Audit Committee report

Lucinda Bell
Chair of the Audit Committee

2021 Focus areas

- Prepare an Audit & Assurance Policy to provide shareholders with additional confidence in the way the Group is governed and the quality of information which is being reported
- Monitor audit reform best practice and consider if any further improvements are required to our internal financial controls
- Review our Valuation Policy in light of the findings from the benchmarking exercise being conducted during 2021 and the RICS valuation review being performed by Peter Pereira Grey (see page 133)

Dear Shareholder,
I am pleased to provide you with an overview of the Committee's main activities and areas of focus during the year.

The Covid-19 pandemic has caused significant disruption and has required adjustment to the way we work and provide oversight. Despite the disruption caused by Covid-19, the Committee has been pleased with the work and commitment shown by the Derwent London Finance team, the external Auditor and independent valuers.

Portfolio valuation

The Committee considers the valuation of the Group's property portfolio to be a major area of judgement in determining the accuracy of the financial statements (see page 132). A benchmarking exercise of the Group's valuation as at 31 March 2021 has been commissioned and we will review the results during the first half of 2021. The Committee will also monitor the RICS valuation review and will consider its findings and recommendations once published.

Climate change

Climate change and its impact on reporting was discussed at the Committee's meeting in November. The Group has been voluntarily disclosing under the TCFD since 2019 (see page 60). In addition, the Committee received an update on the Group's green financing initiatives (see page 80). The Group is committed to being net zero carbon by 2030, so it is important that all aspects of the business, including its financing, contribute towards this goal.

Audit and financial reporting governance reform

The Committee will continue to monitor audit and financial reporting governance reform recommendations and the Group's response. In particular, during 2021, the Committee will monitor the preparation of an Audit & Assurance Policy.

Auditors

John Waters stepped down as PwC audit partner following the 2019 year end audit and was succeeded by Sandra Dowling. Sandra has led the half-year review and the 2020 year end audit and the Committee is satisfied with the transition of responsibility.

During 2020, the Committee performed a formal review of RSM's effectiveness (our outsourced internal auditors) and received an update on how RSM complies with the Internal Audit Code of Practice (see page 136). Overall, the Committee has been satisfied with the work performed by RSM and with the additional assurance received from their reviews. Management has actively embraced any recommendations raised and has acted swiftly to implement the limited number of recommendations identified.

Further engagement

I welcome questions from shareholders on the Committee's activities. If you wish to discuss any aspect of this report, please contact me via our Company Secretary, David Lawler (telephone: +44 (0)20 7659 3000 or email: company.secretary@derwentlondon.com).

Lucinda Bell
Chair of the Audit Committee
10 March 2021

Committee composition

During the year under review, the Committee was composed of independent Non-Executive Directors with a wide range of experience, including real estate and finance (biographies are available on pages 106 and 107). The Chair, Lucinda Bell, is a Chartered Accountant and has an appropriate level of recent and relevant financial experience to discharge her duties as Chair of the Committee.

	Independent	Number of meetings	Attendance
Lucinda Bell, Chair	Yes	3	100%
Simon Fraser	Yes	3	100%
Richard Dakin	Yes	3	100%
Claudia Arney	Yes	3	100%

The Committee's role and responsibilities are set out in the terms of reference, which were last updated in March 2021 and are available on the Company's website at: **www.derwentlondon.com/investors/governance/board-committees**

Meetings of the Committee

During the year under review, the Committee met three times, in February, August and November (2019: four meetings). Two additional subcommittee meetings are held each year with the Group's external property valuers to consider the valuation of our property portfolio.

In addition to the Committee members, meetings are attended by the internal and external Auditors and members of the Group's senior management team, at the request of the Committee Chair. To further facilitate open dialogue and assurance, the Committee holds private sessions with the Auditors without members of management being present.

Committee performance evaluation

The 2020 evaluation of the Board, its committees and individual Directors was internally facilitated by Simon Fraser, the Senior Independent Director, in accordance with our three-year cycle of evaluations (see page 121). There were no significant matters raised.

Financial reporting

One of the Committee's principal responsibilities is to review and report to the Board on the clarity and accuracy of the Group's financial statements, including the Annual Report and interim statement. During 2020, this included a detailed review of the accounting implications of rent waivers as a result of Covid-19, as well as the process for impairing receivables.

