AUDIT COMMITTEE REPORT

LUCINDA BELL
Chair of the Audit Committee

2023 FOCUS AREAS

- Conduct a competitive tender for our external Auditor
- Continue to monitor the development of BEIS audit, reporting and governance reform and our response
- Monitor the assessment of Derwent London's internal financial controls against the Committee of Sponsoring Organisation (COSO) Framework
- Continue to focus on climate change matters in financial statements, including assurance from Deloitte on ESG disclosures
- Monitor and approve the judgements and assumptions adopted by management in the preparation of the Group's financial statements
- Review the model used for the provision of internal audit services

COMMITTEE MEMBERSHIP DURING 2022

	Independent	Number of meetings	Attendance[1]
Lucinda Bell	Yes	3	100%
Claudia Arney	Yes	3	100%
Richard Dakin[2]	Yes	3	100%
Sanjeev Sharma	Yes	3	100%

1 Percentages are based on the meetings entitled to attend for the 12 months ended 31 December 2022.
2 Richard Dakin steps down as a Director on 28 February 2023.

Dear Shareholder,

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

Portfolio valuation

The Committee considers the valuation of the Group's property portfolio to be the principal area of judgement in determining the accuracy of the financial statements (see page 165). In 2022, we sought clarity on how the portfolio valuation took into account climate-related risks, opportunities and the cost of EPC upgrades (see page 158). The Committee was satisfied with Knight Frank's performance at the half year and approved their appointment as valuer for the entire London portfolio for the 2022 year end.

Climate change

Climate disclosures and emissions reporting can be complex. The Committee continues to monitor developing best practice, and seeks training and/or professional guidance when required, to ensure we continue to oversee reporting effectively in this area. During the year, we received training from Deloitte and reviewed the outcome of their ESG 'reasonable assurance'.

External audit tender

PricewaterhouseCoopers (PwC) were appointed as the Group's external Auditors in 2014. In accordance with the Competition and Markets Authority order, the Committee will conduct a comprehensive audit tender during 2023. The Committee has been preparing for the tender and has outlined its proposed timetable on pages 168 to 169. The Committee extends an invitation to all interested shareholders to engage with us on the tender. Dialogue with our shareholders is important to us and will inform the Committee's discussions and decisions. You can reach me via our Company Secretary, David Lawler.

Restoring trust through the key BEIS reforms

The BEIS Response Statement to the consultation on audit and corporate governance reform was published on 31 May 2022. We sought assurance from management that the business was being proactive in ensuring its preparedness, particularly in respect to internal financial controls. During 2023, a thorough review of the Group's internal financial controls will be conducted, to identify improvements in the documentation or evidencing of controls.

Further engagement

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
27 February 2023

Committee composition and performance

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 134 and 135). The Board considers that the Committee (including its Chair, Lucinda Bell) is composed of a sufficient number of financial experts, with an appropriate level of recent and relevant financial experience, to discharge its duties. At the request of the Committee Chair, meetings are attended by the Board Chairman, internal and external Auditors, and members of the Group's senior management team. In addition, Deloitte regularly attends meetings when ESG assurance is discussed. To further facilitate open dialogue, the Committee holds private sessions with the Auditors without members of management being present.

During 2022, the Committee held three scheduled meetings (2021: four meetings) with two separate meetings with the Group's external property valuers. In addition, the Risk Committee held three meetings during 2023 (see page 171). The Committee considers that the eight meetings provided sufficient time to oversee financial, audit and risk-related matters. Due to the external audit tender being undertaken in 2023, it is anticipated that the Committee will meet at least four times. The Committee's role and responsibilities are set out in the terms of reference, which were last updated in February 2022 and are available on the Company's website at: www.derwentlondon.com/investors/governance/board-committees

The 2022 evaluation of the Board, its committees and individual Directors was externally facilitated by Manchester Square Partners LLP, in accordance with our three-year cycle of evaluations (see page 149). The review confirmed that the Committee continues to operate effectively, with 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 & Accounts and interim statement. 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 43 on pages 299 to 304) including in respect to any significant transactions during the year;
- material accounting assumptions and estimates made by management (see note 3 on pages 250 to 252);
- significant judgements or key audit matters identified by the external Auditor (see pages 233 to 236);
- the effectiveness and application of internal financial controls (see pages 160 and 161); and
- compliance with relevant accounting standards and other regulatory financial reporting requirements including the UK Corporate Governance Code and European Single Electronic Format (ESEF) requirements.

Restoring trust through the key BEIS reforms

The BEIS Response Statement was published on 31 May 2022. Although the timescale for reform has not yet been established, the reforms will be introduced through a combination of primary and secondary legislation and changes to the UK Corporate Governance Code.

