

AUDIT COMMITTEE REPORT



Lucinda Bell
Chair of the Audit Committee

2024 Focus areas

- Ensure a smooth and effective transition to Thomas Norrie at PwC, as the new Lead Audit Partner
- Continue to monitor the internal control framework and its effectiveness
- Monitor the performance of the new in-house internal audit function
- Oversee the implementation of a new finance system which is expected to commence in 2024
- Monitor the transition from Savills to Knight Frank as Valuers of the Scottish land

Committee membership during 2023

	Independent	Number of meetings ¹	Attendance ²
Lucinda Bell	Yes	4	100%
Claudia Arney ³	Yes	4	100%
Sanjeev Sharma	Yes	4	100%
Cilla Snowball ⁴	Yes	2	100%

- 1 In addition to the scheduled meetings, a number of extra meetings were held for the external audit tender.
- 2 Percentages are based on the meetings that each member is entitled to attend for the 12 months ended 31 December 2023.
- 3 Claudia Arney will be stepping down from the Board at the 2024 AGM.
- 4 Cilla Snowball was appointed as a member of the Audit Committee on 1 August 2023.

Dear Shareholder,

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

External audit tender

During the year, the Committee conducted a competitive tender for the Group's external Auditor. The Committee was mindful of best practice and ensured that the tender was conducted in accordance with the Audit Committees and the External Audit: Minimum Standard (see page 150).

An invitation was extended to all shareholders for their engagement in the tender, however, no responses were received. Overall, the Committee has found the tender process informative and gained further insight on audit quality. Following a comprehensive discussion, the Board approved the reappointment of PwC as external Auditor for the 2024 year end audit (see pages 150 and 151).

Portfolio valuation and the latest guidance from the Royal Institution of Chartered Surveyors (RICS)

Due to its importance, the Committee considers the valuation of the Group's property portfolio to be a principal area of judgement. During 2023, the Committee reviewed the latest guidance published by RICS, following the independent review performed by Peter Pereira Gray, and approved an amendment to its Valuer Policy. Following the change of valuers in 2022, the vast majority of our valuation was in compliance with the new rules. However, to ensure full compliance, the valuation of our Scottish land will be conducted by Knight Frank from June 2024.

Climate change and ESG disclosures

A continuing focus area for 2023 was climate change matters in respect of our financial statements and portfolio valuation. The Committee reviewed the assurance provided by Deloitte on our ESG disclosures and Green Finance Framework. For further information on assurance over external reporting see pages 154 and 155.

Internal controls and internal audit

The Committee is responsible for reviewing the robustness of the Group's internal controls, in partnership with the Risk Committee (see pages 148 and 149). Positive progress has been made to further strengthen our controls during the year. During 2024, the Committee will continue to review the internal control environment, particularly as new systems are introduced. Since 2018, RSM have been the Group's outsourced internal auditors. As the Group's internal control framework continues to mature, the Committee reviewed the provision of internal audit and decided to bring the function in-house with Julie Schutz being appointed as the Head of Internal Audit.

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 2024

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 122 and 123).

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 2023, the Committee held four scheduled meetings (2022: three meetings) two of which included an update from the Group's external property valuers. A number of additional meetings were held during the year as part of the external audit tender process (see page 150). In addition, the Risk Committee held four meetings during 2023.

The Committee's role and responsibilities are set out in the terms of reference, which were last updated in August 2023. Following the publication of the 2024 UK Corporate Governance Code, the Committee's terms of reference will be updated in 2024. The Audit Committee terms of reference are available on the Company's website at: www.derwentlondon.com/investors/governance/board-committees

The 2023 evaluation of the Board, its committees and individual Directors was internally facilitated by Helen Gordon, Senior Independent Director, in accordance with our three-year cycle of evaluations (see page 137). 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 272 to 276) including in respect to any significant transactions during the year;
- material accounting assumptions and estimates made by management (see note 3 on pages 221 to 223);
- significant judgements and key audit matters identified by the external Auditor (see page 146 and pages 207 to 209);
- the effectiveness and application of internal financial controls (see pages 148 and 149); 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.

2024 UK Corporate Governance Code (the Code)

The FRC conducted a consultation during 2023 and subsequently published the updated Code in January 2024. Overall, the Committee remains confident in the Group's compliance with the existing Code, and will work closely with Julie Schutz, Head of Internal Audit, to ensure requirements of the new Code are addressed in advance of applicable dates.

