

# Corporate Guidance

UK Corporate Governance Code | Provision 29

Risks, controls and assurance: a framework for the new Material Controls declaration



# Deloitte.

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# Purpose & Contents

Risks, controls and assurance: a framework for the new Material Controls declaration

## Purpose

The purpose of this document is to provide:

- i. A summary of the guidance the Financial Reporting Council (FRC) has issued with respect to updated provision 29.
- ii. Practical guidance and key considerations on the approach (with example outputs) based upon enhanced guidance from the FRC, insights and analysis gained from a range of listed entities and SME resources from across the Deloitte network.

*Note: Whilst this document covers all aspects of the provision, its primary focus is on the declaration of Material Controls effectiveness.*

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## 1

# What is Changing and Why

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## Background

In January 2024, the FRC issued the **updated UK Corporate Governance Code** ("the Code") which included changes to promote greater boardroom focus on the oversight of risk management and internal control matters.

The **new code replaces the 2018 version** and is applicable to all companies listed in the 'equity shares (commercial companies)' and the 'closed-ended investment funds' categories on the UK Official List, regardless of where they are incorporated.

It is **applicable to accounting periods beginning on or after 1 January 2025, except for Provision 29, which is applicable for accounting periods beginning on or after 1 January 2026.**

The revisions made to the code are a continuation of the FRC's focus on providing shareholders a **heightened understanding of the standards of governance and level of scrutiny** being applied by Boards.

This has been an area of focus for the FRC for over a decade, promoting the **importance of sound risk management** and the intrinsic **link with strategic objectives**, initially introducing the concept of principal risks, the appetite for risk, viability analysis through to this latest provision.

*"The Board should monitor the company's risk management and internal control framework and, at least annually, carry out a review of its effectiveness."*

*"The monitoring and review should cover all Material Controls, including financial, operational, reporting and compliance controls."*

**Provision 29 – UK Corporate Governance Code January 2024**

**Under the revised provision, the Board will be required to provide the following disclosure in the annual report:**

- 1** Description of how the Board has monitored and **reviewed the effectiveness** of the **[risk management and internal control]** framework.
- 2** **Declaration of effectiveness** of the Material Controls as at the balance sheet date.
- 3** **Description of any material control weaknesses** were **Material Controls** which have **not operated effectively** as at the balance sheet date, the action taken, or proposed, to improve them and any action taken to address previously reported issues.

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# What is Changing and Why

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## Additional Code Changes

In addition to the change to provision 29, and to underpin this focus on Board accountability, there has been a **change to the relevant Code principle:**

*"The Board should establish a framework of prudent and effective controls, which enable risk to be assessed and managed"*

*"The Board should establish and maintain an effective risk management and internal control framework"*

## Supplementary guidance from the FRC

- Procedures and processes should be in place to determine the **amount of risk** that a company is **willing to accept** in pursuit of its strategic objectives (risk appetite).
- The **Board** should **establish the extent** to which **principal risks** are to be **managed** or **mitigated**, and which **controls** will be put in place. Controls implemented should be appropriate to maintain these risks within the **defined risk appetite**.
- The Board should provide a **summary of how it has monitored and reviewed the effectiveness** of the **framework** during the **reporting period**. This may include:
  - the **type of information** the Board has **received and reviewed**;
  - the **units and individuals** it has consulted with;
  - any **internal or external assurance** received;
  - and if relevant, the **name** of the recognised **framework, standard or guideline** the Board has used to review the effectiveness
- The **Board cannot rely** solely on the **embedded monitoring processes** within the company to discharge its responsibilities. It should conduct its **own monitoring**, based on the **regular reporting** and other **communication** with **management, internal audit, external audit** and other appropriate functions and units.
- **Material controls** will be **company-specific** and therefore different for every company depending on their **features** and **circumstances**, including for example size, business model, strategy, operations, structure and complexity.
- When determining which **controls** are '**material**', the Board considers how a **deficiency** in the control could **impact** the **interests** of the **company, shareholders** and other **stakeholders**.