Under the reforms, Derwent London plc is an existing Public Interest Entity (PIE) that does not meet the new size threshold. As a result, some of the new requirements, including the additional reporting disclosures (e.g. Audit & Assurance Policy, Resilience Statement etc.), are not applicable to the Group. As the Committee welcomes all developments which aim to improve transparency in governance and trust in our disclosures, we intend to adopt the following on a voluntary basis:

- **Assurance:** On pages 162 to 164, the Committee has disclosed our approach to assuring the information we externally disclose, and the level of assurance received on key disclosures in the 2022 Report & Accounts.
- **Resilience statement:** On pages 108 to 111, we have expanded our going concern and viability disclosures to include the short-, medium- and long-term threats to the Company's resilience, as required by a Resilience Statement.
- **Fraud risk:** In November 2022, the Committee received fraud awareness training. A Fraud Risk Management Framework has been developed, based on the Committee of Sponsoring Organisation (COSO) principles, which was reviewed by the Committee in February 2023. Under the Framework, focus areas have been agreed for 2023.

In respect to the reforms which apply to Derwent London, the Committee has received updates from management on how we are preparing for the new requirements.

Future requirement	Preparation
Boards to provide an explicit statement on the effectiveness of internal control systems (financial, operational and compliance), and a basis for the directors' assessment.	To further strengthen our internal financial controls, we intend to adopt the COSO Framework, a recognised standard. A thorough review will be conducted to identify improvements in our controls and/or the documentation of processes.
Increased accountability of directors and minimum standards for audit committees on audit tendering and monitoring of audit quality.	The Committee has reviewed the proposed Minimum Standards for Audit Committees contained in the FRC's consultation and will monitor their development. Once the FRC publishes its final Minimum Standards for Audit Committees, the Committee will revise its Terms of Reference.
Managed shared audits for the FTSE 350 implemented on a phased basis with the Auditing, Reporting and Governance Authority (ARGA) able to determine exemptions.	No preparation is currently required as this will not become applicable for Derwent London in the short- or medium-term. The Committee will continue to keep the development of guidance on managed shared audits under review.

AUDIT COMMITTEE REPORT continued

Review of the 2022 Report & Accounts

At the request of the Board, the Committee was asked to review the Group's Report & Accounts 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 Report & Accounts?
- Are we clearly 'signposting' to where additional information can be found?

Specific considerations for the 2022 Report & Accounts

- Whether we provide sufficient disclosures on the assurance of information reported within the annual Report & Accounts (see pages 162 to 164).
- Whether we clearly explain the climate change-related risks and opportunities facing the Group and our progress against our Net Zero Carbon Pathway (see pages 52 to 56 and 69 to 85).
- Whether our diversity policy and target disclosures are consistent with the amendments to the Disclosure Guidance and Transparency Rules within DTR 1B.1.5 R. (see pages 155 and 189).
- Whether we provide sufficient disclosures on the impact of the macroeconomic outlook, inflation and changing rising interest rate environment.

The Committee paid particular attention to these changes to ensure they did not impact on the balance and clarity of the Report & Accounts.

Following its review, the Committee confirmed to the Board that the 2022 Report & Accounts is fair, balanced and provides sufficient clarity for shareholders to understand our business model, strategy, position and performance.

CLIMATE CHANGE

The Group is committed to being net zero carbon by 2030. The Committee's role is to gain assurance that the effects and consequences of climate change are being adequately reflected in our financial statements and valuations.

Training and assurance

Climate disclosures and emissions reporting can be complex. During 2022, the Committee requested training, provided by Deloitte, on the following:

- FCA and FRC feedback on TCFD reporting
- How audit committees can review greenhouse gas emissions and Streamlined Energy and Carbon Reporting
- Update on the International Sustainability Standards Board (ISSB)

The Committee will continue to monitor developing best practice, and seek training/professional guidance when required, to ensure it continues to effectively oversee our reporting in this area. As ESG controls is an area of evolving best practice, it will be a focus area for the Group in 2023 and 2024.

At the request of the Committee, our Task Force on Climate-related Financial Disclosures (TCFD) reporting was reviewed. Although, the Group has used the TCFD guidelines as part of its environmental reporting since 2018, it has only been mandatory since 2021. The outcome of the review was shared with the Committee and the key recommendations are incorporated into our reporting.

The Committee receives further assurance through Deloitte's 'reasonable assurance' of our selected ESG metrics. Deloitte provided updates to the Committee on its assurance reviews and, in 2021 and 2022, provided training on how our level of assurance compares to our industry peers. Further information on ESG assurance is on page 163.

Impact on the valuation

During the year, the Committee sought clarity on how the valuation of our portfolio took into account climate-related risks, opportunities and the cost of EPC upgrades. Knight Frank confirmed that its valuers factor the potential impact on value of ESG risks and sustainability credentials in line with market best practice.

