Audit Committee Terms of Reference

Membership

1. The committee and its chairman shall be appointed by the board. The committee shall consist of a majority of the company’s independent non-executive directors, it being recognised that current practice is that all independent non-executive directors are appointed to the committee. The committee shall consist of not less than three members. A quorum shall be two members.

2. Appointments of independent non-executive directors to the committee shall, unless otherwise agreed by the board, be co-terminus with their respective terms of appointment as a non-executive director on the board, provided that the member still meets the criteria for membership of the committee.

3. The board shall appoint the chair of the committee, who shall be an independent non-executive director with recent and relevant financial experience. In the absence of the committee chair or an appointed deputy, the remaining members present at the meeting shall elect one of themselves to chair the meeting from those who would qualify under these terms of reference to be appoint to that position by the board.

4. The chairman of the committee shall, taking into account the recommendations of the Nomination Committee of the Board, review membership of the committee annually, as part of the annual performance evaluation of the committee.¹

Attendance at meetings

5. The chief financial officer, the head of global audit and risk, the chief business integrity officer, the group chief accountant, the controls assurance director, the financial controller, the general counsel and a representative of the external auditor shall normally be invited by the committee to attend meetings.

6. The chairman of the board and the CEO may attend meetings (or parts of meetings) if they so wish and other individuals shall attend meetings if invited by the committee.

7. The committee shall meet the external auditor privately at least four times each year, without any member of management present.

8. The committee shall meet the head of global audit and risk privately at least once each year, without any other member of management present.

9. The committee shall meet each of the chief business integrity officer and the controls assurance director privately at least once each year, without any other member of management present. The committee shall also be entitled, at the discretion of the chair of the committee, to meet with the chief business integrity officer or the controls assurance director without any other member of management being present.

10. The company secretary or the deputy company secretary shall be secretary of the committee.

Frequency of meetings

11. Meetings shall be held not less than four times per year and, where appropriate, should coincide with key dates in the company’s financial reporting cycle.

12. The external auditor, the head of global audit and risk, the controls assurance director and the chief business integrity officer may request a meeting at any time.

Notice of meetings

13. The agenda and copies of all committee papers shall be sent to all members of the committee, and to other attendees as appropriate, normally at least five working days before the meeting.

Authority

14. The committee is authorised by the board to:

(a) investigate any activity within its terms of reference;

(b) seek any information that it requires from any company employee in order to perform its duties;

(c) obtain, at the company’s expense, outside legal or independent professional advice in connection with its duties; and such advisors may attend meetings as necessary;

(d) incur any expenditure it considers appropriate in connection with the above (the company to make available the necessary funds); and

(e) delegate its powers in relation to particular matters to a sub-committee consisting of independent non-executive directors or to a person who is an independent non-executive director.

Responsibilities

15. The committee is responsible for discharging governance responsibilities in respect of audit, risk and internal controls, and will report to the board as appropriate. In discharging this responsibility, the committee shall:

Financial Reporting:

(a) monitor the integrity of the company’s financial and narrative statements, including its interim and annual financial statements, preliminary results announcements and any other formal announcement relating to its financial performance, before submission to the board for its consideration;

(b) review and report to the board on significant financial reporting issues and adjustments which the financial statements, interim reports, preliminary results announcements and related formal statements contain having regard to matters communicated to it by the external auditor;

(c) in connection with the financial statements, review, and challenge where necessary, the actions and judgements of management; paying particular attention to:

   (i) the application and appropriateness of significant accounting policies and practices, and any changes in them;

   (ii) decisions requiring a major element of judgement and whether such judgement has been made appropriately, taking into account the external auditor’s view;

   (iii) the extent to which the financial statements are affected by any unusual transactions in the year and how they are disclosed;

   (iv) the clarity and completeness of financial reporting disclosures and any changes to those disclosures, including the review of any relevant correspondence between the company and the external auditor with respect to such disclosures;

   (v) significant adjustments resulting from the audit;

   (vi) the assumptions or qualifications in support of the going concern statement (including any material uncertainties as to the company’s ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements) and the longer