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# 10-step Approach: Start-up Phase

Risks, controls and assurance: a framework for the new Material Controls declaration

## Overview of 10-step Process (1/2) | Start-up Phase

From the FRC guidance and our own experience, we have developed a 10-step approach to enable a clear line-of-sight through risk, control, assurance and governance – starting with the organisation's purpose, strategy and business model. Our proposed approach covers:		Step	Outcomes
<p>(i) a <b>Start-up Phase</b> where the organisation's approach is defined, key enablers are identified, and foundational level of data will be compiled; and</p> <p>(ii) an <b>Operate Phase</b> where the Material Control will be assessed leading to the Director's Statement.</p> <p>The concept of Material Controls extends over a broad set of risk exposures that we collectively call Material Risks comprised of:</p> <p>(i) principal risks (including those analysed in LTVs);</p> <p>(ii) risks to cover additional areas outlined by the FRC including fraud, IT risks including cybersecurity, data protection and new technology; and</p> <p>(iii) external (financial and non-financial) reporting.</p>	01. Material Risks Identified	<p>A robust and timely process to <b>ensure all relevant Material Risks are captured</b> (and analysed in sufficient detail) to reflect the business model, strategy and evolving operating landscape. Particular attention should be given to ensure Material Risks are equally representative of those threat areas that are more dynamic and arising at pace over the shorter-term and those that are more static and tend to evolve over the mid-long term.</p> <p>Risk Appetite position to be <b>articulated for each Material Risk</b> that details scenarios and outcomes that the Board would deem unacceptable and are therefore to be avoided. This guides management in the design of appropriate controls frameworks, setting thresholds and ultimately agreeing Material Controls.</p> <p>This is a <b>tailored definition</b> to the organisation, a set of guiding principles and financial / non-financial materiality thresholds to support the identification of Material Controls.</p> <p>The code is purposely non-prescriptive over materiality or the nature of Material Controls however, the FRC has said that Material Controls are company-specific and should reflect the unique features and circumstances e.g. size, business model, strategy, structure, complexity etc. and take into consideration how the company and its shareholders would be impacted if a deficiency in control was to occur.</p> <p>It is anticipated that Material Controls will be made up of a <b>mix of traditional, bottom-up singular controls and control frameworks in combination with top-down governance, oversight, delegated authority, culture, policy and tone from the top type activities</b> that whilst not traditionally associated as formal controls are reflective of how performance and risk is monitored, risk mitigations and treatments are considered, and strategic and operational decisions are made.</p>	
	02. Risk Appetite defined		
	03. Material Control Definition		
	04. Material Controls		
	05. Governance (Oversight)		

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# 10-step Approach: Operate Phase

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## Overview of 10-step Process (2/2) | Operate Phase

Step	Outcomes
06. Assurance	Define the <b>nature and extent of assurance</b> that will allow Board's to conclude over the effectiveness of the Material Controls. Developing an integrated assurance framework will set clear standards over the level of coverage, type and source of assurance necessary to evidence the effective working of Material Controls. Assurance frameworks will need to operate on an ongoing basis and be <b>integrated</b> into governance with timely communication of assurance findings to highlight deficiencies and support attestation.
07. Monitoring	An <b>enhanced approach to monitoring by both the Board and management</b> applying a system of interlinked governance, timely assurance data and a series of operational performance and risk indicators defined for each Material Risk. The timing, frequency and depth of monitoring will be specific to each organisation and reflect the nature and type of Material Risk. Much of the data used for monitoring purposes will already be available internally and is often a case of collation, analysis and timely reporting at the appropriate level of governance. It will be useful to develop a reporting cadence with some form of uniform dashboard style reporting.
08. Deficiency Assessment	Assurance frameworks will need to <b>define what is a Material Controls failure</b> . By linking Material Risks to appetite definitions it is possible to define Material Control failures based on the appetite levels that have been set. This gives the first lens of assessment the second lens will be to assess the effectiveness of compensating controls that may mitigate single control failures. <b>Remediation can often take time</b> , particularly where controls need to be introduced, and evidence collated over a period of time. Therefore, <b>robust remediation tracking is essential</b> .
09. Board Governance	We anticipate companies will <b>delegate specific Material Risks to various executive forums</b> to undertake monitoring over the course of the year. This will need to be overseen by the Audit and Risk Committee or other relevant Board Committee as appropriate.
10. Directors Statement	The Board is <b>required to make a disclosure statement at the date of the balance sheet</b> over the effectiveness of the Material Controls. Disclosures will also need to be made on the approach the organisation has taken, known deficiencies and other issues or failures. A <b>disclosure approvals process needs to be established early</b> to put structure around disclosure management.

