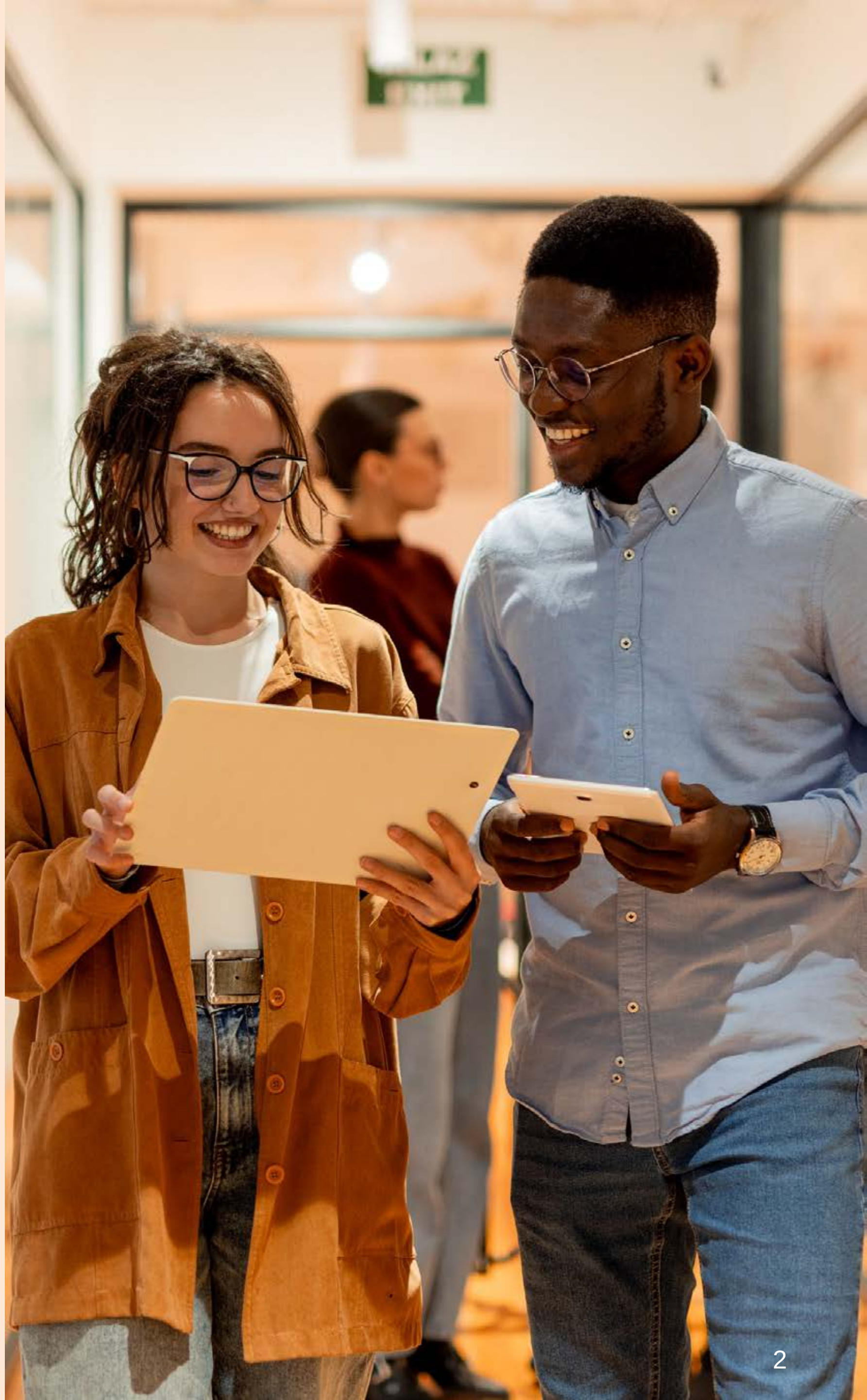
Provision 29: Key questions boards should be asking and our latest market insights

Demonstrating good governance ahead of the first reporting cycle

Purpose of this document

Drawing on extensive engagement with companies, we have gathered significant insight into how boards and management teams are preparing for Provision 29 and the introduction of the ‘material controls declaration’. In this publication, we share our latest observations on emerging market practices, building on our previous publications: Market insights, key themes and observations and Practical insights from audit committee chairs.