When conducting its reviews, the Committee considers the overall requirement that the financial statements present a 'true and fair view' and the following:

- the accounting policies and practices applied (see note 42 on pages 238 to 241);
- the effectiveness and application of internal financial controls (see page 134);
- material accounting assumptions and estimates made by management (see note 3 on pages 193 and 194);
- significant judgements or key audit matters identified by the external Auditor (see pages 181 and 183); and
- compliance with relevant accounting standards and other regulatory financial reporting requirements including the UK Corporate Governance Code.

In order to assess the financial statements, the Committee regularly reviews reports from members of the Finance team and the external Auditor who are invited to attend the Committee's meetings. Through face-to-face discussions and detailed written reports, the Committee members are able to understand the business rationale for transactions and how they are being recorded and disclosed in the financial statements.

Viability statement

The Committee reviewed the process and assessment of the Company's prospects and viability made by management for the next five years which formed the basis for the viability statement. This year's assessment included factoring in the potential long-term implications of Covid-19 on London's office market and our strategy.

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Review of the 2020 Annual Report

At the request of the Board, the Committee was asked to review the Group's Annual Report and to consider whether, taken as a whole, it was fair, balanced and understandable. In carrying out its review, the Committee had regard to the following:

Fairness and balance

- Is the report open and honest, are we reporting on our weaknesses, difficulties and challenges alongside our successes and opportunities?
- Do we provide clear explanations of our KPIs and is there strong linkage between our KPIs and our strategy?
- Do we show our progress over time and is there consistency in our metrics and measurements?

Understandable

- Do we explain our business model, strategy and accounting policies simply, using precise and clear language?
- Do we break up lengthy narrative with quotes, tables, case studies and graphics?
- Do we have a consistent tone across the Annual Report?
- Are we clearly 'signposting' to where additional information can be found?

Specific considerations for the 2020 Annual Report:

- Whether we clearly explain the actual and anticipated impact of Covid-19 on our business and performance.
- New sections relating to:
  - Operating in challenging times (pages 6 and 7);
  - A resilient business (pages 8 and 9);
  - Delivering value to our customers (pages 10 and 11);
  - Supporting our stakeholders in 2020 (pages 12 and 13); and
  - Our pathway to net zero carbon (pages 28 and 29).
- The section 172(1) statement has been expanded to include case studies and a public interest statement.
- Whether we have adequately responded to the five questions which the FRC Financial Reporting Lab believe investors will seek information on from reports in times of uncertainty (see page 135).

The Committee paid particular attention to these changes to ensure they did not impact on the balance and clarity of the Annual Report. Following its review, the Committee confirmed to the Board that the 2020 Annual Report is fair, balanced and provides sufficient clarity for shareholders to understand our business model, strategy, position and performance.

Audit Committee report continued

Significant financial judgements, key assumptions and estimates
Any key accounting issues or judgements made by management are monitored and discussed with the Committee throughout the year. The table below provides information on the key issues discussed with the Committee in 2020 and the judgements adopted.

