UNIVERSITY OF TAMPERE
Department of Economics and Accounting

DISCLOSURE OF INTERNAL CONTROL SYSTEMS: A CROSS SECTIONAL STUDY OF LISTED FINNISH COMPANIES

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Supervisor: Professor Salme Näsi

Nachidah Ngaleu, 90551

ABSTRACT

University of Tampere: Department of Economics and Accounting.

Author: Nachidah Ngaleu

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An Internal Control is a process carried out by an entity’s Board of Directions, management and other personnel, designed to provide reasonable assurance regarding the achievement of its objectives. Its goal is to ensure the effectiveness and efficiency of operations, the reliability of financial reporting as well as compliance with applicable laws and regulations. The accounting scandals that occurred in the U.S. in the early 2000’s has a tremendous impact on investments and the economy and thus triggered a lot more research in the field of internal controls worldwide. Studies in the field have looked at internal control from a variety of perspectives, touching aspects such as compliance with regulations, implementation of controls, the impact of internal controls on reliability of financial information as well as their impact on overall performance of organizations.

The purpose of this research is to assess how listed Finnish companies report their internal control. This is achieved by answering the following research questions: How do these organizations disclose their internal controls? Do they comply with applicable codes and regulations? Are there any similarities and/or differences between the reports? The empirical study will consist of carrying out an analysis of the contents of both the applicable codes to these companies and the disclosure of the internal control based on the 2009 Corporate Governance Statement. The methods used for this research include both nomothetic and action-oriented methods and a cross-sectional field study approach is used to analyse the data.

The findings of the research reveal that all companies comply. However, they seem to disclose information somewhat differently, presumably due to variations of the various Codes, differences in the interpretation of these codes, differences in the way that the controls are carried out and also given the varied natures of the Codes by which they abide. Indeed there exist differences and similarities in the disclosure styles and content. An interesting finding in this research is that the nature, the depth and the strength of the applicable codes could impact the manner in which companies report their Internal Control Systems.

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LIST OF ABBREVIATIONS

BOD	Board of Directors
CG	Corporate Governance
CGS	Corporate Governance Statement
CGC	Corporate Governance Codes
GCGC	German Corporate Governance Codes
GFA	Group's Financial Administrator
GFM	Group Financial Manual
GIA	Group Internal Audit
IA	Internal Audit
IC	Internal Controls
ICD	Internal Control Disclosure
ICR	Internal Control Reporting
FCGC	Finnish Corporate Governance Codes
FR	Financial Reporting
PICFR	Principle and Instruction for Control over Financial Reporting
SCGC	Swedish Corporate Governance Codes
SEC	Securities and Exchange Commission

1. INTRODUCTION

The first chapter of this research is designed to give the reader some fundamental and introductory knowledge on the subject of Internal Control. Firstly, background knowledge of the main concepts will be presented, followed by discussions on the purpose of the research, the methods used to carry out this study and finally, a review of literature relevant to the topic will be performed.

1.1. Background to topic

The implementation of internal controls is of absolute and undeniable importance to every organization. Organizations that fail to carry out this vital duty will certainly have no means of tracking its flaws and frauds and will eventually fail to improve on its operations and thus profitability.

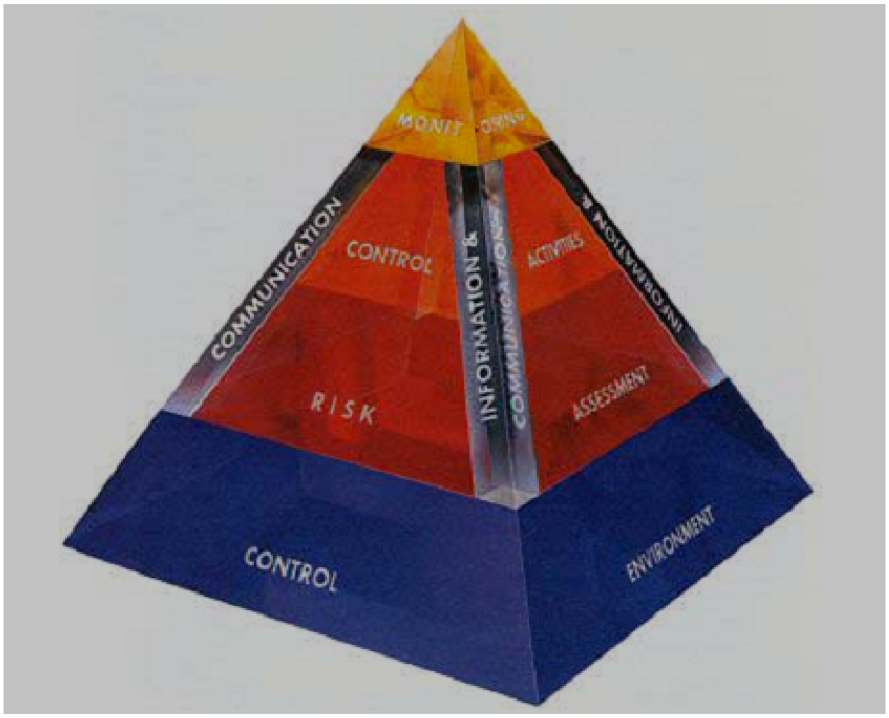
Internal Control was first defined in 1949 by the American Institute of Chattered Accountants today known as AICPA, and this definition was revised in 1958 and later in 1972. Ever since 1977, organizations that publically trade their shares are required by legislation to provide an assurance to investors that their investments are properly and adequately managed, that operations are safely carried out and that control systems are reliable and effective. This assurance is provided to investors by disclosing information on the effectiveness of the internal controls of a company.

There exist a number of organizations with established internal control and risk management frameworks, one of which is the Committee of Sponsoring Organizations of Treadway Commission (later, COSO). Created in 1985, COSO is an organization whose goals are to sponsor and develop comprehensive frameworks and guidance on enterprise risk management, internal controls and fraud deterrence in order to improve on the performance of organizations and reduce the extent of fraudulent practices (Homepage, About COSO, 2010). The COSO framework is only one among other control frameworks such as COCO, ISO 9000, etc. However, given that the COSO framework is used by the companies selected for this study, background information and related concepts of internal control are discussed on the basis of this model.

An internal control is perceived by COSO to be a process effected by an entity's Board of Directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations (Homepage COSO resource 2010). This definition emphasizes three goals of internal control. Firstly, it allows for the improvement of efficiency and effectiveness of operations which include the safeguard of the assets of an organization as well as the improvement in both performance and profitability. Secondly, it enhances the reliability of financial reporting by maintaining proper accounting records. Lastly, it ensures compliance with laws and regulation to which the organization is subject. There are five main interconnected components of an internal control system (ICS). They include: Risk assessment, control activities, control environment, monitoring, and finally, information and communication (Homepage of COSO, Resources, Internal Control 2010).

Risk assessment requires that the organization establishes mechanisms to identify, analyse and manage risks related to all the functions of on organization. This component is vital because it allows for the organization to prepare and deal with risks related to changes in the industry, regulations or the economy. Control activities are concerned with the establishment of control policies and procedures that ensure that management is effectively undertaking actions that address the risks involved in the realization of the objectives of the company. Control environment involves ensuring that the human resources within the organization carry on their duties with integrity and dignity, uphold some ethical standards in their operations and exercise competence in performance. Monitoring is the process of assessing the quality of the performance of systems over time. It is an on-going process of constant supervising of all of the activities and involves proceeding to modifications if circumstances change. Information and Communication are concerned with procedures which are destined to help human resources understand and properly transmit or exchange information with the purpose of facilitating the conduct, management and control of operations (Homepage of COSO, Resources, Internal Control 2010).

Figure 1: Relationship between IC Components.



The above diagram is an illustration of the relationship between IC components, as represented by COSO. Control environment is at the bottom of the pyramid because it represents the bedrock for other components because, providing the atmosphere for people within the organization to function. It is within this control environment that risks are assessed and control activities implemented. Information and Communication are the means through which these can be achieved, because it captures information throughout the organization. At the top of the pyramid is monitoring, which oversees the entire process, modifying it when necessary (COSO, 1994).

According to COSO, the roles and responsibilities of IC rest upon the shoulders of everybody in the organization (COSO, 1994). The Management which assumes ownership of the systems, the Board of Directors which ultimately oversees controls and provide guidance, Internal Auditors who evaluate the effectiveness of IC and the rest of the personnel who are involved directly or indirectly in the process of implementing control processes.

At this point, it would be helpful to understand the meaning of the term "disclosure". The noun is commonly defined as "the action of making new or secret information known" (Oxford Dictionaries 2010). However, in an organizational context, the term 'disclosure' is much more precise. It refers to the act of releasing all relevant information pertaining to a company that may influence an investment decision (Investopedia Dictionaries 2010). There are different kinds of information an organization may disclose. Financial statements, corporate governance and corporate social responsibility are all examples of the information that an organization discloses. In this research, the point of interest is the disclosure of ICS which is an integral part of the corporate governance.

1.2. Purpose of the Research

Before presenting the research questions, it is important to adequately underline the scope of this research. The study is not meant to analyse the kinds of controls that are carried out within organizations, but essentially seeks to illustrate how companies disclose their ICS. In other words, the research is concerned with assessing the degree of compliance with applicable codes, rather than an evaluation of internal controls.

The interest in this topic arose from the awareness of the significance of reported accounting information for stakeholders of any organization. For publically traded companies, the obligation to disclose information springs from corporate governance regulations established in the interests of investors. Disclosing accounting information protects investors, reassures them of the proper management of their investments, enables them to assess the firm's progress and make informed decisions on the basis of these assessments. In addition, it gives the organization a sense of responsibility and accountability towards its shareholders. Listed companies therefore have the unavoidable duty of providing this safety and reassurance to their shareholders.

The purpose of this research is to analyse the disclosure of ICS of listed Finnish companies. The research will attempt to answer the following questions: How do the listed Finnish organizations disclose their internal controls? Do they comply with applicable codes and regulations? Are there any differences and/or similarities in their IC reporting? To answer these questions, the style and content of internal control disclosure (later, ICD) of ten selected

Finnish companies will be analyzed and compared to applicable regulations of the country or countries in which the companies are listed. This research will allow the reader to assess the degree of compliance of internal control reporting with applicable codes as well as the differences or similarities that exists in the cross-sectional selection.

1.3. Research Methodology

The empirical study is based on observation – which Burrell and Morgan (1979) perceive as an epistemological continuum that assumes the external world to be concrete rather than insubstantial. The empirical part of this research is equally identified with deterministic action, a dimension of human nature which supposes a complete dependence on the environment in which the subject is found. The ontological dimension of concrete construction is one that assumes that there is an external reality to and independent of the observer (Hopper & Powell 1985). In the case of this research, this third dimension could be associated with the existence of established laws and regulations and the applications of these regulations as variables which are considered independent of the observer or researcher.

Burrell and Morgan combined the above dimensions – deterministic behaviour, concrete construction and observation into what is known as objectivism (Hopper & Powell 1985). Objectivism is perceived to be a phenomenon whereby social forces confront us as an external factor beyond our influence (Bryman & Bell 2007, p.22). The methodological implications of objectivism and concrete constructivism, deterministic behaviour and knowledge gained through observation, is a scientific method. This method is again called positive research method, which is based on the paradigm of positivism. Näsi and Kihn (2010) recommend the application of a nomothetic methodology to studies that involve a positivistic approach. This method emphasizes verification, tests hypotheses and is concerned with finding evidences (Näsi and Kihn 2010). Given that this research will verify that the IC Reporting (ICR) of Finnish companies complies with applicable codes it appears that a nomothetic methodology could be applied. However, one could argue that the answer to the research question as to whether the companies comply or not is based on the subjective interpretation of the meaning or implication of applicable codes. Therefore, this study is believed to have characteristics of both nomothetic and Action-oriented research methods.

A method classification that describes the method, nature, sample size as well as the rationale of this research is the cross-sectional field study research approach (Lillis and Muudy 2005). The characteristics of a cross-sectional field study as described by Lillis and Muudy (2005), is that it is usually a limited-depth study that could be used to compare and contrast contradictions in existing literature with nature of phenomena, the sample is non-random and the sample size could be either medium i.e. about 12 or large, the sampling rationale is dimensional-construct driven and data is qualitative and quantitative. This method among others, best illustrates the type of study that will be conducted. Table 1 below summarizes the methodology.

Given that data is based on text, a content analysis will be done based on the annual report of listed Finnish companies. This study equally has to some minimal extent characteristics of a qualitative research, as the first question of the study seeks to understand "how" companies disclose their control systems (Bryman & Bell 2003, p.282 & 283). However, unlike most qualitative research questions, it is a "how" that seeks to objectively present or illustrate the manner in which information is disclosed. The data could also be considered qualitative because of the size of the sample.

A descriptive case study selection strategy is also used in the sense that the subjects are a selection of listed Finnish companies, thus an information-oriented case study. An information-oriented case selection is simply a choice of case or cases on the basis of the expectation about their information content. More precisely, it could be said that the selected cases of this research are be associated with the paradigmatic case category of information-oriented selection, because this category highlights more general attributes of society i.e. the cases represent practical prototypes (Flyvbjerg 2006 p. 230).

Table 1: Summary of research methodology - *adopted from Lillis & Muudy (2005)*

Study	Research question(s)	Method and sample	Rationale for study	Targeted Contribution
Disclosure IC Systems: A Cross-sectional Study of Listed	1) How do listed Finnish companies disclose their IC? 2) Do they comply with applicable	• Ten listed Finnish companies of varying size and sectors. • Use of published	• Limited-depth study on the basis of published documents. • Mostly based	• To analyze and understand IC reporting.

Finnish Companies	codes? 3) Are there any differences and/or similarities in their IC reporting?	2009 annual statements as source of data.	on observation but also interpretation. • Cross section of companies in order to get a good overview.	

1.4. Literature Review

Research in the field of internal control has been approached from different viewpoints. Recently, a lot has been said about internal control deficiency disclosure - which constitutes an integral component of an auditor's report. For public companies such as those registered under the Sarbanes-Oxley Act (Online Sarbanes-Oxley Act of 2002, Sec. 302), it is mandatory to disclose internal control deficiencies. Private companies however, are not required disclose internal control deficiencies even though most of them still do disclose such information for transparency purposes.

Loene (2007), makes a close analysis of two significantly contributing works in the domain of internal control deficiency disclosures - Ashbaugh, Collins, and Kinney, authors of one of the studies and Doyle, Ge and McVay, authors of the other. Loene underlines that both contributions give evidence that factors such as organizational complexity, rapid organizational change and relative investment in ICS affect the probability that the company concerned would report internal control deficiencies. Doyle, Ge and McVay further discovered that these impacts vary with respect to the type or degree of weakness. In addition to these common findings, Ashbaugh, Collins, and Kinney argue that for an internal control deficiency to be reported, the deficiency must be present, detected and disclosed (Loene 2007).

Skaife, Collins and Kinney investigate factors that cause firms to control failures and identify and report control problems prior to the implementation of Section 404 of Sarbanes-Oxley's mandated audits. Their analysis led them to the conclusion that, unlike non-disclosers, firms that disclose internal control deficiencies have complex operations, recent organizational changes, more auditor resignations and possess fewer resources for internal control (Skaife, Collins and Kinney 2007). As demonstrated by Loene, these conclusions are very similar to those that Doyle, Ge and McVay (2007) arrived at.

Still in the field of internal control deficiency disclosure, Ge and McVay (2005) carry on a research on the disclosure of material weakness after the implementation of Sarbanes-Oxley to analyse the cause of weaknesses in companies based on the descriptive material weaknesses provided by the management of selected companies. The outcome of this research provided evidence that poor internal control is often linked to insufficient commitment of resources for accounting controls and that material weakness internal control have a tendency to be related to deficient revenue-recognition policies, deficiencies in the period-end reporting process and accounting policies, lack of segregation of duties, and inappropriate account reconciliation.

Barra (2010) investigates the impact of penalties and internal controls such as segregation of duties, on managerial and non-managerial employees' propensity to commit fraud. As to the relationship between internal control quality and the accuracy of management guidance, Li, Meng & McVay demonstrate that internal control quality has a major economical impact on internal control reports and therefore decisions, given that decisions are made on the basis of those reports (Li, Meng & McVay 2009).

One of the studies which highlight the importance of both the roles of management and strong internal controls is the work of Caplan (1999). He proves that when management overrules controls, it is not necessary for the auditors to revaluate the management in the advent that ICS are weak, because managers can commit fraud irrespective of the strength of controls. The implication of this research is that for the detection of fraud, it is necessary that audits do not solely base their judgments on control systems but on management as well. Thus the weakness of control systems may not always be an indication of the existence of fraud and the strength of this controls do not always imply the absence of fraud in an organization.

Perry and Warner (2005) propose a quantitative approach to assessing internal controls in an organization which they believe is a key indicator of control adequacy and a means of attaining organizational improvement. They propose that the firm should first select the right internal control framework, document their control against the model, and then develop a quantitative scoring process which involves defining a scale for each control activity and using a rating system. Selected examiners then document the controls against the model based on the chosen scoring method.

Regarding the quality of disclosure of information in Finland, Nyytinen and Pajarvinen (2005) study the relationship between firm-level information disclosure quality and availability of external finance to the firms. The outcome of this research provided evidence that firms seeking external financing will voluntarily look for good disclosure quality. The authors justify that the tendency is especially owing to the fact that good disclosure reduces barriers to external finances.

