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The Deloitte Academy
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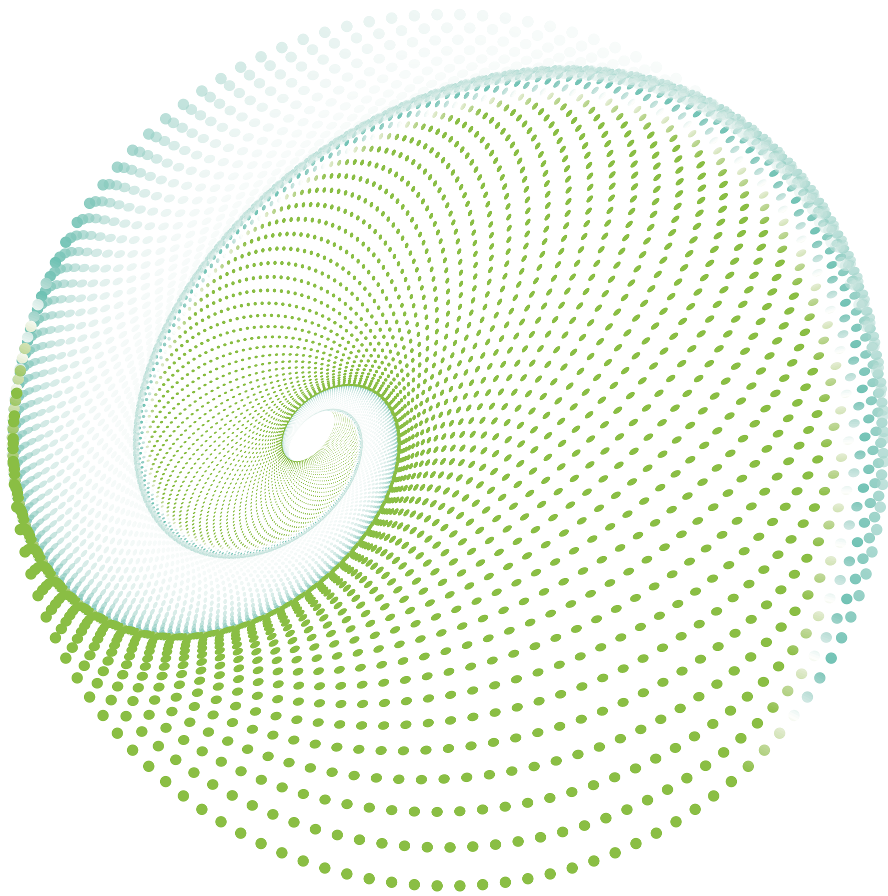

Taking ownership: key considerations for the new Provision 29 declaration

Background

For periods commencing on or after 1 January 2026, the 2024 UK Corporate Governance Code will require boards to make a declaration on the effectiveness of their material controls as at the balance sheet date.

Boards have been preparing for the new declaration for the past two years. This has involved determining the appropriate material controls, thinking about what effectiveness of a control means for the organisation and identifying sources of assurance to support the board making the declaration.

Some companies have now done a first draft of the declaration that will be included in their next annual report and this article sets out key matters for boards to consider when drafting and/or reviewing their declaration:

- The board’s oversight activities
- Definition of the material controls population
- Sources of assurance
- Control effectiveness
- Conclusion
- Plans for non-material enhancements
- Recognition of need for ongoing refresh of the process
- Proposed location and length of disclosure

1. A description of how the board has monitored and reviewed the effectiveness of the framework

MATTERS TO CONSIDER

Does the draft statement start with a clear explanation of the governance approach and responsibilities?

Does the draft disclosure provide a clear explanation of how the board monitored and reviewed the effectiveness of the risk management and internal control framework?

Has the draft statement been appropriately integrated into existing governance disclosures (under the 2018 Code Provision 29) on board oversight of the risk management and internal control framework?

