



RSM InterFinance & Governance GOVERNANCE NEWSLETTER N° 2

Description of the main features of internal control and risk management systems

Listed companies have the obligation to include in their management's report a description of the main features of the company's internal control and risk management systems. In this respect, the Corporate Governance Committee has elaborated guidelines to assist companies with this description.

The main points can be summarized as follows:

General comments


- The description of the main features of the internal control and risk management systems is different than the description of the main risks and uncertainties that the company is facing.
- Given information should match the information needs of the reader of the annual accounts.
- It is recommended not to include legal references in the description of the different committees of the company. These points should be included in the corporate governance charter.
- Internal control and risk management systems should be explained in a systematic and balanced way
- It is advised to make a distinction between what is related to internal control in general and what is related to internal control implemented in order to ensure the quality of financial statements.

Guidelines: points listed underneath can help companies to describe the internal control and risk management systems.

Introduction of the description of internal control and risk management systems

It is useful to include the following **information** in the introduction of the chapter related to the description of internal control and risk management systems.

- A reference to the requirements related to internal control and risk management in the Company Code (article 96 §2, 1° et 2 C.Soc) and the Belgian Code of Governance 2009 (point 1.3,7°);
- The definition of internal control as used by the company;
- The objectives set by the company related to internal control ;
- The limits of internal control (*reasonable assurance*) ;
- The persons within the organisation that have a particular role in internal control matters as well as the nature and the volume of resources assigned to it (it should not only be a simple description of legal competence but a description of the way these are fulfilled in a concrete manner within the company) ;

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- The framework used by the company and in particular, the structure of this framework.

Description of internal control and risk management systems

It is useful to include under this chapter a presentation of internal control and risk management systems implemented according to the **five following components**:

- The control environment ;
- The estimation of risks ;
- The control activities ;
- The information and communication ;
- The monitoring. For the description of the components, the company can use as basis different international reference frameworks such as COSO, ERM Basel II and others.

Each of those five components should be analyzed keeping in mind that the components « control activities », « information and communication » and « monitoring » should also be included. In the description of the main features of internal control and risk management systems, **a proper weight should be given to each component**.

It is important to **link each component to the specific activities of the company**. For example, for the risk description, the company can make a distinction between general risks, risks related to the sector, specific risks related to the activities of the company. Risks can also be structured in four categories: strategic risks, operational risks, compliance risks and financial risks.

The description of risks should systematically include how these risks have been monitored (*control activities*).

If desired, the company may choose to include **a risk matrix** with an added gradation in impact and probability. In case of existence of such a matrix, it should include important risks that are commented elsewhere in the annual report.

The use of graphic representation can contribute usefully to a better readability. The description of the main features of internal control and risk management systems may also include information about the level of formality of internal control, the use of software...

Conclusion of the description

Disposition 1.3 of the 2009 Governance Code stipulates that the Board should examine the implementation of the internal control and risk management framework, taking into account the analysis of the Audit Committee.

The Board can, if deemed appropriate and relevant, communicate:

- On the operation and efficiency of internal control and risk management systems;
- On priority attention areas and improvement initiatives.

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