

CORPORATE GOVERNANCE

Audit Committee report



CHRIS KENNEDY
CHAIRMAN, AUDIT COMMITTEE



Membership of the Audit Committee and meeting attendance

Name of director	Meetings attended and eligible to attend
Chris Kennedy (Chairman)	5/5
David Atkins¹	4/5
Frank Fiskers	5/5
Susan Taylor Martin	5/5
Horst Baier	1/1

¹ The one meeting David Atkins was unable to attend was an unscheduled Committee call.

The Committee met five times in 2019/20. Meetings were attended by all members of the Committee and, by invitation, the Chairman of the Board, the Chief Executive, the Finance Director, the Director of Internal Audit, the Director of Financial Reporting & Control and other relevant people from the business when appropriate. The external auditor, Deloitte LLP, is also invited to meetings except where discussion includes matters relating to its own independence, performance, reappointment, fees or audit tendering.

Composition of the Committee

In accordance with the UK Corporate Governance Code (the Code), the Board has confirmed that all members of the Committee are independent non-executive directors and have been appointed to the Committee based on their individual financial and commercial experience.

The Board has also confirmed that I, as Chairman of the Committee, have recent and relevant financial experience through my current appointment as chief financial officer of ITV plc and my previous appointments as chief financial officer of Micro Focus International plc and ARM Holdings plc, together with my past role as group finance director of easyJet plc.

As part of the Company's annual compliance with the Code, an evaluation was undertaken of the skills and experience of the Committee. In accordance with the Code, the Board has agreed that the Committee as a whole has the competencies relevant to the sector in which the Company operates. Through the external appointments that David Atkins, Susan Taylor Martin and Frank Fiskers have held, they bring a depth of financial and commercial experience that add to the strengths of the Committee.

I welcome the addition of Horst Baier to the Committee, whose broad international financial experience is a key addition to the Company, as we continue to focus on being a European hotel business.

Role and responsibilities of the Committee

The Board has delegated specific responsibilities to the Committee in accordance with the Code. The key responsibilities of the Audit Committee are to:

- monitor and review the integrity of the Group's half-year and full-year financial results, and the financial reporting process;
- monitor the statutory audit of the parent company and consolidated financial statements;
- review the Group's internal controls and risk management systems;
- review and monitor the independence and effectiveness of the external auditor, in particular, the provision of additional services;
- monitor and review the effectiveness of the Group's internal audit function; and
- have primary responsibility for the recommendations to the Board in relation to the external auditor.

To aid its review, the Committee considers reports from the Director of Financial Reporting & Control, the Tax Director, the Director of Internal Audit and also reports from the external auditor on the outcomes of its half-year review and annual audit. The Committee looks for constructive challenge from Deloitte as external auditor.

The key areas of judgement and estimates considered by the Committee, in relation to the 2019/20 accounts and disclosed in Note 2 to the consolidated financial statements, were:

Adjusting items

The Group has adopted a new alternative performance measure and has changed the presentation of the consolidated income statement. The Committee reviewed a management paper regarding the changes and approved the new alternative performance measure. The Committee challenged the appropriateness of the presentation of adjusting items, giving consideration to the nature and significance of each item classified as adjusting. The Committee concluded that the items met the criteria as defined by the accounting policy and that the policy had been applied consistently across years.

Defined benefit pension

The Committee reviewed, considered and exercised judgement on the assumptions used to calculate the pension scheme assets and liabilities under IAS 19, to satisfy itself that appropriate consideration and balance had been given to all macroeconomic factors. The principal assumptions used and the sensitivities around them were considered and the consistency in approach from 2018/19 to 2019/20 was assessed, concluding with the same estimates as reached by management.

Impairment testing – property, plant and equipment and right-of-use assets

The Group's impairment reviews require significant judgement in estimating the recoverable amount of its cash generating units. The Committee reviewed a paper outlining the approach taken to impairment reviews and the key assumptions and judgements used by management in performing the impairment review. The Committee challenged management's approach, in particular the discount rates, growth rates and approach to sites which have not reached maturity. The Committee was satisfied that the Group has appropriately performed the impairment reviews, accounted for the impairments identified and that the related disclosures were appropriate.

As part of the events after the reporting date procedures, the Committee reviewed and discussed the appropriateness of a number of additional scenarios presented in response to the COVID-19 pandemic. These sensitivities are disclosed in Note 34 around potential indicators of impairment which have developed in the period since the reporting date.

Going concern

The Committee considered the appropriateness of the going concern assessment and associated judgements around material uncertainties, reviewing the scenarios and mitigations, including funding options available to the Group as disclosed in Note 2.