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2 2018 Board Effectiveness Guidance, para 117.
3 2018 Code, Principle M.
term viability statement (including an assessment of the prospects of the company looking forwards over an appropriate and justified period);⁵

(vii) compliance with accounting standards; and

(viii) compliance with stock exchange and other legal requirements;

d) review all material information presented with the financial statements, such as the strategic report and the corporate governance statements, insofar as it relates to audit and risk management;⁶ and

e) review first any other statements that contain financial information and require board approval, if carrying out a review before board approval would be practicable and consistent with any prompt reporting requirements under any law or regulation including the UK Listing Authority’s Listing, Prospectus, Disclosure and Transparency Rules⁷; and

f) where the committee is not satisfied with any aspect of the proposed financial reporting by the company, report its views to the board⁸.

g) where requested by the board, review the content of the annual report and accounts and advise the board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the company’s performance, business model and strategy and whether it informs the board’s statement in the annual report on these matters that is required under Provision 25 of the UK Corporate Governance Code⁹;

h) where requested by the board, provide advice on how, taking into account the company’s position and principal risks, the company’s prospects have been assessed, over what period and why the period is regarded as appropriate, and on whether there is a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the said period, drawing attention to any qualifications or assumptions as necessary;¹⁰

**Business Integrity, Controls & Risk Management:**

i) review the effectiveness of internal control and risk management, and of control over financial reporting, propose wording relating to these in the annual financial statements, and meet the controls assurance director without the presence of management;

j) ensure that a robust assessment of the emerging and principal risks facing the company has been undertaken (including those risks that would threaten the company’s business model, future performance, solvency or liquidity and reputation) and that procedures are in place to identify emerging risks so that the committee can provide advice on the management and mitigation of these risks¹¹;


⁶ 2016 FRC Guidance on Audit Committees, paras 36 and 38.

⁷ See previous ICSA ToRs and para 38 of the 2016 FRC Guidance on Audit Committees.

⁸ 2016 FRC Guidance on Audit Committees, Para 35.


k) consider any necessary disclosure implications of the process that has been applied by the board to deal with material internal control aspects of any significant problems disclosed in the annual report and accounts;\textsuperscript{12}

l) consider the major findings of any relevant internal investigations into risk and control weaknesses, fraud, or misconduct and management's response, and also consider whether any such failings or weaknesses are significant and therefore require disclosure, the basis and accuracy of explanations given as to what actions are being taken to address them, and whether the level of disclosure of such actions is appropriate;

m) review the company’s policies and practices concerning business conduct and ethics, including bribery, anti-money laundering, global sanctions, cyber security and data protection, with a view to satisfying itself that these are appropriate and adequately enforced, and oversee the overall approach to securing compliance with laws, regulations and company policies in areas of risk, including monitoring the effectiveness of the global compliance programme and meeting the chief business integrity officer without the presence of management;

n) establish, and monitor the implementation of, policies on:

(i) the receipt, retention and treatment of complaints received by the company regarding accounting, internal accounting controls, or auditing matters;

(ii) the confidential, anonymous submission by company employees of concerns regarding questionable accounting or auditing matters; and

(iii) the handling of other “whistleblowing” allegations. The committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow-up action\textsuperscript{13};

o) review any other matter that the board deems appropriate in relation to business integrity, controls and risk management.

Internal Auditors:

p) approve the appointment or dismissal of the head of global audit and risk;

q) review the company’s audit and risk programme including the remit, work plans, findings and major recommendations and management’s response thereto, including in particular:

(i) review and approve the role and mandate of the internal audit function and monitor and review the effectiveness of its work and annually approve the internal audit charter ensuring that it is appropriate for the company's current needs\textsuperscript{14};

(ii) review and approve the annual internal audit plan to ensure it is aligned to business's key risks and receive regular reports on work carried out\textsuperscript{15};

(iii) ensure that the internal audit function has unrestricted scope, necessary resources and appropriate access to information to enable it to perform its function effectively and in accordance with appropriate professional standards for internal auditors;

\textsuperscript{12} 2018 Board Effectiveness Guidance, para 121 and 122.

\textsuperscript{13} 2018 Code, Provision 6.