A feasibility and cost study conducted in 2021 concluded that, to achieve the proposed minimum energy performance certificate (EPC) rating of B by 2030, the Group would need to spend approximately £97m. This estimate has been updated to reflect cost inflation and recent disposals of assets (further information on page 14). In 2022, the Committee sought clarity on the proportion of the required capital expenditure which was already accounted for within the Group's ongoing refurbishment programme for the upgrading of our older buildings and therefore, reflected in the valuation, and considered the appropriate accounting treatment for the balance.

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 2022 and the judgements adopted.

Issue	Assumptions or estimates	Judgement
Valuation of the Group's property portfolio		
Due to its size, 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 264 and 265).	The valuation is performed twice yearly by 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, including the Group's development property portfolio and property held in joint ventures and the external valuers' objectivity 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.
Borrowings and derivatives		
The calculation of fair values for the Group's financial instruments, such as the USPP notes, 2031 bonds, 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 25 on pages 272 to 281).	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.
Impairment review		
Sentiment amongst our occupiers continued to improve through 2022, with rent collection levels across the office portfolio close to pre-Covid levels. However, due to the economic situation, rising interest rates and inflation, there remains a heightened risk of financial difficulty among some of our tenants.	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 overall probability of default has been estimated as lower compared with 31 December 2021.	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 in February 2023 and was subject to significant discussion.
Climate change		
We have a programme to upgrade the energy efficiency of our older buildings and have considered how the costs of such retro-fitting should be reflected in our financial statements, including our property valuations.	During the year, the Committee sought clarity on how the valuation was impacted by EPC compliance and the cost of converting buildings to meet the Government's proposed 2030 requirements. The Committee also received further updates on the required capital expenditure and how this would be included within the financial statements.	Where any immediate action or expenditure is needed, the relevant amounts would be provided for but these costs are expected to arise over several years as future refurbishment plans are prepared. In many cases, this could add value to the buildings and are not considered to be current capital commitments.
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 substantial 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.

AUDIT COMMITTEE REPORT continued

INTERNAL FINANCIAL CONTROLS

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

Our procedures consider the risks and scenarios which could result in financial and tax fraud or errors. A risk register is maintained by the Finance team which identifies the key controls in operation to mitigate these risks and identify any residual risk or evidence of weaknesses in the controls.

Overview of internal financial controls

Governance framework	Our governance framework (see page 141) supports effective internal control through an approved schedule of matters reserved for decision by the Board and the Executive Directors, 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 Group Financial Controller. 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 Analyst, reviewed internally by the Group Head of Tax and externally by RSM. Other higher risk areas like VAT, 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 page 67.
Risk identification and monitoring	The Risk Committee regularly reviews the Group's risk registers, 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 'tenants on watch' register and a back-up IT facility. The Risk Committee's report is on pages 170 to 181.
IT controls	All financial transactions are recorded and, where required, approved utilising finance systems or automated workflows which require dual authentication login. Role-based access is in place for all financial solutions, managed by the Digital Innovation & Technology (DIT) service desk. Data transfers between programs are either automated or imported with minimal manual intervention to maintain the integrity of the data.
Training and staff awareness	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 agreed within six months. The Group operates a whistleblowing policy which includes access to an independent helpline for anonymous reporting of concerns (see page 139).
External verification	The outsourced internal auditors, RSM, perform various assurance reviews as part of the annual Internal Audit Plan. The implementation of recommendations arising from the RSM reviews are monitored by the Audit Committee. The Group's VAT procedures are subject to ongoing periodic review by external advisers. Independent reviews of the Group's financial controls are undertaken with assistance from external advisers, as required. 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.

The control environment and context in which the internal financial controls operate

- **Company culture:** we have a defined set of values, strategic objectives and practices which has created an environment that values integrity, openness, transparency and building long-term relationships. Our culture promotes collaboration and encourages employees to ask questions and challenge decisions.
- **Lean workforce:** our flat structure and modest headcount (relative to asset values) allows for the close supervision and monitoring by members of the Executive Committee.
- **Group structure:** organised to be relatively simple and transparent with few subsidiaries and joint ventures.
- **Predictable income/costs:** rent, service charge, administrative costs (mainly salaries), interest and other finance costs are predictable. Quarterly management accounts are prepared that analyse income and expenditure and compare them with prior year and budget, with unexpected variances investigated.
- **Predictable capital costs:** the largest costs incurred relate to capital expenditure. All capex on investment properties is approved, and subject to external confirmation, before costs are incurred. These approved budgets are monitored internally.