Issue	Assumptions or estimates	Judgement
Valuation of the Group's property portfolio		
Due to its size and nature and the direct impact upon the Group's net asset value, the Committee considers this to be the primary area of judgement in determining the accuracy of the financial statements	The valuation considers a range of assumptions including future rental income, investment yields, anticipated outgoings and maintenance costs, future development expenditure and appropriate discount rates. The external valuers also make reference to market evidence of transaction prices for similar properties (see note 16 on pages 204 to 207).	The valuation is performed twice yearly by CBRE Limited and Savills (UK) Limited (the 'external valuers') and, due to its significance, is also reviewed by the external Auditor. The Committee reviewed the underlying assumptions used in the valuation and the external valuers' independence and methodology. These procedures enabled the Committee to be satisfied with the assumptions and estimates used in the valuation of the Group's property portfolio.
Impairment review		
Covid-19 and the resulting lockdowns and other restrictions have impacted the businesses of many of our occupiers, particularly those in the retail and hospitality sectors. Rent collection has been affected and we have provided support to those most in need, leading to higher outstanding receivable balances and probabilities of default in some cases	Impairment testing of trade receivables and accrued income recognised in advance of receipt has been carried out in accordance with IFRS 9 using the expected credit loss model. This has required judgements to be made in relation to recoverability and estimated probability of default across our whole portfolio.	The probability of default was considered using a risk-based approach. In particular, our top 50 tenants, those in administration or CVA or in high risk sectors, such as retail and hospitality, were looked at in detail with the remaining balances classified by sector. The review was carried out by the Finance team in conjunction with the Credit Committee and a detailed paper was reviewed by the Audit Committee on 1 March 2021 and was subject to significant discussion.
Taxation and REIT compliance		
Should the Group not comply with UK REIT regulations, it could incur tax penalties or ultimately be expelled from the REIT regime, which would have a significant effect on the financial statements	As a REIT, the Group benefits from tax advantages. Income and chargeable gains on the qualifying property rental business are exempt from corporation tax. Income that does not qualify as property income within the REIT rules is subject to corporation tax in the normal way. There are a number of tests that are applied annually, and in relation to forecasts, to ensure the Group remains well within the limits allowed within those tests.	The Group employs a qualified and experienced Head of Tax whom the Committee meets at least annually. The Committee noted the frequency with which compliance with the tests and regulations was reported to the Board and considered the margin by which the Group complied. Based on this and the level of headroom shown in the latest Group forecasts the Committee agreed that, once again, no further action was required.
Borrowings and derivatives		
The calculation of fair values for the Group's financial instruments, such as the USPP notes, 2025 convertible bonds and interest rate swaps, is a technical and complex area and the amounts involved are significant	The fair values of the Group's borrowings and interest rate swaps are provided by an independent third party based on information provided to them by the Group. This includes the terms of each of the financial instruments and data available in the financial markets (see note 24 on page 213).	The Committee noted that the valuations were carried out by an independent third party which had valued the instruments in previous years and that the external Auditor used its own treasury specialists to re-perform the valuation and to assess the reasonableness thereof. The external Auditor subsequently confirmed that no issues had arisen relating to the valuations. The Committee was satisfied with the level of assurance gained from these procedures.

Portfolio valuation

Our property portfolio is valued by the external valuers for our interim and year end results. As at 31 December 2020, it was valued at £5.356bn (2019: £5.475bn) and principally consists of 83 properties.

The valuation of the portfolio is a major component of net asset value. Movements in that valuation are a significant part of how we measure our progress and a key determinant of the Group's total return (a KPI and a performance measure for our Executive Directors' variable remuneration – see pages 161 and 162). Due to its significance, the Committee monitors the objectivity and independence of the external valuers' work and hosts the valuation meetings. The valuation meetings typically occur in February and July prior to Audit Committee meetings.

Due to his position as Managing Director of Capital Advisors Limited (a wholly-owned subsidiary of CBRE Limited), Richard Dakin does not take part in discussions regarding the valuation of the Group's property portfolio (see page 119).

Key matters discussed during the meetings include:

- London office demand, investment volumes and vacancy rates;
- the assumptions underlying the valuation and the quality of data;
- valuation methodology and whether it was adversely impacted by Covid-19;
- any valuation which required a greater level of judgement than normal, for example development properties; and
- any valuation movements that were not broadly in line with that of the MSCI Investment Property Databank (IPD) benchmark.

The assumptions underlying the valuation are discussed with the external Auditor and an update on the matters discussed at the meetings is provided to the Board. A material valuation uncertainty clause on Derwent London's valuation was applied as at 30 June 2020 due to Covid-19. This was to inform the reader of market uncertainty due to limited evidence.

Although this was lifted for valuations to central London offices on 7 July 2020, this clause was still applicable to Derwent London's valuation as at 30 June 2020. A material valuation uncertainty clause was not required for our 31 December 2020 valuation.

In November 2020, the Committee received training on the valuation process and current market environment. The training focused on:

- The basis of valuing properties and areas to consider in the current market environment.
- The impact of incentives and how property fair values are allocated in the balance sheet.
- Consideration of the impairment analysis relating to receivables and the effect on the valuation.

During 2021, the Committee will monitor the RICS valuation review being led by Peter Pereira Grey. It is anticipated that the review's recommendations will be finalised in September 2021. In light of the review's recommendations and key findings, the Committee will assess the Group's valuation policy.

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Effectiveness of the Group's valuers

A review into the effectiveness of the external valuers is performed after the year end and interim valuations, with assistance from Nigel George, Executive Director. Due to the impact of Covid-19, the valuation process was required to be undertaken remotely. The effectiveness review for 2020 was conducted in February and August and considered the following:

- experience and qualification of the valuation team;
- independence and objectivity;
- quality of presentation and data; and
- robustness of the valuation.