In Finland, there have been several disclosure studies especially in the domain of voluntary reporting of socio-economic accounting information. However, research has only seldom been done on the disclosure of ICS in Finland. An example of research in the field of socio-economic accounting in Finland is the work of Vountisjärvi (2006) which focuses on a content analysis of disclosed Corporate Social Responsibility (later, CSR) reports of Finnish companies. This study leads the author to the conclusion that CSR reports lack consistency and comparability with one another and that the concept of Corporate Social Responsibility is still at a very young stage in Finland. Given that research has hardly been done on the compliance of internal controls disclosure with applicable codes in Finland, it is hoped that this research contributes to a minimal extend to this aspect of accounting.

2. INTERNAL CONTROL DISCLOSURE GUIDELINES

In order to answer the research questions enunciated in the previous chapter, the first step would be to look into the internal control guidelines of the Corporate Governance Codes of the country/countries in which the selected companies are listed. The companies are all known to be listed on the Helsinki Stock Exchange, however, a few are listed in more than one Stock exchange. Given that each exchange has its own codes and regulations it is only natural to review their guidelines separately. Thus, in the first section of this chapter, we will take a close look at the disclosure requirements of the Helsinki, Stockholm, Copenhagen, Frankfurt and New York stock exchanges. In the second section, the regulations will be compared and necessary assumptions made. It is worth mentioning that analyzing and comparing corporate governance codes could be the subject of an entire thesis on its own. Hence, the purpose of this chapter is not to get into profound analysis but to get a general idea of the internal control disclosure requirements, which will then be used to analyse identified company reports.

2.1. A Review of Applicable Codes

As an essential component of Corporate Governance, Internal Controls are performed and reported in accordance with established corporate regulations. As we already know, the ultimate purpose of Corporate Governance is the protection of both shareholders and creditors (La Porta et al, 2000) and these corporate regulations are put in place to ensure that the purpose for which Corporate Governance was enforced is actually fulfilled and also to provide a degree of assurance to these investors. The need to have such a tool in place and across nations has been increasingly felt after observed expropriation of minority shareholders by managers or controlling shareholders in recent years (La Porta et al, 2000).

According to La Porta et al. 2000, the protection of investors results in an increased involvement and sense of ownership on the part of shareholders, enhances the development of financial markets since investors who feel that their interests are protected tend to buy more securities and consequently, economic growth is accelerated. It thus appears that importance of enforcing adequate legal regulations supporting this absolute corporate practice is heightened. Literature reveals that although the fundamental purpose of enforcing a corporate governance code may be the same worldwide, the content of the code might differ slightly, given the diverse legal backgrounds from which they stem. The following sub-sections will analyze the various Corporate Governance Codes or Guidelines which the case companies are concerned with.

2.1.1. The Finnish Corporate Governance Code

On December 2006, the Helsinki Stock Exchange again known as NASDAQ OMX Helsinki, together with the Confederation of Finnish Industries and the Central Chamber of Commerce of Finland put together a cooperation known as the Securities Market Association (later, SMA). The duty of the association was to administer the Finnish Corporate Governance Code, the Guidelines for Insiders and Helsinki Takeover Code and to improve self regulations (Corporate Governance Finland 2010, Homepage). This association therefore had as one of its tasks, to review and update the Finnish Corporate Governance Code of 2nd December 2003. The updated version was published on 20th October 2008, the applicability of which was effective 1st January 2009.

The purpose of the Finnish Corporate Governance Code (later, FCGC) is to ensure that listed Finnish companies apply corporate governance practices that are of a high international standard; to bring together the practices of listed companies and the information given to shareholders and other investors; to enhance transparency of the governing bodies of the company and finally, to give a general idea of the principles of corporate governance system that exists in Finnish listed companies (Finnish Corporate Governance Code 2008).

It is mentioned that the FCGC is applicable to all listed companies as long as it does not conflict with compelling regulations of the domicile of the company. Its structure is essentially a set of recommendations each of which is followed by justification of the said recommendation. Given that the point of interest of this paper is narrowed to the Internal Control aspect of corporate governance, we are thus solely concerned with the internal control recommendation of the Finnish Code.

Recommendation 51 of the 2008 Finnish Corporate Governance Code reads: "In connection with the financial statements and report by the board of directors, the company shall issue a separate corporate governance statement. The company shall present… a description of the main features of the internal control and risk management systems pertaining to the financial reporting process." (Corporate Governance Code 2008). The justification of this segment of the recommendation follows that "The description of the main features of the internal control and risk management systems pertaining to the financial reporting process outlines the manner in which the company's internal control and risk management function is organised in order to ensure that the financial reports disclosed by the company give essentially correct information about the company finances. The description is given at group level." However, the FCGC also contains a 'Comply or explain' principle which allows for the flexibility to depart from the code so long as the company provides an explanation to the reason underlying its departure. This principle implies that a company still complies with the CGC even if it departs from a recommendation provided that it accounts for the departure (Corporate Governance Code 2008). In this ode there are no explicitly stated sanctions for non-compliance.

A distinguishing feature of the Finnish Code is that in 2009 the SMA published a separate document which elaborates on Recommendation 51, providing a description of the entities that are to be included in the report. The observance of this guideline is said to be voluntary, however, the obligation to report is not. In the advent that the Finnish listed company also has its shares listed in more that one foreign markets, then the company is free to observe foreign guidelines even if they depart from this one (SMA, Guideline 2009). Given that we are interested in internal controls, attention will be focused on aspects of the guideline that pertain to this subject. The next paragraph will summarize the main ideas.

Listed Finnish Companies are required to describe 'the main features' of 'internal control and risk management' with respect to the 'financial reporting process', in other words, describe how the internal control and risk management processes operate in order to insure that financial reports that are disclosed are reliable. The aim is not to provide a detailed description of the process of internal control but rather to illustrate what in essence has been fulfilled in the domain. In addition, a description of group level work is required to ensure reliability of financial reporting. The content of the report should include a general description of internal control, main features of internal control framework i.e. characteristics of the monitoring mechanism on operations, a description of operating principles of internal control and a description of the main internal control features carried out (SMA, Guideline 2009). If the companies wish they could provide a more elaborate description of each of the components of its selected internal control framework as seen in Appendix 1.

2.1.2. Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 (SOX) is a U.S. federal law which came into force on 30th July 2002 (wikipedia Sarbanes-Oxley 2010). Designed by Senator Paul Sarbanes and Representative Michael Oxley as a result of major accounting scandals such as Enron and WorldCom, its purpose is to improve on the regulation of financial practices and corporate governance of public companies (SOX Law, Home 2010). The SOX has radical implications for all American and non-American companies that have a US listing and it applies to all Securities and Exchange Commission (later, SEC) registered organizations (IT Governance, Corporate Governance 2010). This implies that any company, national or international, whose stocks are listed on any U.S. Securities Exchange is in effect concerned with this regulation.

The SOX is said to have created new standards for corporate accountability as well as sanctions for departures from the rules in order to best serve the interest of investors. The Act itself consists of a series of key sections - each addressing a specific requirement of Corporate Governance as well as subsections that further clarify the said requirement. In case of any departures, there are explicit provisions for sanctions, the intensity of which varies with respect to the nature of the sanction or again the section that was departed from. The consequences of non-compliance could range from the loss of listing, to the charge of million dollar fines and even imprisonment (SOX Online, The Basics).

For the purpose of this research the focus of analysis will be solely on Sections 302 and 404 of SOX Act, as they are relevant to the reporting of internal controls. Requirements of subsection (5) of Section 302 of SOX Act of 2002 demand that all known internal control deficiencies as well as fraud, material or non-material, must be disclosed. It follows that the signing officer shall report to the company’s auditors “all significant deficiencies in the design or operation of internal controls which could adversely affect the issuer's ability to record, process, summarize, and report financial data and have identified for the issuer's auditors any material weaknesses in internal controls;" as well as "any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal controls;" (Online SOX Section 302).

Subsection 6 of 302 emphasizes the obligation to report any significant changes in internal controls or any factors that are likely to influence controls after they have been evaluated as well as corrective measures to significant Internal Control Deficiencies (ICD) - for details, see appendix 2. This subsection represent one of the unique features of this regulation as it is not common to have one that compels firms to report on changes in internal control processes and even anticipate changes in future control processes based on present undertakings. This requirement certainly obliges firms to effectively integrate organizational processes and definitely compels them to reflect on the implications of parallel processes and mechanisms of internal control in order for adequate measures to be adopted.

Subsection a of Section 404 of SOX Act follows that an internal control report must "(1) state the responsibility of management for establishing and maintaining an adequate internal control structure and procedures for financial reporting; and (2) contain an assessment, as of the end of the most recent fiscal year of the issuer, of the effectiveness of the internal control structure and procedures of the issuer for financial reporting." (Online SOX Section 404). In addition, and according to subsection (b) of the same section, there should be included in the report an attestation by the auditors that the issuer's internal control has been assessed by the management of the company. This attestation shall be done in accordance with the attestation engagement standards (see appendix 2).

2.1.3. The Swedish Corporate Governance Code

The Swedish Corporate Governance Code (later, SCGC) which seeks to improve confidence in listed companies in Sweden through the development of a good and efficient corporate governance, was originally introduced on 1st July 2005. It was considerably modified by the Swedish Corporate Governance Board (Later, SCGB) on 1st July 2008 and further revised on 1st February 2010 (SCGB, The Code 2008). Although the 2010 version is the most recent and updated version of the Swedish Code, we will nonetheless look back to the 2008 code, as it would have been the applicable version for the reports that will be analyzed in this study.

The SCGB perceives the CGC as a tool for self-regulation as well as a complement to legislation for it sets higher standards for good corporate standards as opposed to being a set of basic legal requirements. This Code is therefore not mandatory and so companies are allowed to depart from the rules provided they justify the deviation. According to the SCGB, the reason underlying this considerable flexibility is that it is believed that companies could come up with even better and innovative solutions to their Corporate Governance practices (SCGB, The Code 2008 p.5). It can thus be deduced that the SCGC is more of a suggestion as to how corporate governance could be improved in order to enhance confidence and credibility of investors, rather than a set of formal and obligatory requirements that 'must' be observed. In addition, it is mentioned that the code applies to Swedish companies whose shares are listed on either of the two Swedish regulated markets - which are namely the OMX Nordic Exchange Stockholm and the NGM Equity. This statement raises some ambiguity because there are both Swedish and non-Swedish companies listed in the Swedish stock markets and it is therefore not clear as to whether the Swedish Code applies to these listed foreign companies as well or if they are exempt from its requirements. Nonetheless, given its relevance to the study, it shall be analysed like all the other CGC.

The Code is structured as a set of numbered rules which are to be complied with or explained. Some rules are preceded by an introductory paragraph and in distinct characters. These paragraphs are meant to elucidate the subsequent rules in order to avoid any ambiguities. However, these secondary paragraphs do not have to be complied with. The expressions 'is to' and 'may' are used to distinguish between comply-or-explain rules and non-compliance rules.

Concerning the disclosure of internal controls, rule 10.5 of the 2008 Code reads "The board is to submit an annual report on the key aspects of the company's systems for internal controls and risk management regarding financial reports." (The Swedish Corporate Governance Board, May 2008 p.22). In addition, "a separate section containing the board's description of internal controls and risk management regarding financial reports, in accordance with Code rule 10.5." is to be included either in the Corporate Governance report or the annual report (The Swedish Corporate Governance Board, May 2008 p.23).

2.1.4. The German Corporate Governance Code

The German Corporate Governance Code (later, GCGC) was first published in 2000 by the Berlin Initiative Group. It was modified in 2001 by the German Panel of Corporate Governance and later in 2002 by the German Corporate Governance Kodex. In 2001, the German Government Commission (later, GGC) was appointed to oversee the GCGC and to manage and supervise listed German stock corporations. This Commission effectively took over its task in 2002, amending the code in 2003. In 2005 this Commission once more updated the Code and continued to do so on a yearly basis until 2010 (European Corporate Governance Institute, Homepage - Codes). The GCGC is applicable to German listed companies and its purpose like others, is to protect the interest of international investors, employees and consumers by developing transparent and understandable corporate governance practices that meet national and international standards for good corporate governance (GGC, February 2002).

Just like the SCGC, this Code is designed for self-regulatory purposes rather than a compulsory set of rules. Recommendations with the command ´shall' indicate that the firm is free to depart from the rule but has the obligation to disclose the information in the annual report. Conversely, those recommendations that have terms such as 'should' or 'can' are merely suggestions and give no obligation for the firm to comply or even disclose departures from (GGC, June 2008 p. 2). It is not stated if there are any sanctions applicable to an entity that fails to report deviations from the 'shall' recommendations.

Recommendation 5.3.2. of the German Code of 2008 underlines the necessity for the Chairman of the Audit Committee to have deep knowledge and experience with internal control and generally accepted accounting principles. It reads: 'The Supervisory Board shall set up an audit committee which, in particular, handles issues of accounting, risk management and compliance...The Chairman of the Audit Committee shall have specialist knowledge and experience in the application of accounting principles and internal control process' (German Government Commission, June 2008 p.10). This has been observed to be the only rule that relates to internal controls in the 2008 version as well as subsequent ones. Although this Code underlines the role and importance of auditing and reporting of financial information, it fails however, to specifically stipulate the requirement to disclose internal control practices.

2.1.5. The Danish Corporate Governance Recommendations

The Committee on Corporate Governance (later, CCG) in Denmark first published recommendations for corporate governance in 2001 and later revised these recommendations in 2005 and further in 2008 (Knudsen H., 2005). The most recent version of the Danish Corporate Governance Recommendations was published in April 2010. It states that the aim of this set of recommendations is merely to suggest solutions to corporate governance issues and is thus self-regulatory. The recommendations only supplement stock exchange regulations and are therefore considered to be a set 'soft laws' characterised by voluntariness and flexibility in application. Furthermore, the concept of 'non-compliance' does not exist as departures are only perceived to be a different approach (CCG 2010 p.3).

The 2008 Code is divided into eight sections each of which addresses a set of specific recommendations. At the beginning of each section is a justification as to the reason why the topic of the section is subject to recommendations and after each recommendation follows a comment - which is not considered a part of the actual recommendation. For instance, section eight of this code is about 'Audit' and Recommendation VIII(4) concerns internal controls. This recommendation appears to be the only one regarding internal control systems.

The committee recommends in VII(4) that the supervisory board reviews the internal control systems in place as well as the management guidelines for such a system at least once a year: It states: 'The Committee recommends that at least once a year, the supervisory board review and assess the internal control systems within the company as well as the management's guidelines for and supervision of such systems...' (CCG, 2008). Another recommendation referring to the reporting of risk management activities states that 'The Committee recommends that the company's annual report include information about the company's risk management activities.' However, these recommendations do not contain specific guidelines about the reporting of internal control processes as a distinct set of activities.

The latest revision of this Code which was published in 2010 includes an independent section which addresses Risk Management and Internal Controls contains more recommendations on the subject. In this section, explanations for the sovereign importance of risk management and internal controls are provided and listed companies are actually urged to report their internal controls and risk management - a recommendation which was evidently missing in the previous version. For instance Recommendation 8.3.1 states that ‘The Committee recommends that the management commentary in the annual report include information about the company’s management of business risks’ (CCG 2010 p.20). Following this recommendation is a comment which clarifies that by ′business risks’ is meant internal controls and risk management. Hence, unlike the previous version, this latest version actually recommends that firms disclose information about their internal controls. However, it appears to be only a suggestion and not a rule per se. It is expressly mentioned that these recommendations are applicable to Danish companies whose shares are listed on the Danish markets.

2.2. Comparison of Applicable Codes

It is apparent that the codes analysed in the previous section have some elements in common but also differ. In this section, we will systematically compare them with each other in order to genuinely understand the relationship that exists between them and therefrom, make assumptions which will be used in subsequent chapters of this paper. The comparison will be made on the basis of a few identified dimensions such as purpose of code, structure of code, compliance, non-compliance and applicable sanctions, guidelines on content of IC report as well as applicability. Again, it is important for the reader to be reminded that the comparison is only a means and not the end of this study which explains why only very basic dimensions will be compared in this section.

2.2.1. Purpose of Code

Looking at table 2 below, it is obvious that the respective codes are designed to improve on the transparency of corporate governance practices and ultimately to protect investors. However, the intensity of regulations differs. For all but the SOX it is simply considered as a tool for self-regulation, whereas the SOX is more than just a self-regulatory tool, but actually constitutes a statutory regulation to be diligently observed by listed companies.

2.2.2. Structure of Code

The structures of the respective codes also appear to be similar in essence, although there are minor observable differences in the way that they combine corporate governance subjects. A wider observation of these codes reveals that they emphasize regulations differently and have more rules for some aspects of corporate governance than others. For instance, while the SOX elaborates internal controls in a number of requirements and the FCGC establishes a separate guideline on what to include in a report, the GCGC and DCGR merely have one recommendation, each about internal controls in their regulations. Although they mention the importance having procedures in place that ensure a sound internal control, they do not emphasize or elaborate this fact in the same manner. While the GCGC merely makes this point as a fact, the SCGC and the DCGR actually recommend that this information be disclosed and the SOX and FCGC go to the extent of stating what should or could be disclosed.

2.2.3. Compliance

It is crucial at this point to grasp what really is the obligation to comply with the respective codes and in addition, what is indeed considered compliance. Looking at table 2, we observe that compliance is defined and perceived differently in the various codes. We observe a 'comply or explain' principle in the FCGC, SCGC, GCGC and the DCGR, which basically implies that as long as listed companies are able to justify departures from established recommendations, they still comply with the code. Nonetheless, this rule does not exist in the SOX context. Compliance is absolute and mandatory and a remiss in the fulfilment of this obligation is considered to be non-compliance no matter the justification.

