

Internal Audit

The Head of Internal Audit reports directly to the Committee and administratively to the Chief Financial Officer, with a remit to provide independent assurance over the Group's key risks. Internal Audit's purpose, authority and responsibilities are defined in the Internal Audit charter, which is periodically reviewed and approved by the Committee.

Internal Audit's activity is primarily driven by the annual internal audit plan which is discussed with management and jointly approved by the Audit and Risk Committees. The plan is a mixture of assurance and advisory reviews and is aligned to the Group's principal risks. It is reviewed throughout the year to ensure it remains appropriate, and any changes to the plan are approved by the Committee.

Both the Audit and Risk Committees receive regular updates on internal audit activity and monitor the implementation status of recommendations.

Reviews performed by Internal Audit and external assurance providers during 2025 include:

- Procurement: Property Management
- HR & Payroll Processes & Controls
- Critical Incident Management Procedures
- External & Internal Penetration Tests – Corporate & Portfolio
- Procurement: Development Projects
- Accounts Payable Processes & Controls
- Failure to Prevent Fraud Compliance
- Cyber Security Foundations

Annual review of the internal audit function

The Audit Committee reviewed the effectiveness of the internal audit function in February 2026 and is satisfied that it operates independently, objectively, and in accordance with relevant professional standards and codes of practice. The Committee considers internal audit to have provided robust assurance and valuable insight during the reporting period, supporting the Committee in fulfilling its oversight responsibilities.

2026 Internal Audit Plan

The 2026 Internal Audit Plan will be weighted towards the provision of advisory reviews across various elements of the finance system project, given the importance of successful delivery of the project.

Our material controls



Preparations have continued throughout the year to ensure readiness for compliance with the requirements of provision 29 of the UK Corporate Governance Code 2024, for the year ending 31 December 2026.

We have defined our material controls as those that are most important in mitigating key risks that threaten the long-term sustainability of the business, and where a failure of their effective operation, or a resulting omission and/or misstatement of information caused by the control failure is likely to influence decisions made by users of the information. They have been grouped into six categories as set out in the diagram above.

Having undertaken a proactive and comprehensive programme over the past two years to ensure readiness, Derwent London is well-prepared to comply with the new requirements.

Key milestones achieved to date have included the review and agreement of Derwent London's material controls and an assurance framework by the Board, supported by the Audit and Risk Committees. A range of stakeholder engagement has taken place, along with a 'dry run' of the draft assurance pack to provide an example of the evidence that will be collated to inform the declaration.

[▶ Our progress to compliance with provision 29 / See page 117](#)

Audit Committee report continued

Fraud Risk Management

During the year, both the Audit and Risk Committees received a comprehensive update on the Group's Fraud Risk Management Framework, which helps Derwent London assess its fraud maturity and ensures key elements of an effective control environment are in place. Its existence, supported by a detailed Fraud Risk Assessment, evidences the wide range of governance and monitoring practices in place, demonstrating a commitment to continuously review and enhance fraud controls. Together, the Framework and Assessment enable Directors to report on the adequacy of measures in place.

Fraud Risk Management Framework

The Group's Fraud Risk Management Framework is comprised of the following components:

- **Fraud Governance:** Well-protected organisations have a strong governance and reporting structure with clearly defined roles and responsibilities around fraud risk.
- **Fraud Risk Assessment:** A comprehensive assessment is fundamental to capture key fraud risks, assess the impact and identify key controls to prevent instances of fraud.
- **Fraud Prevention:** Operationally efficient controls that protect the organisation from internal and external fraud.
- **Fraud Detection:** Processes and systems that actively look for fraud in key risk areas.
- **Fraud Response:** The ability to rapidly and effectively investigate fraud, learn from incidents, identify root causes and prevent recurrences.

An internal assessment of Derwent London's Fraud Risk Management Framework was undertaken and it was determined it remains strong, with no material deficiencies identified.

Fraud Risk Assessment

A Fraud Risk Assessment was conducted to assess inherent risk (before controls) and residual risk (after controls) levels for key fraud-related areas facing Derwent London's operations. All mitigated risk levels were within tolerances, and management confirmed there were no known instances of fraud during the year. Management remain committed to continuously improving the control environment and opportunities to further strengthen existing fraud controls will be leveraged as part of the new finance system implementation.

Both the Fraud Risk Management Framework and Fraud Risk Assessment provide a comprehensive overview of fraud risks and controls in place. While fraud remains an inescapable threat, with a suite of robust controls in place, supported by a culture that has a zero-tolerance to fraudulent behaviour, Derwent London is well-positioned to both prevent and detect fraud.

Throughout the year, the Committee has remained informed on the new corporate offence, 'failure to prevent fraud' under the Economic Crime and Corporate Transparency Act 2023 (the Act), which became applicable from 1 September 2025.