At both meetings it was concluded that the external valuers performed to a high independent standard and, whilst it was not ideal having the process performed remotely, it was conducted well and the timetable for delivery was achieved.

Valuation benchmarking

The Committee has commissioned a benchmarking exercise in relation to the property valuation, to be performed during H1 2021. The purpose of the exercise is to assure the Committee that the valuation of our portfolio is aligned against other well-regarded firms.

The benchmarking exercise will entail:

- A sample of the portfolio's valuations being benchmarked by three external central London valuers.
- The sample will include approximately five properties, representing 10% of the portfolio and a combined value of c.£500m. The same properties will be valued by the three valuers to allow for comparison.
- There will be a diverse range of assets selected including those in development and well-let long-dated assets.
- Tenancy sheets, typical leases and tenure information will be provided.
- Inspections will be arranged and the valuers will have access to our Asset Managers.

Due to the subjective nature of property valuation, we would expect there to be a range in the benchmark valuations. We will refer to the RICS guidance on the accepted tolerance of Fair Value. The results of the benchmarking exercise will be presented to the Committee.

Audit Committee report continued

Internal financial controls

On an ongoing basis, the Audit Committee reviews the adequacy and effectiveness of the Group's system of internal financial controls which are described briefly in the table below. Further information on risk management and internal control is available on pages 138 to 145 of the Risk Committee report.

The Committee received detailed reports on the operation and effectiveness of the internal financial controls from members of the senior management team. The outcome of the external audit at year end and the half-year review are considered in respect to our internal controls. The Committee also receives updates on the policies and procedures in place and how these are being communicated to and complied with by our staff.

During 2020, the following changes were made to our system of internal financial controls:

- Updated the Group's Expenses Policy, which provides guidance to employees on what they can claim for and the details that need to be provided for a claim to be valid. To improve processes further, we have identified an electronic expense software which will be rolled out during 2021.
- Performed a detailed analysis of the Group's financial and tax fraud risk. The results, alongside confirmation on how the risks were being mitigated, was presented to the Audit Committee in November 2020.

While Derwent London is a large business in terms of the size of its balance sheet and market capitalisation, we are relatively small when considering the number of people working directly in the business. Our Group structure is organised to be simple and transparent (i.e. relatively few subsidiaries) and our internal control procedures and policies are well established, reviewed annually and subject to external verification.

Although the Committee remains satisfied that the review of internal financial controls did not reveal any significant weaknesses or failures and they continue to operate effectively, it was agreed that the documentation and evidence of assurance would be a focus area for 2021. Information on the Risk Committee's review of non-financial internal controls and risk management is available on pages 138 to 145.

Overview of internal financial controls

Governance framework	Our governance framework (see page 113) supports effective internal control through an approved schedule of matters reserved for decision by the Board and the Executive Committee, supported by defined responsibilities, levels of authority and supporting committees.
Financial reviews and internal procedures	Comprehensive systems of financial reporting and forecasting which are conducted frequently and include both sensitivity and variance analysis. An annual budgeting exercise is carried out with three rolling forecasts prepared. A five-year strategic review is prepared annually. Breakeven and sensitivity analyses are included in both the five-year strategic review and the rolling forecasts.
Treasury and tax procedures	Treasury is controlled by the Chief Financial Officer and Treasurer. All transactions are checked and monitored. All complex or large transactions are discussed in advance with the Board and Executive Directors and are externally reviewed by our advisers. Taxation is a complex area and is subject to frequent external review. Corporate tax returns are prepared by the Tax Assistant and reviewed by the Group Head of Tax and, on a sample basis, by RSM. Other higher risk areas like PAYE and CIS (the Construction Industry Scheme which requires us to deduct tax at source from the labour element of a subcontractor's invoice unless they are properly authorised by HMRC) is subject to thorough examination and testing. We maintain an open relationship with HMRC and have a 'low risk' tax status. Further information on tax risk and tax governance is on pages 57, 86 and 135.
Risk identification and monitoring	The Risk Committee regularly reviews the Group's risk register, the schedule of key controls and key risk indicators. The schedule of key controls provides evidence of how the controls are being operated and their effectiveness. Our risk management procedures are robust and include initiatives such as a 'tenant at risk' register and a back-up IT facility. The Risk Committee's report is on pages 138 to 145.
Training and staff awareness	Staff compliance with internal policies is routinely confirmed to the Committee. Staff are aware of the delegated authority limits set by the Board and confirm their understanding of our internal policies which are contained on our Group intranet and in our employee handbook. Staff have six-monthly performance reviews with any training requirements identified and fulfilled within six months. The Group operates a whistleblowing policy which includes access to an independent helpline for anonymous reporting of concerns (see page 116).
External verification	During the year, no significant deficiencies had been raised by PwC as a result of their controls testing undertaken as part of the annual audit. The outsourced internal auditors, RSM, perform various assurance reviews as part of the annual Internal Audit Plan. During the year, none of these reviews revealed any significant areas of concern (see page 136). The Group's VAT procedures are subject to ongoing periodic review by external advisers. Comprehensive reviews of the Group's financial controls have also been undertaken with assistance from external advisers. Regular annual credit ratings, including risk assessments, are conducted. Each year, at renewal, a comprehensive review of the Group's insurance cover is prepared by its independent insurance adviser.