2.2.4. Non-compliance and Applicable Sanctions

It appears that the SOX has explicitly stated sanctions for non-compliance and these sanctions are to be applied to all who fail to comply, without discrimination. However, for the rest of the Code, the term 'non-compliance' is hardly used in the jargon of the codes. It almost seems as though there is no such thing as 'non-compliance' to code. However, this is not a strange observation as these codes are only for self-regulatory purposes. Since the implementation of the recommendations is not mandatory, it goes without say that the concept of ‘non-compliance’ and consequently ‘sanction’ are not often referred to. It is thus obvious that the SOX is by far the most binding regulation of all five.

2.2.5. Guidelines on content of Internal Control Reports

The guidelines on the content of reports are of extreme relevance in this analysis. From table 2 one can easily tell that the guidelines pertaining to the content of internal control reports are of varied magnitude and emphasis. It is interesting to observe that while some regulations have an elaborate description or outline of what should appear in the annual report, others barely mention the need to disclose internal controls. This is probably owing to the difference in the underlying legislation from which these regulations stemmed, as well as past experiences in corporate governance practices. With the help of the table below, we observe that the following: The German Code fails to recommend the need to disclose; the Danish Code includes a recommendation with the general appeal to report information on internal controls; the Swedish Code urges its observers to essentially report key aspects of their internal controls; the Finnish code and the SOX outline and relatively elaborate on what needs to be included in an internal control report.

2.2.6. Applicability

As it can be noticed on table 2 below, the applicability of the respective codes is limited to listed companies. Here again we observe varied allowance for flexibility in the nature of recommendations or requirements. For the SOX, the code indiscriminately applies to all who have shares listed on any US listing irrespective of whether it conflicts with national regulations of the domicile of non-U.S. companies or not. Meanwhile, the FCGC applies to companies who have their shares listed on its stock market, provided it doesn’t conflict with national regulations of non-Finnish companies. As to the SCGC, the GCGC and the DCGR, their codes are applicable to Swedish, German and Danish companies (respectively) whose share are listed on the respective stock exchanges.

In essence, this analysis has enabled us to systematically familiarize ourselves with the various codes. A summary of the comparison between Codes can be found in the next page and at this point we can reasonably make sensible deductions based on the outcomes of this analysis. First and foremost, given the fact that the applicability of the Swedish, the Danish and the German Codes is narrowed down to original Swedish, Danish and German listed companies respectively, we will hardly make references to them or even use them from now on. An exception would be made if a company specifically mentions that it reports according to any these three regulations. In addition, because the selected cases are predominantly Finnish companies, the FCGC will be used as the main reference when analyzing their internal control disclosures. However, we have seen in this section that the requirements of the SOX are quite strict and meticulous. Given that this regulation is relatively more demanding than the Finnish Code, we will use it in the analysis of the reports of Finnish companies with U.S. listings. Moreover, as seen earlier, where listed Finnish companies have their shares listed in more that one foreign market the companies are free to observe foreign guidelines even if these guidelines depart from the FCGC.

Table 2: A Comparison of Applicable Codes.

	FCGC	SOX	SCGC	GCGC	DCGR
Purpose of Code	- To enhance transparency - to improve on self-regulation of listed companies	- Improve on regulation of financial practices and CG of listed companies.	- For self regulatory purposes. To improve on confidence of Swedish listed companies by promoting development of CG.	- To develop a transparent and understandable corporate governance.	- For self regulatory purposes.
Structure of Code	- Made up of recommendations each of which is followed by justification of the said recommendation. There is a recommendation that specifically require listed companies to describe the main features of IC and yet a separate guideline on what or how to report.	- Consists of a set or 'requirements' clustered into 'sections', each of which addresses specific corporate issues. Section 302 tackles the role of CEO/CFO while 404 is concerned with the assessment of internal controls. In both sections, internal controls are discussed.	- Set of numbered 'rules' some of which are preceded by introductory and explanatory paragraphs. This code contains two very similar rules that address internal controls.	- It consists of a set of recommendations one of which addresses internal controls.	- Here there are 9 sections each of which contains a number of recommendations. At the beginning of each section is an introductory paragraph, and some of the subsequent recommendations are followed by comments that clarify them. One of the sections addresses IC and risk management, with one recommendation that concerns internal controls.
Compliance	- Compliance allows for possibility to depart from recommendation only if a justification of departure is provided. Its called the 'comply or explain' rule	- Compliance is absolute and there is no flexibility to depart from set requirements. - Omission to fulfil regulation results in penalties.	- There is flexibility to depart from recommendations with explanation. The comply-or-explain rule is applicable here.	- Comply and explain rule applies here as well, with the exception that not all recommendations that are departed from need to be justified.	- Compliance is extremely flexible and the comply-or-explain principle applies.

Non-Compliance And Sanctions	- There are no explicitly state sanctions for non-compliance	- Sanctions vary with nature and degree of non-compliance. - They include delisting, charge of a million dollar fine, imprisonment in some cases.	- Nothing is said about non-compliance and sanctions.	- No stated facts about non-compliance and even less, sanctions.	- Non-compliance is not inconsistent with the spirit of recommendations but only a result of the fact that the company has chosen alternate approaches (DCGB 2010).
Guidelines on content of IC Reports	- Listed companies are required to describe the IC features that relate to FR processes. - E.g. by providing a general description of IC and the main features of IC framework	Listed companies should include in their report -An assessment of the - An attestation by auditors that their internal controls have been assessed for effectiveness by managers. - Any changes in internal controls or factors which are likely to affect IC. - A report on significant IC deficiencies. - The responsibility of the management in establishing and maintaining adequate IC structures and procedures.	- Report on key aspects of company's internal control systems. A separate section should be consecrated to the description of internal controls as well as risk management.	- There is no mention of the requirement to disclose IC information even though the code underlines the necessity of establishing a competent audit committee to hand internal control and risk management issues.	- It should be included in the annual report, information about the company's management of business risks i.e. internal controls and risk management.
Applicability	- Applicable to all companies listed on the Finnish stock markets, as long as it doesn't conflict with national regulations of the domicile of company.	- Applicable to all US public companies as well as any other companies, American or foreign, listed on any of the U.S. Securities Exchange.	- Applies to Swedish listed companies.	- Concerned by German listed Companies.	- Applicable to Danish companies whose shares are traded on the Danish stock market.

3. PRESENTATION OF CASE COMPANIES

This chapter is designed to provide a description of the selected cases, as well as a presentation of the content and structure of the IC reports. In order to familiarise ourselves with the case companies, the first section of the chapter will be dedicated to the presentation of basic information about the companies e.g. size of company, business sector etc. In the second section, a description of the structure and content of the disclosed IC information will be provided.

3.1. A General Description of the Selected Cases

Before describing the selected case companies, it is important to explain their selection criteria. As seen in the first chapter, this study is considered to be a cross sectional study and as such, a sample size of ten companies where selected from a list of the hundred largest and listed Finnish companies. The selection was targeted and random at the same time. It was targeted at listed companies however; each company was randomly picked from a specific business sector. Thus these ten companies are listed in the Finnish stock exchange and each represents a specific business sector. It appeared that some of these companies had foreign listings as well. In the subsequent paragraphs, we will find out which of them have more than one listing. The information is summarized in table 3 below. It is worth mentioning that the source of information presented below is the respective company website.

Elisa Corporation

Elisa Corporation is one of the leading Nordic communication service providers. Although its headquarters is located in Finland, it also operates in the Baltic region as well as Russia and serves customers both locally and internationally. The company has approximately 3,600 employees and in recent years, makes an annual revenue of about 1.4 billion Euros. It is mentioned that the corporation values customer orientation, responsibility in their obligations, renewal of relationships as well as profitability. (Elisa-Homepage)

Finnlines

The company is one of the leading shipping operators of ro-ro (roll-on/roll-off) and passenger services in the Baltic Sea as well as the North Sea. Its affiliation to the Grimaldi Group enables it to also provide services to and from the Mediterranean Sea, West Africa as well as the Atlantic Coast of North and South America. The company is based in Finland and recently makes and annual revenue of close to 500 million Euros. It also has an average of 2, 234 employees and is said to values customer focus, environmental responsibility, profitability as well as employee satisfaction (Finnlines Homepage).

Kemira

This is a chemicals company that serves customers in water-intensive industries such as paper and pulp and others. By providing water quality and quantity management, the company is able to enhance the efficient management of energy, water and raw materials of its customers. In the last few years, the company has made annual revenues of over 2 billion Euros and in 2009 the average number of employees was about 8,843. Kemira has office worldwide in about 40 different countries. The company seeks to achieve customer satisfaction, values people, environment, performance, innovation and success (Kemira Homepage – About Us).

Kesko

Formed in 1940, Kesko is today the leading trading services company and operates about 2000 stores in the Nordic and Baltic countries, as well as Russia and Belarus. The company has made an average annual revenue of about 9 billion Euros in recent years and has about 22,000 employees operating in 8 different countries. Kesko values customer satisfaction, excellence, corporate responsibility and a good working community (Kesko Homepage – Company).

Lemminkainen

Founded in 1910, Lemminkainen is a construction company operating internationally, its main markets being the Baltic region. It is focused on three business sectors namely; building construction, infrastructure construction as well as technical building services. Lemminkainen employs about 8,300 people and makes an annual revenue of close to 2 billion Euros (Lemminkainen Homepage – Company).

Metso

The corporation came into existence in 1999 as a result of the merger of Valmet and Rauma, but has its roots from the 18th century. In essence, Metso is a global supplier of technology and services for paper and pulp, mining, power generation, construction, oil and gas and recycling industries. The company has more than 300 business units located in over 50 countries worldwide and has about 28,500 employees working for it. Metso makes more than 5 billion Euros revenue annually most of which comes from the mining and paper industries. Additionally it has been reported that 45% of the Corporation's revenue comes from the services business (Metso homepage, About Us-Metso in Brief). Metso values the drive for customer success, innovation, performing together and respect for one another.

Neste Oil

Neste Oil is an oil refining and trade company, focusing on the production of premium-quality, low-emission traffic fuels. It was first established as Neste in 1948 and for about five decades, the company was known as such. It was not until 2005 that it bore the name Neste Oil and became listed on the Helsinki stock exchange. The company has over 5,000 employees and operates in more than 11 countries worldwide. With an average annual revenue of more than 10 billion Euros, the company seeks to build the necessary strategy to become the world's leading premium-quality diesel producer. They value responsibility towards employees and working partners, cooperation with partners and customers, innovation and excellence in performance (Neste Oil homepage – Corporate info).

Nokia

Nokia is a technology company that focuses on the production of mobile phones. The company has its roots from the 1800's but took its current form as corporation in 1967 after the merger of three separate organizations. It is one of the few listed Finnish companies that happen to be equally listed in the New York Stock Exchange and the Frankfurt Stock Exchange. The company operates about 15 manufacturing companies worldwide, employees roughly 123,000 people and makes revenues of more than 40 billion Euros annually (Nokia Homepage – About Nokia – FAQ). The company builds its business on the values such as customer satisfaction, respect of individuals, achievement and continuous learning.

Nordea Pankki Suomi

Nordea is the largest financial service institution operating within the Nordic and Baltic regions. It focuses on three business fields namely; Retail banking, Corporate and Institutional banking and Asset Management and Life. Nordea is a merger of four Nordic banks. The merging process started in 1997 and it was not until 2000 and 2001 that the group was called Nordea. The company, which is listed in the Helsinki Stock Exchange as well as the Frankfurt and Copenhagen Stock Exchanges, has about 1,400 branch offices. In recent years, Nordea has had annual revenues of more then 9 billion Euros and recruits about 36,500 employees. The institution believes in the creation of great customer experience, the potentialities and capacities of its people and the importance of team work (Nordea Homepage – About Nordea).

UPM Kymmene

Established in 1995 as a result of the merger of Kymmene Corporation and Repola Ltd, UPM Kymmene is a bio and forest industry which focuses on the production of energy and pulp, paper and engineered materials. The company has production plants in about 15 countries and employees about 22,000 people. In the last couple of years, its average revenue has been about 8 billion Euros (UPM homepage – About Us).

Table 4 below summarizes basic information about the above companies. It includes the industry or business activity of each company, the 2009 annual revenue, the stock exchange(s) on which the companies are listed. It must be noted that the data that will be analysed are from 2009.

Table 4: Description of case companies

Company	Industry	Stock Listings	Size/Income Million Euro (09)
Elisa Corporation	Telecommunications Services	NASDAQ OMX Helsinki Ltd	1,485
Finnlines	Transportation services – Both Cargo and passengers	NASDAQ OMX Helsinki Ltd	494
Kemira	Chemicals	NASDAQ OMX Helsinki Ltd	2,500
Kesko Corporation	Trading company	NASDAQ OMX Helsinki Ltd	9,447
Lemminkainen	Construction company: Building and infrastructure constructions as well as	NASDAQ OMX Helsinki Ltd	1,964

	building services		
Metso Corporation	Technology and services for mining, construction, energy and paper and pulp	NASDAQ OMX Helsinki Ltd Frankfurter Wertpapierbörse	5,016
Neste Oil Oy.	Oil trade	NASDAQ OMX Helsinki Ltd	9,636
Nokia Corporation	Electronics	NASDAQ OMX Helsinki Ltd New York Stock Exchange Frankfurter Wertpapierbörse	13,264
Nordea Pankki Suomi	Finance and investment	NASDAQ OMX Helsinki Ltd Stockholm Stock Exchange Copenhagen Stack Exchnage	9,073
UPM Kymmene	Bio and Forest company	NASDAQ OMX Helsinki Ltd	7,719

3.2. Structural Aspects of the Internal Control Reports

This section is meant to provide the audience with some technical description of the data we will be analyzing the fourth chapter. Discussion will be focused on facts such as; where ICS is reported, how long each report is and how each is organised. The section will thus partially answer the first research question as to how companies disclose their internal controls.

3.2.1. Location

The companies report their internal controls on annual documents which are found on their respective official website. With the exception of Nokia who disclosed their internal controls information elsewhere, all of the companies disclose information about their internal controls on their CGS which all (but for Kesko) include in their respective annual reports. Meanwhile Nokia reports its IC in a document called the Form 20-F, which constitutes a requirement of the SEC for all companies listed on the NYSE. Table 5 below does not only summarise this information but also includes the page numbers where IC section is found on the respective annual reports.

3.2.2. Length and format

It is hard to say with precision how long the internal control section of the reports are given the varied ways in which the annual reports are formatted i.e. the format and presentation of the reports are different to some extent. However, it is fair and realistic to say that averagely, the internal control sections cover approximately a page of the respective reports.

Nonetheless, it should be noted that Lemminkainen, Neste Oil, Kemira, Nordea, Metso and UPM report their IC on over a page of their respective reports, meanwhile Kesko, Nokia, Elisa Corporation and Finnlines report theirs in less than a page of their annual reports.

3.2.3. Presentation

Structure represents an interesting feature of the reports. By here structure is meant the way that material/information is presented or organized. It is observable that style and presentation of information vary from one company to another. Companies such as UPM, Metso, Elisa, Kemira, Nordea and Neste Oil more or less describe their internal controls under the headings of the five components of IC based on the COSO framework. Meanwhile, Finnlines, Kesko, Lemminkainen and Nokia describe their controls under different headings.

In order to get a comprehensive picture of the ideas discussed in this section, the table below will combine all the main technical features of the IC reports of the case companies.

Table 5: Structural description of reports

Company	Location	Length	Presentation
Elisa Corporation	Annual Report 09, CGS section	About a page	COSO framework headings.
Finnlines	Annual Report 09, CGS section	Less than a page	Comprehensive description of IC process.
Kemira	Annual Report 09, CGS section	Over a page	COSO framework headings.
Kesko Corporation	CG Report 09	Less than a page	Controls discussed under alternate headings.
Lemminkainen	Annual Report 09, CGS section	Over a page	Comprehensive description of IC process.
Metso Corporation	Annual Report 09, CGS section	Over a page	COSO framework headings.
Neste Oil Oy.	Annual Report 09, CGS section	Over a page	COSO framework headings.
Nokia Corporation	Form 20-F 09	Less than a page	Alternate headings as per

			20-F form.
Nordea Pankki Suomi	Annual Report 09, CGS section	About a page	COSO framework headings.
UPM Kymmene	Annual Report 09, CGS section	Over a page	COSO framework headings.

The relevance of this chapter is to get the audience acquainted with first, the case companies whose reports we shall be analysing in the next chapter, and secondly, the essential physical characteristics of each company report. The discussion of these essential features does not only enable familiarity to the data, but also provide a framework for the analysis of the data.

4. ANALYSIS OF INTERNAL CONTROL REPORTS AND FINDINGS

This chapter represents the core of this study for the simple reason that it will enable us to completely investigate the research questions enunciated in the first chapter. It is important at this point to remind ourselves of the purpose of this research – to understand how companies disclose their internal controls. The research questions that will be addressed are: How do listed Finnish companies disclose their IC? Do they comply with applicable codes? Are there any differences and/or similarities? The first two questions are closely interrelated given the fact that in order to tell whether the companies comply with applicable codes or not, it is imperative to understand how information is disclosed. The third research question leads us to an objective comparison of the individual IC reports. In order to systematically tackle the above questions, this chapter is divided into three main sections. In the first, the content of each report will be analysed in order to address the first research question. The second section will seek to conclude whether the companies comply with regulations or not, based on the outcome of the first section and finally, the third section will compare the individual reports both on their structure and content.

