Ensuring integrity across the business

Dear Shareholder

I am pleased to present the Audit Committee’s report for the year ended 30 June 2021.

The role of the Audit Committee is to monitor and review the integrity of the company’s financial statements and reporting, its internal control and risk management processes, its audit and risk activities, business conduct and integrity, whistleblowing and breach allegation investigations, and the appointment and performance of the external auditor. During the year ended 30 June 2021, the Committee has ensured that it has had oversight of all these areas while also focussing on a diverse range of risks, including both principal and emerging risks, such as cyber security, climate change, data management and privacy, fraud and compliance risk, culture, bullying and harassment, third party risk, supply operations and product recall processes, pensions funding, and counterfeit risk. In addition to these risk reviews and deep dives, the Committee has received regular reports on internal audits, business integrity and controls assurance work, breach allegation and investigation processes, as well as updates on the steps being taken to address internal audit findings, controls issues and investigations.

All members of the Audit Committee participated in the externally facilitated performance evaluation carried out during the year, which concluded that the Audit Committee’s performance over the past year had been excellent and that its members were very well supported by management and external auditors. Further details of the evaluation, its recommendations and actions can be found on pages 94-95.

I am confident that the Audit Committee has carried out its duties during the year effectively and to a high standard, providing independent oversight with the support of management and assurance from the external auditors.

Alan Stewart
Chairman of the Audit Committee

Role of the Audit Committee

The formal role of the Audit Committee is set out in its terms of reference, which are available at https://www.diageo.com/en/our-business/corporate-governance. Key elements of the role of the Committee and work carried out during the year are set out as follows.

Composition of the Audit Committee

The members of the Audit Committee are independent non-executive directors and it comprises Alan Stewart (Committee Chairman), Melissa Bethell, Susan Klisby, Valérie Chapoulaud-Floquet, Sir John Manzoni, Lady Mendelsohn and Ireena Vittal. The Chairman of the Board, the Chief Financial Officer, the General Counsel & Company Secretary, the Group Controller, the Head of Global Audit & Risk (GAR), the Chief Business Integrity Officer, the General Counsel Corporate, the Controls Assurance Director, the Chief Accountant and the external auditor regularly attend meetings of the Committee. The Audit Committee met privately with the external auditor, the Chief Business Integrity Officer, the Controls Assurance Director and the Head of GAR regularly during the year.

Financial statements

The Audit Committee met five times (and a subcommittee met once) during the year and reviewed the interim results announcement, including the interim financial statements, the Annual Report and associated preliminary results announcement and Form 20-F, focussing on key areas of judgement and complexity, critical accounting policies, disclosures (including those relating to contingent liabilities, climate change and principal risks), viability and going concern assessments, provisioning and any changes required in these areas or policies.

During the year, the Audit Committee has focussed in particular on the company's reporting on climate change risk, including its approach as regards compliance with the recommendations of the Task Force on Climate-related Financial Disclosures, further details of which are set out on pages 50-55.

The company has in place internal control and risk management systems in relation to the company’s financial reporting process and the group’s process for the preparation of consolidated accounts. A review of the consolidated financial statements is completed by the Filings Assurance Committee (FAC) to ensure that the financial position and results of the group are appropriately reflected therein. In addition to reviewing draft financial statements for publication at the half and full year, the FAC is responsible for examining the company’s financial information and processes, the effectiveness of internal controls relating to financial reporting and disclosures, legal and compliance issues and, determining whether the company’s disclosures are accurate and adequate. The FAC comprises the Chief Executive, the Chief Financial Officer, the General Counsel & Company Secretary, the General Counsel Corporate, the Group Controller, the Chief Accountant, the Head of Investor Relations, the Head of GAR, the Controls Assurance Director, and the Chief Business Integrity Officer, with the company’s external auditor in attendance. The Audit Committee met privately with the external auditor, the Chief Business Integrity Officer, the General Counsel Corporate, the Controls Assurance Director, the Chief Accountant, the Head of GAR, the Controls Assurance Director, and the Chief Financial Officer.

The Audit Committee has considered whether the report is ‘fair, balanced and understandable’ (noting the Code’s reference to ‘position’ as well as ‘performance, business model and strategy’) by assessing the various elements of the report, the drafting and review processes undertaken including by the company’s advisors, and the internal approvals received. On the basis of this work, the Audit Committee recommended to the Board that it could make the required statement that the Annual Report is ‘fair, balanced and understandable’.
Activities of the Audit Committee

At its meetings, the Audit Committee reviewed reports from the Head of GAR, the Controls Assurance Director and the Chief Business Integrity Officer, as summarised on page 99, and had sight of the minutes of meetings of management’s Audit & Risk Committee. The work and reporting to the Committee of these functions during the year included focus on cyber security, data management and privacy, fraud and compliance risk, culture, bullying and harassment, third party risk, supply operations and product recall processes, pensions funding, and counterfeited risk.