Responsible payment practices

Derwent London is a signatory to the Chartered Institute of Credit Management (CICM) Prompt Payment Code which confirms our commitment to best practice payment practices and the fair and equal treatment of suppliers.

We are clear about our payment practices. Unless otherwise stated, we aim to pay our suppliers within 30 days or otherwise will do so in accordance with specified contract conditions. We expect our suppliers to adopt similar practices throughout their supply chains to ensure fair and prompt treatment of all creditors (see our Supply Chain Sustainability Standard on page 148).

In 2018 we disclosed an average payment term of 28 days, which improved to 25 days in 2019. Despite the challenges of lockdowns and home working, we further reduced our average payment days to 20 days in 2020.

On 19 January 2021, the Prompt Payment Reforms were announced which require 95% of invoices from small businesses (defined as those with fewer than 50 employees) to be paid within 30 days. The reforms become applicable from 1 July 2021. Although we currently pay all invoices on average within 30 days of receipt, we will be considering during 2021 how we can identify small businesses and record their specific payment days.

Year	Average payment term
2018	28 days
2019	25 days
2020	**20 days**

Tax governance

The Group's Senior Accounting Officer (SAO) is our Chief Financial Officer, Damian Wisniewski, and we employ an experienced Head of Tax, David Westgate, who has dealt with our tax and REIT compliance since 2008. Together, they report to the Board, Audit and Risk Committee on the implementation of the Group's tax strategy and compliance. They also report on key changes in relevant tax legislation and practice. When appropriate, the tax consequences of all significant commercial transactions are reviewed by the Board as part of its 'due diligence' considerations.

To maintain our REIT status, we are required to comply with the REIT regulations. The Board receives frequent reports on our compliance with the regulations, and the Audit Committee meets with the Head of Tax at least annually. Regular oversight of tax governance is provided by the Audit Committee and, where appropriate, the Risk Committee.

Day-to-day tax administration is delegated to suitably trained members of the Finance team, with the input of qualified external tax advisers where necessary. An overview of our internal controls for taxation, including how we seek external assurance from third parties, is on page 134.

The Group has an open and transparent relationship with HMRC and seek to anticipate any tax risks at an early stage, including clarifying areas of uncertainty with HMRC as they become evident. We were delighted that HMRC reaffirmed our 'low-risk' tax status until 2022.

FRC: reporting during times of uncertainty

The Financial Reporting Lab released an infographic alongside a joint regulatory statement from the FRC, Prudential Regulation Authority and Financial Conduct Authority on the information which investors sought to understand in times of uncertainty. The infographic raised five questions based on:

- Resources: including the availability of cash
- Actions: to manage short-term expenditure and ensure viability
- The future: how the decisions taken now ensure the sustainability of the company and impact customers, suppliers and employees

Our CFO, Damian Wisniewski, has addressed these five questions below.

1. How much cash does the Company have?

   The Company held cash of £50.7m at 31 December 2020, plus undrawn available facilities of £425m.

2. What cash and liquidity could the Company obtain in the short-term?

   Following completion of the sale of the Johnson Building for £166.4m on 8 January 2021, the Group had cash and available facilities of over £625m. With relatively low gearing and £4.3bn of uncharged assets at the year end, additional funding could be arranged in the short-term if necessary.