Events after the reporting period

The Committee discussed the events and impacts on the financial statements for the period between the reporting date and the issue of the financial statements. As disclosed in Note 34 the Committee reviewed the conditions which existed at, or arose after the reporting period date and whether they are adjusting or non-adjusting events. A key area of review was the impact of COVID-19 and the impact that this has had after the reporting date.

IFRS 16

The Group implemented IFRS 16 Leases during the year using the fully retrospective method. The transition adjustment required judgement to determine the discount rate applied in calculating lease liabilities, specifically in assessing the Group's Incremental Borrowing Rate (IBR). The Committee reviewed a management paper and challenged the judgement and estimates used in the calculation of the transition adjustment. In particular, the Committee focused on the risk free rates, the Group's borrowing margin and lease specific adjustments and concurred with management that the discount rate applied by the Group was appropriate.

Annual Report 2018/19

In late 2019 the Financial Reporting Council (FRC) submitted a request for further information on one aspect of the Group's Annual Report and Accounts for the year ended 28 February 2019. Whitbread PLC responded fully to the matter raised in the point and as a result has restated the relevant sections of this year's accounts to reflect this. The restatement impacted the balance sheet and other reserves reported in the 2019 Annual Report and Accounts as detailed in Note 33. The FRC's enquiry did not result in any changes to reported profit, earnings per share or the cash flows reported in the 2019 financial year.

Fair, balanced and understandable

In order to confirm to the Board that the Annual Report and Accounts, taken as whole is fair, balanced and understandable, there has been a thorough verification and approval process using the Committee's knowledge of the Company, as outlined below:

- the Annual Report and Accounts is drafted by the appropriate senior management with overall coordination by the Secretariat team to ensure consistency;
- comprehensive reviews of the drafts of the Annual Report and Accounts are undertaken by management, the Executive Committee and the Audit Committee Chairman;
- a final draft is reviewed by the Audit Committee prior to consideration by a committee of the Board; and
- formal approval of the Annual Report and Accounts is given by a committee of the Board.

Internal control and risk management

The Audit Committee monitors the systems of risk management and internal control. In addition, the Committee completes an annual review of the effectiveness of these systems, assessing the risk management framework and policy, management's risk assessment and review process, and the monitoring and reporting of risk. This review is completed in conjunction with an internal control effectiveness review from Internal Audit and Group Finance, and considers all material controls, including financial, operational and compliance controls. The system and processes were considered to be robust and no significant weaknesses were noted.

A robust assessment of the principal and emerging risks facing the Company was carried out by the Board, considering risk appetite, and each risk was assessed and the level of assurance required was determined.

AUDIT COMMITTEE REPORT CONTINUED

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Further details of the principal risks identified and agreed by the Company can be found on pages 54 to 57.

‘Speaking Out’ facility

In accordance with the Code, the Committee has continued to review the Company’s whistleblowing function, known as ‘Speaking Out’. The system is operated by two external third-party providers, Hospitality Action in the UK and Navex Global internationally, and allows employees to report anonymously and in confidence. The Committee receives annual reports from the General Counsel and reviews the operation of this function and outcomes. The Committee is satisfied that there are appropriate arrangements in place for proportionate and independent investigations. Any significant issues or risks raised through this process are escalated to the Board, and the Board receives updates on the number and types of reports throughout the year from the General Counsel.

Internal audit

The internal audit function provides independent assurance through reviewing the risk management processes and internal controls established by management.

The Audit Committee monitors and reviews the scope, extent and effectiveness of Whitbread’s internal audit function. Regular presentations and updates are given to the Committee by the Director of Internal Audit and private discussions are held with the Director of Internal Audit as and when necessary. The Committee has approved the Group internal audit terms of reference, which sets out the role, accountability, authority, independence, and objectivity of the function. The Committee considers matters raised through audit reports and the adequacy of management’s response to them, including the time taken to resolve any such matters. The main focus areas for internal audit during the year included cyber security, financial controls in Premier Inn and Restaurants, and international operations.

The scope of activity of internal audit is monitored and reviewed at each Audit Committee meeting. An annual plan was agreed by the Committee in March 2020 which covers the activities to June 2021. The internal audit plan is determined based on the Audit Universe which

sets out all auditable areas of the business and assigns each area a risk level and recommended audit frequency. The internal audit plan is aligned to the Group’s principal risks which are formally reviewed and agreed by the Executive Committee and Board on a biannual basis against a standard set of risk assessment criteria. The plan also considers areas of major change within the business, recurring themes from previous audit results and the views of management. Follow-up audits are also planned in areas where past audits highlighted significant risks to ensure remedial actions have been implemented and are working effectively to reduce Whitbread’s risk exposure.

