputs from a review of the key financial controls, which evaluated the operation of key financial controls during the Covid-19 pandemic, whereby a significant increase in remote working was required;
- the Group's risk management framework for the identification and control of major risks, its risk and assurance mitigation plan and the annual assessment of effectiveness of controls;
- review of the going concern and corporate viability disclosures (a summary is reported on pages 46 and 40 respectively);
- compliance with the Company's Code of Ethics;
- corporate governance developments;
- the status of material litigation involving the Group; and
- reports on allegations made via the Group's whistleblowing procedures and the effectiveness of these procedures, including a summary of reports received during FY 2021.

### Disclosure of significant issues considered

The Audit Committee has reviewed the key judgements applied in the preparation of the consolidated financial statements, which are described in the relevant accounting policies and detailed notes to the financial statements on pages 98 to 167.

The Audit Committee's review included consideration of the following areas and key accounting judgements:

- **Job Retention Scheme** – given the material value of the Job Retention Scheme claims made during FY 2021, the business has taken a number of steps to ensure the claims made are accurate. These steps include the appointment of an external firm to perform a sample review of claims made, together with working closely with HMRC throughout the year;
- **Property, plant and equipment valuation** – the assumptions used by management to value the long leasehold and freehold estate including: estimated fair maintainable trading levels which consider a slightly reduced pre-Covid-19 performance; brand multiples and use of spot valuations, to ensure a consistent valuation methodology is in place. The revaluation methodology is determined by using management judgement, with advice taken from third-party valuation experts. Short leasehold buildings, right-of-use assets, unlicensed land and buildings, and tenant's fixtures, fittings and equipment are held at cost less depreciation and impairment. Value-in-use calculations used in this review consider the short-term impact of Covid-19 on forecast trading levels and assumed recovery rates;
- **Pension surplus/deficit** – the actuarial pension surplus is sensitive to the actuarial assumptions applied in measuring future cash outflows. The use of assumptions such as the discount rate and inflation which have an impact on the valuation of the defined benefit pension scheme has been assessed by the Audit Committee. Management have used judgement to determine the applicable rate of inflation to apply to pension increases in calculating the defined benefit obligation. The total pension liability, inclusive of minimum funding, is significantly less sensitive to management assumptions due to the remaining term of the schedule of contributions;
- **Covenants** – the headroom on the covenants within the securitised estate, together with an evaluation of the mitigating options available to management (to ensure there is reasonable assurance that should a covenant be close to being breached, management have further actions that could be undertaken to prevent such a breach occurring), have been reviewed in detail by management and assessed by the Audit Committee (see page 40 Corporate Viability Disclosure which includes details of going concern scenarios, sensitivity and reverse stress testing). Refinancing activities, including the obtaining of covenant waivers, and the pension contribution deferrals, as agreed with the pension schemes' trustees, have been reviewed by the Audit Committee, in addition to the Going Concern and Corporate Viability report (which includes details of the material revenue and profitability reduction, resulting from the overall impact of Covid-19 upon business performance and future trading); and

- **Separately disclosed items** – judgement is used to determine those items which should be separately disclosed to allow a better understanding of the adjusted trading performance of the Group. Separately disclosed items are explained and analysed in note 2.2 of the Financial Statements on page 115. This judgement includes assessment of whether an item is of sufficient size or of a nature that is not consistent with normal trading activities.

### Effectiveness of internal audit

The Audit Committee is responsible for monitoring and reviewing the effectiveness of the Company's internal audit function. The Audit Committee meets regularly with management and with the Group Risk Director and the internal auditor to review the effectiveness of internal controls and risk management and receives reports from the Group Risk Director on a quarterly basis.

During each financial year the Audit Committee completes its annual review of the effectiveness of the Group's system of internal controls and internal audit function, including financial, operational, compliance and risk management systems.