3. What can the Company do to manage expenditure in the short-term?

   Our fixed overheads (before variable pay, such as bonuses) are comprised mainly of staff and establishment costs, running at approximately £2.2m per month. Capital expenditure on our projects is much more substantial at between £10m to £20m per month, with committed capital expenditure of £233.5m at year end. If necessary, we could decide to stop or delay these projects though there are no plans to do so.

4. What other actions can the Company take to ensure its viability?

   Through 2020 and into 2021, we have focused on tenant retention and the removal of tenant breaks or expiries. By extending leases, even if this means accepting rental levels below ERV, we can help with continuity of income. With a strong investment market for good quality commercial properties, we could also sell investment properties if required.

5. How is the Company protecting its key assets and value drivers?

   By providing and operating modern, adaptable and well-designed commercial offices that our occupiers need, we protect our asset values and optimise our income potential.

For further information on our response to Covid-19 and our plans for the future, see the following pages:

- Operating in challenging times (page 6)
- A resilient business (page 8)
- Supporting our stakeholders in 2020 (page 12)
- Chief Executive's statement (page 16)

Audit Committee report continued

Internal audit

RSM were appointed as the Group's outsourced internal audit function in December 2018 following a competitive tender process and are considered by the Committee to be independent. In addition to performing an internal audit function, another team from RSM also review our year end tax returns.

The Internal Audit Plan for 2020 was approved jointly by the Risk and Audit Committees and included a combination of risk-based audits and projects. During 2020, RSM performed six audits:

- charity and sponsorship;
- due diligence on acquisition of property;
- Covid-19 response;
- core financial controls;
- service charge management; and
- health and safety compliance.

During 2020, the Internal Audit Plan was flexed in response to the changing risk environment to include an audit into Derwent London's response to the Covid-19 pandemic in relation to crisis management, including IT, people, finance, operations, tax compliance and strategy. The Executive Directors also commissioned independent surveys for staff and tenants in order that their responses could be included within the internal audit review.

The outcome of the audits performed were presented to the Risk and Audit Committees and reported to the Board. The Committees were pleased with the level of assurance received from the audits. In addition, in August 2020, the Committee received an update on RSM's compliance with The Institute of Internal Auditors' Internal Audit Code of Practice.

The Committee receives a report on internal audit activity at each meeting and monitors the status of internal audit recommendations and management's responsiveness to their implementation. The other Board committees are kept updated on the outcome of any reviews which fall within their areas of responsibility.

The Internal Audit Plan for 2021 was approved by the Audit and Risk Committees in November 2020 and will include audits on the following:

- procurement and contract management;
- digitisation;
- lease management;
- management of HR data;
- tax compliance; and
- financial and IT controls.

Effectiveness review of the internal auditors

A formal review of the effectiveness of the internal auditor and the internal audit process was conducted in February 2020 and considered the following:

- the qualification and expertise of RSM's internal audit team;
- the relationship established and the extent to which RSM have built an understanding of our business and systems;
- depth and breadth of internal audits;
- quality of reporting, including in respect to the regular Internal Audit Progress Reports provided to the Audit and Risk Committee; and
- quality of planning and ability to meet deadlines.

The Committee concluded that the internal audit process had been conducted effectively and that the quality of audit and reporting was rated highly.

Internal auditor key performance indicators (KPIs)	2020
Delivery KPIs	
Audits commenced in line with original timescales	Yes
Draft reports issued within 10 days of debrief meeting	100%
Management responses received within 10 days of draft report	100%
Final report issued within 5 days of management response	100%
Quality KPIs	
Conformance with IIA Standards[i]	Yes
Liaison with external audit to allow, where appropriate and required, the external Auditor to place reliance on the work of internal audit	Yes
Two working day response time for all general enquiries for assistance	100%
One working day response time for emergencies and potential fraud	N/A in 2020

Note:
[i] IIA International Standards for the Professional Practice of Internal Auditing from the Chartered Institute of Internal Auditors

External Auditor

The Committee has primary responsibility for managing the relationship with the external Auditor, including assessing their performance, effectiveness and independence annually and recommending to the Board their reappointment or removal.

Following a comprehensive tender in 2014, PricewaterhouseCoopers LLP (PwC) were appointed as the Group's Auditor. The Committee's current intention is to conduct its next competitive tender for the 2024 year end audit, in accordance with current regulation that requires a tender every 10 years. The Company has chosen this timetable due to the recent change in audit partner who will serve for four years prior to the tender in order to provide continuity over the next three year end audits. This timetable is subject to annual assessment of the Auditor's effectiveness and independence (see page 137).