Relevant source materials

The board should provide in the annual report a description of how the board has monitored and reviewed the effectiveness of the [risk management and internal control] framework.
Provision 29 (first bullet), UK Corporate Governance Code

The board should establish and maintain an effective risk management and internal control framework and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives.
Principle O, UK Corporate Governance Code

The reporting should set out the governance that led to the decision on the material controls and the oversight that the board has undertaken.
FRC Provision 29 Mythbuster

Some example wording:

"The board recognises that no system of internal control can fully mitigate the risks to which the Group is exposed, but the board has responsibility to ensure that internal controls are designed, implemented and monitored to manage those risks within the risk appetite that the board has agreed."

"The board is responsible for the Group's risk management and internal control framework. Under Provision 29 of the UK Corporate Governance Code 2024, the board is required to monitor the framework on an ongoing basis and to carry out, at least annually, a review of its effectiveness. The monitoring and review must cover all material controls, including financial, operational, reporting and compliance controls."

"The board has overall responsibility for the Group's risk management and internal control framework and for reviewing its effectiveness. The board has asked the Audit Committee to monitor and review the effectiveness of the Group's framework for the year ended 31 December 2026. Maintaining a strong risk and internal control environment is critical to the effectiveness of our overall governance framework. Risk management and internal control are embedded into the Group's governance and operating model. In line with their responsibilities, the board focused its assessment on those elements of the framework that are most relevant to managing the Group's principal risks, having regard to potential impacts on the Group, shareholders and broader stakeholders, across financial, operational, reporting and compliance controls."

"At regular points throughout the year, the board received reporting on the effectiveness of the risk management and internal control framework. This included periodic updates from the Senior Leadership Team on the control environment and reports from the Audit Committee and Risk Committee following each of their meetings. Management also reported to the board on risk exposures, control incidents and remediation activity.

The Risk Committee, on behalf of the board, oversaw the broader risk management framework and control environment. The Audit Committee maintained oversight of financial reporting controls and the work of Internal Audit. Both committees reported regularly to the board and escalated matters requiring board attention.

In addition to this monitoring activity, as required by the Code, the board carried out a formal annual review of the effectiveness of the risk management and internal control framework. The scope of the review covered material controls across financial, operational, reporting and compliance areas."

2. Definition of the material controls population

MATTERS TO CONSIDER

Is there a clear explanation of how the population of material controls had been determined?

Is the population of material controls clearly linked to the principal risks?

Relevant source materials

We do not expect companies to list their material controls, nor state the specific testing that has been carried out.
FRC Provision 29 Mythbuster

Some example wording:

"Material controls are those elements of the control environment that are most relevant to managing the Group's principal risks, having regard to potential impacts on the company, shareholders and broader stakeholders, across financial, operational, reporting and compliance controls."

"Our material controls were identified by reference to the Group's principal risks and other areas where a deficiency in control could have a material impact on the Group, its shareholders, and broader stakeholders."

"We have defined material controls as those critical to principal risks and our strategic objectives, taking into consideration strategic relevance, regulatory requirements and potential consequences of failure"

MATTERS TO CONSIDER

Is there any acknowledgement in the draft disclosure of different types of control, e.g. entity-level, framework or process?

Some example wording:

"When determining the effectiveness of our population of material controls, controls are not assessed on an individual basis, instead the effectiveness of controls in aggregate in mitigating the Group's principal risks is considered, taking into account the existence of compensating controls within the overall framework where weaknesses or control ineffectiveness are identified."

"Our material controls include the following different types of control activities:

- *Entity-level governance forums which oversee risk and compliance activities*
- *Our Code of Conduct (including related policies and training expectations)*
- *Internal risk and control frameworks e.g. the financial reporting process for our SOx attestation.*
- *The Group's delegation of authority"*

MATTERS TO CONSIDER

Is there any reference to controls over principal risks which are managed through monitoring activity due to their particular nature?

Some example wording:

"By their nature, some of our principal risks, e.g. geopolitical uncertainties, are not managed through a traditional control activity. Instead, these types of risks are managed through regular monitoring activities which aim to allow us to track any potential impact that may arise and respond accordingly."