The Committee also received regular updates from the General Counsel on significant litigation and from the Head of Tax on the group’s tax profile and key issues. The Committee also considered key risks and related mitigations, including those set out in the section of this Annual Report dealing with principal risks. Based on this activity during the year, the Audit Committee made a recommendation to the Board covering the nature and extent of the risks it was willing to take to achieve its strategic goals and its internal statement of risk appetite (which was considered also by management’s Audit & Risk Committee). The Board agreed this recommendation.

Through the activities of the Audit Committee described in this report, including its review of the reports regularly provided to the Audit Committee by internal audit, Business Integrity and Controls Assurance teams, and its related recommendations to the Board, the Board confirms that it has reviewed the effectiveness of the company’s systems of internal control and risk management and that there were no material failings identified and no significant failings identified which require disclosure in this Annual Report.

External auditor

During the year, the Audit Committee reviewed the external audit strategy and the findings of the external auditor from its review of the interim results and its audit of the consolidated financial statements.

The Audit Committee reviews annually the appointment of the auditor (taking into account the auditor’s effectiveness and independence and all appropriate guidelines) and makes a recommendation to the Board accordingly. Any decision to open the external audit to tender is taken on the recommendation of the Audit Committee. There are no contractual obligations that restrict the company’s current choice of external auditor. Following the last tender process, PwC was appointed as auditor of the company in 2015. Richard Oldfield became the lead audit partner for the year ended 30 June 2021, following the rotation of the previous partner, and will remain as audit partner for the year ending 30 June 2022 onwards.

The company is required to have a mandatory audit tender after 10 years and, as the Audit Committee considers the relationship with the auditors to be working well and remains satisfied with their effectiveness and the quality of audit work, their geographical and professional capabilities, the Audit Committee does not currently anticipate that it will conduct an audit tender before it is required to do so in 2025. The Audit Committee considers this to be in the best interests of the company’s shareholders for the reasons outlined above and will continue to monitor this annually to ensure the timing for the audit tender remains appropriate, taking into account the effectiveness and independence of the auditor.

The company has complied 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 (CMA Order) for the year ended 30 June 2021.

External auditor effectiveness and quality

The Audit Committee assesses the ongoing effectiveness and quality of the external auditor and audit process through a number of methods, commencing with identification of appropriate risks by the external auditor as part of its detailed audit plan presented to the Audit Committee at the start of the audit cycle. These risks were reviewed by the Committee and the work performed by the auditor was used to test management’s assumptions and estimates relating to such risks. The effectiveness of the audit process in addressing these matters was assessed through reports presented by the auditor to the Audit Committee which were discussed by the Committee at both the half-year, in January, and year-end, in July. Following completion of the audit process, feedback on its effectiveness was provided through review meetings with the company’s finance team and management and completion of questionnaires, in advance of management and the auditor providing assessments of auditor effectiveness and quality to the Audit Committee for consideration at its meeting in December. This year, overall performance of the auditor was assessed as solid and improved as compared to the prior year, with strong feedback provided as to auditor independence, quality control processes, availability, openness and responsiveness, and technological expertise. Areas where continued focus was required included simplification of impairment processes, alignment of communication between teams, and proactive efficiency driving.
The group has a policy on auditor independence and on the use of the external auditor for non-audit services, which is reviewed annually, most recently in July 2021. This year there were minor changes to the policy’s contents, with amendments reflecting internal organisational changes and to clarify certain references and amendment to the threshold applied in the approval process of permissible services. Under the auditor independence policy, any member of the PwC global network shall provide to the company, its subsidiaries or any related entity only permissible services, subject to the approval of the Audit Committee after it has properly assessed through its governance process the threats to independence and the safeguards applied in accordance with the FRC Ethical Standard and US Public Company Accounting Oversight Board rules. Any FRC permissible service to be provided by the auditor, regardless of the size of the engagement, must be specifically approved by the Audit Committee or its nominated delegate, based on a defined scope of pre-approved services. The policy explicitly specifies the auditor independence review and approval mechanism process by the Committee for permissible engagements above the specified threshold, which has been amended to £100,000 from £250,000 in July 2021. Fees paid to the auditor for audit, audit-related and other services are analysed in note 3(b) to the consolidated financial statements. The nature and level of all services provided by the external auditor are factors taken into account by the Audit Committee when it reviews annually the independence of the external auditor. During the year, no non-audit services were provided by the external auditor to the company, its subsidiaries or any related entity other than personal tax services provided to two Non-Executive Directors.