(iv) ensure that the function has adequate standing and is free from management or other restrictions; and

(v) ensure the internal audit function has direct access to the board chair and to the committee chair and is accountable to the committee;

(r) in carrying out its annual assessment of the effectiveness of the internal audit function:

(i) meet with the head of internal audit without the presence of management to discuss the effectiveness of the function;

(ii) review and assess the adequacy of the annual internal audit work plan;

(iii) receive a report on the results of the internal auditor’s work;

(iv) determine whether it is satisfied that the quality, experience and expertise of internal audit is appropriate for the business; and

(v) review the actions taken by management to implement the recommendations of internal audit and to support the effective working of the internal audit function;

(s) monitor and assess the role and effectiveness of the internal audit function in the overall context of the company’s risk management system and the work of compliance, finance and the external auditor and consider whether an independent, third party review of processes is appropriate;

**External Auditors:**

(t) taking into account any applicable law and legislation, other professional requirements and the Financial Reporting Council’s Revised Ethical Standard 2016, or any other ethical standard that may from time to time supplement or replace this document (together, the “Ethical Standard”), consider, and make recommendations to the board on, the appointment or re-appointment of the external auditor, or any issues concerning their independence, possible resignation or dismissal, or the selection of new external auditor. In particular to:

(i) ensure that at least once every ten years the audit services contract is put out to tender to enable the committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other audit firms and, in respect of such tender, conduct such tender process and develop and oversee the selection process, ensuring that all tendering firms have such access as is necessary to information and individuals during the tendering process;

(ii) monitor and review annually the qualification, expertise, and resources, and independence, objectivity and effectiveness of the external auditor, taking into account relevant professional and regulatory requirements;

(iii) satisfy itself that there are no relationships between the auditor and the company (other than in the ordinary course of business) which could adversely affect the auditor’s independence and objectivity;

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20 FRC Guidance on Audit Committees, para 66. See also current ICSA ToRs.
at least annually, seek information from the external audit firm about, and monitor, the external audit firm's policies and processes for maintaining independence and its compliance with the relevant UK law, regulation and other professional requirements and the Ethical Standard, including guidance on the rotation of the audit partner and staff; 21

establish, and monitor the implementation of, a policy for the employment of former employees of the external auditor;

approve the audit fee and the terms of engagement of the external auditor, or any proposed change in the latter;

establish, and monitor the implementation of, a policy on the engagement of the external auditor to supply non-audit services taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm. The policy should include assessment of: (A) threats to the external auditor's independence and objectivity and any safeguards in place to eliminate or reduce threats; (B) the nature of the non-audit services; (C) in light of the external audit firm's skills and experience, whether it is the most suitable supplier of the non-audit service; (D) the fees for the non-audit services, both for individual services and in aggregate, relative to the audit fee, including special terms and conditions; and (E) the criteria governing compensation of the individuals performing the audit; 22

in accordance with the above policy, pre-approve (or delegate to one or more members of the committee the power to pre-approve) the supply of non-audit services by the external auditor and, if appropriate, related fees; and

in the event of resignation by the external auditor, examine the reasons for that resignation;

meet with the external auditor regularly (including once before the audit commences), to discuss the nature and scope of the audit and to review the auditor's quality control procedures and steps taken by the auditor to respond to changes in regulatory and other requirements;

review the findings of the audit with the external auditor, including, without limitation, any major resolved or unresolved issues that arose during the audit, the auditor's explanation of how risks to audit quality were addressed, key accounting and audit judgements, the auditor's view of their interactions with senior management and levels of errors identified during the audit and levels of errors identified during the audit; 23

consider communications from the external auditor on audit planning and findings on material weaknesses in accounting and internal control systems that come to the auditor's attention, including a review of material items of correspondence between the company and the external auditor in relation to these matters; 24

review any representation letter requested by the external auditor before it is signed by management;

the external auditor's management letter and management’s response to this, and to any other major external audit recommendations; and

Reporting procedures

16. The committee chair shall report formally to the board on all significant matters considered by the committee and on how the committee has discharged its duties and responsibilities and shall, if requested

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21 FRC Guidance on Audit Committees, para 66 to 70. See also current ICSA ToRs
22 2018 Code, Provision 25. See also current ICSA ToRs.
23 FRC Guidance on Audit Committees, paras 21 and 76. See also current ICSA ToRs.
24 FRC Guidance on Audit Committees, para 76.
by any member of the committee or of the board, report to the board on any other specific matter considered by the committee at any meeting.\(^{25}\) The secretary shall circulate the minutes of meetings of the committee to all members of the board. The chairman of the committee or, as a minimum, another member of the committee, shall attend the board meeting at which the accounts are approved.