Before getting started with the analysis it is worthwhile emphasizing once more that this research does not adopt a regular case study research method but rather, a cross-sectional study method which is characterized by a limited-depth study. This implies that the analysis of the company reports will not be extremely thorough as would have been the case for a single case-study, but rather focused and concise. In other words, attention will be placed on fundamental aspects of the various internal control reports to get the general picture, rather than very detailed and extremely analytical descriptions.

4.1. Content of Internal Control Reports

The last section of chapter three provided structural details of the reports of the various companies. In this section, the content of these reports will be discussed in order to fully understand how IC information is disclosed. This will be done by systematically discussing each individual report. Where necessary, some of the reports will feature as appendices.

Elisa Corporation

In its report, the corporation highlights the relevance of undertaking internal audit (later, IA) and risk management activities as stated by COSO. Next, IC is discussed under the headings of the five IC components of the COSO framework. This includes control environment, risk assessment, controls (control activities) financial Information and communication, and control (monitoring). In essence, the company describes what was accomplished with respect to each of these components.

In an attempt to control its environment, the company sets targets for the Group and the different business units, as well as individual targets based on a balanced scorecard and performance-based bonus system, assesses its financial results against the forecast and annual plan as well as the previous year's results and the strategic plan. In order to implement risk assessment, the company identifies key risks associated with the accuracy of financial reporting using a process-specific risk analysis. Although the company does not define what is meant by a 'process-specific risk analysis', it is understood that there is a process or processes in place that ensure the treatment of key risks associated with the accuracy of financial information.

Examples of control activities as mentioned in the report includes control and instructions, manual and automatic reconciliations, authorizations, information system access rights management, constant monitoring of the financial development of business operations, the documentation of reporting control mechanisms and investigations of reasons for any changes in monthly forecast. The Board of Directors (BOD) in charge of supervising accounting and financial administration, internal and financial auditing, reviews and approves reports and financial statements. The company's financial administration constantly assesses its control for functionality and adequacy, and the IA committee assesses the reliability of financial information based on an annual audit plan. It is also stated in the report that one of the functions of Elisa's IA committee is to monitor compliance with corporate regulations.

Finnlines

In its report, Finnlines underlines the importance of monitoring and stresses the ultimate responsibility of the BOD with respect to this crucial component of IC. It is stated that in light of monitoring the CEO and BOD assess and ensure the accuracy of IC by performing regular audits of the entity and its functions. In addition, the BOD reviews financial performance and both interim and annual reports at meetings. In order to address the control environment, Group Functions establish corporate guidelines that define responsibilities for specific business units. Risk assessment and control activities involve the review and comparison of results with established budgets and plans.

Information management is realised through elaborate security programmes and emergency systems. It is mentioned that there are controls in place to ensure efficiency of operations and the safeguard of the company's profitability and image. Group level processes and controls are implemented and monitored by business units and IT management. It appears that this report mostly emphasizes monitoring – which is one of the most determining components of IC (See appendix 3).

Kemira

The company has a relatively extensive section describing the main features of is internal controls. The report includes a subsection solely dedicated to the description of roles and responsibilities as far as IC is concerned. The main responsibilities of the BOD, CFO, Managing Directors, IT functions and IA function are defined. Although details of each one's responsibilities will not be discussed here, it is worth to bear in mind that Kemira's BOD approves and oversees all policies in relation to IC and equally ensures that statements and reports provide accurate and adequate information about the company.

Most of the report is classified under the headings of the following components; risk assessment, communication and monitoring. The Group's Financial Administration (GFA) is responsible for the identification, assessment and management of risk related to FR. Most importantly, the GFA is responsible for a comprehensive and frequently updated documentation of these risks, which is reassessed on an annual basis. This risk documentation also includes a description of control functions which needs to be implemented continuously, monthly or annually. A Group Financial Manual (GFM) has been established to provide accounting and financial reporting guidelines, for the purpose of ensuring reliability in financial information.

Enterprise Resource Planning (ERP) has been adopted to ensure efficient and reliable communication. In addition, Kemira's personnel frequently organises meetings, training and forums for information and experience exchange with respect to reporting and monitoring practices. It is mentioned that instructions pertaining to financial reporting and internal controls are available to all employees on intranet. Monitoring of IC is done as part of the daily management of the company and each segment, function and region of the company is responsible for efficiently implementing IC and reliable reporting. GFA and IA unit monitor functionality and reliability at group level.

Kesko Corporation

As mentioned earlier, Kesko includes in its CG a section that discusses the main features of its IC. The roles and responsibilities management pertaining to FR and its controls are divided between three organizational levels. Subsidiaries are responsible for the accuracy of FR and compliance with local legislation, Divisions ensure that accounting policies are implemented at the level of the subsidiaries and finally, Corporate Accounting ultimately ensures accuracy of reportable financial information. Corporate Accounting equally ensures that adequate accounting policies are implemented in the Group and also updates these policies. Financial goals are monitored by comparing financial results against financial plans – which are made for a period of fifteen months and updated quarterly. The group has drafted an accounting manual that contains accounting policies and reporting guidelines for the separate companies. The main IT systems used are certified, secured, controlled and regularly checked in order to ensure reliability of information and continuity.

Kesko's internal controls are based on its values, strategy, operating principles and objectives. Moreover, the operating principles are communicated to all of its employees with the help of a guide for responsible working principles. In a nutshell, controls are carried out on a daily basis through the clear definition and differentiation of duties and power, authorisations, job specification, substitute procedures, FR, the provision of proper working instructions as well as system controls. In addition to this information, it is stated that the ultimate responsibility for organising controls rest on the shoulders of the BOD, the president and CEO (See appendix 4). The report also includes a sentence highlighting the importance of IC.

Lemminkainen

Lemminkainen provides a relatively elaborate description of its controls. The report includes two sections that address IC. The first, presents the IC of the company on a general basis, most especially describing how the company organises its administration to accommodate IC. In the second section, the main features of internal controls are presented, emphasizing the provision of practical examples of how IC is realised. As can be noticed in appendix 5, the report begins with a detailed reminder of the purpose of internal control and next defines the company's FR process. The establishment of an internal control function ensures the provision of timely financial reports and the Group-level Accounting function issues instructions on external accounting reporting and also supports and coordinates the Finance unit. Guidelines such as the standard chart of accounts and consolidation systems are put in place and used in accounting reporting. The finance units ensure that external accounting reporting is in accordance with set instructions and principles.

IC procedures are incorporated into day-to-day operations and management. Some accounting controls include regular impairment testing of goodwill, group eliminations, intra-group transaction, assessment of sensibility of reported figures against set goals for period and so on. Monthly meetings are arranged to present and discuss forecasts and deviations, for possible solutions and corrective measures to be taken. The BOD reviews, analysis and approves interim financial reports and financial statements. The BOD with the help of the audit committee supervises and evaluates the functionality and standards of IC with respect to the annual plan.

Metso Corporation

In its annual report, Metso includes a section which describes the main features of its IC with respect to financial reporting by categorizing the controls into the five components of IC as established by COSO (See Appendix 6). In the introductory paragraph of this section, Metso presents the reason for the implementation of IC.

Metso's BOD is ultimately responsible for IC over FR. In order to conveniently enhance control environment, it establishes formal written guidelines that elucidate duties and regulate the internal distribution of work as well as appoints an Audit Committee that ensures that established principles of financial reporting and IC are observed. The CEO has the responsibility of maintaining an effective control environment and the IA function has the duty of developing and enhancing IC.

Risks are often assessed and result in the development and implementation of control targets which ensure the fulfilment of essential requirements of financial reporting. Such risks could be related to fraud, misappropriation of assets, irregularities and so on. Information pertaining to new key risks and measures to alleviate them are often provided to the Audit Committee. In order to improve and better monitor its control activities a program called the Metso Compliance Program was created. The purpose of this compliance program is to ensure accuracy and credibility of financial information as well as to ensure the compliance with governance principles. It creates a coherent control environment by implementing adequate IC standards for all units. It is believed that this program will enable Metso to maintain a high standard of financial reporting, governance principle and IC even after its shares were delisted from the NYSE. The company's Internal Control Standards includes a set of control standards for all crucial business functions e.g. payroll, procurement, fixed assets, inventory and so on, which are designed to maintain key controls in fundamental administration processes.

To achieve information and communication, Metso provides all relevant documentation that would enhance IC and financial reporting on the company's intranet. The company also organizes training sessions on IC issues and tools for its personnel. Monitoring is performed and essentially includes follow-up of monthly financial reports, reviews of plans and estimates as well as quarterly reports. Annual assessments of the effectiveness of operations are conducted and weaknesses pertaining to IC processes are equally assessed. This activity will allow for an annual Audit plan to be compiled by the audit committee.

Neste Oil Oy.

The structure of Neste Oil's report is quite similar to that of Kemira in the sense that it is divided into the following three parts: – the first presents the purpose of IC, the second addresses the roles and responsibilities of IC, and the third discusses the five components of IC, each under a separate heading. However, only the second and third parts shall be emphasis here, given that the purposes of the implementation of IC as stipulated in these reports correspond to the ones enunciated by COSO–already discussed in the first chapter.

The CEO is responsible for arranging controls and heads of business areas are responsible for establishing and maintaining adequate controls in operations. The practical implementation of these controls rest upon the shoulders of the managers of each organizational level. Finance has the role of controlling financial reporting activities and the IA has the overall responsibility for ensuring that IC processes are efficiently and effectively carried out (see appendix 7).

The company has put in place processes to enhance its control environment. For instance the importance of ethical principles and lawful financial reporting are ensured by the CEO as well as management; the Audit committee supervises FR and related controls; reporting rules, responsibilities and authorities are clearly defined in order to provide a comprehensible framework to all; and the adequate allocation of resources such as segregation of duties and others. These are examples of processes designed to provide effective controls.

At Neste Oil, a precondition to risk assessment is the establishment of the objectives of the organization. With the help of an effective ERM process, risk related to the company's objectives are identified, analysed and managed. Requirements of IC have been included in the Principle and Instruction for Control over Financial Reporting (PICFR) based on risk assessment. Policies and principles related to control activities are documented in the Controller's Manual as well as the PICFR. The PICFR also contains minimum control requirements, controls on monthly reporting process and even sanctions. Some of the controls include reconciliation (automatic or manual), authorizations, third party confirmations, IT access controls…etc

The principal means of communication and information in matters concerning the importance of adequate FR are the Controller's Manuals which include instructions on reporting, accounting principles, planning and so on. Monitoring is carried out by the BOD and Audit committee to ensure that IC deficiencies are identified and communicated on a timely manner. This monitoring is based on an assessment of controls in order to detect whether they effectively alleviate identified risks. The operation of controls is regularly monitored as part of the management activities.

Nokia Corporation

Nokia reports its internal controls quite differently from the other nine companies. As seen earlier in this study, its registration at the NYSE compels the company to report its controls as required by the SEC – thus, Nokia goes by the SOX disclosure regulations. The SOX requires that all registrants must fill out the 20-F annual report form which includes a section on internal control procedures known as 'Item 15'. This would ensure that the minimum required information is provided to the public. Nokia thus published a 20-F form in 2009 which will be discussed in the next paragraph.

As noticed in Appendix 8, Item 15 of the report contains four sections (a, b, c & d). In the first, Nokia confirms that its disclosure controls and procedures have been evaluated by its BOD, CEO, Vice president and CFO who concluded that the controls are effective. Section b declares the responsibility of Nokia's management in establishing and maintaining adequate controls over FR and confirms that management has evaluated the effectiveness its controls. In this same section, Nokia quite briefly presents the purpose of IC over FR as well as the consequences of its inherent limitation – which is, the provision of only 'reasonable' assurance of the reliability of Financial information, as opposed to absolute assurance. In section c the company presents an attestation of the effectiveness of IC of the registered accounting firm and finally, in section d Nokia affirms that there has been no changes in the company's IC over financial reporting for that year.

Nordea Pankki Suomi

The company addresses its IC in the CGS which is reported in accordance with the SCBC. In this CGS which is included in the 2009 annual report contains Nordea describes the key aspects of its IC under the headings of the five IC components. The company's controls are based on control environment which is made up of elements such as a clear and transparent organizational structure, value and management structure, goal-orientation and follow-up, the four-eye principle, segregation of duties, independent evaluation process and effectiveness of internal communication. IC is documented in Group directives and supportive instructions for financial as well as administrative processes. Little is mentioned about risk assessment but for the fact that the proactive nature of Nordea's risk management allows management to organize training and risk awareness.

The company has general as well as detailed control activities in place, which are prepared and documented at Group level, business level and unit level. Control activities procedures include the initial registration of transactions as well as IT processing. It is further mentioned that the head of each respective business unit is in charge of managing these controls as well as risks related to business unit operations. With respect to information and communication, the Group Accounting Manual and the Financial Control Principles are the main sources of instructions with respect to IC and FR and represent the basis for updated standard operating procedures. Issues impacting the achievement of FR objectives are communicated to outside parties through national fora.

Nordea has in place a monitoring system which is believed to enhance the assessment of the quality of FR as well as follow-up on deficiencies. On an annual basis, the CEO of the company submits a report to the BOD on the quality of IC. The BOD appoints a function known as the Group Internal Audit (GIA) to oversee controls and the Board Audit Committee is responsible for the guidance and assessment of this function. The GIA issues an assurance statement of the IC and risk management processes.

UPM Kymmene

The company organises its IC report section under the five components which we are familiar with by now. UPM's values and Code of Conduct are the means through which its control environment is realised. Its IC framework consists of Group-level structure, processes and controls, as well as Business and support functions controls. The relevance of risk assessment with respect to FR results in the establishment of control targets in order to meet FR standards. Risk assessment is updated on an annual basis by the IC function.

It is stated that a comprehensible IC system has been developed and implemented across the business units of the company, covering business and FR processes. Control activities are led by Group Finance and Control (GFC) which is a task force responsible for monitoring control processes at all levels. Some of the controls include control set-up, uniform testing, segregation of duties, IT related controls. The GFC defines and designs control points. Periodic controls including reconciliations and analytical reviews are carried out as part of monthly and interim reports.

Controls are documented and stored on the IC database and communication is realised when IC process owners provide a clear definition of controls as well as minimum requirements for efficient IC. The effectiveness of processes are monitored and reviewed continuously at different levels for instance, follow-up of monthly and quarterly results with respect to budgets and targets, analytical procedures, performance indicators…etc. IA tests results of the management's control work and these results together with planning procedures are documented. Each business level controller team is liable for the successful management of the controls they are responsible for. Key controls are tested by independent testers and usually a self-assessment procedure is used for specific set of controls. Moreover, the IA compares its work with the test results of the evaluation and monitoring of IC.

4.2. Compliance with Applicable Regulations

The previous section was meant to provide the reader with a basic understanding and a comprehensible picture of how each of the ten companies disclosed their IC. In this section, attention will be focused on compliance with the applicable regulations explored in the second chapter of this paper. This verification shall be done by systematically comparing the reported information against the disclosure requirements for each company. In order to achieve this, the section will be divided into three subsections; compliance with FCGC, compliance with the SCGC and lastly, Compliance with the SOX. Attention will be placed solely on these three regulations for the following reasons:

- Analysis showed that the Danish, German and even Swedish Codes are binding to Danish, German and Swedish companies respectively. However, given the fact that one of the case companies explicitly mentions that it reports its CG by the SCGC, the latter shall be used to verify IC reporting for this one company.
- With the exception of this company which expressly reports by the SCGC, and with another which go by the SOX, the rest of the companies report by the FCGC.

The above points justify the use of the FCGC, SOX and the SCGC for verification of compliance. Although only three of the five regulations will be used at this point, the analysis of all five regulations carried out in the second chapter was necessary, in order to logically illustrate their strengths and highlight the disparity in their relevance, all of which allowed for necessary deductions to be made.

4.2.1. Compliance with the Finnish Corporate Governance Code

As observed previously, eight of the ten companies report by the FCG standards. Before we check for compliance, it is necessary to be briefly reminded of the requirements of the FCGC. The FCGC demands of listed companies to include, in their Corporate Governance Statements (CGS), a description of the main features of IC with respect to FR. In other words, listed Finnish Companies are required to provide an outline of the manner in which IC processes are organised in order to ensure that disclosed information is accurate and reliable. This information is represented in the table below. At this point, it is vital to be reminded of the fact that the IC components as enunciated by the COSO are five in number and include: Control environment, Control Activities, Risk Assessment, Information and Communication and finally, Monitoring.

Table 6: Companies' description of main features of IC.

