

Effectiveness of material controls

Following the publication of the UK Corporate Governance Code 2024, preparations are well underway to ensure compliance with the requirements of provision 29 for the year ending 31 December 2026. A timeline outlining the key milestones to achieving compliance is outlined below.

Our approach

An initial proposal on material controls (financial and non-financial) and assurance has been reviewed by the Risk and Audit Committees and is subject to further enhancement in preparation for a ‘dry run’ in H2 2025.

Existing governance structures mean that the Board and its principal committees already report upon the effectiveness of a range of controls in the annual Report & Accounts. Efforts are therefore being focused on leveraging this strong foundation and strengthening any gaps to ensure the Board has the requisite level of confidence in making their annual declaration on the effectiveness of material controls.

Identifying our material controls

Materiality for the purposes of complying with provision 29 of the Code has been informed by looking at Derwent London’s risk appetite, Schedule of Principal Risks, Board Assurance Framework as well as detailed risk assessments and controls documentation. It takes into consideration the size, nature and complexity of our operations as well as the requirements of various reporting regimes, laws and regulations that we are obliged to comply with.

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



Assurance

While the Code does not require independent or external assurance to be obtained, for those material controls that have the highest impact of the long-term sustainability of the organisation and are most likely to influence decision makers, independent/external assurance will be sought in line with good practice.

To date, existing assurance activities have been mapped against proposed material controls using the Board Assurance Framework and knowledge of the assurance environment. An assessment of the strength of current assurance activities has been performed, and where gaps have been identified, recommendations for additional assurance have been made for consideration by the Board.

Key milestones to compliance

January 2024	FRC published the UK Corporate Governance Code 2024 and supporting guidance
August 2024	Schedule of Principal Risks was rationalised
November 2024	Draft material controls and assurance proposal reviewed by the Risk and Audit Committees
H1 2025	Revised material controls to be reviewed and agreed in principle by the Audit and Risk Committees and the Board
H2 2025	A ‘dry run’ of material controls assurance pack to be reviewed by the Audit Committee and adjustments made as required
H1 & H2 2026	Updates on assurance outcomes performed throughout the year provided to the Audit Committee
H2 2026	Material controls assurance pack to be reviewed by the Audit Committee
December 2026	Annual Report & Accounts for year ending 31 December 2026 to include the Board’s declaration on the effectiveness of material controls

■ Completed ■ In progress ■ To be completed

Internal audit

The Internal Audit Plan for 2024 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.

2024 was the first year in which Derwent London saw delivery of the Internal Audit Plan by the in-house Head of Internal Audit. A range of assurance and advisory reviews were delivered that have provided a meaningful contribution to the effectiveness of the organisation's governance, risk management and internal control frameworks.

Audits performed during 2024 include:

- Sales & acquisitions
- DL/Lounges & DL/App
- Accounts payable
- VAT compliance
- External & internal cyber security tests
- Environmental KPI control design

Annual review of the internal audit function

A formal review of the effectiveness of the internal audit function and the internal audit process was conducted at the Audit Committee in February 2025, where it was concluded that the process had been conducted effectively and that the assurance received through internal audits had been beneficial to the Committee and management. The depth of business understanding from the in-house function has helped ensure recommendations are commercial and proportionate, solidifying the position of internal audit as both an assurance provider and a trusted adviser within the business.

New Global Internal Audit Standards and Internal Audit Code of Practice

The International Internal Audit Standards Board (IIASB) released the new Global Internal Audit Standards (the Standards) in early 2024, with an effective date of January 2025. At the heart of the new Standards are five domains and 15 guiding principles that enable effective internal auditing, supported by a number of standards.

Following the update of the Global Internal Audit Standards, a new Internal Audit Code of Practice (the Code) was released by the Institute of Internal Auditors (IIA) in September 2024 to align with the revised Standards. The Code is also effective from January 2025. It is principles-based and is intended to fortify the role of internal audit in helping boards and management identify, manage and mitigate risks in an ever-evolving landscape.

An assessment was conducted in November 2024 and while compliance with the new Code is already at a good level, several areas for ongoing improvement have been agreed with the Audit Committee. These will be implemented during 2025 and beyond to demonstrate a commitment to continuous improvement and compliance with both the Code and the new Standards.

Internal controls

Our internal control environment allows the Company to safeguard its assets, prevent and detect material fraud and errors, and ensure accuracy and completeness of its accounting records which are used to produce reliable financial information. During 2024, we have undertaken the following key actions to further strengthen our internal controls:

- A new supplier portal has been developed and is live on the internal Derwent Central platform which helps automate the set-up process and strengthens due diligence performed on suppliers prior to onboarding.
- The new payroll system is scheduled to go-live in early 2025 which will allow for automated workflows between HR and Payroll.
- Cyber Essentials Plus certification has been obtained.
- A continuous learning approach to cyber awareness has been maintained, with employees completing a number of 'bite-sized' modules throughout the year. This helps to raise threat awareness in real-time and enables customised training.
- Implementation of recommendations raised in internal audit reports and by other external assurance providers to address control gaps and further strengthen the financial and non-financial control environment.

Effectiveness review

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

On an annual basis, the Committee reviews the Group's Fraud Risk Management Framework (the Framework), 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 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 128 and 165.

Following the Audit and Risk Committees' reviews (see page 93), 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:

- **Culture:** We have a defined set of values and strategic objectives that are supported by our 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 challenge requests that do not follow standard procedures.
- **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:** A relatively simple Group legal structure with clear delegated authority limits and authorisation hierarchies.
- **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 129) supports effective internal controls through an approved Schedule of Matters Reserved for 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 (see 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 and are executed in line with delegated authority levels and reviewed externally by our advisers. Taxation is a complex area and is subject to frequent external review. Corporate tax returns are prepared internally by the Tax Manager and are reviewed by senior members of the Tax team and externally by tax advisers on a sample basis. Other higher risk areas like VAT, PAYE, SDLT and CIS are subject to thorough examination and testing and external advisers are consulted where necessary. We maintain an open relationship with HMRC which assessed our tax status in 2023 as 'low risk' in all categories. Further information on tax governance is on page 56.
IT controls	IT general controls are a fundamental part of the financial control environment and apply to all 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 backup 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 perceived or actual misconduct, wrongdoing, or fraud (see page 128).
External/Independent evaluation	A range of external and independent evaluation is in place to provide an additional layer of assurance over the effective operation of key financial controls. The in-house internal audit function performed various assurance reviews during 2024 which included testing of a range of key financial controls. External advisers with specialist knowledge are periodically engaged to review particular financial controls. The implementation of recommendations arising from these reviews are monitored by the Risk and Audit Committees.