The only defence available for an organisation is to have 'reasonable procedures' in place. An in-depth gap analysis against the Home Office's published guidance was undertaken to review the Group's procedures against the Home Office's six principles for establishing adequate procedures.

The Group's compliance with the relevant part of the Act and the strength of our 'reasonable procedures' were subject to independent review and assessment by Internal Audit. The review found a sound level of fraud prevention and detection controls to be in place, with only minor opportunities for continued improvement noted, reinforcing the Group's commitment to maintaining robust fraud governance procedures and the importance of safeguarding both the Company and wider stakeholder interests.

The following key prevention procedures are in place to mitigate the risk of fraud occurring within the organisation.



During the year, a series of activities have been undertaken in response to the legislative developments, including:

- mandatory compliance training for all employees during Q2 2025. The training focused on fraud and market abuse, with a dedicated module addressing the new 'failure to prevent fraud' offence;
- bespoke training from Burges Salmon for senior managers on the new 'failure to prevent fraud' offence; and
- publication of a third party whistleblowing reporting line to existing suppliers.

Further information on the work undertaken to ensure compliance with the Act is detailed on page 137.

Internal controls

Our internal control environment allows the Company to safeguard its assets, prevent and detect material fraud and errors, and ensure accuracy and completeness of its accounting records which are used to produce reliable financial information.

Our internal controls continue to mature. During 2025, we have undertaken the following key actions to further strengthen our internal controls:

- Implemented a new payroll system with controls that better help prevent and detect potential fraud and errors.
- Expanded the whistleblowing hotline to enable suppliers to also report concerns of suspected wrongdoing (previously limited to staff).
- Implemented a data analytics tool to help streamline the data collection and review process for VAT returns to ensure a digital end-to-end process.
- Enhanced the supplier portal to further streamline the set-up process and strengthen due diligence checks performed prior to onboarding.
- Enabled an employee risk score feature in our cyber security training platform to drive a more risk-based approach to training that tailors content based on employee engagement, knowledge and risk profile.
- Implemented several system-based policies that provide enhanced email security and better protect against email spoofing of our domain.
- Obtained our Cyber Essentials Plus recertification.
- Implemented a range of recommendations raised by Internal Audit and other external assurance providers to address deficiencies in control design and effectiveness to further strengthen the financial control environment for areas subject to review.

Effectiveness review

The Committee receives detailed reports on the operational effectiveness of internal financial controls from members of the senior management team and Internal Audit throughout the year. In addition, the outcome of the external audit at half year and year end is considered in respect of ongoing enhancements to internal controls.

On an annual basis, the Committee reviews the Group’s Fraud Risk Management Framework (the Framework), and detailed Fraud Risk Assessment. The Framework helps management assess and improve upon its fraud resilience measures across a range of key components, while the Fraud Risk Assessment sets out the detailed controls which safeguard the Company and help prevent and detect fraud and errors. These documents were reviewed in light of the new ‘failure to prevent fraud’ offence and updated accordingly. See page 148 for more details.

As training and staff awareness forms part of the Group’s internal control framework, the Risk Committee receives updates on key policies and procedures in place and how these are being communicated and complied with by our staff. Further information is on pages 124 and 163.

Following the Audit and Risk Committees’ reviews (see page 103), the Chairs of each Committee confirmed to the Board that they are satisfied that the Group’s internal control framework (financial and non-financial) and risk management procedures:

- operated effectively throughout the period; and
- are in accordance with the guidance contained within the FRC’s Guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

Our internal financial controls operate within the following control environment and context:

Culture	Our values and strategic objectives are underpinned by our Code of Conduct and Business Ethics, which sets clear expectations for ethical behaviour. Senior management and the Board set a strong ethical tone and promote a culture that encourages employees to ask questions and challenge requests that do not follow standard procedures.
Governance and oversight	An independent and engaged Board, Audit Committee and Risk Committee oversee internal controls and risk management, with governance structures in place that support accountability, transparency and collaboration. A relatively flat structure allows close supervision and monitoring of key controls and business activity by members of the Executive Committee.
Group and organisational structure	We operate within a simple and transparent Group legal structure. Roles, responsibilities and authority levels are clearly defined, along with segregation of duties across all core business processes.
Income/costs	Rent, service charge, administrative costs (mainly salaries), interest and other finance costs are largely predictable. Quarterly management accounts analyse income and expenditure and are compared against the prior year and budget, with unexpected variances investigated and explained to management, who closely monitor financial performance.
Capital costs	Capital expenditure represents the Group’s largest costs, with all projects subject to prior approval and ongoing budget monitoring. The majority of our significant payments are to development contractors, whose invoices are signed off by external monitoring agencies before additional layers of internal review, authorisation and payment.