Strengthening of controls

Actions taken during 2022 have included the following:

- Cyber risk continues to be an area of focus and is subject to independent testing (pages 180 and 181). During 2022, the Digital Innovation & Technology (DIT) team conducted an exercise with GRCI Law which assessed our capability to detect and respond to cyber security incidents.
- Introduced a new electronic expense system to enable automated checking against the Company's travel and expense policy.
- We utilise IT systems and automated workflows to manage our financial processes. All BACS payment files are encrypted on generation and access is monitored by our security systems. During 2022, the Committee received an update on the systems being used by the Finance team.

Non-financial internal controls

As training and staff awareness forms part of the Group's internal control framework, the Risk Committee receives updates on the policies and procedures in place and how these are being communicated to, and complied with, by our staff. Further information on risk management and non-financial internal controls is available on pages 115 and 171.

Effectiveness of the Group's internal financial controls and fraud risk assessment

The Committee receives detailed reports on the operation and effectiveness of the internal financial controls from members of the senior management team and the internal auditors. In addition, the outcome of the external audit at year end and the half-year review are considered in respect to internal controls.

On an annual basis, the Committee reviews the Group's fraud risk assessment prepared by management which details the policies and processes which safeguard the Company's assets, prevent and detect fraud and errors.

The largest costs incurred by the Company relate to capital expenditure or property transactions which are subject to approval in accordance with the Board's delegated authority limits, before costs are incurred (by the Cost Committee for costs up to £5m, the CEO and the Executive Directors for costs up to £20m, and by the Board for any capital expenditure over £20m). Approval is documented in minutes which are required to be seen before the budgets are assigned. The approved budgets are then subject to internal monitoring to ensure they remain within the approved limits.

The risks identified by the fraud risk assessment, in respect to financial fraud and error, are mitigated through the following key controls:

- A two-stage approval process is required for invoices and transactions, either through the use of software or forms. There is a further two-stage approval process for the release of final payments.
- Sufficient support/evidence is required by the Finance team which is subject to validation before payments are made.
- Payroll is prepared by an experienced team and reviewed by the Head of HR and the Group Financial Controller. Payment variance reports are prepared to explain movements.
- Training is provided to staff to ensure they are aware of the latest methods used by those attempting to defraud the Company.
- Use of third parties to produce or review information, including in respect to project monitoring agencies.
- The internal auditors, RSM, provide assurance that controls operate effectively as designed.
- Preparation of a detailed budget and three rolling forecasts against which actuals are compared.
- The process of producing the quarterly management accounts involves detailed variance analysis to prior periods and forecasts, as well as a number of reconciliations of both balance sheet and income statement items.

Following the Audit Committee's and Risk Committee's reviews (see page 171), the Chairs of each Committee confirmed to the Board that it is 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.

AUDIT COMMITTEE REPORT continued

ASSURANCE OVER EXTERNAL REPORTING

OUR APPROACH TO ASSURANCE

To keep our shareholders and the wider market informed, we release results on a quarterly basis. Our financial calendar for 2023 can be found on page 315.

Q1	Preliminary announcement and Report & Accounts
Q2	Q1 Business update
Q3	Interim results
Q4	Q3 Business update

All announcements and disclosures are subject to internal verification checks and, where significant or deemed of particular importance to our stakeholders, our actions are independently monitored through third party assurance.

It is crucial that the information we disclose is relevant, informative and sufficiently transparent, so that our stakeholders can assess our performance and have trust in the integrity of our reporting.

Our approach to assurance is influenced by our low tolerance to risk taking and our conservative management style.

ASSURANCE OVER KEY DISCLOSURES

The table below provides an overview of our key reporting disclosures in the 2022 Report & Accounts and the level of assurance we received. This is in addition to the detailed verification process adopted by the Executive team to ensure the accuracy of our disclosures.

Key reporting risk area	Current level of assurance	Current provider(s)	Further information
Financial statements	International Standards on Auditing (UK) and applicable law	PwC	Pages 242 to 305
Key EPRA financial metrics[1]	International Standards on Auditing (UK) and applicable law	PwC	Page 306
Portfolio valuation	External valuation in accordance with RICS Valuation Global Standards and the Red Book	Knight Frank & PwC	Pages 87 to 89
Key performance indicators[2]	Detailed internal review and external assurance on specific KPIs from PwC and Deloitte LLP	PwC & Deloitte LLP	Pages 45 to 49
Environmental, energy and carbon	ISAE 3000 (Revised) and ISAE 3410 'reasonable assurance'	Deloitte LLP	Pages 69 to 71
Task Force on Climate-related Financial Disclosures (TCFD)	Private review	–	Pages 72 to 85
Health and safety statistics	ISAE 3000 (Revised) 'reasonable assurance'	Deloitte LLP	Page 64
Green Finance Framework and disclosures	Our Green Finance Framework received a Second Party Opinion (SPO) from DNV that it is aligned with the Loan Market Association's Extended Green Loan Principles and the International Capital Market Association's Green Bond Principles. Deloitte have also provided reasonable assurance over selected green finance KPI disclosures.	Deloitte LLP & DNV	Pages 106 and 107

1 EPRA earnings and EPRA NAV metrics (EPRA NRV, EPRA NTA and EPRA NDV).
2 The key performance indicators subject to external assurance from Deloitte and audit by PwC are identified on pages 45 to 49.

