



Financial Reporting Council

# Preparing your framework: Internal controls and risk management

## Changes to Provision 29 of the UK Corporate Governance Code

Presentation to:  
**CGI Annual Conference**

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# 2024 UK Corporate Governance Code

## Reminder of key changes

### Most of the changes to the 2024 Code are now applicable

We expect to see updated reporting in these areas in annual reports covering financial years starting on or after 1 January 2025.

#### **An increased emphasis on 'comply or explain'**

Amendments to Section 1 highlight the importance of high-quality explanations.

#### **Outcomes-based reporting to deliver more relevant and concise annual reports**

Encourage reporting on specific, relevant outcomes of the governance activities.

#### **Up to date Guidance**

Guidance to support reporting but not prescriptive.

# Background to changes to Provision 29

## Strengthening risk management and internal controls

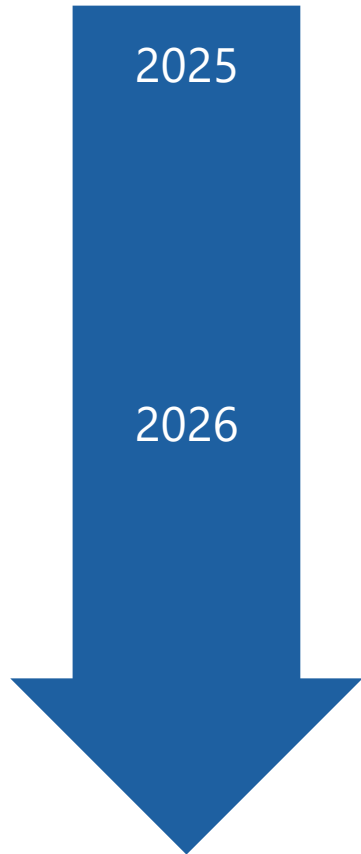
### Changes to Provision 29 were made following a Government consultation

- 'Restoring trust in audit and corporate governance': Government request to make amendments to the Code to strengthen board accountability and reporting in relation to internal controls.
  - Specific request for a requirement for an explicit directors' statement about the effectiveness of the company's internal controls (including those over financial reporting but also about wider operational and compliance risks) and the basis for that assessment.
- Decision not to follow a US Sarbanes-Oxley path but instead focus on board accountability.

# Implementation timeline

## Allowing time for preparation

**The implementation of Provision 29 was delayed to give companies time to prepare**



- The 2024 Code is applicable for financial years starting on or after 1 January 2025, except for Provision 29 on internal controls.
- Following feedback received in the consultation, it was decided that Provision 29 on risk management and internal controls would become applicable for financial years starting on or after 1 January 2026.
- First annual reports prepared on this basis expected in 2027.

# Changes in detail

## Comparing against the 2018 Code

The key difference in new Provision 29 is the requirement for a declaration

Provision 29 – 2018 Code	Provision 29 – 2024 Code
<p>The board should monitor the company's risk management and internal control <b>systems</b> and, at least annually, carry out a review of their effectiveness <b>and report on that review in the annual report</b>. The monitoring and review should cover all material controls, including financial, operational and compliance controls.</p>	<p>The board should monitor the company's risk management and internal control <b>framework</b> and, at least annually, carry out a review of its effectiveness. The monitoring and review should cover all material controls, including financial, operational, <b>reporting</b> and compliance controls.</p> <p><b>The board should provide in the annual report:</b></p> <ul style="list-style-type: none"> <li>• A description of how the board has monitored and reviewed the effectiveness of the framework;</li> <li>• a declaration of effectiveness of the material controls as at the balance sheet date; and</li> <li>• a description of any 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.</li> </ul>

# What does good reporting look like?

## Key elements of a strong report

### A good report is concise, and contains several key elements

1. **Confirmation** that the board has carried out a review of the effectiveness of the risk management and internal control systems, and that the scope of the review included all material controls.
2. **Summary of how the review has been carried out**, including details of how the board, or the relevant committee(s) on its behalf, have consulted with, or received reports from different functions within the company. These functions could include:
  - executive management
  - other senior managers, such as Risk Officer, Compliance Officer, Cyber Security Officer, Head of Tax
  - management of subsidiaries
  - internal audit function
  - external auditor, etc.
3. **Outcome** of the review: confirmation that the systems and material controls have been effective; or if not effective, explain actions to be taken.

# Assurance and audit

## Clarity on requirements

### FRC guidance is clear that it is for the board to determine the level of assurance sought

*There is no requirement or expectation in the Code or this guidance that companies obtain external advice or assurance on the effectiveness of the material controls. It may not be necessary for a company to do so, particularly when it has an effective internal audit function that is appropriately resourced to provide assurance over the effectiveness of the framework.*

*The board, in conjunction with other committees and management, will decide whether any form of external assurance is necessary. The type of assurance and nature is also a decision for the board, and they may wish to discuss this with their investors.*

**FRC Code Guidance**

- In addition, there is no change to the scope of work for the external auditors. The reporting on risk management and internal controls constitutes other information for the purposes of an audit and the auditor's responsibilities for other information are set out in ISA (UK) 720 (Revised November 2019).

# Common concerns

## Issues arising as companies prepare

### There are some common themes in the questions we receive as companies prepare

- **Definition of material controls:** This is for the board to define, however FRC Guidance includes some advice on matters to consider.
- **Number of material controls:** Important to keep this at a manageable level, although we understand that financial services companies may have relatively more material controls.
- **Reporting a change of approach:** This is regarded as a positive, reflecting a journey of continuous improvement, not evidence of past poor practice.
- **Levels of maturity:** It is understandable that some companies are further progressed than others. SOX reporters will be able to use some materials prepared in that context.



# Evidence of preparation

## Review of annual reports currently ongoing

### **The FRC is reviewing this year's annual reports for examples of good practice as companies prepare**

- The Annual Review of Corporate Governance Reporting, to be published this Autumn, will contain examples of good practice, and statistics on the extent to which companies made a disclosure regarding their preparations.
- The FRC Corporate Governance team is happy to receive enquiries from companies who would like to test their approach.



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