Review of the 2023 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 2023 Report & Accounts

- Our external audit tender disclosures and confirmation of our compliance with the Audit Committees and the External Audit: Minimum Standard (see pages 150 and 151).
- Whether our restructured climate change section adequately explains the climate-related risks and opportunities facing the Group (see pages 104 to 117).
- The disclosure of our December 2027 target for ethnic diversity in our senior management team in accordance with the Parker Review's latest recommendation (see page 143).

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

Following its review, the Committee confirmed to the Board that the 2023 Report & Accounts is fair, balanced and provides sufficient clarity for shareholders to understand our business model, strategy, financial position and performance.

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 2023 and the judgements adopted.

Issue	Assumptions or estimates	Outcome
Valuation of the Group's property portfolio		
<p>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.</p>	<p>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 and take into account the impact of climate change and related Environmental, Social and Governance (ESG) considerations. Where reasonable and measurable, the effects and consequences of climate change are reflected in these financial statements and valuations (see note 16 on pages 233 and 237).</p>	<p>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, in addition to 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.</p>
Impairment review		
<p>Sentiment amongst our occupiers continued to improve through 2023, with rent collection levels across the office portfolio close to pre-Covid levels. However, due to the economic situation, with relatively high interest rates and inflation, there remains a heightened risk of financial difficulty among some of our tenants.</p>	<p>Impairment testing of trade receivables and accrued income recognised in advance of receipt has been carried out under IFRS 9 and IAS 36, respectively. This has required estimates to be made in relation to recoverability and the probability of default across our portfolio. Recoverability and estimated probability of default has been judged to be broadly the same as in 2022.</p>	<p>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 2024.</p>
Taxation and REIT compliance		
<p>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 impact on the financial statements.</p>	<p>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.</p>	<p>The Group has a qualified and experienced tax team who 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 sound application of judgement has been made.</p>

Climate change

The Group is committed to be 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 2023, the Committee received training on the following:

- The International Sustainability Standards Board (ISSB) and their sustainability reporting standards – IFRS S1 and IFRS S2. See pages 104 to 117 for the climate-related risks and opportunities we have identified.
- The sustainability effect of Energy Performance Certificate (EPC) improvements on the valuation of our portfolio. Further information on our EPC ratings is on page 115.

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.

The Committee receives further assurance through Deloitte's review of selected ESG metrics. During 2023 we reviewed the number of metrics assured by Deloitte and received limited assurance from them in relation to 2023 data (see pages 154 and 155).

Impact on the valuation

Following an independent third party assessment in 2021, approximately £97m of capital expenditure was identified to achieve 2030 EPC compliance across our London commercial portfolio. This has since been revised to £95.3m to reflect the latest scope (change in building regulations), subsequent inflation, disposals and work carried out to date. Of this, Knight Frank made a specific deduction of £48m in their December 2023 external valuation. In addition, further amounts have been allowed for general upgrades between assumed tenant vacancies.

- ➔ Environmental/See pages 46 to 49
- ➔ Net zero carbon/See pages 48 and 49
- ➔ Building climate resilience/See pages 104 to 117

Portfolio valuation

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. As at 31 December 2023, it was valued at £4.879bn (2022: £5.364bn) and principally consists of 66 properties. Further information on our valuation is on pages 63 to 66.

The valuation of our portfolio is a major component of EPRA net tangible assets (NTA) 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 material determinant of the Group's total return.

Due to its significance, the biannual valuation is overseen by the Audit Committee and also subject to a detailed internal review by our Investment and Valuation team, which consists of experienced and qualified professionals.

Key matters discussed during the meetings in 2023 included:

- The performance of Knight Frank.
- The valuation of our on-site developments; 25 Baker Street W1 and Network W1.
- The impact of the macroeconomy on the valuation.
- How the valuation was taking into account the costs to achieve 2030 EPC compliance 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 the MSCI indices.

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. During the year, RICS published guidance following its 'Independent Review of Real Estate Investment Valuation'. Our Scottish land is a relatively small portfolio that has previously been valued by Savills. However, to ensure full compliance with the latest guidance, it has been agreed that Knight Frank will value the Scottish land from June 2024.

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 2023 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.

Internal audit

The Internal Audit Plan for 2023 was jointly approved by the Risk and Audit Committees and was comprised of risk-based reviews across a range of business areas. Both Committees receive reports on internal audit activity and monitor the status of internal audit recommendations.