## 1

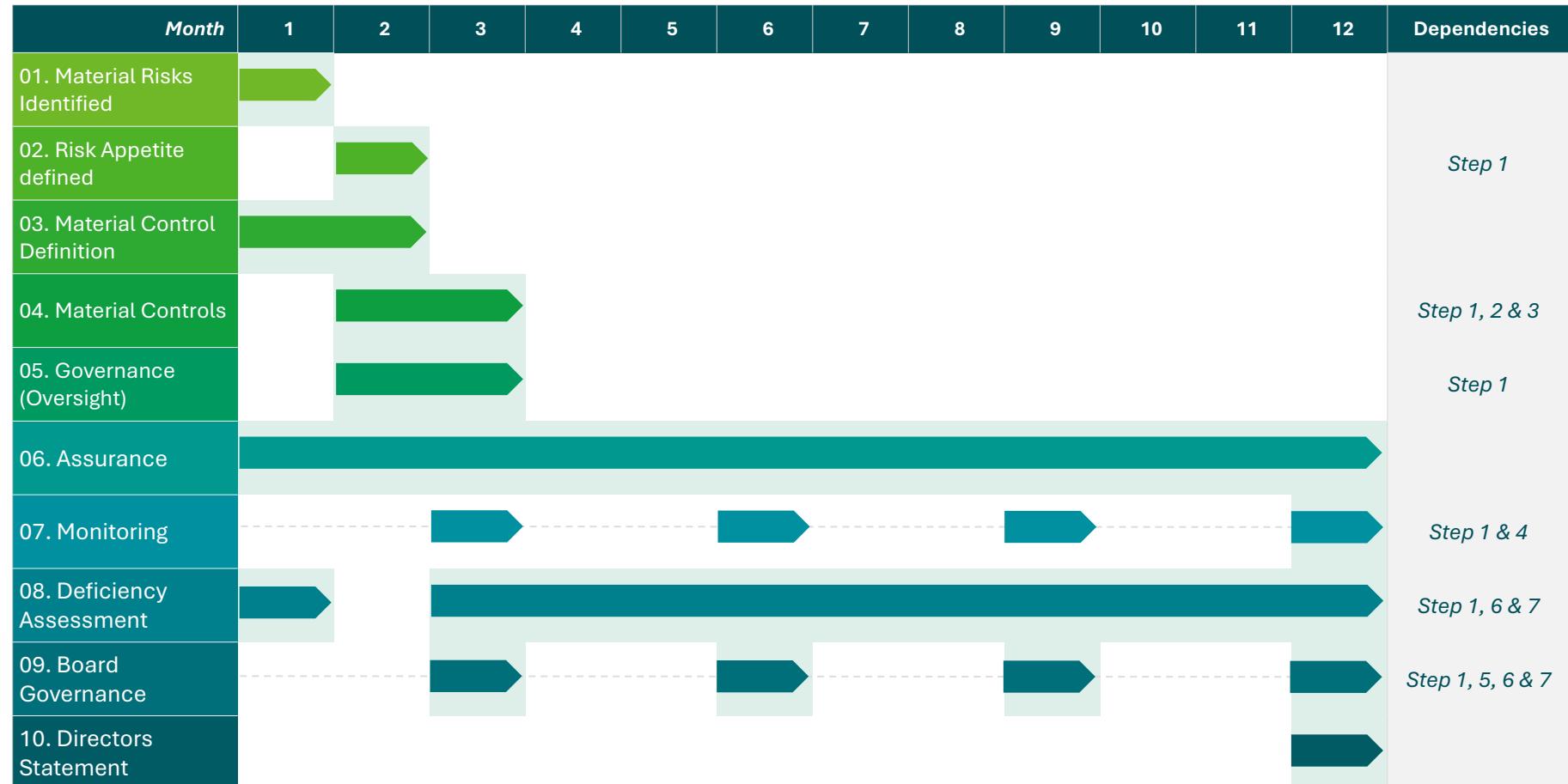
# 10-step Approach: Proposed Timeline (1/2)

