

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)	4/4
David Atkins	4/4
Frank Fiskers	4/4
Susan Taylor Martin	4/4
Horst Baier	4/4

The Committee met four times in 2020/21. Meetings were attended by all members of the Committee and, by invitation, the Chairman of the Board, the Chief Executive, the Finance Director, the Head 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.

The Audit Committee was pleased to welcome Fumbi Chima as a new member in March 2021.

Composition of the Committee

In accordance with the UK Corporate Governance Code 2018 (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 and the recent evaluation report confirmed that the Committee operates effectively. Through the external appointments that David Atkins, Frank Fiskers, Susan Taylor Martin and Horst Baier have held, they bring a depth of financial and commercial experience that add to the strengths of the Committee. In addition, I would like to thank Susan for her contribution across the years, as she stepped down from the Committee on 22 April 2021.

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 Head 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.

Impact of COVID-19

Although the Committee's roles and responsibilities have not changed, a number of areas have required increased levels of scrutiny due to the impact of the COVID-19 pandemic and the risks that arose as a result. As a priority, a review of the Group's risk management and internal control arrangements were completed including the impact of increased levels of remote working.

Significant matters in the financial statements

The key areas of judgement and estimates considered by the Committee, in relation to the 2020/21 accounts and disclosed in Note 2 to the consolidated financial statements on pages 146 and 147, were:

Adjusting items

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 fair value of pension scheme assets and present value of defined benefit obligations 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 2019/20 to 2020/21 was assessed, concluding with the same estimates as reached by management.

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

The Group's impairment reviews require significant judgement in estimating the recoverable amount of its cash generating units. An impairment review was performed for the purpose of the Group's Interim Report resulting in impairments of £238.8m of goodwill, £54.0m of property, plant and equipment and £35.9m of right-of-use assets. The Committee reviewed the approach taken to the impairment review. The Committee challenged management's approach, in particular the methodology used to estimate both value in use and fair value less costs of disposal for site level impairment reviews and in calculating the impairment of the newly acquired goodwill in Germany. The Committee also challenged the inputs used in management's model with a specific focus on the impact of the COVID-19 pandemic on discount rates and growth rates. The Committee reviewed a further paper detailing management's year-end impairment review which resulted in the recording of further impairments of £7.2m of property, plant and equipment and £0.8m of right-of-use assets with a specific focus on the Group's forecast recovery as lockdown restrictions are eased. 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.

Coronavirus Job Retention Scheme Governance

As a result of the complex requirements of the Coronavirus Job Retention Scheme and the value of claims made by the Group, the Committee has reviewed the overall governance arrangements in place. This included reviewing the management controls over the data used in the claims process and reviewing the results of an internal audit report on the accuracy of the claims which was prepared with the support of external specialists.

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.

Going concern and viability

The Committee received regular updates on the steps taken by management to secure liquidity for the likely duration of the crisis and recovery period beyond. These steps include the following:

- › The covenant waivers agreed with the Group’s lenders and pension fund Trustees in May 2020 covering the period to March 2022.
- › The June 2020 rights issue raising £1bn.
- › The extension, agreed in February 2021, of the Group’s revolving credit facility until September 2023 and further extension of associated covenant waivers until March 2023.
- › The Green Bond issue in February 2021 raising £550m and subsequent early repayment of £200m of US private placement loan notes in March 2021.

The Committee is satisfied that the increased liquidity risk because of the impact of COVID-19 has been reduced by these steps.

The Committee has reviewed the Group’s severe but plausible scenario and is satisfied that this is appropriate in supporting the Group as a going concern. The committee has also reviewed the Reverse Stress Test scenario where the business remains closed for the following 12 months due to COVID-19 and concluded that it is considered remote.

In addition, the Committee has reviewed the Group’s assessment of viability over a period greater than 12 months. In assessing viability, the Committee has considered the Group’s position following the steps taken during the year as listed above and the three-year plan recently approved by the Board. The Committee considered the potential financial impact of the Group’s principal risks and uncertainties and the specific risks associated with Government restrictions in response to the COVID-19 pandemic. The Committee has concluded that these assumptions are appropriate.

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. Further details of the principal risks identified and agreed by the Company can be found on pages 62 to 66.