There are no contractual obligations which restrict the Committee's choice of Auditor or a minimum appointment period. The Company has complied with the provisions of the Competition and Markets Authority's Order for the financial year under review in respect to audit tendering and the provision of non-audit services.

Annual review of the external Auditor

Following the year end audit, the Committee assessed the effectiveness of the external Auditor. This effectiveness review is performed on an annual basis and aims to ensure a robust audit is performed, auditor performance is optimised and encourages candid feedback and communication between the Auditor and the Committee. The assessment followed the same approach as disclosed in our 2019 Annual Report on page 125.

An important aspect of managing the external Auditor relationship is ensuring there are adequate safeguards to protect Auditor objectivity and independence. In assessing this matter, the Committee considered the following:

- the Auditor's independence letter which annually confirms their independence and compliance with the Financial Reporting Council's (FRC) Ethical Standard;
- the operation, and compliance with, the Group's policy on non-audit work being performed by the Auditor;
- how the Auditor demonstrated professional scepticism and challenged management's assumptions where necessary;
- the tenure of the external Auditor and the lead audit partner;
- how the Auditor identified risks to audit quality and how these were addressed, including the network level controls the Auditor relied upon; and
- the outcome of the FRC's inspection of PwC's audit quality.

In assessing how the Auditor demonstrated professional scepticism and challenged management's assumptions, the Committee considered the depth of discussions held with the Auditor, particularly in respect to challenging the Group's approach to its significant judgements and estimates (see page 132). The Committee has been pleased with the challenge raised by the new audit partner and her team during the year.

After taking all of these matters into account, the Committee concluded that PwC had performed their audit effectively, efficiently and to a high quality. Accordingly, the Committee has recommended to the Board that PwC be reappointed as Auditor to the Group for the year ending 31 December 2021, subject to reappointment at the 2021 AGM. Any feedback arising from the annual assessment will be discussed with the external Auditor for implementation into the audit plan for the next year end audit.

Non-audit services

The objective of maintaining the Non-Audit Services Policy is to ensure the independence of the external Auditor is not compromised and that the provision of such services do not impair the external Auditor's objectivity. The Non-Audit Services Policy was subject to review in August 2020 and an updated policy was approved in November 2020. During 2020, the only non-audit service provided by PwC was in respect of the interim results review.

	2020		2019	
	£'000	%	£'000	%
Audit of Derwent London plc and subsidiaries	415	90	387	90
Review of interim results	44	10	42	10
Other non-audit services	–	–	–	–
Total fees	459	100	429	100

Overview of our Non-Audit Services Policy

Under the policy, all services provided by the external Auditor (other than the audit itself) are regarded as non-audit services. Our policy draws a distinction between permissible services (which could be provided subject to conditions set by the Committee) and prohibited services (which may not be provided by the external Auditor except in exceptional circumstances when the Auditor has been provided with approval by the Financial Conduct Authority). The type of non-audit services deemed to be permissible include: review of the half-year results and assurance work on non-financial data.

In accordance with audit legislation, the total fees for non-audit services provided by the external Auditor to the Group shall be limited to no more than 70% of the average of the statutory audit fee for the Company paid to the Auditor in the last three consecutive financial years.

The Committee has provided pre-approval limits which allow management to appoint the external Auditor to conduct permissible non-audit services if they fall below an amount it deems as trivial. The approval limits for non-audit services is provided below and is subject to annual review:

Value	Approval required prior to engagement
Up to £25,000	Chief Financial Officer
£25,000 to £100,000	At least two members of the Audit Committee (including the Committee Chair)
£100,001 and above	Board of Directors

When reviewing requests for permitted non-audit services, the Audit Committee will assess:

- whether the provision of such services impairs the Auditor's independence or objectivity and any safeguards in place to eliminate or reduce such threats;
- the nature of the non-audit services;
- whether the skills and experience make the Auditor the most suitable supplier of the non-audit service;
- the fee to be incurred for non-audit services, both for individual non-audit services and in aggregate, relative to the Group audit fee; and
- the criteria which govern the compensation of the individuals performing the audit.

In accordance with the FRC Ethical Standard, the Audit Committee would also assess whether it is probable that an objective, reasonable and informed third party would conclude independence is not compromised.