Risks, controls and assurance: a framework for the new Material Controls declaration

Feedback from a number of our clients would suggest that whilst **some organisations** have been **preparing for provision 29 with detailed plans, approach and 'dry runs' now completed** there remains a **significant proportion** of organisations that are **yet to commence work in this area**. In recognition of this we have prepared **two timelines** to guide organisations in their preparation; **(i) those that are yet to commence their approach to provision 29; and (ii) those who have already completed a 'dry-run' and lessons learnt exercise.**

## Suggested Timeline for organisations who are yet to commence their approach to provision 29 exercise

- Although each organisation is unique, **a 12-month rolling program is recommended** to allow sufficient time for comprehensive planning, testing and remediation.
- Organisations approach may opt for a shorter duration tailored to their unique characteristics, such as their **level of risk maturity, readiness** and ability to leverage **existing risk frameworks and assurance programs**.
- Establishing a **centralised program management office is critical** to ensure effective coordination, alignment, and collaboration among stakeholders, driving progress towards a unified plan.
- The program requires **ongoing planning, rigorous tracking, continuous monitoring, and proactive intervention** to address potential delays and maintain momentum.



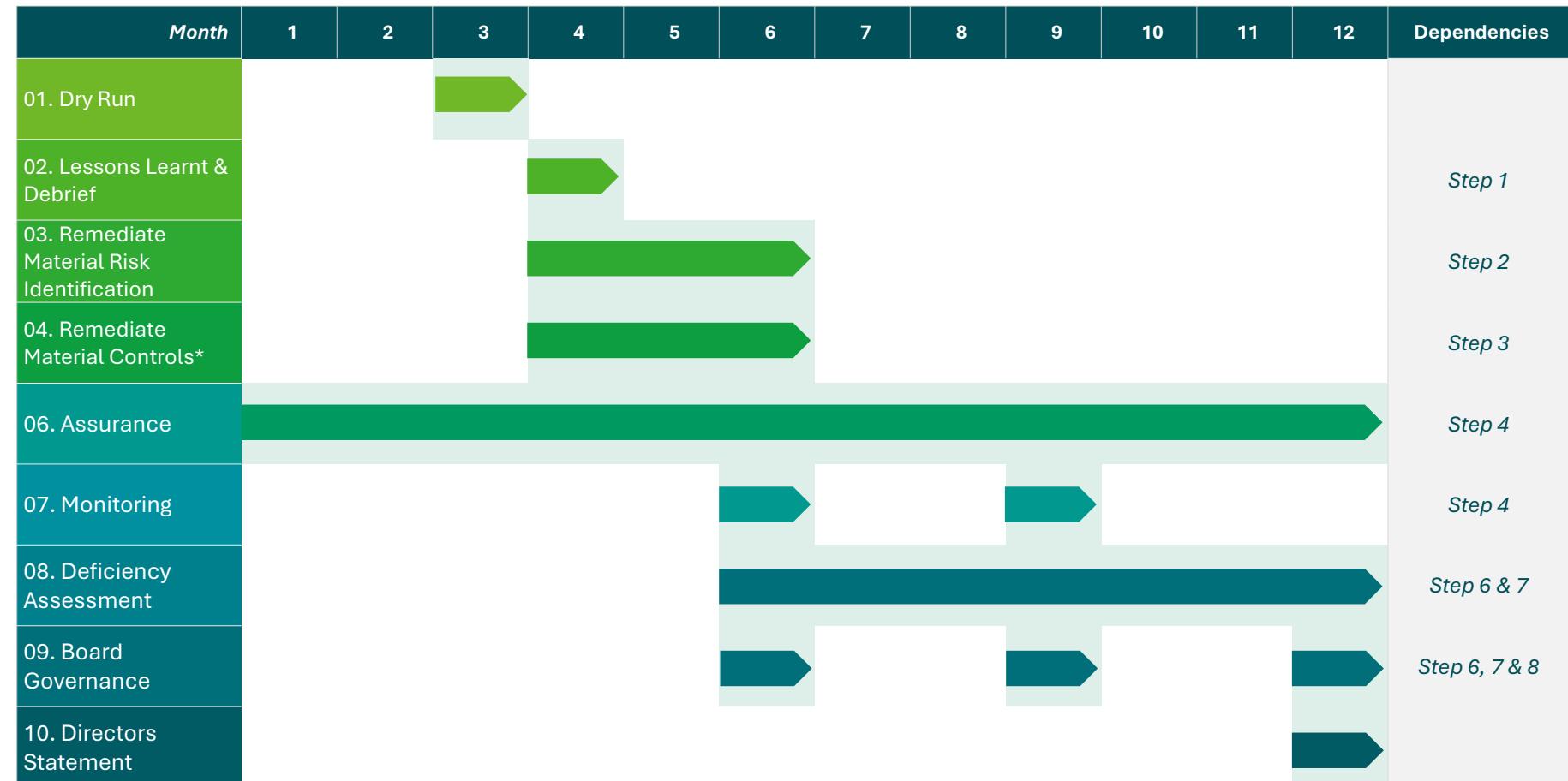
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## 10-step Approach: Proposed Timeline (2/2)