Assurance over full year results announcement and annual Report & Accounts

Our financial year is the 12 months to 31 December, and we finalise our full year results in late February. The disclosures contained in this announcement form the foundation for our annual Report & Accounts (principally the front end of the Strategic report and financial statements).

Our financial statements are subject to audit by our external Auditor, PricewaterhouseCoopers LLP (PwC) and the entire report is subject to a fair, balanced and understandable review by both the Audit Committee and the Derwent London Board (see page 158). In addition, any key accounting issues or judgements made by management are reviewed and agreed with the Audit Committee.

INDEPENDENT AUDITOR'S REPORT / See page 232

SIGNIFICANT FINANCIAL JUDGEMENTS, KEY ASSUMPTIONS AND ESTIMATES / See page 159

Valuation of the Group's property portfolio

The main area of reporting risk relates to the valuation of our portfolio. Our property portfolio is valued by external valuers for both our interim and year end results (see page 165). The valuation of our portfolio is a major component of net asset value and is a key determinant for our investors when assessing our performance.

Movements in the valuation are a significant part of how we measure our progress and a key determinant of the Group's total return. Due to its significance, the biannual valuation is also subject to a detailed internal review by our Investment and Valuation team, which consists of experienced and qualified professionals, and is overseen by the Audit Committee.

In accordance with the Group's Valuer Appointment Policy, the Group's external valuer will be tendered at least every five years, subject to annual assessment of their effectiveness and objectivity. Knight Frank succeeded CBRE as the Group's external valuer of the London portfolio in December 2022, after performing 50% of the valuation in June 2022.

Revenue recognition and impairment review

Due to the complexity of accounting for revenue recognition and our expected credit loss (ECL) provision, these disclosures are subject to extensive review by PwC and our internal team.

As at 31 December 2022, our lease incentive and trade debtors, including impairment, amounted to £193.7m (2021 (restated): £173.9m) and an ECL provision of £5.0m has been recorded (2021 (restated): £8.3m) as a provision for bad debts (see pages 251, 268 to 270). Information on how PwC audit revenue recognition and accounting for the ECL provision is available on pages 234 and 235.

Going concern and viability

In order to assure our stakeholders that the Company remains viable for the next 12 months and into the medium term (the next five years), we have provided detailed disclosures on pages 108 to 111. The process and assumptions underlying the short-, medium- and long-term assessments and scenarios, which form the going concern and viability statements, are subject to a detailed review by the Audit Committee and Board. As part of their audit, PwC tested the integrity of the underlying calculations within the going concern modelling, assessed the appropriateness of the key assumptions and agreed the underlying cash flow projections (see pages 237 and 238).

Risks and uncertainties

Our principal and emerging risk registers are regularly reviewed by the Executive Committee and Risk Committee, prior to approval by the Board. As part of our review of principal risks, the Risk Committee utilises a Board Assurance Framework which identifies the key controls for each risk and the level of assurance available.

Environmental, social and governance (ESG)

We understand the importance of clear and accurate reporting of key ESG data to our stakeholders. For a number of years, we have therefore obtained 'reasonable assurance' from Deloitte LLP, as determined by ISAE 3000R (Revised) and ISAE 3410, in respect of our:

- Environmental, energy and carbon reporting (all Scope 1, 2 and 3 GHG emissions data, intensity ratio and energy data)
- Health and safety statistics (all RIDDORs, fatalities, minor accidents, significant near misses, and any enforcement notices data)

The assurance statements are published in our annual Responsibility Reports which are available on our website (the assurance received over our Responsibility Report is detailed on page 164).

We have voluntarily disclosed under the Task Force on Climate-related Financial Disclosures (TCFD) since the 2018 Report & Accounts. As these disclosures are now mandatory, the TCFD disclosures contained in the 2021 and 2022 Report & Accounts were subject to a third party review, with their key recommendations incorporated.

AUDIT COMMITTEE REPORT continued

ASSURANCE OVER EXTERNAL REPORTING continued

Remuneration

Key disclosures in our Remuneration Committee report are subject to independent audit by PwC, including the total remuneration paid to our Directors during the year (see page 213), incentive outcomes under the annual bonus and PSP (pages 215 and 217), our Directors' shareholdings (page 222) and incentive awards (pages 219 to 221).

Our remuneration disclosures are also reviewed by Deloitte to ensure they are aligned with best practice. Deloitte also independently review the executive incentive outcomes under the PSP and annual bonus to provide assurance to the Remuneration Committee that the outcomes have been accurately calculated.