3. Sources of assurance

MATTERS TO CONSIDER

Does the draft disclosure set out the sources of assurance obtained to support the declaration?

Where external assurance has been obtained, is it clear what the nature and focus of the assurance engagement was, e.g. was it limited or reasonable assurance and which were the relevant material controls to which the external assurance relates?

Relevant source materials

While not a requirement or expectation in the Code, companies may include any internal or external assurance received [in the disclosure].
Para 294, **Corporate Governance Code Guidance**

Some example wording:

"Management in the first-line provided reporting and self-certification on the design and operating effectiveness of key controls. Legal, Risk and Compliance functions provided second-line oversight and challenge. Internal Audit, reporting to the Audit Committee, undertook independent evaluation and testing of material controls."

"Regular reporting from management on the effective operation of the risk management and internal control framework; the activities of second line functions in monitoring and testing controls; regular review and challenge of risks and controls by the Executive Committee and the Group Risk and Compliance Committees; independent assurance provided by Internal Audit; and insights from the external auditor arising from its work on the audit of the financial statements."

4. Control effectiveness

MATTERS TO CONSIDER

Does the draft disclosure make clear the context for concluding that a control has "operated effectively"?

Some example wording:

"We have interpreted a control operating effectively to mean that the relevant controls functioned as intended and kept the associated principal risks within the Group's defined risk appetite."

"Material controls are referenced as those that keep principal risks within risk appetite. Where the board believes that one or more of the Group's principal risks are not being adequately managed or mitigated, then, in those circumstances, it would disclose that there was an ineffective material control under Provision 29 of the Code."

Spotlight on concluding that a material control is not operating effectively

A common area of concern for many boards as we get closer to the new declaration is how to determine the tipping point for concluding that a material control has not operated effectively. This is particularly relevant where a material control is framework-based and comprises a number of different components of internal control. How many of those elements would need to fail before the material control is deemed ineffective overall?

There is no easy or formulaic answer here. This will require board discussion and judgement, considered on a case by case basis, based on a clear understanding of the risk that the control framework is intended to manage and how the different control elements operate together. Only by considering the severity of failures, and how compensating controls operated within the framework, will it be possible to reach a conclusion on overall effectiveness.

Spotlight on material controls relating to cyber risks

Cyber risk is an area where boards may find it particularly challenging to conclude whether material controls are operating effectively. Cyber risk comes from an ever-evolving threat environment which is hard to assess at a particular point in time. The key is to remember that an effective control is not, in the majority of cases, eliminating a risk, it is managing a risk within a considered and agreed risk appetite.

It is no different with cyber risk. Boards need to determine their risk appetite for the potential impact of a cyber-attack and establish controls designed to keep the residual risk within those parameters. In the current environment, this requires a balanced focus on prevention, detection, response and recovery, recognising that the effectiveness of cyber controls should be assessed not only by whether an incident occurs, but by how well the organisation is prepared to identify, contain and recover from one.

A clear explanation of what control effectiveness means in the context of cyber risk should help stakeholders understand the basis for the board's conclusion and avoid any misconception that an effective control environment equates to the absence of cyber incidents.

Spotlight on managing risk in the current environment

In this rapidly changing risk and control environment, boards need to incorporate resilience planning as a core part of their oversight of the risk management and internal control framework. This means looking beyond whether controls are operating as designed at a point in time and considering how the organisation would respond to unexpected material shocks, including fast-moving external events, operational disruption, regulatory change or control failures.

Boards may want to consider building some of these considerations into their Provision 29 disclosure. Demonstrating effective practice through regular horizon scanning, scenario analysis and stress testing, clear escalation routes, defined responsibilities for crisis response and recovery and timely board reporting on emerging risks, incidents and remediation activity.

Such transparency should provide confidence that the board is working to ensure that the organisation's material controls, contingency arrangements and decision-making processes remain aligned to its risk appetite, principal risks and strategic objectives. It should also help the board to identify whether further enhancements are needed to maintain resilience as the risk landscape evolves.