The annual internal audit plan is approved by the Audit Committee and kept under review on a monthly basis, by the Group Risk Director, in order to reflect the changing business needs and to ensure new and emerging risks are considered. The Audit Committee is informed of any amendments made to the internal audit plan on a quarterly basis. The FY 2021 internal audit plan was developed through a review of formal risk assessments (in conjunction with the Risk Committee and the Group's Executive Committee) together with consideration of the Group's key business processes and functions that could be subject to audit.

A similar approach has been employed in relation to the FY 2022 internal audit plan. The principal objectives of the internal audit plan for FY 2021 were, and remain for FY 2022:

- to provide confidence that existing and emerging key risks are being managed effectively;
- to confirm that controls over core business functions and processes are operating as intended ('core assurance'); and
- to confirm that major projects and significant business change programmes are being adequately controlled.

Findings from all audit reports issued by the Group Assurance function are reviewed by the Audit Committee. Internal audit recommendations are closely monitored from implementation through to closure via a web-based recommendation tracking system, which efficiently assists the overall monitoring of internal audit recommendations to ensure these are successfully implemented in a timely manner. A summary of the status of the implementation of internal audit recommendations is made monthly to the Executive Committee and quarterly to the Audit Committee.

### Risk management framework

As disclosed in the 'Risk and uncertainties' section on pages 32 to 39 the Risk Committee continues to meet on a quarterly basis to review the key risks facing the business. Membership of the Risk Committee, which includes representation from each of the key business functions, is detailed below:

- Company Secretary and General Counsel (Chairman)
- Chief Financial Officer
- Commercial and Marketing Director
- Divisional Director (Operations)
- Group HR Director
- Director of Business Change & Technology
- Group Risk Director
- Head of Legal

Key risks identified are reviewed and assessed on a quarterly basis in terms of their likelihood and impact, and are measured on the Group's 'Key Risk Heat Map', in conjunction with associated risk mitigation plans. In addition, the Risk Committee review includes an assessment of the material relevance of emerging risks and the continued relevance of previously identified risks.

*Audit Committee report continued*

During FY 2021, Risk Committee meetings continued to include a cross-functional, detailed review of the Group's key risks. This process, which was introduced in FY 2016, continues to prove to be effective and adds value to the continued development and progression of the Group's approach to evaluating new and existing risks, supported by robust mitigation plans.

Actions arising from Risk Committee meetings are followed up by the Group Risk Director. The Audit Committee reviews the Risk Committee minutes in addition to undertaking a quarterly review of the Group's 'Key Risk Heat Map'.

**Confidential reporting**

The Group's whistleblowing policy enables staff, in confidence, to raise concerns about possible improprieties in financial and other matters and to do so without fear of reprisal. Details of the policy are set out in the Company's Code of Ethics. The Audit Committee receives quarterly reports on whistleblowing incidents and remains satisfied that the procedures in place are satisfactory to enable independent investigation and follow up action of all matters reported. No major issues have been reported in FY 2021 (major issues being defined for this purpose as matters having a financial impact of greater than £100k). The Board also receives a report on whistleblowing in the Company Secretary's regular report to Board meetings.

**External auditor appointment**

Deloitte LLP was appointed as the auditor in 2011, following a formal tender process. The Audit Committee has considered the guidance in relation to rotation including the proposed transition rules which will be considered when recommending the appointment of the auditor in future years. The most recent audit partner rotation took place in 2021 when Scott Bayne became the lead Audit Partner. The Company has complied throughout the reporting year with the provisions of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

Under the terms of that Order, the Committee agreed and put plans in place, to carry out a competitive audit tender in 2020, in respect of the financial year ending in FY 2021 to ensure the continued objectivity, independence and value for money of the statutory audit. However, given Government advice related to the unprecedented implications of Covid-19, the Committee concluded that it should seek FRC approval to reappoint Deloitte for one further year, and undertake the audit tender process in 2021. This approval was received on 5 October 2020. A full audit tender process has now been completed with KPMG LLP emerging as the successful firm. Following Board approval, KPMG LLP will be appointed as the Company's external auditor and will therefore be responsible for undertaking the FY 2022 audit.