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### Suggested Timeline for organisations who have planned for a 'dry-run' and lessons learnt exercise

- Expectation that the **lessons learnt** and **debrief** will identify the need for **additional changes** to the initial set of **Material Risks and Controls**.
- Remediation of Material Controls expected to continue as approach is refined further, particularly as new control activity is introduced.
- Overall assurance activity and Board governance effort likely to decrease following first year of introduction.
- Continued input sought from External Auditors to help guide approach and align expectations.



\*Material Control identification, introduction, rationalisation

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# 10-step Approach Deep Dive: Step 1

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## 01. Material Risk

### Key objectives:

- ✓ Revisit the **principal risks**, particularly where they are not aligned to the strategy, operating model, developments in technology or external factors or fail to equally represent dynamic (fast moving) and more static risk areas.
- ✓ Expand the existing set of principal risks to **incorporate additional areas** outlined in the guidance provided by the FRC, including **external reporting, heightened areas of fraud and information and technology risks**.
- ✓ Enhance the **granularity of risk descriptions** to ensure they are specific and detailed, avoiding overly broad or thematic risk classifications.

### Deliverables:

- Agreement over Material Risk checked back to strategy, operating model and additional areas detailed by the FRC
- Further detail over Material Risks that are more thematic / category classifications

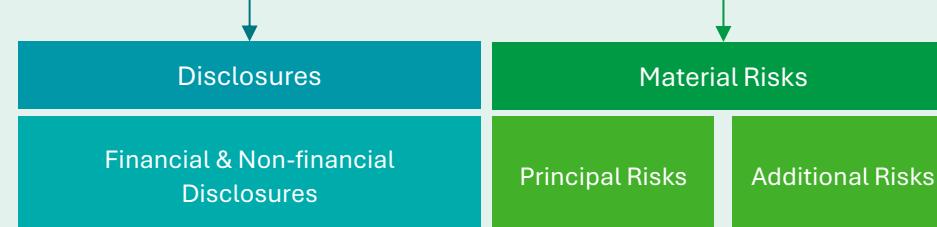
### Scope of Material Risks

The concept of Material Controls extends over a broad set of risk exposures that we collectively call Material Risks comprised of:

- i. principal risks
- ii. risks to cover additional areas outlined by the FRC including fraud, IT risks including cybersecurity, data protection and new technology; and
- iii. external (financial and non-financial) reporting.

The FRC guidance provides an overview on what these may entail.