Other annual report disclosures

The rest of our Strategic report and governance disclosures are subject to detailed internal review and verification.

Other key audit matters which, in the Auditor's professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement were:

- Valuation of investment properties
- Revenue recognition
- Accounting for the expected credit loss provision
- Compliance with REIT guidelines
- Valuation of investments in, and loans to, subsidiaries

Information on PwC's audit of these disclosures is provided on pages 234 to 236.

As part of our preparation for preparing this statement, a review of the assurance we receive was conducted in 2021, which identified that the EPRA disclosures published in our annual Report & Accounts were not subject to external verification. Although a peer analysis confirmed that this was frequent practice within our industry, as these are important statistics for our stakeholders, the Audit Committee agreed that for 2022 our key EPRA financial metrics would be subject to audit by PwC and encompassed by their external audit opinion on the annual report. The EPRA financial metrics which have been audited are:

- EPRA Earnings; and
- EPRA NAV metrics: EPRA NRV, EPRA NTA and EPRA NDV.

The Committee will consider whether further assurance is required over our other EPRA disclosures during 2023.

Assurance over half year results announcement

The main risks in relation to half year reporting are the valuation and revenue recognition. In respect to valuation, a similar process to year end is adopted with our investment properties being independently valued which is then reviewed at valuation meetings by the Audit Committee, and approved by the Board.

Although not legally required, our external Auditor performs a review on our half year results announcement. Whilst this is not to the same level of assurance as a year end audit, it does allow an independent review of our half year results announcement and any issues are raised and discussed with the Audit Committee.

Investor presentations

We prepare detailed investor presentations for year end and half year results. A significant amount of information contained in our investor presentations is extracted from results announcements released via RNS. Any additional information is subject to detailed internal review.

Assurance over quarterly results announcement

We provide a market update with portfolio information in April/May and October/November. No financial numbers are provided, nor do we revalue or provide any forecasts in respect to the valuation of our portfolio. Due to the limited information provided, no external assurance is provided or deemed necessary. However, the announcements are subject to significant internal review and verification.

Assurance over annual Responsibility Report and our progress to net zero carbon

We publish an annual Responsibility Report which is structured around our seven key ESG priorities (see page 50). Certain 2022 environmental, health and safety, and community metrics are subject to independent Assurance under ISAE(UK)3000 and ISAE3410. This assurance captures the data we disclose on utility usage, waste generation and energy consumption, in addition to our progress against our science-based targets.

In addition to TCFD (see page 72), we report in accordance with the GRI Standards and the EPRA Best Practices Recommendations on Sustainability Reporting. Disclosures are prepared by the Sustainability team and subject to detailed internal reviews.

Assurance over other reports

There are a limited number of other financial reports provided to external stakeholders. These relate mainly to RNS and press release announcements of transactions. The announcements are subject to internal verification checks to ensure values, rental levels, areas and yields are fairly stated and, where material, are signed off by the CEO and CFO. In relation to acquisitions and disposals, figures are reconciled to cash movements and completion statements.

When reported, rent collection figures are generated internally from daily cash sheets and entered into our property management database. Given the daily nature of this information, and the immateriality of individual amounts, it is not considered practical to seek external assurance in relation to this information.

PORTFOLIO VALUATION

Our property portfolio is valued by external valuers for our interim and year end results. As at 31 December 2022, it was valued at £5.364bn (2021: £5.697bn) and principally consists of 70 properties. Further information on our valuation is on pages 87 to 89.

Knight Frank succeeded CBRE as the Group's external valuer of the London portfolio in December 2022, after performing 50% of the valuation in June 2022. Savills are engaged to value our Scottish land which accounts for c.1% of the Group's portfolio.

In accordance with the Group's Valuer Appointment Policy, the Group's external valuer will be tendered at least every five years, subject to annual assessment of their effectiveness and objectivity. This aspect was one of the areas covered by the RICS 'Independent Review of Real Estate Investment Valuations' performed by Peter Pereira Gray in January 2022. The outcome of this exercise is now under RICS consultation and a formal revised policy is expected later this year. It is anticipated that it will require valuer rotation between five and 10 years.

There are no contractual obligations which could restrict the Group's choice of valuer or a minimum appointment period.

The valuation of the portfolio is a major component of net asset value. Movements in that valuation is a key determinant of the Group's total return (a KPI and a performance measure for our Executive Directors' variable remuneration – see page 205). Due to its significance, the Committee monitors the objectivity and independence of the external valuers' work, and meets with the valuer in February and July, prior to Audit Committee meetings.