Areas highlighted for audit on the current plan include systems and processes to support Whitbread’s planned expansion in Germany, and an overall greater focus on Premier Inn and Restaurants’ operational and commercial risks including property construction, health and safety, and procurement. The in-house IT internal audit team provides assurance over Whitbread’s information systems, and delivers integrated IT audits, as well as coordinating assurance reviews to de-risk Whitbread’s ongoing major change projects.

External auditor

On behalf of the Board, the Committee oversees the relationship with the external auditor. Deloitte was appointed as the auditor of the Company in 2015, and reappointed at the 2019 annual general meeting. Nicola Mitchell, who has held the role of Audit Partner since the audit engagement began five years ago, is stepping down from her role in line with the FRC’s Ethical Standards. Following a thorough interview process by Nicholas Cadbury and Chris Kennedy, Katie Houldsworth has been appointed as Whitbread’s new Audit Partner going forward, and we look forward to working with her.

Audit effectiveness

The effectiveness of the external audit process is dependent on appropriate audit risk identification at the start of the audit cycle. We receive from Deloitte a detailed audit plan, identifying its assessment of these key risks.

These risks were reviewed and they, together with the work done by the auditor, were challenged to test management’s assumptions and estimates around these areas, as well as other areas reported upon. The effectiveness of the audit process was assessed in addressing these matters through the reporting we received from Deloitte at both the half-year and year-end. In addition, feedback was sought from the Committee, the Board and management on the effectiveness of the audit process and targeted and tailored questionnaires were completed.

An assessment of the effectiveness of Deloitte in respect of the previous financial year was undertaken in July. Overall, it was noted that the audit was effective and that improvements had been made on the prior financial year; however, it was noted that there was still room for improvement in respect of the execution of the audit plan and the communication of changes to the plan.

As part of our review process for this financial year, the Committee will be assessing the work of the year-end audit, once finalised, and an effectiveness review for this financial year will be undertaken and reported to the Audit Committee.

The Committee confirms that the Company has complied with regard to the requirement of the provisions of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014. The Group intends to put the external audit out to tender every ten years in the future, with the next tender expected to be in 2025.

Auditor independence

To safeguard the objectivity and independence of the external auditor, the Committee's terms of reference set out the non-audit services that are permitted in certain circumstances and those not permitted at all. This prevents the auditor being able to provide certain services such as internal audits.

For certain specified audit and audit-related services, the Group can employ the external auditor without reference to the Audit Committee, subject to a specified fee limit of up to £250,000. For the services permitted in certain circumstances, agreement must be sought from me, as

Chairman of the Committee, where fees are less than the limit specified, or with full Audit Committee approval where fees are anticipated to be greater than £250,000. A tender process would be held where appropriate.

Total non-audit fees amounted to £0.1m consisting mainly of the interim review of the Group's half-year financial results. Although this is considered to be a non-audit service, the objectives of the review are aligned with the audit.

The Committee is aware of the revised FRC Ethical Standard issued in December 2019, effective March 2020, which move to strengthen auditor independence and further prevent conflicts of interest. To ensure we follow the new standards, we are in the process of updating our Audit Committee terms of reference to fall in line with the new guidelines.

Following a review of the services provided by our external auditor, Deloitte LLP, we can confirm that it continues to be independent.



Chris Kennedy
Chairman, Audit Committee
21 May 2020

MAIN ACTIVITIES DURING THE YEAR

In 2019/20, the Audit Committee's work covered internal controls, risk management, internal audit, external audit and financial reporting.

The details of the matters discussed at Committee meetings are shown on the right. Through the year, the Committee has also covered the quality and integrity of accounting policies and practices.

March 2019

- 2018/19 Annual Report and Accounts
- 2018/19 external audit - approval of terms of engagement, controls update
- Internal audit - approval of plan
- Risk and controls - review of risk management process, approval of policy, update on financial control framework
- Committee's rolling agenda and terms of reference
- Review of the previous year's Speaking Out reports

April 2019

- 2018/19 Annual Report and Accounts
- 2018/19 Deloitte external audit report
- Internal audit - 2019 report, review of the internal audit terms of reference
- Non-audit services and fees
- Compliance report
- Risk and controls - review of statements on risk management

July 2019

- Risk and controls - BART security, IS Strategy update, assessment of effectiveness of audit process
- Compliance - treasury policy, compliance programme re tax
- Alternate performance measures
- Internal audit review against internal audit standards
- Responsible sourcing update

October 2019

- Review of the 2019/20 interim results
- External audit - approval of 2019/20 external audit plan, presentation of half-year audit report, approval of terms of engagement
- UK Corporate Governance Code 2018 update
- Risk and controls - litigation review, compliance report, controls update, BART security, review of Fijitsu relationship, Brexit readiness, political landscape
- Review of Speaking Out reports
- Internal audit - interim update from internal audit
- Payment practices report

January 2020

- Accounting for irrevocable share buyback commitment