- *External reporting that is price sensitive or that could lead investors to make investment decisions, whether in the company or otherwise.*
- *Risks that could threaten the company's business model, future performance, solvency or liquidity and reputation.*
- *Fraud, including override of controls.*
- *IT risks including cyber security, data protection and new technologies.*



### Activities:

1. **Form a working group** from senior operational and functional leadership and risk/control experts (e.g., CFO, CRO, Head of Internal Audit etc.) to ensure a comprehensive Material Risk identification and impact assessment.
2. **Update existing principal risks**, aligning them with strategy the evolving business landscape with the coverage of static and dynamic threats and challenges.
3. **Broaden identification** to include additional **areas detailed by the FRC** e.g. external reporting, fraud and information & technology risks (cybersecurity, AI etc.)
4. **Deconstruct** broad principal risks into detailed **sub-risks** to understand underlying components and drivers.
5. Identify specific "**core elements**" of each risk/sub-risk for precise control design.

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# 10-step Approach Deep Dive: Step 2 & 3

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## 02. Risk Appetite

### Key objectives:

- ✓ Define a **risk appetite position for each Material Risk** that is aligned to strategy and appropriate for the organisation.
- ✓ Ensure the defined risk appetite is **tailored to the specific needs and context of the business** and clearly defines those scenarios and/or outcomes that would not be acceptable to the Board.

### Deliverables:

- Develop an approach to define risk appetite and thresholds.
- Where available, expand existing approach to risk appetite to define scenarios / outcomes that would not be acceptable to the Board.
- Integrate risk appetite into Material Control design and communicate expectations across risk and control teams.

### Activities:

1. Define **the amount of risk the Board is willing to accept for each Material Risk**, considering the practical implications of each and avoiding ambiguity and industry or sector generalisations.
2. For each Material Risk, **determine the appropriate mitigation strategies** based on the defined risk appetite (*i.e. Tolerate, Transfer, Treat, Terminate*).
3. Ensure that the agreed **risk appetite and treatment strategies are linked** to and support the organisation's overall purpose, **strategy**, and business model.
4. Clearly **communicate the risk appetite across the organisation** to ensure consistent understanding, guide Material Control identification and threshold setting.

## 03. Material Control Definition

### Key objectives:

- ✓ Development of **standard definition and guiding principles** to guide the selection of Material Controls.
- ✓ Preparation of **financial and non-financial materiality thresholds linked to Appetite**.
- ✓ **Agree Board position on top-down controls, governance, assurance and confidence** in the overall control environment to help select appropriate Material Controls.

### Deliverables:

- Clarity over risk & control maturity and level of reliance being placed upon monitoring and oversight activity .
- Standard definition and guiding principles to define Material Controls.
- Preparation of financial and non-financial materiality thresholds.

### Activities:

1. Prepare a **standard definition and guiding principles** to help management recognise and select appropriate top-down and bottom-up Material Controls.
2. **Incorporate** that the **standard definition and guiding principles into the organisations approach** to provision 29 to ensure consistency in the type and level of Material Controls reflect the maturity of control and assurance frameworks (greater level of maturity in these areas will allow Boards to place greater assurance on management attestation, internal audit opinion, and monitoring activities).
3. Prepare **financial and non-financial materiality thresholds** to further help guide the identification of Material Controls.
4. **Provide awareness** and understanding of the standard definition and guiding principles across management teams responsible for risk and control activity. **Train the business.**

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# 10-step Approach Deep Dive: Step 4

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## 04. Material Controls

### Key objectives:

- ✓ Define the **appropriate suite of Material Controls based upon the type and nature of the Material Risk** and general level of maturity of the control and assurance framework.
- ✓ Test the proposed suite of Material Controls against stated risk appetites, where necessary introduce additional Material Controls and evaluate design effectiveness.