During 2023, a formal review of the effectiveness of the internal auditor and the internal audit process was conducted. It was concluded that the process had been conducted effectively and that the independent assurance received through internal audits had been beneficial to the Committee and management. Audits performed during 2023:

- Intelligent buildings implementation and management
- Energy Performance Certificate (EPC) compliance
- Supplier selection and due diligence
- Fraud controls
- IT development controls
- Financial controls

Annual review of the internal audit function

The internal audit function has been outsourced to RSM since December 2018, and they have carried out all reviews during 2023. In line with the Group's commitment to continuously enhance the internal control environment, the Audit and Risk Committees reviewed the model for the provision of internal audit services and decided to bring the function in-house.

Julie Schutz, our new Head of Internal Audit, is a Chartered Accountant with extensive experience in the provision of risk and assurance services across a diverse range of industries. Julie will work closely with the Risk and Audit Committees to develop and deliver a risk-based internal audit programme for 2024. The plan will include a combination of both assurance activities over key risk areas and advisory work, which will support the business in further strengthening its control environment.



Internal audit is responsible for fostering a culture of accountability and continuous improvement.

Julie Schutz
Head of Internal Audit

Internal controls

Our internal financial controls environment allows the Company to safeguard its assets, prevent and detect material fraud and errors, and ensure accuracy and completeness of its accounting records which are used to produce reliable financial information. During 2023, we have undertaken the following actions to further strengthen our financial controls:

- Cyber risk continues to be an area of key focus and is subject to independent testing (pages 162 and 163). The Digital Innovation & Technology (DIT) team enhanced our Business Continuity Plan and conducted a full disaster recovery test with minor lessons learned to further resilience.
- Implementation of a new continuous learning approach to cyber awareness. Staff are now completing 'small' modules throughout the year enabling us to raise awareness of new attack methods in real-time and targeting those at heightened risk due to their role type.
- Ongoing documentation, review and enhancement of key financial processes and controls as part of the Internal Controls Project.
- Implementation of a new HR solution to automate workflows and introduce more preventative controls. The payroll module is to go live during 2024.
- Development of a new supplier set-up portal to strengthen controls by automating due diligence checks.

Effectiveness review

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

On an annual basis, the Committee reviews the Group's fraud risk management framework, of which a fraud risk assessment is a key component. The framework helps management assess and improve upon its fraud resilience measures across a range of key components, while the risk assessment sets out the detailed controls which safeguard the Company's assets and help prevent and detect fraud and errors. A heat map summarises residual risk scores based on the fraud risk assessment, and those risks with scores above tolerance levels have action plans in place to help further mitigate the residual risk.

As training and staff awareness forms part of the Group's internal control framework, the Risk Committee receives updates on key policies and procedures in place and how these are being communicated to, and complied with, by our staff. Further information is on pages 159 and 165.

Following the Audit and Risk Committees' reviews (see page 92), the Chairs of each Committee confirmed to the Board that they are satisfied that the Group's internal control framework (financial and non-financial) and risk management procedures:

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

Internal financial controls

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

- **Company culture:** We have a defined set of values and strategic objectives that are supported by a Code of Conduct and Business Ethics which creates 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.
- **Workforce:** Our flat structure and modest headcount (relative to asset values) allows for the close supervision and monitoring of activity by members of the Executive Committee.
- **Group structure:** Relatively simple and transparent Group legal structure with relatively few subsidiaries and joint ventures.
- **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 the prior year and budget, with unexpected variances investigated and explained.
- **Capital costs:** The largest costs incurred relate to capital expenditure. All capex on investment properties is approved and, where material, is subject to external confirmation, before being paid. These approved budgets are monitored internally.

Overview of internal financial controls:

Governance framework	Our governance framework (see page 127) 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 delegated authority and supporting committees.
Risk identification and monitoring	Management regularly review and assess key risks facing the Group, including scenarios which could result in material financial and/or tax fraud or errors. Key risks are documented in risk registers, along with a schedule of key controls and key risk indicators. The schedule of key controls provides evidence of how the controls are being operated, their effectiveness and areas of potential weakness and further improvement. Risk management activities are overseen by the Risk Committee, and their report is on pages 156 to 165.
Financial controls	Comprehensive systems of financial control are in place including an annual budgeting exercise with three rolling forecasts, as well as a five-year strategic review. Breakeven and sensitivity analyses are included in both the five-year review and the rolling forecasts, with quarterly variance analysis performed between budget and actuals. A range of both preventative and detective controls, including segregation of duties, reconciliations, approvals, management reviews and exception reporting helps ensure accuracy and completeness of financial records.
Treasury and tax controls	Treasury activities are controlled by the Chief Financial Officer and Group Financial Controller. All large and/or complex transactions are discussed in advance with the Board and Executive Directors, executed in line with delegated authority levels and 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 and prepared internally by senior members of the tax department and externally by RSM on a sample basis. Other higher risk areas like VAT, PAYE and CIS are subject to thorough examination and testing. We maintain an open relationship with HMRC who assessed our tax status in 2023 as 'low risk' in all categories. Further information on tax governance is on page 58.
IT controls	IT general controls are a fundamental part of the financial control environment and apply to applications, databases and operating systems. They ensure appropriate access to, and integrity of our data, which ultimately flows through to the financial statements. A robust system of back up is in place to protect against the potential loss or corruption of data against the backdrop of ever-evolving cyber threats.
Training and staff awareness	Key policies and procedures are available to employees on our Group intranet. Employees are required to confirm their understanding of our key internal policies upon joining, and periodically thereafter as required for compliance purposes. Cyber risk training is delivered throughout the year to help maintain high levels of staff awareness and core system training is delivered when new systems are implemented, or ways of working are changed. The Group operates a 'Speak Up' Policy which includes access to an anonymous reporting hotline to raise any concerns of misconduct, wrongdoing, or fraud (see page 128).
External evaluation	The outsourced internal auditors, RSM, performed various assurance reviews over key financial controls as part of the 2023 Internal Audit Plan. The implementation of recommendations arising from the reviews are monitored by the Risk and Audit Committees. During the year, it was decided that the provision of internal audit services would be brought in-house (see page 148). The Group's VAT procedures are subject to ongoing periodic review by external advisers. An independent review of particular financial controls is undertaken with assistance from external advisers, as required. An annual credit rating review is performed by an external agency and each year, at renewal, a comprehensive review of the Group's insurance cover is prepared by our independent insurance adviser.

External audit tender

During 2023, the Audit Committee conducted a competitive audit tender taking into account best practice guidance from the FRC.

Compliance statement

During 2023 the Audit Committee, Non-Executive Directors and members of senior management have been involved in conducting a rigorous and detailed external audit tender for the 2024 year end audit.

The Committee confirms that for the year ended 31 December 2023, it has complied with the Audit Committees and the External Audit: Minimum Standard and that the external audit tender was conducted free from third party influence, and consistently applied the key principles.

Shareholder engagement

Ongoing and transparent dialogue with our shareholders is important to us and informs the Board's decision making.

In preparation for the tender, we invited all shareholders to engage with us via the 2022 Report & Accounts and the Notice of AGM. The Committee sought shareholder views on the following matters; however, no response was received:

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

Preparation

In advance of the tender the following tasks were performed by the Committee:

- Reviewed best practice guidelines on external audit tenders
- Agreed the tender process timetable
- Discussed the key attributes required from our external Auditor and the Lead Audit Partner
- Identified suitable firms for the 'Long List'

'Long List'

The Committee carefully tailored the 'Long List' to ensure that the chosen firms had the experience, track record and capacity to perform a robust audit. The 'Long List' included the current incumbent firm, PwC, as well as three firms from the 'Big 4' and two non-'Big 4' firms.

One of the 'Big 4' firms withdrew from the tender due to having limited resources available for December year end audits. Confirmation of independence was sought from each firm on the 'Long List'. As one of the firms provided no response to our request for independence, they were excluded from the process.

An assessment criteria was prepared to ensure critical and fair evaluation of each firm. As part of the tender process, Lucinda Bell (Committee Chair) and Damian Wisniewski (CFO) held introductory meetings with all of the proposed Lead Audit Partners. Lucinda Bell provided the Committee with feedback on each proposed Lead Audit Partner. Following which, the Committee agreed the 'Short List', which was comprised of two 'Big 4' firms and a non-'Big 4' firm.

'Short List'

Each shortlisted firm received a Request for Proposal (RFP) on 4 September 2023 outlining the selection criteria and further information in preparation for the presentations to the Committee. In addition to the RFP, and following the completion of the prepared NDA, secure access to the Data Room was provided to the shortlisted firms on 15 September 2023.

All firms were given the opportunity to meet with members of the Audit Committee, Executive Committee and senior management to aid them in understanding our requirements and in preparing their proposal.

External Audit Tender Timetable



Presentations to the Audit Committee

Presentations by all firms to the Audit Committee were held on 7 November 2023 with a scorecard template used to assess each firm based on the selection criteria outlined in the RFP.