Also, as organisations enter a critical phase of their Provision 29 programmes, with testing, evaluation and reporting preparations accelerating, effective board oversight will be essential. To support that oversight, we have set out five key questions that boards should be asking programme leaders. These questions are designed to help boards challenge assumptions, assess readiness, and gain confidence that the most important judgements and decisions are being made appropriately as organisations move towards making their ‘material controls declaration'.



Provision 29 – A reminder of the requirements

Under the UK Listing rules, companies in the ‘equity shares (commercial companies)’ or ‘closed-ended investment fund’ FCA listing categories are required to apply the principles of the UK Corporate Governance Code (the Code) and comply with its provisions (or explain non-compliance). The Code was updated in 2024 and introduced within Provision 29, a ‘material controls declaration’ to be included in the annual report, effective from 1 January 2026.

Provision 29 ‘material controls declaration’ requires:

01

A description of how the board has monitored and reviewed the effectiveness of the [risk management and internal control] framework.

02

A declaration of effectiveness of the material controls* as at the balance sheet date.

*Including financial, reporting, operational and compliance controls.

03

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.

Demonstrating good governance – 5 Key questions boards should be asking

To help them fulfil their governance responsibilities effectively, here are five key questions boards should ask those leading their Provision 29 programmes:

01 Are you on track to demonstrate operating effectiveness and how are you determining what assurance will support your conclusion?

02 Where a material control is identified at a framework or other aggregated level, what approach are you taking to assess the effectiveness of the underlying controls?

03 How have you determined what constitutes an ineffective control, especially where a material control is a framework or aggregation of controls?

04 Where material controls have failed, what are your plans for remediation and evidence of effectiveness by year-end?

05 What are your plans for reporting to the audit committee and the board to support timely challenge and decision-making?

On the following slides, we break these down into further probing questions boards might ask to gather more detail.

Question 1

Are you on track to demonstrate operating effectiveness and how are you determining what assurance will support your conclusion?

Probing further...

01 Have the material risks and related material controls been identified?

02 Is an effectiveness assessment phase sufficiently progressed to allow time for any necessary remediation before the board needs to conclude on effectiveness?

03 Have the material risks and material controls been mapped to the three lines of defence, with risk appetite and risk tolerance considered in determining the level of assurance required?

04 Is there a clear plan to update the effectiveness assessment so that work early in the year remains current and relevant through to year end?

05 Is there a plan to assess the effectiveness of material controls which operate after the balance sheet date but relate to the current financial year?

06 At regular intervals, is there a planned reassessment of whether the material risk determination has changed including any new or emerging issues, such as a cyber event or potentially material profit warning?

Latest market insight: Generally, most December year ends have completed their identification of material risks and controls, with a handful still refining the number and type of controls.

In most cases, the assessment involves a combination of control owner self-certification, oversight review and internal audit testing. 20-40 is still the most common range of material controls we have seen. Many companies have started their effectiveness assessment process.

Question 2

Where a material control is identified at a framework or other aggregated level, what approach are you taking to assess the effectiveness of the underlying controls?

Probing further...

01 Where a material control comprises of multiple underlying controls, has the specific material risk it is intended to address been refined based on what would have the greatest impact on the business?

02 Has the design of any framework, policy or other control aggregation classified as a material control, been reviewed to identify the elements that seek to address the most material risks? Has focus been placed on these specific elements?

03 Have controls where there is a lack of compensating controls been prioritised, enabling focus to be placed on the most critical controls within the overall aggregation?