Company	Description of main features of IC with respect to FR
Elisa Corporation	Principles of IC are presented, responsibilities are defined and IC activities with respect to FR are described under all five components. Examples of controls include instructions, manual and automatic reconciliations, authorizations, information system access rights management, constant monitoring, documentation of control mechanisms, etc.
Finnlines	Emphasis is placed on the responsibilities of BOD, CEO and IA function as well as the role of Information management in the effectiveness of IC over FR. Monitoring is done by the Group Finance & Control unit and is performed on an ongoing basis as well as on a periodic evaluation of processes. The company has also adopted a compliance program that contains standard IC requirements.
Kemira	In its report, the main features of IC consists of; a description of hierarchical responsibilities with respect to IC; a description of how the company is organised for the risk assessment, monitoring and communication components of IC. Some examples of tools and controls include the establishment of a GFM containing necessary guidelines, the use of ERP to enhance communication, organisation of frequent meetings and training…etc.
Kesko	Roles and responsibilities of management are defined with respect to FR and controls are done at three organizational levels i.e. Subsidiary, Division and Corporate levels. Accounting Manuals which include policies and reporting guidelines are provided, the IT system is secured and regularly controlled, and other

Corporation	controls include SOD, authorisation, substitute procedures, job specification…etc.
Lemminkainen Oy.	The company provides a description of how its administration is organised to address IC issues over FR. The key IC features include; the Group-Level Accounting function set instructions and guidelines used for accounting reporting. Some of the controls include group eliminations, intra-group transactions, assessment of sensibility of reported figures against set goals etc. The roles of the BOD and IA function with respect to IC are clearly defined.
Metso Corporation	A description of the key features of IC is provided under all five IC components. Some of the controls include the establishment of formal and written guidelines with clearly defined duties and work distribution, the creation of the Metsto Compliance Program to improve and monitor control activities, the IC Standards, annual assessment of effectiveness of operation and so on. Duties of BOD and CEO are also defined as part of the main IC features.
Neste Oil Oy.	Responsibilities for the oversee, implementation and maintenance of IC are defined at each organisational level, from business heads to BOD. Key aspects of IC are presented under all five IC components. Some of the IC tools include ethical and lawful principles on FR, the establishment of ERM processes, the PICFR and Control Manual to ensure that there are instructions to be followed. Some of the controls include authorisation, IT access control…etc.
UPM Kymmene	The key aspects of UPM's IC over FR include a description of controls for all five components. Codes of conducts, established control targets and the GFC are a few of the tools used for implementation of IC. Some of the controls include periodic reconciliations, analytical reviews, SOD, IT related controls etc. Responsibilities at various levels are described e.g. the GFC monitors all control processes, defines and design control points; IT process owners define and set minimum regulations for an efficient IC.

The above table puts into perspective the essential IC reporting requirements based on the FCGC – which is the obligation to disclose main features of IC. From the above analysis it appears that:

- The companies include in their report a section that addresses the key features of their IC with respect to FR. The content of the reports seem to not only provide a precise indication of the presence of IC systems but also gives a general understanding of the responsibilities and processes or tools in place for the effective realization of controls.

- The companies report their IC as part of their CGS which for seven of the companies, is both included in the annual reports and published separately. Kesko appears to be the only exception to this pattern as it does not include its CGS in its annual report.

From a general and objective viewpoint, it could be concluded that IC reporting of the above companies indeed comply with the applicable code – FCGC in this case. Although one could observe variations in the content and style of the eight reports, a general idea of key features of IC, seem to be comprehensibly provided to the audiences, this being the purpose of the Finnish Code. In the next section of this chapter we will discuss these perceived differences and similarities in reporting styles and content.

4.2.2. Compliance with Swedish Corporate Governance Code

As seen in the second chapter, the Swedish Governance Code is closely linked to the Finnish Code even though it appears that the former has an even wider allowance for departure from established recommendations. The fundamental principle underlying the SCGC IC disclosure standards is based on the idea that listed companies report on the key aspects of their IC system in a separate section of either the annual reports or the CGS.

Nordea includes in its CGS, which is part of its annual report, a section that reports on the 'key aspects' of IC system. The report is systematically provided under the five IC components and the responsibilities of the BOD, GIA, and Audit Committee with respect to IC over FR are highlighted. Controls - which are enforced at all organizational levels, are documented and documents such as the Group Accounting Manual and the Financial Control Principe represent one of the surest tools for the communication of controls. Some of them include evaluation processes, goal-orientation and follow-up, SOD…etc.

This report appears to meet the purpose for which the Swedish corporate regulations are enforced because it provides the reader with an essential understanding of the manner in which administration is organised to effectively carry out its IC. In addition, it seems to adopt the suggested reporting approach of the FCGC. Given that the FCGC and the SCGC are closely linked, it could thus be concluded that Nordea's IC report, being quite similar to the others, fulfils the requirements of the SCGC as well as the FCGC.

4.2.3. Compliance with Sarbanes Oxley's Act of 2002

The last company to be analysed is Nokia, which as a result of its listing on the NYSE, is entitled to report its IC following the SOX disclosure standards. As seen in the second chapter, the SOX regulations are fairly demanding and companies that have their listings on any of the American stock exchanges are required to disclose their corporate governance following precise instructions from the legislation. We saw that the SOX Sections which address IC are 302 and 404, and these sections include regulations that pertain to the content and presentation of IC information as well as regulations for Corporate Responsibilities for FR. Given the limited scope of our data, only the content of IC reports will be tested for compliance.

It could be deduced from both the 20-F Form and Sections 302 and 404 of the SOX Act of 2002 that there are four main areas which listed companies should report on. Registrants should define the responsibility of management in instituting and maintaining controls as well as include an attestation from a Registered Public Accounting firm that controls have been assessed by management. In addition, they should include a conclusion of the effectiveness of IC by management and equally state whether or not there were changes in IC over FR. This information is all provided on Nokia's Form 20-F 2009 which can be found in appendix 6.

Table 7: Test for Compliance with SOX

Key Areas to be reported	Item 15 of Nokia's 2009 20-F Form
Conclusions on the Effectiveness of IC	President, Vice President, CEO & CFO evaluated controls and procedures based on COSO framework as of 31st Dec 2009 and concluded that they were effective.
Responsibility of Management in instituting and maintaining controls	Management is responsible for establishing and preserving adequate controls, although these controls can only provide reasonable assurance of the reliability of FR
Attestation from registered public accounting firm that controls have been assessed.	An Auditor's attestation of the assessment of controls by management is provided on page F-1 of the report.
Changes in IC over FR	No changes in IC occurred during the year 2009, that have materially affected or are likely to materially affect IC over FR

The above table illustrates what Nokia accomplished with respect to each of the four areas, thus confirming the compliance of Nokia with this aspect of the SOX regulations.

NB: Form 20-F is a SEC form which must be filled out and submitted at the SEC within the six months following the end of the fiscal year of Companies that have any of the United States listings. Its goal is to standardize the reporting requirements of foreign based companies in order to ease up the evaluation of both foreign company investments and domestic ones (Investopedia, SEC Form 20-F).

To conclude this section, it is deduced from the various analyses that all ten companies comply with their respective applicable codes.

4.3. A Comparison of Internal Control Reports

The purpose of this section is to answer the third research question of this study; Are there any differences and/or similarities in their IC reporting? Having learned about the manner in which the companies report their IC and having tested for compliance, it would be interesting to make a simple comparison of these reports. From the previous analysis, there are a few observable similarities as well as differences in the style and structure as well as the content of disclosed information. This section is divided into two subsections. The first addresses the observable similarities or common features to the reports and the second tackles the differences or again, distinguishing features of the reports.

4.3.1. Similarities

The users of reported accounting information usually tend to have some basic expectations relative to the degree of similarity in the style, structure and to some extend, the content of IC reports. This not surprising, as listed companies are required by legislation to disclose this accounting information in a relatively specific manner. The analysis of our company reports revealed that although these companies are independent, distinct from each other, and go by different regulations, there are indeed some similarities in both content and structure. The following points were evident:

- The case companies all include in their reports, a statement of the roles and responsibilities of management in the fulfilment of an IC system, in order to ensure the reliability of FR. Nokia which reports by SOX standards has the explicit obligation to mention the role of management in the establishment and supervision of IC. In spite of the fact that the other nine companies do not have an explicitly stated requirement to do the same, they all describe the role of management with respect to IC. In addition, all reports include a statement of the ultimate responsibility of the BOD in overseeing and approving controls.

- The case companies all include at least a sentence highlighting the purpose of the implementation of IC within each company – which is, to provide assurance, or at least reasonable assurance of the reliability of financial information. This is a voluntary inclusion which provides the information users with a sense of purpose with respect to the reason underlying the implementation of controls, as well as a clear perception of the relevance of IC reporting.

The above bullet points provide a general picture of the features which are common to all ten cases. Now, as we already know, one of the ten case companies (Nokia) abides by a considerably different regulation (the SOX). As a result of disparities in the natures of the SOX and the other two i.e. FCGC and SCGC, it was observed that the companies that report by the latter regulations have a lot more in common than with Nokia. It would thus be useful to point out what kinds of similarities exist between the companies that go by these two other regulations. The following set of bullets will address these similarities:

- All nine company reports discuss the tools in place for the realisation of effective controls within the organization, and in addition to this, provide a few examples of some of the controls which these tools serve. They explain in one way or another, how their respective institutions are organized in order to achieve effective IC. That is to say, they describe the duties of the protagonists of IC processes – from the role of the BOD to that of managers, middle managers and business functions, depending on how the institution is organized to achieve an effective IC process.

- All nine companies produced IC reports of approximately similar lengths and included a separate section labelled Description of the "main features" or "key aspects" of IC over FR under which controls for most of the reports were discussed following the COSO framework. Most of the reports presented facts under all five IC components. A couple discussed theirs under two or four out of the five components and another couple did not label their points at all under any of the components. That not withstanding, they all addressed the main or key aspects of their IC to a minimal extent at least.

These similarities lead one to the realization that although distinct and unique, these companies possess a similar perception of the vision and understanding they wish to convey to the audience. However, as we will learn in the next subsection, there exist a number of differences in the content, structure and style of reporting.

4.3.2. Differences

In spite of the unity of purpose, it is interesting to realise how different each report is. In this subsection a brief and basic distinction shall be made between the reports and adequate conclusions made. There are two sets of differences that will be addressed in the section. The first set of differences pertains to the observed variations between Nokia's report and the rest of the companies.

- Nokia's report is divided into four main sections, each of which designed to address a specific aspect of IC reporting. The first highlights the assessment of controls and procedures by top management, the second affirms that management has assessed its ICS, the third includes a certification of the effectiveness of IC by the accounting firm Pricewaterhousecoopers Oy. and the fourth is a statement which absence of IC deficiencies. This structure is very specific and oriented towards the provision of an assurance of the "effectiveness" if IC. On the other hand, the other reports have a more general structure, in which they discuss the main features of their IC under the IC components enunciated by COSO. Compared to Nokia, these nine other reports are more narrative and illustrative of the controls in place by the organization.

- While Nokia's report includes an attestation of the effectiveness of IC by the officially registered accounting firm, and a statement of the absence of IC deficiencies, the other nine reports do not include such statements.

This first set of differences appears as a result of the inherent variation in disclosure requirements of the companies. As seen in chapter two, while the FCGC and the SCGC allow for some flexibility to depart from the recommendations with the provision of an explanation, the SOX does not allow for such flexibility, making the signing officers considerably liable for any remiss in their duty to strictly comply. The obligation to include in the report an attestation of effectiveness of IC made by a certified public accounting firm is non-existent in the Finnish and Swedish CGC, however, this constitutes an indispensable requirement of the SOX. Furthermore, while the SOX includes a requirement about the obligation to state whether or not the reporting company witnessed any forms of IC deficiencies susceptible to influence IC, the Finnish and Swedish Codes do not include any such recommendations. In addition, the SOX has specifically stated requirements about the structure and content of the reports, details which simply do not feature in the other regulations. One of the main reasons behind the detailed nature of the SOX is so that the nature of the information reported is standardized and investors and other information users can adequately make decent and fair judgements thereupon. The considerably divergent natures of these regulations result in very different approaches to IC reporting, even though the fundamental purpose is the same. This is the reason justifying the considerable and apparent difference between Nokia's report and the rest of the reports.

The second set of differences pertains to reports which are presented according to the FCGC/SCGC i.e. all with the exception of Nokia. The variations between these reports are of a different nature, because unlike the previous set of differences which was concerned with reports following different regulations, the second set of differences compares reports that are under the same regulation. The variations are as follows:

- The content of the reports under the SCGC and the FCGC are definitely not identical. Different companies emphasize different components and in different ways. For instance, while Lemminkainen's report stresses on day-to-day operations and control activities within the organization, Finnlines' report mostly emphasizes monitoring and information management. In addition, while Kesko focuses on discussing the accounting and financial duties accomplished at Group level, Division level and Subsidiary levels, Neste Oil, Nordea, Metso, UPM, Elisa and Kemira highlight in their reports the control environment, risk assessment, communication and information, control activities and monitoring processes carried out within the year. And even for those companies that highlight all five IC components processes, they do not necessarily describe them all with the same degree of emphasis.

- Furthermore, there appears to be differences in the structures of these reports. As seen in chapter three, some of the companies i.e. Elisa, Kemira, Neste Oil, Metso, Nordea and UPM structure their reports following the COSO framework, meanwhile others i.e. Finnlines, Lemminkainen, and Kesko report theirs in alternate ways. This however, does not mean that the latter companies do not discuss IC components. One can tell by taking a critical look at these three reports (see appendices) that they do address these components but do so in an indirect manner, or under headings such as Accounting Policies and Financial Management IT systems, Financial planning, Performance reporting and so on.

- Another observation which would be interesting to highlight is the depth of the reports. While some of the reports are quite brief and provide solely basic information on their IC, others are relatively more elaborate giving more illustrations and examples of controls. A typical example of a relatively elaborate report is Metso. The company does not only describe its processes in terms of its control components but equally includes in its report a brief update on an experiment that was carried out to test how many of the company's units worldwide met requirements for the established Compliance Program. On the other hand, a report such as Finnlines' provides minimal information as to what has been carried out or as to what processes are in place to realise IC with respect to FR.

This second set of differences in content and structure is primarily owing to the relative broadness of the IC reporting recommendations of both the Finnish and Swedish CGC. This broadness in reporting requirements certainly allows for companies to report their IC in a manner which is believed to best reflect the activities carried out with respect to IC over FR.

The above points were the most salient ideas which enriched our understanding of the relationship between the reports. Analyzing and comparing these reports brings some new understanding to the concept of IC reporting – the fact that a group of companies follows the same regulation does not imply that they report their IC in the same manner. This shall be discussed amply in the coming chapter.

This chapter served as a corner stone to the study, as it addressed the research problems stated at the beginning of the paper. The first section consisted of a basic analysis that provided a general understanding of the manner in which the companies disclose their IC, the second section revealed that the companies do comply with applicable regulations and the third section illustrated that there are indeed differences and similarities between the reports. Discussing these differences and similarities led to interesting realisations about IC reporting – which will be discussed in the next chapter, as part of our findings and implications.

5. SUMMARY OF STUDY AND CONCLUSION

This chapter being the last of the paper is meant to summarise the main ideas of the study as well as discuss the findings and their implications. At the end of the chapter, concluding remarks about the paper shall be made, whereby contributions and limitations of the research shall be outlined and possibilities for further research suggested.

5.1. Overview of Study and Findings

It is vital at this point to succinctly recapitulate the study and discuss its findings. Publically listed companies are required by public legislation to disclose information pertaining to their IC systems. The essence of this research was to understand how publically listed companies disclose their IC. This understanding would enable us determine whether and how these listed companies comply with reporting standards, and will equally allow for an objective comparison of reports to be made. This fundamental purpose was achieved by addressing the following research questions:

a. *How do listed Finnish Companies disclose their IC?* A critical look at the structure and contents of the reports would address this first question.

b. *Do they comply with applicable regulations?* After answering the first research question, we would verify that they comply with applicable regulations.

c. *Are there differences and/or similarities in their IC reporting?* The answer to this third question naturally emerges from a simple comparison of the reports.

The research was carried out based on a sample of reports from ten listed Finnish Companies selected randomly and from a variety of business sectors. They include: Elisa Corporation, Finnlines, Kemira, Kesko Corporation, Lemminkainen, Metso, Neste Oil, Metso, Nokia Corporation and finally Nordea (See Table 4). Owing to the nature and characteristics of the data, a Cross-sectional field study method was adopted for the research.

Given their relevance, applicable codes were analyzed and compared in the second chapter in order to fundamentally understand the expectations of different legislations with respect to IC reporting and also to get acquainted with their requirements. This analysis and comparison

(See table 2) led us to the logical conclusion that only the FCGC, and the SOX could and should be actively used to test for compliance except explicitly stated otherwise by any of the selected Companies. The third chapter provided basic information about the case companies as well as a general description of some of the technical and structural characteristics of the reports.

The analysis of the case companies' reports was the object of the third chapter, and consisted of an individual and systematic assessment of the content of the reports. Firstly, a description of the content of the IC reports was given, and then compliance with regulations was tested against the FCGC, the SCGC and the SOX. These three regulations were used because eight of the ten companies reported according to the FCGC, one according to the SCGC and the last one according to the SOX Act of 2002. Finally, reports were compared against each other to see what features were common to all and what features differed.

The findings of this analysis are as expected – that companies comply with applicable codes and that there are indeed differences and similarities between reporting styles and contents. However, this analysis opens a new perspective to this research as it leads us to the realization that reports are not and could hardly be identical even when they are said to comply with the same Code. This perspective will be further discussed in the next section.

Similarities and differences amongst the reports are presented at two levels. The first level compares the nine reports from companies following the FCGC and SCGC and the second compares Nokia against these nine reports. Previously a comparison of the SOX and the FCGC/SCGC revealed that these regulations differ significantly. However, analyzing the reports this way would enable us to see the differences between these two regulations in practice.

Comparison of all reports excluding Nokia

As we already know, nine out of ten of the case companies report by the FGCG and the SCGC, which are closely related sets of regulations. It is thus expected to find similarities amongst these nine companies. However, as could be noticed in the table below, there are equally differences in content and structure amongst them. Although for most of them these differences are not quite significant, a handful of reports such as Kesko, Lemminkainen and Finnlines show fairly distinctive features in structure as well as content, compared to the rest.

