



Audit Committee report

“On behalf of the Board, I present the report of the Audit Committee for the financial period ended 30 September 2023.”

Jane Moriarty
Chair of the Audit Committee

Introduction

During recent years, as the purpose and effectiveness of external and internal audit procedures came under increasing public scrutiny, the Committee has ensured it has 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 very grateful for the insight these interactions provide and this, in turn, significantly assists the Committee in executing its oversight role and ensuring confidence in reporting to the wider Board.

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 auditing and advisory process enables it to convey confidence in their collective fieldwork conclusions.

The Committee also ensured that the Group provided adequate resources to ensure that any additional non-audit services required during the year were obtained, where necessary, and the Financial Reporting Council's ('FRC') evolving reporting requirements were adhered to.

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 (please also refer to the Group's risks and uncertainties, detailed on pages 41 to 47). 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

Remit and membership of the Audit Committee

The main purpose of the Audit Committee is to review and maintain oversight of the Group's 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 2023 Annual Report, the Audit Committee comprised three independent Non-Executive Directors: Jane Moriarty (Chair), Amanda Brown and Dave Coplin. 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 60 and 61.

The Audit Committee met at least quarterly during FY 2023. 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 Group General Counsel and Company Secretary, the Group Risk Director and representatives of the external auditor, KPMG 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 115.

Summary terms of reference

A copy of the Audit Committee's terms of reference is publicly available within the Investor section of the Group's website: 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 2023. Accordingly, in FY 2023 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, any 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 Group'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 Group's public statements on internal control, risk management and corporate governance compliance;
- review the Group's processes for detecting fraud, misconduct and control weaknesses and to consider the Group'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, Group 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 principal 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 employees which is consistent with the Group's overall statement of business ethics.

Audit Committee report continued

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 Group management, either after consideration of the Group's key 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;
- the reappointment of the external auditor, KPMG LLP;
- any 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 2023, the level of achievement of that plan and the scope of the annual internal audit plan for FY 2024;
- periodic internal control and assurance reports from Group Assurance;
- the Group's risk management framework for the identification and control of key risks, its risk and assurance mitigation plan and the annual assessment of effectiveness of controls;
- review of the Corporate Viability Disclosure on pages 48 and 49;
- compliance with the Group'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 2023.

Disclosure of significant and other judgements

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 consolidated financial statements on pages 133 to 185.

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

- **Going concern** – the headroom on the covenants across both the secured and unsecured estates and group liquidity, have been reviewed in detail by management and assessed by the Audit Committee. The Corporate Viability Disclosure is on pages 48 and 49.
- **Property, plant and equipment valuation** – the assumptions used by management to value the long leasehold and freehold estate including: estimated fair maintainable trading levels; 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.

- **Impairment of short leasehold properties and right-of-use assets** – Short leasehold properties, right-of-use assets and unlicensed land and buildings are held at cost less depreciation and impairment. Impairment includes management judgement to determine site level profit and cash flow forecasts, and the appropriate allocation of overhead costs to those cash flows. In addition, the value in use calculation includes estimations of the discount rate and long-term growth rate.
- **Separately disclosed items** – judgement is used to determine those items which should be separately disclosed to allow an 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 136. 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 Group'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 is 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 2023 internal audit plan was developed through a review of formal risk assessments (in conjunction with the Risk Committee and the 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 2024 internal audit plan. The principal objectives of the internal audit plan for FY 2023 were, and remain for FY 2024:

- 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; 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 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 41 to 47 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:

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

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. During FY 2023, 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 Group'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. The Board also receives a report on whistleblowing in the Group General Counsel and Company Secretary's regular report to Board meetings.

External auditor appointment

Following shareholder and Board approval, KPMG LLP was appointed as the auditor in 2022, following a formal tender process in 2020 to ensure the continued objectivity, independence and value for money of the statutory audit. KPMG LLP is therefore responsible for undertaking the FY 2023 audit.

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 Group has complied throughout FY 2023 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.

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. That policy was reviewed in FY 2023 and a copy of it is appended to the Audit Committee's terms of reference and is available on the Group's website.

Pursuant to that policy, services that have been pre-approved by the Audit Committee (i.e. covenant reporting) do not exceed in any year more than 70% of the average audit fee paid to that audit firm over the past three years, unless prior approval has been obtained from the FRC.

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 Group 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 in note 2.3 of the financial statements on page 140.

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, Group General Counsel and Company Secretary, 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.

During the year, the FY 2022 audit of Mitchells & Butlers plc by KPMG was reviewed by the FRC's Audit Quality Review team ('AQR') as part of the FRC's annual inspection of audit firms. There were no 'key findings' reported in the inspection and one 'other finding' was reported in relation to historical data used in the valuation of the freehold estate. KPMG have agreed a proposed action with the FRC in relation to this and have confirmed that this has been incorporated into planned procedures for the FY 2023 audit. The Committee was pleased to note that the AQR identified an area of good practice in relation to the robust challenge of management's property valuation model.

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 Group'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:

- review of the 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
29 November 2023