04 Where a material control is a governance or review committee, have the committee's most significant activities in managing material risks been identified, and has the assessment been focused on the reliability of related inputs, such as management information or automated reports?

Latest market insight: The vast majority of companies we speak to have identified their material controls at an aggregated level – for example, as a 'framework', 'system', or 'policy', or grouped by risk theme. We also see governance or review-type committees being designated as material controls, such as year-end reporting review committees. Companies are now starting to identify the most important controls within these groupings so they can focus their testing, effectiveness assessment and assurance.

Question 3

How have you determined what constitutes an ineffective control, especially where a material control is a framework or aggregation of controls?

Probing further...

01 Have you considered how any underlying control failures, whether or not a material risk has materialised, will be assessed to determine the overall effectiveness of the material control?

02 Are there any compensating controls in place that would have prevented, or could reasonably prevent, the material risk from materialising?

03 Is a process in place for investigating any actual materialised l material risk events and identifying any related material control failures?

04 Have you held discussions with the auditor on the importance of sharing any control deficiencies they identify early, as well as any material audit adjustments that could indicate a related material control failure?

05 Have you taken a holistic view of control deficiencies to evaluate their cumulative effect on the robustness of the overall control environment (including whether multiple deficiencies together indicate a broader weakness that may warrant disclosure within Principle O)?

Latest market insight: Companies are determining the extent to which individual controls can fail before the overall material control is considered ineffective. Some organisations set predefined criteria, while others assess this on a case-by-case basis. We are also seeing varying ‘degrees’ of failure based on risk tolerance, with some being provisionally assessed as more disclosable than others. In situations where an actual material risk event has occurred, it will be more difficult to argue there has been no related material control failure.

Question 4

Where material controls have failed, what are your plans for remediation and evidence of effectiveness by year-end?

Probing further...

01 Where material control failures have been identified, have detailed remediation plans been developed? Are they being executed for each affected control, with sufficient instances of effective control operation evidenced prior to year end?

02 Do they demonstrate that the deficiencies have been fully addressed and therefore do not require formal disclosure, unless disclosure is elected for transparency purposes?

03 Are clearly defined actions, ownership, and timelines included in each remediation plan?
Is enhanced monitoring being performed to confirm consistent and sustainable operation of the remediated control?
Is there any independent validation being carried out?

04 Upon completion of this process, how will comprehensive supporting documentation be compiled and presented to the audit committee and the board for their review and oversight?

Latest market insight: At this stage, we are not aware of many companies having identified material control deficiencies, as the assessment is still in its early phases, so remediation is also not yet widespread.

A growing risk is that it may become too late to demonstrate remediation of a material control, for example where there are no further opportunities for it to operate – such as when a material annual reporting control fails.

Question 5

What are your plans for reporting to the audit committee and the board in order to support timely challenge and decision making?

Probing further...