Key matters discussed during the meetings in 2022 included:

- The transition in valuers from CBRE to Knight Frank. It was noted that there was no material difference between the valuations.
- The impact of the macroeconomy on the valuation.
- How the valuation was taking into account the costs of converting buildings to meet the proposed 2030 EPC legislation (see page 14) and the impact of other climate change factors.
- The valuation of joint venture properties, which was on the same basis as other Derwent London properties.
- Any valuation movements that were not broadly in line with that of the MSCI 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.

IMPACT OF ESG ON VALUATION / See page 158

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. The effectiveness review for 2022 was conducted in February and August and considered the following:

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

At both meetings it was concluded that the external valuers performed to a high standard and the timetable for delivery was achieved. As a result of the effectiveness review in August, Knight Frank succeeded CBRE as the external valuer for the December 2022 valuation.

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 reviews our year end tax returns.

The Internal Audit Plan for 2022 was approved jointly by the Risk and Audit Committees and included a combination of risk-based audits and projects (see the table below). The outcome of the audits 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.

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.

Audits performed during 2022	Proposed audits to be performed under the Internal Audit Plan 2023
• Health and safety • Cyber security • Strategic planning • Joint venture governance • Financial controls	• Service charge and cost recovery • Intelligent buildings • Energy Performance Certificate (EPC) compliance • Supplier selection and due diligence • Financial, IT and internal controls

AUDIT COMMITTEE REPORT continued

Annual review of the internal audit function

A formal review of the effectiveness of the internal auditor and the internal audit process was conducted in November 2022 and considered the following:

- the qualification and expertise of RSM's team;
- the extent to which RSM have built an understanding of our business and systems;
- depth of internal audits and ability to challenge management;
- quality of reporting; and
- quality of planning and ability to meet deadlines.

The Committee concluded that the internal audit process had been conducted effectively and that the additional assurance received through internal audits had been beneficial to the Committee and management. The Audit and Risk Committees agreed to consider the model for the provision of internal audit services during 2023.

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.

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. The Committee will be conducting a comprehensive tender process for the 2024 year end audit during 2023.

EXTERNAL AUDIT TENDER / See page 168

Annual review of the external Auditor

The Committee conducts an effectiveness review of the external Auditor on an annual basis which 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 considered:

- the qualification and expertise of the Lead Audit Partner and the wider audit team;
- the availability of resources to perform a comprehensive and timely audit;
- adherence to the Non-Audit Services Policy;
- quality of the audit plan, overall audit and outcome report;
- quality of planning and ability to meet deadlines; and
- quality of audit in respect of key judgements and estimates.

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;
- how the Auditor demonstrated professional scepticism and challenged management's assumptions, where necessary;
- the tenure of the external Auditor and the Lead Audit Partner;
- the outcome of the FRC's latest inspection of PwC's audit quality; and
- how the Auditor identified risks to audit quality and how these were addressed, including the network level controls the Auditor relied upon.

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 pages 159 and 234 to 236). Sandra Dowling has been Lead Audit Partner since the 2020 half year review. The Committee has been pleased with the challenge raised by Sandra and her team during the year.

Audit quality can be challenging to define and measure. The Committee utilises Audit Quality Indicators (AQIs) to assess PwC's audit quality. The Committee finds the use of AQIs an effective addition to its review processes.

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 2023, subject to reappointment at the 2023 AGM.

The 'Independent Auditor's report to the members of Derwent London plc' is available on pages 232 to 241, and its audit opinion is consistent with the report received by the Audit Committee.

Non-audit services in 2022

The non-audit services provided by PwC during the year under review totalled £622,752. The Committee confirmed that it does not believe that the level or nature of the non-audit services provided during 2022 have impacted on PwC's actual or perceived independence as Auditor.

	2022		2021		2020	
	£'000	%	£'000	%	£'000	%
Audit of Derwent London plc and subsidiaries	**559**	**90**	530[2]	78	494	92
Review of interim results	**64**	**10**	60	9	44	8
Other non-audit services	**–**	**–**	90[1]	13	–	–
Total fees	**623**	**100**	680	100	538	100

1 During 2021, PwC assisted with the preparation and issue of comfort letters as part of the green bond issuance. The fee for this project was £90,000.

2 The audit fee in relation to the year ended 31 December 2021 includes a cost overrun of £59,000.

Non-Audit Services Policy

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.

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 includes 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 are provided below and are 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.

AUDIT COMMITTEE REPORT continued

EXTERNAL AUDIT TENDER

In accordance with current regulation that requires a tender every 10 years, the Committee intends to conduct a competitive tender for the 2024 year end audit during 2023.

Invitation to engage

Ongoing dialogue with our shareholders is important to us and informs the Board's decision making. Lucinda Bell, Audit Committee Chair, invites all shareholders to engage with us as we prepare for the tender process. In particular, we would be keen to receive our shareholders' input on the following matters:

- Firms to be included on the 'Long List';
- Number and size of firms to involve; and
- Factors the Committee should consider when selecting its 'Short List' and making its final recommendation.