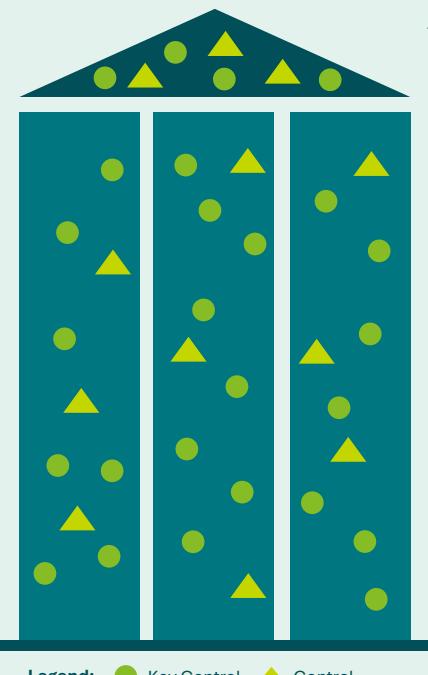
### Deliverables:

- Initial check over coverage across each Material Risk.
- Design & introduction of additional Material Controls.
- Final agreement over Material Controls.

### Types of Material Controls

Companies should review and select a suite of bottom-up and top-down Material Controls based on the type and nature of their risk profile, appetite and maturity of control and assurance frameworks.

There are three key control types; broad-spanning entity-level, operational and control frameworks, and more rare singular individual controls from which to construct the suite of Material Control. Organisations have used COSO 5 Principles as a starting point to build their control environment.



#### Entity-level Controls

Broad, overarching controls that establish the foundation of an organisation's internal control system, including Board and Executive monitoring forums providing governance and oversight, delegated authority and accountability, culture, policy etc. that shape the control environment and the effectiveness of more detailed controls.

#### Framework Controls

Operational and control frameworks purposely designed to manage core operational areas and critical risks (e.g. Health & Safety). Such frameworks typically include a tailored approach with bespoke governance, methodologies, and controls.

#### Individual Controls

Specific, granular controls or contained procedures operating at a process or transaction level (e.g. valuation of a specific financial statement line)

### Activities:

1. **Allocate each Material Risk** to appropriate Executive Sponsor / dedicated team.
2. **Identify existing singular controls and control frameworks** in operation.
3. **Identify other relevant top-down control activity** including policies, governance and oversight forums, delegated authority etc.
4. Check the **coverage and design effectiveness** of the suite of controls identified above in line with Material Control definition and risk appetite position. Where necessary either identify different / additional control activity or introduce other controls.

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# 10-step Approach Deep Dive: Step 5 & 6

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05. Governance
<p><b>Key objectives:</b></p> <ul style="list-style-type: none"> <li>✓ A framework of <b>Board and Executive oversight</b>, monitoring and intervention over each Material Risk (and associated Material Controls).</li> <li>✓ Enhanced monitoring and reporting of Material Controls to relevant forums.</li> </ul> <p><b>Deliverables:</b></p> <ul style="list-style-type: none"> <li>• Mapping of Board &amp; Executive oversight forums for each Material Risk</li> <li>• Board &amp; Executive oversight and ways of working framework &amp; guidance</li> <li>• Enhanced monitoring and reporting of Material Controls</li> </ul>
<p><b>Activities:</b></p> <ol style="list-style-type: none"> <li>1. <b>Mapping</b> of which <b>Board and Executive forum</b> is delegated to <b>provide governance</b> and oversight responsibility <b>for each Material Risk</b>.</li> <li>2. Consider the need for the <b>extension of existing governance and oversight roles</b> and responsibilities for each Material Risk and Material Controls forum.</li> <li>3. Introduction of <b>enhanced monitoring and reporting of Material Controls</b> (and broader management systems) to provide comfort over effective working and early alert to issues and control deficiency.</li> <li>4. Clear and <b>open communication channels between Board and Executive forums</b> and the Audit and Risk committee.</li> </ol>

06. Assurance
<p><b>Key objectives:</b></p> <ul style="list-style-type: none"> <li>✓ <b>Agree</b> the coverage, type and source of <b>assurance necessary</b> for the <b>Board to have confidence</b> in their Declaration.</li> <li>✓ Document and evidence the <b>assurance results</b> and their <b>impact on whether Material Controls can be confirmed to be operating</b> at the balance sheet date.</li> <li>✓ Create concise summarised reporting <b>linking assurance to Material Risks</b> and the assurance conclusions.</li> </ul> <p><b>Deliverables:</b></p> <ul style="list-style-type: none"> <li>• Integrated Assurance Framework for each Material Risk.</li> <li>• Guidance over expectations and approach for assurance activity.</li> <li>• Assurance plan and results.</li> </ul>
<p><b>Activities:</b></p> <ol style="list-style-type: none"> <li>1. Clearly establish the <b>extent and objectives of assurance for Material Controls</b> considering the type &amp; category of risks and the nature and frequency of management activity employed to manage the risk.</li> <li>2. Establish robust <b>processes for documenting and evidencing</b> material control <b>effectiveness</b>.</li> <li>3. Consider the need for an <b>Integrated Assurance framework</b> to optimise assurance effort and for ease of reporting.</li> <li>4. <b>Consolidate assurance findings to support Board and management review</b> and prepare content for the annual declaration of Material Controls.</li> </ol>