Table 8: A summary of the comparison of company reports (I)

	Comparison of the IC Reports (Excluding Nokia)	
	Similarities	**Differences**
Content	▪ All nine mention tools in place for effective realisation of IC mechanisms. In addition, examples of controls are provided.	▪ The components are emphasized differently in the various reports. Some elaborate more on for example monitoring, while others stress control activities or control environment. ▪ The Depth of reports also varies. While some are relatively elaborative, others are more restricted to the provision of basic information.
Structure	▪ They all include section labelled "Main Features" or again "Key Aspects" of IC over FR, dedicated to specially addressing IC related issues and components.	▪ Some present their reports following the COSO framework and others do not seem to follow this particular framework when it comes to the organization of their reports.

Comparison of Nokia against the other nine reports.

As we already know, Nokia stands out from the rest of the companies because it is the only one to report under the SOX. As seen earlier on, the SOX and the FCGC are two regulations with considerably different requirements and thus it is expected to find significant variations between reports that go by these regulations. The following table summarizes those key features which differentiate Nokia's report from the other nine reports. It is interesting, however, to note that although significant variations are observed between Nokia and the rest of the reports, there are equally commonalities amongst them. The table below also summarises these similarities, as well as differences.

Table 9: A summary of the comparison of company reports (II)

	Comparison of Nokia's report Against the Other nine reports	
	Similarities	**Differences**
Content	▪ Roles and responsibilities of management in implementation of IC to ensure reliability of FR. ▪ Highlight the purpose of implementation of IC.	▪ As per regulation, Nokia includes as part of its IC report an attestation from the publically registered accounting firm of an assessment of IC by management. Meanwhile none of the others do so or are required to do so. ▪ Nokia has the obligation to state whether or not there where IC deficiencies, hence it is included in its report. Whereas the rest of companies do not include this in information their reports.
Structure	▪ None	▪ As per SOX requirement, Nokia reports it IC under four specific areas or subsections whereas the other companies are only required to report under one main idea – main feature of IC.

5.2. Implications of Findings and Theoretical Suggestions on ICR

At this point, it is worthwhile to reflect on the possible meaning of the findings. What are the possible interpretations of the findings and what new perspectives does this study bring? What are the strengths of the various kinds of regulations and how do they enable their registrants to achieve the desired goals? These the main ideas around which the section will revolve.

As mentioned earlier, the outcome of the analysis confirms compliance with applicable codes and reveals that there are similarities as well as variations in both the structures and contents of the reports. It was certainly not unexpected to have observed similarities between the reports, for all we know they seek to achieve the same ultimate goal. But what about the differences? How can they be accounted for? Given the nature of the data and the limited scope of the research, the reason(s) underlying observed differences between reports cannot be inferred with absolute assurance – besides, this could be the object of another study. However, a range of possible reasons explaining these dissimilarities could be identified.

As discussed in the previous section, there appears to have been obvious dissimilarities between Nokia's report and the rest, both in terms the structure and content. The most probable justification to this kind of variation is the divergent natures of the requirements by which they abide. We saw that the SOX requirements are fairly demanding and most especially, quite specific. Meanwhile, the two other Codes are more general and flexible. This would naturally influence the manner in which the companies report their IC, and could account for the current differences. The word "current" is used to represent differences as they are at the moment, for if Nokia were to report its IC by FCGC standards, there might have still been variations – but most probably variations of a different nature.

The nine other companies who report by the FCGC and SCGC standards have a lot more in common than with Nokia, but are also identified with differences. Looking at the appendices one could observe that some of the reports, notably Kesko and Finnlines, are much less consistent with the others. For instance, in these reports it is quite challenging to distinguish between components i.e. it is not clear as to when the discussion of one component ends and when that of another begins and it even seems as though their understanding of IC reporting is quite different from the others. Meanwhile, for the others, the components are more easily distinguishable and comprehensible. In addition, emphases on the various components are not done in the same manner in the respective reports. All this might be owing to a number of reasons:

- Some of the controls overlap. As stated by COSO, "*Although all five criteria must be satisfied, this does not mean that each component should function identically, or even at the same level, in different entities. Some trade-offs may exist between components. Because controls can serve a variety of purposes, controls in one component can serve the purpose of controls that might normally be present in another component. Additionally, controls can differ in the degree to which they address a particular risk, so that complementary controls, each with limited effect, together can be satisfactory* (COSO, Internal Control – Integrated Framework 1994, p.20)."

- There might have been different interpretations. The broadness of the recommendation(s) on IC reporting and the allowance for departures gives the companies the freedom to report their IC systems in a manner they judge befitting and seemly. Thus they decide what to include in their reports and how to do so, in their attempts to comply. In addition, the meaning of "main features of IC" may differ from one company to the other. What is perceived by company X to be a main feature of IC might not be perceived by company Y as such.

- There might have been a specific theme assigned to the reports for that particular year, justifying the emphasis on a specific component more than others. Unfortunately, because of the limited scope of this study (covering 2009 reports only) this possible justification cannot be sustained. A historical scope would have definitely allowed for an evaluation of the reporting trends and a verification of this hypothesis.

It must be noted that according to COSO, consistency in reports is absolutely vital as it enhances communication. However, it is not expected that reports be uniform or use the same language "*While consistency in reporting enhances communication, there is no need for total uniformity, or 'boilerplate' language. Managements may want to emphasize different matters, or may simply have a desired reporting style* (COSO, Internal Control – Integrated Framework 1994, p.139)." Therefore, it is not unusual or unexpected to observe differences in language and style. What would be unforeseen is the absence of minimum consistency among the reports, which would be highly influenced by the nature, the depth and strength of the applicable regulations.

The SOX and the FCGC are certainly different in the orientations which they provide. The SOX regulations on IC are more oriented towards the provision of an assurance of the verification of the effectiveness of IC, whereas the FCGC regulations focus more on the design of ICS. Although these two approaches differ, they serve the same ultimate purpose, which is to safeguard the interest of investors by reassuring them to a reasonable extent, of the presence and effective management of IC. But how does COSO perceive these approaches? Are they equally recommended?

COSO, in its Internal Control – Integrated Framework (IC-IF) 1994, suggests that companies give an 'effectiveness of IC' orientation to their reports, rather than a mere statement of management's responsibility or the design of IC systems. It is believed that a report based on the effectiveness of IC is more substantial and carries the required caveats and protections. For this to be achieved, the organization suggests an amendment to the contents of the reports - that there be included therein a number of elements or items, all of which would provide a certain reassurance about the effectiveness of IC. Furthermore, reports bearing these characteristics would provide both the readers and the company with a common understanding of the information that is communicated (COSO, 1994). Exhibit below provides details of this new guideline.

Exhibit 1: Suggestions on IC reporting

COSO suggested content for a report based on IC effectiveness

- The category of controls being addressed (controls over the preparation of the entity's published financial statements).
- A statement about the inherent limitations of internal control systems.
- A statement about the existence of mechanisms for system monitoring and responding to identified control deficiencies.
- A frame of reference for reporting — that is, identification of the criteria against which the internal control system is measured.
- A conclusion on the effectiveness of the internal control system. If one or more material weaknesses exist, which would preclude a statement that the criteria for system effectiveness are met, a description of the material weaknesses should be included.
- The date as of which (or the period for which) the conclusion is made.
- The names of the report signers.

A careful look at the above exhibit would bring us to the realization that there is a fairly close relationship between these suggested contents of IC reporting and the SOX requirements on IC reporting. Almost all the elements of the Item 15 requirements of the 20-F form can be found in this exhibit. In addition, these suggestions include an exhortation to address the various categories of controls, which is the object of the principal recommendation on IC reporting in the Finnish and Swedish Codes. Thus, we notice that COSO reporting guidelines adequately integrates elements of both the SOX and the FCGC regulations. It is believed that applying these suggestions as to the content of IC reporting will not only enhance consistency, but will also improve on caveats and protection of the Management as well as company assets.

5.3. Concluding Remarks

The last section of this chapter will conclude this paper by discussing the contributions of the study, its limitations as well as further research possibilities.

At the beginning of this paper, it was stated that the targeted contribution was to understand how companies disclose their ICS. However, at the end of the paper, we realise that the actual contribution of this study goes beyond this targeted contribution. Understanding how companies report their IC has brought vital perspective and realisation to this study, summarised in the paragraphs below: -

- ✓ The first and most obvious contribution that the study provided is that Finnish companies comply with their respective applicable codes. However, they report their controls in fairly different ways, with varied degrees of emphasis on the IC components and varied styles. These variations are expected given the fact that companies implement controls differently and trade-off may exist between components. Varied interpretations of the meaning of the requirement may also explain the dissimilarities.

- ✓ The second and vital contribution is that the nature, the depth and the strength of the applicable codes influence the manner in which companies report their ICS. By *nature* is meant the orientation of the regulation. For instance it was observed that while the SOX regulations had on orientation towards "the effectiveness of IC", the FCGC and SCGC regulations are oriented towards "the design of the controls". By *depth* is meant how detailed the requirement is. For instance while the SOX has specific requirements about the content of the each of the sections of an IC report, the FCGC and SCGC have a broader or general regulation about IC reporting. By *strength* is meant the degree to which compliance is binding. In the SOX regulations for instance, absolute compliance is binding and failure to comply could lead to some sanctions. Whereas according to the FCGC, companies have that option to depart from the regulations and there are no allusions to sanctions in case of non-compliance. These three factors could impact the manner in which companies carry out IC reporting.

✓ The third contribution pertains to the realisation/discovery of the relevance of the two natures or orientations of IC reporting. We learn that the polarity in the natures of the SOX regulation and the FCGC simply owes to the difference in orientation or again, approach. While the former emphasizes 'effectiveness of IC' the latter focuses on "design of controls". Although COSO encourages the choice of an approach which is more orientated towards effectiveness of IC, we learn that both are vital in IC reporting. While the first orientation plays the role of providing an adequate dosage of protection of both the companies and their investors, the second orientation addresses controls and the manner in which the reporting company is organized to achieve the goals of IC.

The above points are the relevant contributions which this paper offers. The study is believed to be fruitful and useful as it enriches the knowledge and perspective about IC reporting. However, given that no study is perfect, a number of limitations relative to the nature of the study were noted.

❖ The first limitation pertains to the non-historical nature of the data. Solely 2009 reports were analysed and hence the conclusions which were made based on the observation of these reports might have been valid for that year only. Perhaps if the reports were analysed over a couple of years (say 2009 and 2010), the conclusions might have been different – perhaps due to a change in variables or change in reporting standards. In the future, a similar research could be carried out on a historical basis, to study IC reporting patterns across organizations.

❖ The second limitation concerns the sample size. Given the choice of a cross-sectional field study method, the sample size was not small enough to carry out a more detailed analysis of the content of the report. Had the study been based on a single or multiple case study research method, a deeper analysis as to the meaning of phenomenon would have been unravelled. Future research could consist of a smaller sample size and a more profound assessment of internal control reporting.

- The conclusion as to compliance of Finnish companies with applicable Codes with respect to IC reporting can only be generalizable to a certain extent. Each company was randomly selected from a business sector and the fact that they complied with applicable codes is not necessarily a reflection of other companies in their respective sectors. Furthermore, the sample contained only a single case of IC reporting according to the SOX standards which follows a different reporting approach. This could not allow for a comparison between reports that go by this particular regulation.

- In addition to the above limitations, this study does not necessarily tell the degree to which companies comply, as it solely seeks to verify whether companies comply with applicable codes or not. Testing for the degree of compliance could have its own advantages in the sense that it would allow for the analysis of how companies improve or could improve on their IC reporting. It is obviously challenging to establish a scale of compliance, measuring how much a company complies with regulations. However, this could be a subject for future research.

- Other research possibilities could also include a study on the relationship between the degree of overlap of IC components and the structure and content of the reports. The degree of overlap of controls can only be studied by direct contact with the companies. For instance an internship within the organization could allow for an objective observation of routines and controls and interviews could even be organized when necessary.

It is important be reminded of the inherent limitation of IC – which is the provision of only reasonable assurance of the effectiveness and efficiency of processes. Human errors, deliberate negligence and fraudulent practices could occasionally make their way through meticulously and accurately designed internal processes. Thus, it is safe to say that compliance with applicable codes does not necessarily provide absolute assurance of the effectiveness of ICS within an organization.

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APPENDICES

Appendix 1: An Extract of the SMA Guideline published in 2009 p.7

Example of a more extensive description

If the company so wishes, it can issue a more extensive description of the main features of the internal control and risk management systems in relation to the financial reporting process. In this case, the company can use the COSO2 or other corresponding framework, if the company applies such a framework in its operations. Below is a more detailed example, divided based on the five elements of the COSO framework.

1. **Control environment** (interface of the control activities)
   - Description of the controlled environment
   - Description of the company's various operating models of control
   - Values and the role of ethical instructions
   - Group structures

   o Explanatory charts, etc. may be used in the description
   - Processes
     - o Control over the functioning of the processes
     - o Description of the distribution of control responsibility
   - Role of risk management
   - Role of financial management
   - Roles of other possible functions
     - o Role of information management
     - o Role of internal control
2. **Risk assessment**
   - Main principles for identifying risks
   - Risk assessment regarding controls
3. **Control activities**
   - Description of how the control activities have been organised
     - o Description of the main principles for the control activities , e.g. Description of who ensures that control has actually been carried out. The mechanisms of the control activities (principles for approval, reconciliations, reporting)
   - Description of how control related to the different processes is carried out
4. **Information and communication**
   - The distribution of information about and documentation of the controls
   - Distribution of financial management instructions
   - Information systems and communication
5. **Monitoring**
   - Monitoring mechanisms of the operations and controls
   - Description of the roles and responsibilities of the board and audit committee when monitoring the results

Appendix 2: **Extracts of Requirements 404 and 302 of SOX**

SEC. 404. MANAGEMENT ASSESSMENT OF INTERNAL CONTROLS.

(a) Rules required: The internal control report shall:-

(1) state the responsibility of management for establishing and maintaining an adequate internal control structure and procedures for financial reporting; and

(2) contain an assessment, as of the end of the most recent fiscal year of the issuer, of the effectiveness of the internal control structure and procedures of the issuer for financial reporting.

(b) INTERNAL CONTROL EVALUATION AND REPORTING- With respect to the internal control assessment required by subsection (a), each registered public accounting firm that prepares or issues the audit report for the issuer shall attest to, and report on, the assessment made by the management of the issuer. An attestation made under this subsection shall be made in accordance with standards for attestation engagements issued or adopted by the Board. Any such attestation shall not be the subject of a separate engagement.

SEC.302. CORPORATE RESPONSIBILITY FOR FINANCIAL REPORTS.

a) Regulations Required:

(1) the signing officer has reviewed the report;

(2) based on the officer's knowledge, the report does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which such statements were made, not misleading;

(3) based on such officer's knowledge, the financial statements, and other financial information included in the report, fairly present in all material respects the financial condition and results of operations of the issuer as of, and for, the periods presented in the report;

(4) the signing officers--

(A) are responsible for establishing and maintaining internal controls;

(B) have designed such internal controls to ensure that material information relating to the issuer and its consolidated subsidiaries is made known to such officers by others within those entities, particularly during the period in which the periodic reports are being prepared;

(C) have evaluated the effectiveness of the issuer's internal controls as of a date within 90 days prior to the report; and

(D) have presented in the report their conclusions about the effectiveness of their internal controls based on their evaluation as of that date;

(5) the signing officers have disclosed to the issuer's auditors and the audit committee of the board of directors (or persons fulfilling the equivalent function)--

(A) all significant deficiencies in the design or operation of internal controls which could adversely affect the issuer's ability to record, process, summarize, and report financial data and have identified for the issuer's auditors any material weaknesses in internal controls; and

(B) any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal controls; and

(6) the signing officers have indicated in the report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Reference:

Online SOX, The Act-summary http://www.sox-online.com/act_section_404.html

Appendix 3: An Extract of the Finnlines Annual Report 2009

sues are also brought to the attention of the Board.

The purpose of the Internal Audit is to analyse the company's operations and processes and the effectiveness and quality of its supervision mechanisms. The internal auditor also carries out special tasks assigned by the President and CEO or the Board of Directors. The internal auditor prepares an annual plan under which he independently from operational units audits different parts of the company, but he is also empowered to carry out special audits.

THE RISK MANAGEMENT

Internal control in Finnlines is designed to support the company in achieving its targets. The risks related to the achievement of the targets need to be identified and evaluated in order to be able to manage them. Thus, identification and assessment of risks is a prerequisite for internal control in Finnlines.

Internal control mechanisms and procedures provide management assurance that the risk management actions are carried out as planned.

Conscious and carefully evaluated risks are taken in selecting strategies, e.g. in expanding business operations, in enchancing market position and in creating new business.

Financial, operational and damage/loss risks are avoided or reduced. The continuity of operations is ensured by safeguarding critical functions and essential resources. Crisis management, continuity and disaster recovery plans are prepared.

The costs and resources involved in risk management are in proportion to the obtainable benefits.

The Board of Directors of Finnlines is responsible for defining the Group's overall level of risk tolerance and for ensuring that Finnlines has adequate tools and resources for managing risks. The President and CEO, with the assistance of the Extended Board of Management, is responsible for organising and ensuring risk management in all Finnlines' operations.