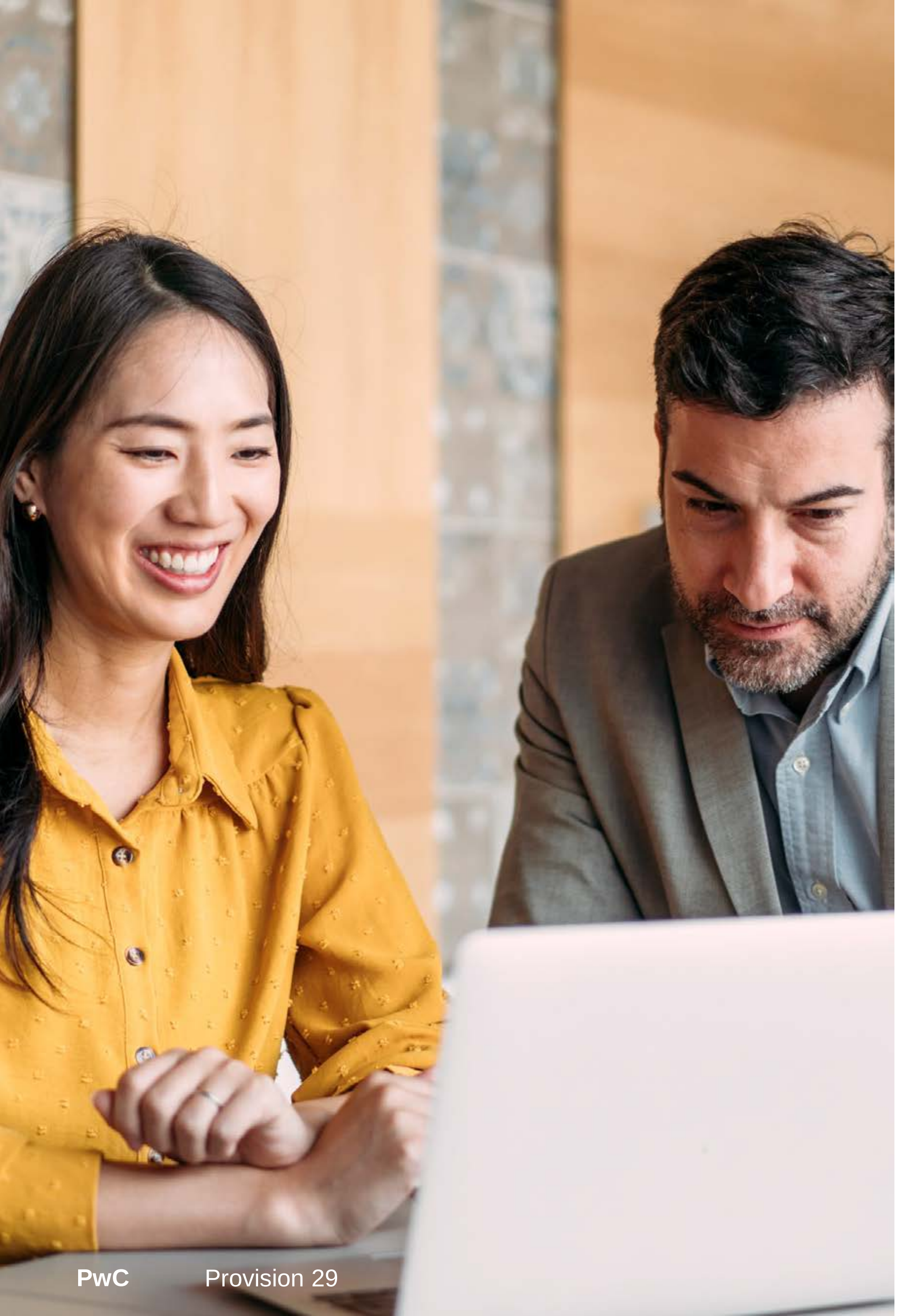
01 Has a timetable been established for regular updates to the audit committee and board as the year end approaches and up to the date of annual report?

02 Do updates include:

- Identified deficiencies and remediation plans, including where remediation is not possible.
- Any changes to previous decisions around the identification of material risks and material controls.
- Progress on assurance activities.
- Updates on any previously identified deficiencies.
- Discussions with the external auditor on any identified audit matters which may affect the declaration.
- Any Internal Audit reporting and involvement in the programme.
- The proposed disclosure for the annual report.

03 Where communications have been made to the audit committee, have plans been established for the board as a whole to be updated?

Latest market insight: Many audit committees have already been kept regularly up to date with the key decisions around the determination of materiality, identification of material risks and material controls; most often through a standing agenda item at each audit committee meeting. As we move through the effectiveness assessment phase, communications are beginning to involve discussion of identified deficiencies, remediation efforts and proposed disclosures. We see less full board involvement at this stage but expect that to increase as the year concludes.



Where to go for more on Provision 29

For more on how to navigate the requirements of Provision 29, please see our webpage, which contains practical guidance and market insights.

www.pwc.co.uk/services/audit/provision-29.html

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Thank you

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