Any shareholder who wishes to provide input into the tender, or wishes to receive updates on our progress, can contact the Audit Committee Chair via our Company Secretary, David Lawler.

Telephone: **+44 (0)20 7659 3000** or
Email: company.secretary@derwentlondon.com

We request that all shareholders who wish to engage with the Committee during the tender, contact the Company Secretary before the 2023 AGM, on 12 May. This is to ensure their comments are included in the Committee's decision making.

Timetable

PricewaterhouseCoopers (PwC) was appointed as the Group's external Auditor in 2014. In accordance with the Competition and Markets Authority (CMA) order, we are required to conduct a mandatory tender for our audit every 10 years. It is proposed that an audit tender is completed during the second half of 2023, with the appointed (or reappointed) firm in place to carry out the 2024 interim review and year end audit, subject to shareholder approval at the 2024 AGM. Our proposed timetable is below.

Preparation

In preparation for the tender, the Committee has performed the following tasks:

- Reviewed best practice guidelines on external audit tenders;
- Held high level discussions on the attributes and skills we require from our external Auditor and the Lead Audit Partner;
- Agreed a provisional timetable for the tender process and identified the key steps; and
- Agreed that the Committee will seek to include four firms on its 'Long List' to provide sufficient scope for comparisons and breadth.

The Committee will have due regard to the FRC guidance on audit tenders, the independence criteria, and the contents of the recent consultation on the Minimum Standards required of Audit Committees. The Committee's intention is the scope of the tender will be limited to the statutory audit, however, during the Request for Proposals (RFP) stage, the shortlisted firms will be asked to confirm their ESG assurance capability.

Selecting firms to involve

Due to the general shortage of professional resource in the audit industry, the Committee will carefully tailor its 'Long List' to those firms that have the experience, track record and capacity to perform a robust audit.

Outline of the proposed tender timetable

Shareholder engagement	Agree 'Long List' of firms & confirmation of independence	Agree Lead Audit Partner, agree 'Short List' of firms & send Requests for Proposals (RFP)
2022 Report & Accounts 12 April 2023	2023 AGM 12 May 2023	By 31 July 2023

We will seek confirmation of independence from each firm and require them to perform conflict of interest checks. To gain an understanding of the FRC's assessment of each firm's audit quality, the Committee will review the latest FRC Audit Quality Reports.

Subject to a satisfactory response to its due diligence, each firm will be asked to present at least two candidates for Lead Audit Partner, who will meet with the Chair of the Committee and CFO. The Committee has considered its requirements and believe that the ideal Lead Audit Partner will have the following skills and experience:

- FTSE 250 experience or larger plc experience;
- deep real estate experience;
- a technically strong track record; and
- ability to demonstrate professional skepticism and to provide independent challenge to provide our Board with confidence.

Request for Proposals (RFP)

In addition to any factors raised by our shareholders, the Committee will consider the adjacent factors when finalising its 'Short List'. Each shortlisted firm will be invited to meet with members of the Committee, and the senior management team, to aid them in understanding our requirements and preparing their proposal. A data room will also be established. Presentations from each shortlisted firm will be organised for September/October, following which, the Committee will make its recommendations to the Board.

Approach to fees

The Committee's focus will be on securing a firm who will provide a robust and independent audit. Fees will therefore not be a focus during the 'Long List' or RFP stage of the tender. The Committee will only consider fees prior to making its final recommendations to the Board.

'Short List' selection criteria:

Capability and competence (including reputation)

- Knowledge and experience, particularly on REIT audits
- Team's skillset and expertise of the real estate industry
- The firm's independence, internal quality processes and performance assessed by the AQR

Audit approach

- Clear audit plan based on transparent risk assessment of the business, including:
  - identification and approach to key risks
  - use of specialists
  - audit timing and deliverables
  - communication
  - materiality
- Ability to demonstrate independence and challenge
- Approach to systems and controls reliance and ability to deliver insights and added value
- Plans to use technology to drive efficiency and insight
- Approach to judgemental issues, including timing, use of experts and communication to the Audit Committee
- Clarity on fees, time spent and staffing mix

Alignment with our values

- Culture of the audit firm
- Approach to diversity and inclusion within the firm and audit team
- Ability to build a practical working relationship with management and Audit Committee

Quality of deliverables

- Clarity and conciseness of proposal document and presentation
- Behaviour of team: quality of interaction, organisation and preparation

Approach to transition

- A clear and well thought out transition plan is presented

Management meetings with 'Short List' presentations to the Audit Committee	Recommendations to the Board	Appointment of Auditor by shareholders
September/October 2023	Board meeting November/December 2023	2024 AGM 10 May 2024

Confirmed dates Dates are provisional and subject to change