Responsibilities for the Group's working capital, investments, financing, finances, human resources, communications, information management and procurement are centralised to the head office of the company. The Group's payment transactions, external and internal accounting are managed centrally by the Financial Shared Service Center, which reports to the CFO. The Group's foreign exchange and interest exposure is reviewed by the Board of Directors in each budgeting period. External long-term loan arrangements are submitted to the Board for approval.

The Corporate Legal Affairs and Insurance unit is responsible for risks associated with the company's non-current assets and any interruptions in operations, as well as for the management and coordination of the Group's insurance policies.

are covered by loss-of-earnings policies.

The financial position and creditworthiness of the Group's customers are monitored continuously in order to minimise the risk of customer credit losses.

Each business unit has a responsible controller who reports to the head of the relevant business unit and to the CFO. The Directors of Finnlines'business units are responsible for the profit and working capital of their units. They set the operational targets for their units and ensure that resources are used efficiently and that operations are evaluated and improved.

Finnlines'most important strategic, operative and financial risks are described on in the Financial Statements 2009.

INTERNAL CONTROL OVER THE FINANCIAL REPORTING PROCESS

Monitoring is a process that assesses the quality of Finnlines' system of internal control and its performance over time. Monitoring is performed both on an ongoing basis, and through separate evaluations including internal, external and quality audits. The business unit is responsible for ensuring that relevant laws and regulations are complied with in their respective responsibility areas.

The Internal Audit function assists the CEO and the Board of Directors in assessing and assuring the adequacy and effectiveness of internal controls and risk management by performing regular audits in Group's legal entities and support functions according to its annual plan. Finnlines' external auditor and other assurance providers such as quality auditors conduct evaluations of the company's internal controls.

The company's financial performance is reviewed at each Board meeting. The Board reviews all interim and annual financial reports before they are released. The effectiveness of the process for assessing risks and the execution of control activities are monitored continuously at various levels. This involves reviews of results in comparison with budgets and plans. Responsibility for maintaining an effective control environment and operating the system for risk management and internal control of financial reporting is delegated to the CEO. The internal control in the company is based on the Group's structure, whereby the Group's operations are organised into two segments and various business areas and support functions. Group functions issue corporate guidelines that stipulate responsibilities and authority, and constitute the control environment for specific areas, such as finance, accounting, and investments, purchasing and sales.

The company has a compliance program. Standard requirements have been defined for internal control over financial reporting. The management expects all employees to maintain high moral and ethical standards and those expectations are communicated to the employees through internal channels.

Appendix 3: Cont

The Group Finance & Control unit monitors that the financial reporting processes and controls are being followed. It also monitors the correctness of external and internal financial reporting. The external auditor verifies the correctness of external annual financial reports.

INFORMATION MANAGEMENT

An effective internal control system needs sufficient, timely and reliable information to enable the management to follow up the achievement of the company's objectives. Both financial and non-financial information is needed, relating to both internal and external events and activities.

Information management pays a key role in Finnlines' internal control system. Information systems are critical for effective internal control as many of the control activities are programmed controls.

The controls embedded in Finnlines' business processes have a key role in ensuring effective internal control in Finnlines. Controls in the business processes help ensure the achievement of all the objectives of internal control in Finnlines, especially those related to the efficiency of operations and safeguarding Finnlines' profitability and reputation. Business units and IT management are responsible for ensuring that in their area of responsibility the defined Group level processes and controls are implemented and complied with. Where no Group level processes and controls exist, business units and IT management are responsible for ensuring that efficient business level processes with adequate controls have been described and implemented.

The proper functioning of Finnlines' information systems is guaranteed through extensive and thorough security programmes and emergency systems.

INSIDER MANAGEMENT

Finnlines applies the legal provisions applying to the management of insiders, as well as the guidelines for insiders approved by NASDAQ OMX Helsinki Exchange for public listed companies, and the stipulations and guidelines of the Finnish Financial Supervision Authority.

Finnlines' permanent insiders comprise the statutory insiders, ie. the Board of Directors, the company's President and CEO and the Deputy CEO, the Principal auditor as well as the members of the Extended Management Board. Certain members of the corporate management and other employees, as required by their duties also belong to the company's own non-public insider register.

Project-specific insider lists are drawn up for major projects such as mergers and acquisitions, and include all those who participate in planning and organising the projects. The decision to draw up a project-specific insider list rests with the President and CEO.

The company's insiders are not permitted to trade in the company's share for 14 (however Finnlines recommends 30 days) days prior to the publication of the interim reports or the annual financial statements. The company's insider register is maintained by the corporate legal unit.

Information on the interests and holdings of the company's permanent insiders and related parties is available from the SIRE system of Euroclear Finland Oy. The information can also be obtained directly from the company's website.

THE EXTERNAL AUDIT

The company has one auditor which shall be an auditing firm authorised by the Central Chamber of Commerce. The auditor is elected by the Annual General Meeting to audit the accounts for the ongoing financial year and its duties cease at the close of the subsequent Annual General Meeting. The auditor is responsible for auditing the consolidated and parent companys' financial statements and accounting records, and the administration of the parent company. On closing of the annual accounts, the external auditor submits the statutory auditor's report to the company's shareholders, and also regularly reports the findings to the Board of Directors. An auditor, in addition to fulfilling general competency requirements, must also comply with certain legal independence requirements guaranteeing the execution of an independent and reliable audit.

AUDITOR IN 2009

In 2009, the AGM appointed the authorized public audit firm Deloitte & Touche Oy as auditor, which appointed APA Mikael Leskinen as head auditor. In 2009, EUR 360 thousand was paid to the auditors in remuneration for the audit of the consolidated, parent company and subsidiary financial statements. During the same year, EUR 232 thousand was paid for consulting services not related to auditing.

COMMUNICATIONS

The principal information on Finnlines' administration and management is published on the company's website. All stock exchange releases and press releases are published on the company's website as soon as they are made public.

of the company's financial administration. The President and CEO also chairs the Corporate Management Board and the Boards of the Group's major subsidiaries, such as Kesko Food Ltd and Rautakesko Ltd. The President and CEO is elected by the Board of Directors. The Board of Directors has specified the service terms and conditions of the President and CEO. A written service contract has been signed between the company and the President and CEO.

7 Description of the main features of the internal control and risk management systems pertaining to the Group's financial reporting

7.1 Group's financial reporting and its internal control

Kesko's management system

Kesko's financial reporting and planning are based on the Kesko Group's management system. The Group units' financial results are reported and analysed inside the Group on a monthly basis, and disclosed in interim reports published quarterly. Financial plans are prepared for quarterly periods, in addition to which significant changes are taken into account in the monthly performance forecasts. The Group's and its units' strategies and related long-term financial plans are updated annually.

Roles and responsibilities

The Kesko Group's financial reporting and its control is divided between three organisational levels. The subsidiaries analyse and report their figures to the respective divisions, which then report the division-specific figures to Corporate Accounting. Analyses and controls for ensuring the accuracy of reporting are used at all three levels.

The accuracy of reporting is ensured by using different automated and manual controls at every reporting level. In addition, the income statement and balance sheet are analysed by controllers at subsidiary, division and Group level every month. The implementation of the analyses and controls is supervised on a monthly basis at company, division and Group level.

Subsidiaries are responsible for the accuracy of their financial reporting and compliance with local legislation. Each subsidiary reports its planned and actual figures to the respective division.

Divisions bear the principal responsibility for the accuracy of their financial reporting and for the adoption of the Group's accounting policies in their subsidiaries. In addition, the divisions are responsible for the implementation of planning and reporting systems in their subsidiaries and for organising the divisions' business controlling functions.

Corporate Accounting is responsible for the accuracy of the Group's reportable financial information as a whole. In addition, Corporate Accounting is responsible for ensuring that the Group applies appropriate accounting policies and that the corporate guidelines are up-to-date. Corporate Accounting is also responsible for ensuring that the Group has relevant and sufficient planning and reporting systems.

Planning and performance reporting

The Group's financial performance and the achievement of financial objectives are monitored via Group-wide financial reporting. Monthly performance reporting includes Group-, division- and subsidiary-specific results, progress compared to the previous year, comparisons with financial plans, and forecasts for the next 12 months. The Group's short-term financial planning is based on plans drawn up by the quarter, extending for 15 months. The financial indicator for growth is sales performance, while that for profitability is the accumulation of economic value added, monitored via monthly internal reporting. When calculating economic value added, the requirements concerning return on capital are determined annually on market terms, and the performance requirements take account of risk-related division and country-specific differences. Information about the Group's financial situation is given by interim reports and the financial statements release. The Group's sales figures are published in a stock exchange release each month.

Financial planning takes place in the subsidiaries, divisions and the Group where rolling plans, each for a 15-month period, are made. The plans are updated quarterly, and any significant changes are taken into account in the monthly performance forecasts. Any deviations between the plan and the actual result are analysed by the company, division and Corporate Accounting, and the reasons are reported to the division and Corporate Accounting every month.

Appendix 4: Cont

The performance reports provided monthly for the Group's top management comprise the subsidiaries', divisions' and the consolidated income statements and balance sheets. Each subsidiary is primarily responsible for the financial reporting and the accuracy of its figures. The financial management and the controlling function of each division analyse the respective division's figures, while Corporate Accounting analyses the whole Group's figures. The income statement and the balance sheet are analysed monthly at the company, division and Group level, based on the documented division of duties and specified reports. This enables a real-time knowledge of the financial situation, as well as real-time response to possible defects. The performance reports provided for the top management also include Group-level monitoring of sales on a weekly, monthly and quarterly basis.

Public performance reporting comprises interim reports, the annual financial statements and monthly sales reports. The same principles and control methods are applied to the public performance reporting as to the monthly performance reporting. The Audit Committee reviews the interim report and the financial statements and recommends their approval to the Board of Directors. The Board of Directors approves the interim report and the financial statements before they are published.

Accounting policies and financial management IT systems

The Kesko Group has adopted the International Financial Reporting Standards (IFRSs) endorsed by the European Union. The accounting policies adopted by the Group are included in the accounting manual, updated as the standards are amended. The manual contains guidelines for stand-alone companies, the parent company, and instructions for the preparation of consolidated financial statements.

The Kesko Group's financial management information is generated by division-specific enterprise resource planning systems, via a centralised and controlled common interface, into the Group's centralised consolidation system, to produce the Group's main financial reports. The key systems used in the production of financial information are certified and secured by back-up systems, and they are controlled and checked regularly to ensure reliability and continuity.

Internal control

Internal control is an active part of Kesko's management, governance and day-to-day operations. The Audit Committee of Kesko's Board of Directors has confirmed Kesko's internal control policies, which are based on good control principles, widely accepted internationally (COSO ERM).

Internal control refers to all proactive operations, daily and subsequent control, aimed to ensure the achievement of business objectives. Kesko's values, operating principles and the company strategy and objectives form the basis of internal control as a whole. Kesko's operating principles have been communicated to the Kesko employees in the guide 'Our Responsible Working Principles'. Daily controls include working instructions and system controls, as well as the definition and differentiation of responsibilities and powers, job specifications, approval authorisations and substitute procedures and financial reporting.

Internal audit and auditors are part of subsequent control.

The purpose of internal control is to ensure profitable and effective operations, reliable financial and operational reporting, compliance with the relevant laws, regulations and agreements, and security of assets and information. The ultimate responsibility for organising internal control lies with the Board of Directors and the President and CEO.

Risk management

Appendix 5: An extract of Lemminkainen's Annual Report 2009.

The Chairman of the Audit Committee presents the proposals and matters handled by the committee to the Board of Directors. Heikki Räty acts as the Chairman of the Audit Committee, with Juhani Mäkinen and Kristina Pentti-von Walzel serving as committee members. All the members of the committee are independent of the Company and two of them are independent of its major shareholders.

The Audit Committee convened five times in 2009. All the members of the committee attended the meetings.

Remuneration Committee

The Remuneration Committee deals with matters relating to pay, rewards and fringe benefits of senior management as well as and other key terms and conditions of their service agreements. In addition the Remuneration Committee deals with Group-level remuneration, incentive and retention bonus schemes.

The Remuneration Committee prepares proposals and recommendations on the matters it deals with for consideration and decision by the Board of Directors. Minutes of the meetings of the Remuneration Committee are kept and distributed to all the members of the Board of Directors.

Teppo Taberman acts as the Chairman of the Remuneration Committee, with Berndt Brunow and Mikael Mäkinen serving as committee members. All the members of the committee are independent of the Company and its major shareholders.

The Remuneration Committee convened three times in 2009. All the members of the committee attended the meetings.

PRESIDENT & CEO

Timo Kohtamäki, Lic. Tech. (b. 1963) has served as President & CEO of Lemminkäinen Corporation since 2009.

The President & CEO of Lemminkäinen Corporation is responsible for the day-to-day management and practical planning of the Company's businesses. The President & CEO also takes care of actions that are strategically important at Group level, such as preparations for acquisitions and the execution of measures decided by the Board of Directors. In addition, the President & CEO ensures that the Company's management resources are sufficient and that the Company's governance is appropriate and in accordance with the law.

MAIN FEATURES OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS ASSOCIATED WITH THE FINANCIAL REPORTING PROCESS

Internal control of Lemminkäinen's financial reporting

The aims of internal controls and risk management are to ensure that the Company's business is efficient and profitable, that reporting is consistent and reliable, and that applicable laws, regulations and the Group's operating principles are observed. The aim of internal controls of financial reporting is to ensure that published interim financial reviews and year-end financial statements are prepared in accordance with the accounting and reporting principles adopted by Lemminkäinen, and that they are reliable and give an end-result in keeping with expectations. The internal control function also monitors financial reporting to ensure that it is handled in accordance with the timetables laid down for it.

Lemminkäinen's financial reporting process consists of internal and external accounting. Internal accounting focuses on the monitoring and forecasting of the Group's profitability, whereas external accounting and reporting are based on Lemminkäinen's application of the International Financial Reporting Standards endorsed by the European Union. The Board of Directors' Report and the financial statements of the Group's parent company are prepared in accordance with the Finnish Accounting Act and the instructions and statements issued by the Finnish Accounting Standards Board.

The group-level accounting function issues instructions on the external accounting group report prepared quarterly by the group companies. In addition to these instructions, the Group-level accounting function supports and co-ordinates the finance units of the business sectors in financial reporting. The finance units of the business sectors issue supplementary business sector-specific accounting and reporting instructions to group companies. A standard chart of accounts as well as a reporting and consolidation system are used in group reporting. The group-level accounting function also issues instructions on the reporting timetable for internal reporting. The finance units of the business sectors make sure that the internal accounting reporting of the business sector's profit centres is in accordance with given instructions and principles. Internal and external accounting are reconciled every quarter to verify the reliability of the financial information.

Different kinds of financial administration organisations exist in Lemminkäinen's subsidiaries in different parts of Finland and in other countries. Group companies use local basic bookkeeping systems.

The procedures used in the internal control of financial reporting are part of day-to-day operations and financial management

Project-like operations in which the percentage-of-completion method of income recognition is applicable are characteristic of Lemminkäinen's business. Approval authorisations determined by the magnitude and risks of the undertaking are defined for projects.

The day-to-day financial control of construction projects is supervised by the project organisation. The project forecast and changes in it, the project risks, the degree of project completion and income recognition are examined thoroughly in regular meetings at company level. The recognition of income from construction projects is based on the judgements and estimates of management.

The recording of business transactions in Lemminkäinen is based on approved transactions. Approval instructions for investments are specified at group level. Approval instructions for transactions such as purchasing and bookkeeping transactions are specified at group company level. In addition to these, the main control procedures in the group companies include the differentiation of tasks, reconciliations of sector accounting and accounts, system controls and analytic controls.

The control procedures of Lemminkäinen's group-level accounting function include the elimination of intra-group transactions, group eliminations, assurance of the continuity of consolidated equity, regular impairment testing of goodwill, and assessment of the logicality of reported numbers versus the comparative period.

The President & CEO and the Chief Financial Officer of the parent company take part in the work of the boards of directors of the group companies at business sector level. At monthly meetings the management of the business sectors present internal accounting reports as well as forecasts and deviations. These are dealt with and analysed at the meetings so that discrepancies can be identified and rectified. In addition, an external accounting group report is approved quarterly.

The Group's management, the Audit Committee and the Board of Directors receive a monthly package of internal accounting group reports, which include the income statement, profit forecast, key balance sheet items, investments, interest-bearing net debt, order book, operative key indicators and cash flow by business sector. In addition to this, the material to be included in the interim financial review or year-end financial statements is reported quarterly. This material includes the text and tabulated section of the interim financial review or year-end financial statements as well as a detailed consolidated income statement, balance sheet and cash flow statement together with comparative figures. The Board of Directors discusses, analyses and approves the interim financial reviews, financial statements bulletin and year-end financial statements.

Internal control responsibilities are defined

Lemminkäinen's Board of Directors has set up an Audit Committee, which, in accordance with its order of business, monitors and supervises the year-end and interim financial reporting processes, monitors the effectiveness of the Company's internal control, internal auditing and risk management systems, as well as the external reporting of the auditor. The Audit Committee approves the annual plan of the internal audit unit and prepares interim financial reviews and year-end financial statements for approval by the Board of Directors.

The organisation and day-to-day management of the internal control function is the responsibility of operative management.

Lemminkäinen's internal audit unit assists the Board of Directors in its supervisory role by examining and assessing the functionality and standard of the internal control and risk management systems in accordance with its annual plan. The actions taken in these audits of the units are in accordance with pre-arranged audit plans. The results of the audits are reported bi-annually to the Group's management and to the Audit Committee.