‘Financial expert’, recent and relevant financial experience

The Board has satisfied itself that the membership of the Audit Committee includes at least one Director with recent and relevant financial experience and has competence in accounting and/or auditing and in the sector which the company operates, and that all members are financially literate and have experience of corporate financial matters. For the purposes of the Code and the relevant rule under SOX, section 407, the Board has determined that Alan Stewart is independent and may be regarded as an Audit Committee financial expert, having recent and relevant financial experience, and that all members of the Audit Committee are independent Non-Executive Directors with relevant financial and sectoral competence.

Internal audit

The company’s internal GAR team undertakes an annual audit and risk plan by delivering a series of internal assurance and audit assignments across a variety of markets, business units and functions. On the conclusion of each assignment, GAR issues a report on its findings which may also include an overall rating as to the status of the market or function being audited, detailed reasons for the rating and actions to be taken within a specific timetable. The Audit Committee receives regular reports from the Head of GAR on the latest reports issued.

Due to the Covid-19 pandemic, this year audits were designed to be undertaken by GAR remotely and without compromising quality and effectiveness. The Audit Committee assesses the effectiveness of GAR by reviewing its annual audit plan at the start of the financial year, monitoring its on-going quality throughout the year, and assessing completion rates and feedback provided following completion of the annual audit plan. In addition, following an external evaluation of the company’s internal audit processes and function carried out in 2020, GAR’s audit plan and processes were adapted to reflect the external evaluator’s recommendations and suggested actions.

Business Integrity and Controls Assurance programmes

Diageo is committed to conducting its business responsibly and in accordance with all laws and regulations to which its business activities are subject. We hold ourselves to the principles in our Code of Business Conduct, which is embedded through a comprehensive training and education programme for all employees. Our employees are expected to act in accordance with our values, the Code of Business Conduct and in compliance with applicable laws and regulations.


The Audit Committee monitors compliance with the company’s ethical standards through the Business Integrity framework, which helps enhance and protect all aspects of the company’s business. Regular reports are provided to the Audit Committee by the Chief Business Integrity Officer on progress in providing guidance, training and tools for all levels in the business, completion rates for training modules, launch and rollout of new programmes or policies, monitoring use of whistle-blowing mechanisms and investigating allegations of breaches. The Business Integrity function use systems and data to allow for more efficient breach management oversight, analysis and identification of root causes, overall trends and indicators, and to monitor investigation closure rates, which are reported to the Audit Committee.

The company operates a global controls assurance programme for controls in each market and function, which monitors compliance with and effective operation of the company’s controls framework. The Audit Committee receives regular reports on the status of the controls assurance plan, actions taken to enhance controls design and assessments, awareness training provided to employees, testing results and trends analysis derived from the company’s integrated risk management system.

Senior financial officers’ code of ethics

In accordance with the requirements of SOX and related SEC rules, Diageo has adopted a code of ethics covering its Chief Executive, Chief Financial Officer, and other senior financial officers. During the year, certain minor amendments were made to, but no waivers granted in respect of, this code of ethics. The full text of the code of ethics is available at https://www.diageo.com/en/our-business/corporate-governance. Both the Audit & Risk Committee and the Audit Committee regularly review the strategy and operation of the Business Integrity programme through the year.

Management’s report on internal control over financial reporting

Management, under the supervision of the Chief Executive and Chief Financial Officer, is responsible for establishing and maintaining adequate control over the group’s financial reporting. The Filings Assurance Committee supports the Chief Executive and Chief Financial Officer in ensuring the accuracy of the company’s financial reporting, filings and disclosures. As summarised on page 99, prior to interim reporting and preliminary reporting each year, the Filings Assurance Committee examines the company’s financial information and processes, the effectiveness of its controls in respect of financial reporting, and the contents of its disclosures.

Management has assessed the effectiveness of Diageo’s internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the United States Securities Exchange Act of 1934) based on the framework in the document ‘Internal Control – Integrated Framework’, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2013. Based on this assessment, management concluded that, as at 30 June 2021, internal control over financial reporting was effective. During the period covered by this report, there were no changes in internal control over financial reporting that have materially affected or are reasonably likely to materially affect the effectiveness of internal control over financial reporting. The same independent registered public accounting firm which audits the group’s consolidated financial statements has audited the effectiveness of the group’s internal control over financial reporting, and has issued an unqualified report thereon, which is included in the integrated audit report which will be included in the company’s Form 20-F to be filed with the SEC.