The Committee has remained consistently involved throughout the tender process. The presentations were well attended by members of the Committee, Non-Executive Directors and senior managers from the Finance team.

Following the presentations, an average score for each firm was calculated. The 'approach to transition' from the selection criteria was not included in the calculation of scores, as it would have provided an unfair advantage to the incumbent auditor.

Approach to fees

Throughout the tender process the primary focus of the Committee has been on securing a firm who will provide a robust and independent audit.

Although the approach to fees was outlined by each firm in advance, the content was not disclosed to the Committee until the final selection stage. Consideration of fees only became a focus when the Committee prepared to make its final recommendations to the Board.

Recommendations to the Board

On 14 November 2023, a robust discussion was held by the Committee to agree its recommendations for the Board. The Committee took into consideration the feedback from individual Committee members, Non-Executive Directors, members of the finance team and the results of presentation scorecards. It was agreed that all three shortlisted firms were appointable candidates who had performed well throughout the tender; however, careful consideration was given to audit quality.

At the Board meeting on 8 December 2023, the Audit Committee recommended two of the shortlisted firms. After a detailed discussion, the Board agreed to reappoint PwC as the external Auditor for the 2024 year end audit.

Audit firm 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 Audit Quality Review
- ESG assurance capability

Audit approach

- Clear audit plan based on transparent risk assessment of the business
- 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 the Audit Committee

Quality of deliverables

- Clarity and conciseness of proposal document and presentation
- Behaviour of team: quality of interaction, organisation and preparation
- Ability to demonstrate independence and challenge

Approach to transition

- A clear and well thought out transition plan

Access to Data Room and management meetings

From 15 September to 12 October 2023

Presentations to the Audit Committee

7 November 2023

Recommendations to the Board

8 December 2023

AUDIT COMMITTEE REPORT continued

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 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 aspects considered by the Committee during its review are detailed in the adjacent table.

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 207 to 209).

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. The proposed AQIs for the 2023 year end were as follows:

- experience and continuity of the audit team;
- success in achieving the agreed timetable;
- management and engagement team feedback;
- number of audit misstatements, both adjusted and unadjusted; and
- number of control findings.

After taking all of these matters into account, the Committee concluded that PwC had performed their audit effectively, efficiently, and to a high quality. Following the tender conducted during 2023 (see pages 150 and 151) the Committee recommended two shortlisted firms to the Board. The Board agreed to reappoint PwC as Auditor to the Group for the year ending 31 December 2024, subject to reappointment at the 2024 AGM.

Annual effectiveness review of the external Auditor

Qualification and expertise
The qualification and expertise of the Lead Audit Partner and the wider audit team
Resources
The availability of resources to perform a comprehensive and timely audit
Non-audit services
Adherence to the Non-Audit Services Policy
Quality
Quality of the audit plan, overall audit and outcome report
Planning
Quality of planning and ability to meet deadlines
Judgements and estimates
Quality of audit in respect of key judgements and estimates

The Independent Auditor's report to the members of Derwent London plc is available on pages 206 to 213, and its audit opinion is consistent with the report received by the Audit Committee.

Change in audit partner

Sandra Dowling has been Lead Audit Partner since the 2020 half year review. The Committee has been pleased with the challenge raised by Sandra Dowling and her team during the year. Following the external audit tender, Thomas Norrie will succeed Sandra Dowling as Lead Audit Partner in 2024.

Audit exemption

For the year ended 31 December 2023, a number of the Group's wholly owned subsidiaries are entitled to exemption from audit, under section 479A of the Companies Act 2006. We have identified in the table on pages 216 and 262 which subsidiaries intend to utilise the audit exemption.

Derwent London plc is the sole member of these companies and has unanimously agreed to the adoption of the exemptions and to the granting of a guarantee in accordance with section 479C of the Companies Act 2006.

Non-audit services

The objective of maintaining the Non-Audit Services Policy (the Policy) is to ensure the independence of the external Auditor is not compromised and that the provision of such services does not impair the external Auditor's objectivity. The Policy was last approved by the Audit Committee in November 2023. The review confirmed that the Policy remains compliant with regulation, with no significant matters raised.

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 review:

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

Extract of the 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 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.

When reviewing requests for permitted non-audit services, the 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 Committee would also assess whether it is probable that an objective, reasonable and informed third party would conclude independence is not compromised.