‘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 Head of Internal Audit and complemented by private discussions 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 information security strategy and programme, key financial controls for Support Centre, COVID-19 health and safety across sites, the Coronavirus Job Retention Scheme, Germany expansion and capital processes, and significant systems and change programme assurance, including the replacement of Whitbread’s CRM system over the next few years

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 2021 which covers the activities to June 2022. 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 operations in Germany, and an overall greater focus on centrally managed Premier Inn and Restaurants operational and commercial risks including repairs and maintenance, payroll, pricing and compliance with the requirements of the Coronavirus Job Retention Scheme. 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, including the replacement of the Group's CRM system.

Internal audit ways of working have been modified to accommodate remote working. The overall approach has remained the same and the underlying audit methodology and processes are unchanged with audits still fully compliant with best practice and internal audit standards.

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 following a formal tender process, and reappointed at the 2020 annual general meeting. The current audit partner is Katie Houldsworth, who was appointed in 2020 after Nicola Mitchell stepped down from the role after holding it since Deloitte's initial appointment.

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 2020. Overall, it was noted that the audit team had adapted well to the challenges of remote working and that the audit was effective, executed to a high standard 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 planning and timeliness of audit requests.

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 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 and related procedures at individual audit firms. During the year, the FRC's Audit Quality Review Team (AQRT) reviewed Deloitte's audit of the Group's financial statements for the year ended 27 February 2020 as part of its annual inspection of audit firms. The Committee Chairman received and reviewed the final report from the AQRT which indicated that there were no significant areas of concern.

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 policy in respect of provision of services by the external auditor. The Committee regularly reviews this policy for necessary changes in response to changes in related standards and regulatory requirements. This policy was updated in March 2020 to incorporate the Revised Ethical Standards issued by the FRC in December 2019.

The policy defines prohibited services that are not to be provided by the auditor because they represent a risk to the external auditor's independence. For certain services that are not prohibited, because of the knowledge and experience of the external auditor and/or for reasons of confidentiality, it can be more efficient or prudent to engage the external auditor rather than another party. This is particularly the case with audit-related assurance services that are closely connected to the audit function where the external auditor has the benefit of knowledge gained from work already performed as part of the audit.

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 £1.2m consisting of £0.1m of audit-related services and £1.1m of other non-audit services.

Audit-related services are represented by the interim review. Although this is considered to be a non-audit service, the objectives of the review are aligned with the audit. Details of other non-audit fees are as follows:

Services in relation to the June 2020 rights issue – £1.0m

Provision of reporting accountant services, including working capital reports and comfort letters. The work was led by a separate engagement team with services performed by the audit team limited to routine letters whereby it is both allowable and expected that the audit team and audit partner are involved. These are subject to independent reviews.

Services in relation to the February 2021 Green Bond issue – £0.1m

Provision of reporting accountant services including comfort letters. The work performed was subject to independent review from partners outside the audit team.

As a result of the level of non-audit fees incurred during the year, Deloitte was required to obtain waivers from the FRC. The waivers were accepted prior to commencement of the non-audit services.

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
26 April 2021

MAIN ACTIVITIES DURING THE YEAR

In 2020/21, 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 below. Through the year, the Committee has also covered the quality and integrity of accounting policies and practices.

MARCH 2020

- › Correspondence with FRC regarding irrevocable buyback commitment
- › External auditor – approval of remuneration, terms of engagement and other fees, and controls update
- › Internal audit – approval of plan
- › Risk and controls – review of risk management process, approval of policy, update on financial control framework and litigation review
- › Review of Committee's rolling agenda and terms of reference
- › Review of the previous year's Speaking Out reports
- › Audit Committee evaluation report

APRIL 2020

- › 2019/20 Annual Report and Accounts
- › 2019/20 Deloitte external audit report
- › Non-audit services and fees
- › Internal audit – review of 2019/20 report and terms of reference
- › Compliance report
- › Risk and controls – review of statements on risk management
- › Payment practices reporting – review of full-year report
- › Going concern and viability, including the impact of COVID-19 and the £1.0bn rights issue

JULY 2020

- › Risk and controls – BART update, IS Strategy update, assessment of effectiveness of audit process
- › Compliance – treasury policy, financial control update
- › Internal audit – update on plan, procurement review update, COVID-19 risk register
- › Update on Coronavirus Job Retention Scheme
- › Review of effectiveness of external auditor

OCTOBER 2020

- › Review of FY21 Interim Results – judgements and estimates, impairment and going concern
- › External audit – half-year report, letter of representation, UK Corporate Governance Code update, approval of terms of engagement
- › Risk and controls – litigation review, compliance report, controls update, BART, PCI compliance update, procurement update
- › Internal audit – interim update
- › Payment practices report