5. Conclusion

MATTERS TO CONSIDER

Does the draft disclosure provide a clear conclusion on whether the material controls had operated effectively as at the balance sheet date?

Relevant source materials

The board should provide in the annual report a declaration of effectiveness of the material controls as at the balance sheet date.
Provision 29 (second bullet), UK Corporate Governance Code

As long as the declaration is clearly signposted in your annual report and the board demonstrates oversight and confidence in the material controls, this would constitute compliance with the second bullet of the Provision.
FRC Provision 29 Mythbuster

Some example wording:

"With the evidence presented, the board confirms that the Group's material controls were operating effectively as at 31 December 2026 and that there were no significant deficiencies identified as at 31 December 2026."

"Based on the evidence and assurances received, the board is satisfied that the Group's material controls were operating effectively as at 31 December 2026."

"The board concludes that, as at 31 December 2026, the material controls were operating effectively. The board is satisfied that the material controls provided a sound basis for managing our principal risks."

"Based on the work undertaken and evidence obtained during FY26, the board confirms that it has monitored and reviewed the effectiveness of the company's risk management and internal control frameworks. The board concludes that, as at 31 December 2026, the material controls were operating effectively, except for selected material controls related to the following matters: ……"

6. Plans for non-material enhancements

MATTERS TO CONSIDER
Is there reference to broader enhancements being made in non-material areas of the internal control framework?

Some example wording:

"Certain incidents and control failures were reported to the board during the year, but these were reviewed and not judged to represent systemic or significant weaknesses in the company's risk management and internal control framework."

"Where areas for enhancement in our risk management and internal control framework were identified, management has taken, or is progressing, actions to strengthen controls, enhance consistency and improve monitoring. The Audit Committee considers these actions, and their timely resolution, on a regular basis."

"During the year, multiple internal controls were identified for enhancement as part of our commitment to continuous improvement of the risk management and internal control environment. The Audit Committee, on behalf of the board, monitored management's remediation of these control improvement opportunities to ensure timely and effective completion."

7. Recognition of need for ongoing refresh of the process

MATTERS TO CONSIDER
Does the draft disclosure make any reference to the need for ongoing and/or regular refresh of the material control population?

Some example wording:

"The Board monitors and responds to changes in the risk landscape of our business and ensures that the Company's control environment evolves as necessary."

"The Board also considered whether the risk management and internal control framework remained aligned to the Group's risk profile, risk appetite and strategy to ensure that the material controls continued to manage any changing risks appropriately and effectively."

8. Proposed location and length of disclosure

MATTERS TO CONSIDER

Is the disclosure clearly signposted and has duplication been avoided through the effective use of cross-referencing?

Is the board confident that the declaration is appropriately aligned to other relevant disclosures to provide a consistent message on controls throughout the annual report?

Relevant source materials

Disclosures in some areas, for example, stakeholder engagement or risk management, are frequently dispersed across multiple sections of the annual report, resulting in duplication and fragmented narratives. Consolidating related content or using appropriate cross-referencing can significantly enhance coherence and improve readability.
FRC Annual Review of Corporate Governance Reporting November 2025

Spotlight on the location and length of your disclosure

When considering where to locate the Provision 29 disclosure, companies will typically have two main options:

- in the governance section, alongside other Code disclosures around board oversight responsibilities and activities; or
- in the Strategic Report, alongside disclosures around principal risks and uncertainties and how those are managed.

There is no prescribed location for the disclosure. The appropriate approach will depend on where the content fits most naturally within your annual report narrative. The key is to ensure that the disclosure is clearly signposted, aligned with related risk and governance reporting and avoids unnecessary duplication through effective cross-referencing, consistent with the FRC source material above.

In terms of the length, the FRC's message has been consistent: companies are not expected to produce extensive new disclosure. The Provision 29 disclosure (including the explanation of how the board monitors and reviews the effectiveness of the risk management and internal control framework) should be proportionate and focused.

To avoid boilerplate, boards are encouraged to focus on what was specific to the year, including the key oversight activities undertaken, the assurance obtained and any relevant developments in the risk and control environment.

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