The Audit Committee considers that the relationship with the external auditor is working well and is satisfied with its effectiveness and did not consider it necessary to require Deloitte LLP not to re-tender for the external audit work.

**External auditor's independence**

The external auditor should not provide non-audit services where it might impair their independence or objectivity to do so. The Audit Committee has established a policy to safeguard the independence and objectivity of the Group's external auditor as set out below. That policy was reviewed in FY 2021 and a copy of it is appended to the Audit Committee's terms of reference and is available on the Company's website.

Pursuant to that policy the following services have been pre-approved by the Audit Committee provided that the fees for such services do not exceed in any year more than 70% of the average audit fee paid to that audit firm over the past three years:

- audit services, including work related to the annual Group financial statements and statutory accounts.

Acquisition and vendor due-diligence may only be provided if it is specifically approved by the Committee on a case by case basis in advance of the engagement commencing.

**Any other work for which management wishes to utilise the external auditor must be approved as follows:**

- services with fees less than £50,000 may be approved by the Chief Financial Officer; and
- engagements with fees over £50,000 fall to be approved by the Audit Committee and its Chair.

During FY 2021, after careful consideration of their independence and professional guidance, the Audit Committee agreed that it was appropriate for Deloitte to be appointed on a separate engagement to conduct the working capital review in relation to the Open Offer. Approval was required (and provided) by the Audit Committee, as fees were over £50,000.

The Audit Committee remains confident that the objectivity and independence of the external auditor are not in any way impaired by reason of the non-audit services which they provide to the Group.

That policy also includes an extensive list of services which the audit firm may not provide or may only provide in very limited circumstances where the Company and the audit firm agree that there would be no impact on the impartiality of the external audit firm.

Details of the remuneration paid to the external auditor, and the split between audit and non-audit services, are set out at note 2.3 of the financial statements on page 120.

As KPMG LLP are to be appointed as the Company's external auditor, as part of their appointment work is underway to review the non-audit services policy to ensure it is aligned to KPMG's approach to such issues.

**External audit annual assessment**

The Audit Committee assesses annually the qualification, expertise, resources and independence of the Group's external auditor and the overall effectiveness of the audit process. The Chief Financial Officer, Company Secretary and General Counsel, Audit Committee Chair and Group Risk Director meet with the external auditor to discuss the audit, significant risks and any key issues included on the Audit Committee's agenda during the year.

The FRC's Audit Quality Review (AQR) team monitors the quality of audit work of certain UK audit firms through annual inspections of a sample of audits of individual audit firms. During the year, the FY 2020 audit of the Group by Deloitte was reviewed by the AQR and their report was issued in November 2021. The FRC has provided a copy of their report to management for review which sets out the assessment of the quality of the audit work reviewed together with key findings. The AQR team reviewed and assessed the audit carried out by Deloitte and has not assessed the adequacy of the Group's financial controls or financial reporting. In summary, the results of the AQR found that only limited improvements were required. Therefore, there were no material findings arising from the review, and in addition, there was a finding of good practice.

**Fair, balanced and understandable statement**

One of the key governance requirements of the Annual Report and Accounts is for the report and accounts, taken as a whole, to be fair, balanced and understandable, and that they provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy. Therefore, upon review of the financial statements, the Audit Committee and the Board have confirmed that they are satisfied with the overall fairness, balance and clarity of the Annual Report and Accounts, which is underpinned by the following:

- formal review processes at all levels to ensure the Annual Report and Accounts are factually correct;
- clear guidance being issued to all contributors to ensure a consistent approach; and
- formal minutes of the Year End Working Group comprised of relevant internal functional representatives and appropriate external advisers.

**Jane Moriarty**

Chair of the Audit Committee  
24 November 2021