

## AUDIT COMMITTEE REPORT CONTINUED

### Internal audit

On an annual basis, the Committee considers whether Derwent London would benefit from the establishment of an internal audit function. Although historically this was not deemed necessary – due to the relatively small scale and level of complexity of the organisation, the focused nature of the Group's business and the close involvement of Directors in day-to-day operations – it was agreed in August 2018 that an outsourced internal audit function would be established to provide additional assurance and suggestions for best practice improvements.

In November, four internal audit firms presented to the Committee Chair and executive team. It was agreed that RSM would be appointed to provide an outsourced internal audit function, initially for a three-year period, to conduct a series of risk-based internal audits and projects. RSM perform no other work for the Group and are considered by the Committee to be independent.

The Committee will approve the internal audit plan for 2019 in May 2019 in liaison with the Risk Committee. RSM will attend each Committee meeting to present their findings and progress against the internal audit plan. The other Board Committees will be kept updated on the outcome of any reviews which fall within their areas of responsibility.

### Viability statement

We have reviewed the process and assessment of the Company's prospects and viability made by management for the next five years which formed the basis for the viability statement (see page 44).

### Whistleblowing

As a business, we seek to conduct ourselves with honesty and integrity and believe that it is our duty to take appropriate measures to identify and remedy any malpractice within or affecting the Company. Our employees embrace our high standards of conduct and are encouraged to speak out if they witness any wrongdoing which falls short of those standards.

Our whistleblowing procedures are included within our staff handbook, on our Group intranet and staff noticeboards. In addition to an independent reporting line for anonymous reporting of concerns, the Senior Independent Director acts as an independent point of contact for whistleblowing concerns.

Our whistleblowing policy ensures that any significant issues relating to potential fraud are escalated to the chair of the Committee immediately. The Committee receives updates from the Company Secretary on the operation of the whistleblowing system. During the year under review, we did not receive any whistleblowing messages (2017: no messages).

### Review of the 2018 Annual Report

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

#### Fairness and balance

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

#### Understandable

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

#### Specific considerations for the 2018 Annual Report

Are we providing clear and detailed explanations in respect of:

- Our Board succession plans and how we intend to mitigate against any governance issues?
- Brexit risk and opportunities?
- The remuneration paid to Executive Directors and senior managers in respect to Board succession changes?

Structural changes to the 2018 Annual Report included:

- the introduction of a dedicated stakeholder section within the Strategic report (see pages 18 to 19);
- restructuring the Responsibility report to provide clearer explanation and linkage (see pages 74 to 81);
- expanded disclosures on our viability assessment (see pages 44 to 45); and
- the introduction of 'Governance at a glance' and 'Remuneration at a glance' to improve readability (see pages 86 and 118).

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

Following its review, the Committee confirmed to the Board that the 2018 Annual Report is fair, balanced and provides sufficient clarity for shareholders to understand our business model, strategy, position and performance.