17. The committee shall prepare a formal report on its activities and how the committee has discharged its responsibilities, to be included in the company's annual report, which shall include:

a) details of the membership of the committee, the number of meetings held and attendance over the course of the year;

b) a summary of the role and work of the committee;

c) how the committee's performance evaluation has been conducted;

d) the significant issues that the committee considered in relation to the financial statements and how these issues were addressed, having regard to matters communicated to it by the external auditor, the nature and extent of any interaction with the Financial Reporting Council's Corporate Reporting Review team and any significant findings of a review of the company's audit conducted by the Financial Reporting Council's Audit Quality Review team;

e) a confirmation that the board has carried out a robust assessment of the principal and emerging risks facing the company, a description of its principal risks, the procedures in place to identify emerging risks and an explanation as to how they are being managed and mitigated;\(^{26}\)

f) an explanation of its assessment of the independence and effectiveness of the external audit process (including the provision of non-audit services and an explanation of how, if the auditors provide non-audit services to the company, auditor objectivity and independence is safeguarded) and its approach taken to the appointment or reappointment of the external auditor, length of incumbent auditor's tenure, when a tender was last conducted, advance notice of any retendering plans (and reasons why completing the process in that proposed financial year is in the best interests of the company's members) and any contractual provisions restricting the committee's choice of auditor, and the amount of fees paid to the auditor for any of its services;\(^{27}\)

g) the committee's policy for approval of non-audit services, how auditor objectivity and independence is safeguarded, the audit fees for the statutory audit for audit related services and other non-audit services, including the ratio of audit to non-audit work, and for each significant engagement, or category of engagements, what the services are and why the committee concluded that it was in the company's interests to purchase them from the external auditor;\(^{28}\)

h) an explanation of how the committee has addressed the effectiveness of the internal audit process and if there is no internal audit function, an explanation for the absence, how internal assurance is achieved and how this affects the work of external audit;\(^{29}\)

i) all other information requirements set out in the UK Corporate Governance Code; and

j) any other issues on which the board has requested the committee's opinion.


\(^{26}\) 2018 Code, Provision 26. The phrases "and emerging" and "its principal risks, the procedures in place to identify emerging risks" are new editions for 2018.

\(^{27}\) 2018 Code, Provision 26.

\(^{28}\) 2018 Code, Provision 26.

\(^{29}\) 2018 Code, Provision 26.
18. The committee shall keep under review and report to the board annually on those of its members who, in addition to the chair of the committee, have recent and relevant financial experience.

19. The committee members shall conduct a periodic review of these terms of reference and make recommendations to the board.

20. The chair of the committee shall attend the AGM and shall answer questions, through the chair of the board, on the committee’s activities and its responsibilities.

Conflicts of interest

21. The secretary of the committee shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.30

General matters

22. The committee shall:

(a) have access to sufficient resources to carry out its duties, including access to the company secretary and deputy company secretary for assistance as required31;

(b) be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members32;

(c) give consideration to all relevant laws and regulations, in particular, the directors’ duties in the Companies Act 2006, the provisions of the Code and the requirements of the UK Listing Authority’s Listing, Prospectus and Disclosure and Transparency Rules and any other applicable rules, as appropriate; and

(d) arrange for periodic reviews of its own performance and shall regularly review its constitution and terms of reference in the context of the emerging governance and regulatory landscape, to ensure it is operating at maximum effectiveness and recommend any changes necessary for board approval.33

Approved by the Diageo plc board of Directors on 30 October 2019

31 2018 Code, Provision 16.
32 2018 Code, Provision 22 and 2018 Board Effectiveness Guidance, paras 75, 81 and 82.