Appendix 6: An extract of the Metso's Annual Report 2009.

Metso Executive Team's main task was to secure short- and long-term profitability and competitiveness.

MEF focuses on dealing with the most important Metso wide development issues and sharing of knowledge within Metso. The Forum convenes 2–4 times per year to discuss and share best practices, to start and follow up Group wide initiatives and to foster synergies between businesses.

Business line and reporting segment management

The business operations of Metso are organized into 8 business lines which in turn form the 3 reporting segments. The business lines in the Mining and Construction Technology reporting segment are Services as well as Equipment and Systems (Until July 1, Mining and Construction business lines), in the Energy and Environmental Technology reporting segment Power, Automation and Recycling, and in the Paper and Fiber Technology reporting segment Paper, Fiber and Tissue. The heads of Metso's business lines are responsible for the profitability and the daily management of their business lines, and they report to the Presidents of the respective segments.

The Presidents of the reporting segments report to Metso CEO and provide him with information about the financial and operational performance and development of the operating environment of their respective businesses. They are also responsible for the development of the business line operations and strategy, for implementing Metso's plans, strategies and operating policies within the business lines, and for collaboration between the business lines.

Subsidiary boards

The subsidiary boards ensure that operations in all Metso companies are managed in accordance with prevailing laws, regulations and operating policies. Metso's CEO, as Chairman, and two to four other members appointed by the CEO, generally from Metso executives, constitute the boards of the major subsidiaries. The CEO decides on the possible additional responsibilities of the boards of holding and other similar companies belonging to the Metso Group.

2009

CEO Jorma Eloranta and Executive Vice President and CFO Olli Vaartimo continued in their areas of responsibility. Matti Kähkönen, Pasi Laine, Bertel Langenskiöld and Kalle Reponen continued as members of MET. Perttu Louhiluoto, Senior Vice President, Operational Excellence moved in June over to the position of Senior Vice President, EMEA market area, Mining and Construction Technology and resigned from MET and MEF.

The Metso Executive Team met 15 times during the year. One of its main tasks was to secure Metso's short and long term profitability by adjusting Metso's capacity and cost structure to lower demand environment. It also handled issues related to Metso's management model, Metso-wide development themes and initiatives as well as issues related to human resource review and succession planning. It also reviewed and updated Metso strategy for the Board review after the major changes in our operating environment. The MEF agenda included issues related to Metso strategy and communication of the strategy, leadership development, sharing of best practices and monitoring of the progress in Metso-wide themes and initiatives. MEF met 3 times during the year.

Merja Kamppari, Senior Vice President, Human Resources was nominated as new member of MEF in June. Heitz Gerdes, former president of the Recycling business line retired at the end of 2009 and renounced his membership in MEF. Celso Tacla, President of the South American operations of Metso's Paper and Fiber Technology, has been appointed a new member of MEF as of January 22, 2010.

MAIN FEATURES OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS PERTAINING TO THE FINANCIAL REPORTING PROCESS

Our internal control mechanism seeks to ensure compliance with applicable laws, regulations and our operating principles as well as the reliability of financial and operational reporting. Furthermore, the internal control mechanism seeks to safeguard our assets and to ensure overall effectiveness and efficiency of our operations to meet Metso's strategic, operational and financial targets. Our internal control practices are aligned with Metso's risk management process. The goal of risk management in Metso is to support our strategy and the achievement of our objectives by anticipating and managing potential threats to and opportunities for our business. The discussion below focuses on internal control and risk management over financial reporting.

More detailed discussion about our overall risk management, see our website on www.metso.com
Annual report: Risks and risk management, pages 26–33.

In Metso, the operating model of internal control and risk management related to financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with applicable laws and regulations, generally accepted accounting principles (IFRS) and other requirements for listed companies. The overall system of internal control in Metso is based upon the framework issued by the Committee of Sponsoring Organizations (COSO) and comprises five principal components of internal control: the control environment, risk assessment, control activities, information and communication, and monitoring.

Control environment

Our Board of Directors bears the overall responsibility for the internal control over financial reporting. The Board has established a written formal working order that clarifies the Board's responsibilities and regulates the Board's and its committees' internal distribution of work. Furthermore, the Board has appointed an Audit Committee, the primary task of which is to ensure that established principles for financial reporting, risk management and internal control are adhered to and that appropriate relations are maintained with the company's auditors. The responsibility for maintaining an effective control environment and the ongoing work on internal control as regards the financial reporting is delegated to the CEO. Our internal audit function reports all relevant issues to the Audit Committee and the CEO. The function focuses on developing and enhancing internal control over the financial reporting in Metso by proactively concentrating on the internal control environment and by monitoring the effectiveness of the internal control. Our internal steering instruments for financial reporting primarily comprise Metso Code of Conduct, Internal Control Policy, Internal Control Standards, Treasury Policy and our accounting policies and reporting instructions which define the accounting and reporting rules, and Metso's definition of processes and minimum requirements for internal control over financial reporting. Our Audit Committee has also defined a financial expert among its members.

Risk assessment

Metso's risk assessment as regards financial reporting aims to identify and evaluate the most significant risks affecting the financial reporting at the Group, reporting segment, unit, function and process levels. The assessment of risk includes for example risks related to fraud and irregularities, as well as the risk of loss or misappropriation of assets. The risk assessment results in control targets through which we seek to ensure that the fundamental requirements placed on financial reporting are fulfilled. Information on development of essential risk areas and executed and planned activities in these areas and measures to mitigate them are communicated regularly to the Audit Committee.

Control activities

We have established an internal Metso Compliance Program to ensure the correctness and credibility of our financial reporting and compliance with our governance principles in all our units. Its purpose is to create a coherent control environment in Metso by implementing proper internal control principles for different business processes and to share internal control-related best practices. Through the program, we seek to ensure that we maintain a high standard of financial reporting, internal controls and governance principles even after the Metso share was delisted and deregistered from the US in late 2007 and our reporting obligations under Sarbanes-Oxley Act (SOX) ended. Metso Compliance Program affects all our units and is more flexible and in some respects more comprehensive than SOX reporting. In line with the SOX requirements, our control standards define the basic level for internal controls that all units must achieve. Our internal audit function, assisted by trained Metso testers from different parts of our organization, is responsible for the testing of the units. Unlike with the SOX system, independent auditors do not issue a separate statement on the functionality of our internal controls.

Our Internal Control Standards are designed to ensure that main control aspects in selected key administration processes are effectively designed and implemented by local management in every Metso unit. These are complemented with proper segregation of key duties and management oversight controls. Properly established internal controls safeguard us also from possible misuses. Internal Control Standards list the set of control standards by selected business cycles, such as revenue, procurement, payroll, inventory, treasury, financial reporting, fixed assets and IT, including list of duties, which need to be segregated from each other. Further it outlines control activities by business processes that need to be implemented and their performance documented.

2009

The Metso Compliance Program has proceeded on schedule. We made some modifications to our Internal Control Standards and trained more testers, especially in Asia-Pacific. During the year, the amount of trained testers from our various units increased by some 20 to more than 50. Since the launch of the program at the end of August 2007, we have tested a total of 114 units and IT systems, 67 of them during 2009. By the end of the year, 59 units and systems had met our requirements. We have initiated corrective measures in 55 units and systems. Each of non-compliance units will be tested again within one year. About 20 of the largest units will be tested every two years, the smaller units every three years. The aim is to have all our units within the scope of the program by the end of 2010.

Information and communication

In order to secure effective and efficient internal control environment we seek to ensure that Metso's internal and external communication is open, transparent, accurate and timely. Information regarding internal steering instruments for financial reporting i.e accounting principles, financial reporting instructions and disclosure policy, are available on Metso's intranet. We arrange training for our personnel regarding internal control issues and tools. Metso CFO and the head of internal audit report the results of the work on internal control as a standing item on the agenda of the Audit Committee's meetings. The results of the Audit Committee's work in the form of observations, recommendations and proposed decisions and measures are reported to the Board after every Audit Committee meeting.

Monitoring

Monitoring to ensure the effectiveness of internal control as regards financial reporting is conducted by the Board, the Audit Committee, CEO, Group management, the internal audit function and by the Group companies and reporting segments. Monitoring includes the follow up of monthly financial reports, review of the rolling estimates and plans, as well as reports from internal audits and quarterly reports by independent auditors. Our internal audit annually assesses the effectiveness of Metso's operations as well as the adequacy and effectiveness of risk management and reports risks and weaknesses related to the internal control processes. Internal audit compiles an annual audit plan, the status and findings of which it regularly reports to Metso management, auditors and the Audit Committee. Furthermore our internal audit and independent auditor have regular coordination meetings.

2009

In monitoring we focused on the awareness and effectiveness of net working capital management procedures in our units and adequacy of the adjustment measures related to cost structure and capacity.

Appendix 7: An extract of Neste Oil's Annual Report 2009.

Neste Executive Board particularly related to risks that threaten the company's strategy and business plans, as well as investments and new business models.

Management and staff in Neste Oil's business areas and common functions are responsible for assessing and managing risks related to planning, decision-making, and operational processes in their areas.

Risk management control and consultation

The second line of defense comprises the Chief Risk Officer, supported by the risk management specialists in the Corporate Risk Management function and other common functions and business areas. They are responsible for overseeing specific risk disciplines, consulting and facilitating risk management processes, and developing risk management systems.

Risk management effectiveness assurance

The third line of defense, led by the Audit Committee, is designed to provide an independent assurance on the efficacy of systems of governance and risk management. Internal Audit plays a key role in the third line of defense and provides assurance to the Audit Committee.

Risk reporting

Corporate risk reporting to the Board of Directors, the Audit Committee, the President & CEO, and the Neste Executive Board takes place according to the following main principles:

- risks threatening strategic and business plan targets are reported as part of the corporate planning process
- risk treatments are reported through the Risk Management Committee as part of the corporate reviewing process
- reporting on the overall financial risk situation is provided as part of monthly reporting.

PERFORMANCE MANAGEMENT PROCESS

The Neste Oil Performance Management Process plays an essential role in helping the Group reach its strategic goals and reinforcing performance culture.

Excellent operational performance is based on setting challenging targets, executing action plans, reviewing progress, giving feedback, and measuring results and performance.

From the financial reporting point of view, Neste Oil's Performance Management Process consists of the monthly Management Reporting Process and the quarterly Performance Review Process. At corporate level, results and information in management reporting and performance reviews are compared to strategic goals and business plans and to analyses and planned corrective actions throughout the year. Business areas and common functions follow a similar approach, but emphasize a more detailed analysis and definition of corrective actions, as well as continuous improvement and prioritization of actions and development projects.

INTERNAL CONTROL

Objectives for internal control

The objective of internal control in Neste Oil is to ensure efficient implementation of the company's strategy and effective operations, assure compliance with both internal instructions and laws and regulations, achieve appropriate financial reporting, and prevent fraud. Internal control is integrated into daily processes and activities, as well as risk management.

The main responsibility for internal control lies with the line organizations of business areas and common functions. Identifying the main risks of processes and defining adequate control points are essential to ensuring an appropriate level of control. In addition to daily monitoring, line organizations evaluate their level of internal control by reviewing, assessing, and auditing their processes, and develop their system by taking corrective actions as needed.

Line management also has primary responsibility for organizing sufficient control to ensure compliance with the company's overall management principles, policies, principles, and instructions.

Roles and responsibilities

Under the Finnish Companies' Act, the Board of Directors is responsible for ensuring that there is adequate control over the company's accounts and finances. Responsibility for arranging this control is delegated to the CEO, who is required to ensure that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

The heads of business areas and common functions are responsible for establishing and maintaining adequate and effective controls in their operations. Responsibility for the practical implementation of this is delegated to each organizational level. Managers at each of these levels are responsible for implementing corporate principles and instructions in their organization, and for assessing the effectiveness of controls as often as needed.

To ensure sufficient control and support the line organization, business controllers and their teams have an independent role in controlling their business line as agreed. In certain areas such as credit and counterparty risks, Risk Management has risk control responsibility. In respect of financial reporting, Finance has a key role in control activities. Other corporate functions also play a role in assisting, assuring, and monitoring the operation of internal control procedures, such as HSSE audits.

Internal Audit has overall responsibility for evaluating that internal control processes and procedures operate adequately and effectively.

As part of Corporate Governance, the Audit Committee oversees the Company's finances, financial reporting, risk management, and internal auditing.

Components of internal control

Neste Oil's internal control framework is based on the COSO (The Committee of Sponsoring Organizations of the Treadway Commission) framework.

Control environment

Neste Oil's values and management systems are the foundation of the control environment and provide the background for shaping people's consciousness. With respect to financial reporting:

- the CEO and corporate management are responsible for underlining the importance of ethical principles and correct financial reporting,
- the Audit Committee, appointed by the Board of Directors, is responsible for overseeing the financial reporting process and related controls,
- clearly defined financial reporting roles, responsibilities, and authorities provide a clear framework for everyone, and
- the structure of the organization and the resources allocated within it (segregation of duties, adequate financial reporting competencies recruited and retained) are designed to provide effective control over financial reporting.

Risk assessment

The Enterprise Risk Management (ERM) process defines the mechanisms used to identify, analyze, and manage the potential risks related to Neste Oil's objectives. The process is primarily focused on strategic, business, and operational risks, and does not cover all the risks threatening the reliability of reporting.

As a prerequisite for risk assessment, the organization's objectives need to be established. With respect to financial reporting, the general objective is to have reliable reporting and ensure that transactions are recorded and reported completely and correctly.

Based on risk assessment, the requirement for internal control has been included in the Principle and Instruction for Control over Financial Reporting.

Control activities

Control activities are instructions, guidelines, and procedures established and executed to help ensure that the actions identified by management as necessary to address the relevant risks are effectively carried out. Policies and other principles to be followed are documented in Neste Oil's management systems. The most important areas from the standpoint of financial reporting are included in the Controller's Manual.

Neste Oil's entity-level and process-level control activities with respect to reliable financial reporting are described in the Principle and Instruction for Control over Financial Reporting. These establish the minimum controls to be used and include controls related to transactions in a specific process as well as controls carried out as part of the monthly reporting process. Typical control activities include authorizations, automatic or manual reconciliations, third party confirmations, control reports, access controls to IT systems, and analytical reviews.

The principle and related detailed instruction were implemented in selected businesses and units during 2009 that represent the majority of Neste Oil's reported results and are also representative from a risk management point of view. Neste Oil's other businesses and units will implement the principle during 2010.

Information and communication

Information and communication systems enable Neste Oil's personnel to capture and exchange the information needed to conduct, manage, and control operations. With respect to controlling financial reporting, this means that there is adequate information and communication regarding accounting and reporting principles.

The main means of communicating the matters relevant for correct financial reporting are the Controller's Manuals used at common function and business area levels, which include instructions covering accounting principles, planning, estimating, and reporting, as well as periodic controllers' meetings.

Monitoring

Monitoring is a key component of the internal control system and enables management and the Board of Directors and the Audit Committee to determine whether the other components of the system are functioning as they should and to ensure that internal control deficiencies are identified and communicated in a timely manner to those responsible for taking corrective action and to management and the Board as appropriate.

Effective monitoring is based on an initial evaluation of controls and whether they are effective in mitigating the risks identified. The ongoing operation of controls is regularly monitored as part of regular management activities, as the efficacy of controls can diminish over time due to changes in the operating environment that affect the risks that controls are designed to mitigate, or due to changes in the controls themselves caused by changes in processes, IT, personnel, or other factors.

Appendix 8: An Extract of Nokia's F-20 Form 2009

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

None.

ITEM 15. CONTROLS AND PROCEDURES

(a) *Disclosure Controls and Procedures.* Our President and Chief Executive Officer and our Executive Vice President, Chief Financial Officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in US Exchange Act Rule 13a-15(e)) as of the end of the period covered by this annual report, have concluded that, as of such date, our disclosure controls and procedures were effective.

(b) *Management's Annual Report on Internal Control Over Financial Reporting.* Our management is responsible for establishing and maintaining adequate internal control over financial reporting for the company. Our internal control over financial reporting is designed to provide reasonable assurance to our management and the Board of Directors regarding the reliability of financial reporting and the preparation and fair presentation of published financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurances with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may decline.

Management evaluated the effectiveness of our internal control over financial reporting based on the Committee of Sponsoring Organizations of the Treadway Commission, or COSO, framework. Based on this evaluation, management has assessed the effectiveness of Nokia's internal control over financial reporting, as at December 31, 2009, and concluded that such internal control over financial reporting is effective.

PricewaterhouseCoopers Oy, which has audited our consolidated financial statements for the year ended December 31, 2009, has issued an attestation report on the effectiveness of the company's internal control over financial reporting under Auditing Standard No. 5 of the Public Company Accounting Oversight Board (United States of America).

(c) *Attestation Report of the Registered Public Accounting Firm.* See the Auditors' report on page F-1.

(d) *Changes in Internal Control Over Financial Reporting.* There were no changes in Nokia's internal control over financial reporting that occurred during the year ended December 31, 2009 that have materially affected, or are reasonably likely to materially affect, the Group's internal control over financial reporting during 2009.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

The Board of Directors has determined that all of the members of the Audit Committee, including its Chairman, Georg Ehmrooth, are "audit committee financial experts" as defined in Item 16A of Form 20-F. Mr. Ehrnrooth and each of the other members of the Audit Committee is an "independent director" as defined in Section 303A.02 of the New York Stock Exchange's Listed Company Manual.

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