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## 10-step Approach Deep Dive: Step 7 & 8

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### 07. Monitoring

#### Key objectives:

- ✓ To understand business performance relevant to Material Risks. To understand the **leading performance indicators of failing Material Controls**.
- ✓ Provide **performance reporting** to each individual **governance forums** to enable monitoring of Material Controls and intervention over deficiencies.

#### Deliverables:

- Performance and risk data points and indicators for each Material Risk / Control.
- Enhanced monitoring and reporting of Material Controls.

#### Activities:

1. Understand the **relevant performance indicators** to each Material Risk area.
2. Determine both **lead and lagging risk indicators** to provide early warning of how risk is evolving and / or performance of control.
3. Agree on **reporting cadence** and format relevant for individual governance forums.
4. Develop and **introduce the reporting processes** to support Monitoring Activities.



### 08. Deficiency Assessment

#### Key objectives:

- ✓ Guidance on **Material Control assessment procedures**.
- ✓ Mechanism to **track known deficiencies** and remediation.

#### Deliverables:

- Guidance over expectations and approach for assurance activity.
- Assessment criteria for deficiencies.
- Deficiency tracking mechanism.

#### Activities:

1. Preparation of **guidance notes** and examples on how Material Controls will be assessed (including the process to do so), areas to probe (particularly for top-down areas) and how they will be assessed as being effective or ineffective.
2. Guidance on different **sources of assurance** and how they should be **used in forming opinion** over effectiveness and deficiency of Material Control.
3. **Tracking mechanism** by which deficiencies are to be logged, monitored and remediation planning to be recorded.
4. Agree who has **decision making authority** over controls effectiveness conclusions and what **reporting** will be given to **oversight bodies** such as the Audit and Risk Committee.

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## 10-step Approach Deep Dive: Step 9 & 10

Risks, controls and assurance: a framework for the new Material Controls declaration



### 09. Board Governance

#### Key objectives:

- ✓ Board sponsorship and Executive level **accountability** for the Material Control programme.
- ✓ Ongoing **tracking and monitoring** of Material Control effectiveness by nominated forum.
- ✓ **Programme coordination** and overview undertaken by Audit & Risk Committee.

#### Deliverables:

- Material Control Programme Sponsor.
- Reporting between Board & Executive governance forums and into Audit & Risk Committee.

#### Activities:

1. Appointment of **sponsor at Board and Executive level** for the Material Control programme.
2. Assignment of each Material Control to a Board and Executive level **forum to review inputs, understand Material Control position**, make decisions over deficiencies and remediation.
3. Dedicated time set aside by the Executive and Board members to **consider all datapoints, monitor indicators, evaluate input from assurance providers** and management attention in forming opinion over Material Controls and deficiencies.
4. Establishment of lines of **communication and reporting between Board and Executive** governance forums and audit and risk committees.



### 10. Directors Statement

#### Key objectives:

- ✓ Overall **coordination and consolidation of Material Control programme** by the Audit and Risk Committee.
- ✓ **Preparation of Directors Statement** and other disclosures time to balance sheet date.

#### Deliverables:

- Understanding and awareness of known deficiencies.
- Disclosure statements and supporting disclosures.

#### Activities:

1. Timely input, **analysis and debate** over the conclusions of the effectiveness of Material Controls by relevant governance forums.
2. An overall **summary on Control Effectiveness** for all Material Risks for the Board.
3. **Formal sign off** on the declaration.

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