Audit and non-audit services in 2023

The audit fees incurred by PwC during the year totalled £619,500. In respect to the non-audit services provided by PwC, this equated to £70,500 and related to the review of interim results. The Committee confirmed that it does not believe that the level or nature of the non-audit services provided during 2023 have impacted on PwC's actual or perceived independence as Auditor.

	2023		2022		2021	
	£'000	%	£'000	%	£'000	%
Audit of Derwent London plc and subsidiaries	620	90	657 ²	90	530	78
Review of interim results	71	10	64	10	60	9
Other non-audit services	–	–	–	–	90 ¹	13
Total fees	691	100	721	100	680	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 2022 includes a cost overrun of £97,800.

Assurance over external reporting

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

Our approach

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. To keep our shareholders and the wider market informed, we release results on a quarterly basis. Our financial calendar for 2024 can be found on page 287.

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 as well as the financial statements).

Our financial statements are subject to audit by our external Auditor, PricewaterhouseCoopers LLP (PwC) and the entire annual Report is subject to a fair, balanced and understandable review by both the Audit Committee and the Derwent London Board (see page 145). In addition, any key accounting issues or judgements made by management are reviewed and agreed with the Audit Committee (page 146).

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 147).

Impairment review

Impairment testing of trade receivables and accrued rental income recognised in advance of receipt remains a key area of estimation for the Group, and is subject to extensive review by our internal team.

As at 31 December 2023, our lease incentive and trade debtors, including impairment, amounted to £204.5m (2022: £193.7m) and an ECL provision of £4.6m has been recorded (2022: £5.0m) for bad debts (see pages 222 and 240).

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.

Remuneration

Key disclosures in our Remuneration Committee report are subject to independent audit by PwC. Our remuneration disclosures are also reviewed by Deloitte LLP to ensure they are aligned with best practice. Deloitte LLP 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.

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 86 to 89. 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 page 210).

Environmental, social and governance (ESG)

We understand the importance of clear and accurate reporting of key ESG data to our stakeholders. During the year, we have obtained independent limited assurance from Deloitte LLP in accordance with ISAE 3000 (Revised) and ISAE 3410 Standards, in respect of:

- Selected energy and carbon reporting metrics (Scope 1, 2 and 3 GHG emissions data, intensity ratio and energy data); and
- Selected health and safety metrics (all RIDDORs, fatalities, minor injuries, 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 155).

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, our TCFD disclosures are subject to periodic third party review. Our last review was undertaken on our 2022 Report & Account disclosures.

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
- Compliance with REIT guidelines
- Valuation of investments in, and loans to, subsidiaries

Information on PwC's audit of these disclosures is provided on pages 207 to 209.

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 the London Stock Exchange’s regulatory news service (RNS). Any additional information is subject to detailed internal review.

Quarterly business updates

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 key disclosures

The table below provides an overview of our key reporting disclosures in the 2023 Report & Accounts and the level of assurance we received. This is in addition to the detailed verification process adopted by the Executive management 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 214 to 282
Key EPRA financial metrics¹	International Standards on Auditing (UK) and applicable law	PwC	Page 278
Portfolio valuation	External valuation in accordance with RICS Valuation Global Standards and the Red Book	Knight Frank & Savills	Pages 63 to 66
Key performance indicators²	Detailed internal review and external assurance on specific KPIs from PwC and Deloitte LLP	PwC & Deloitte LLP	Pages 37 to 41
Environmental, energy and carbon	ISAE 3000 (Revised) and ISAE 3410 Standards ‘limited assurance’	Deloitte LLP	Pages 60 and 61
Task Force on Climate-related Financial Disclosures (TCFD)	Detailed internal review during 2023 following an external private review in 2022	–	Pages 104 to 117
Health and safety statistics	ISAE 3000 (Revised) Standard ‘limited assurance’	Deloitte LLP	Page 55
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 84 and 85

1 EPRA earnings and EPRA NAV metrics (EPRA NRV, EPRA NTA and EPRA NDV).

2 The key performance indicators subject to independent limited assurance by Deloitte LLP (energy intensity) and audit by PwC are identified on pages 37 to 41.

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 44). Certain environmental and health and safety metrics are subject to independent limited assurance under the ISAE 3000 (Revised) and ISAE 3410 Standards. This assurance captures the data we disclose on utility usage, waste generation and energy consumption.

In addition to TCFD (see pages 104 to 117), we report in accordance with the EPRA Best Practices Recommendations on Sustainability Reporting. Disclosures are prepared by the Sustainability team and subject to detailed internal reviews.

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.