Deloitte.

Audit Committee effectiveness in Denmark

2023 Framework Summary

Contents

1 Introduction

Given how rapidly expectations of the audit committee are changing, there are two questions to which every audit committee member wants an answer – are we covering the ground well and is our mandate being expanded? We are often asked for an independent view of how the audit committee is performing, and to help with this, we have drawn up our Audit Committee effectiveness framework, which we first published in Denmark in January 2018.

It is striking just how far the audit committee's agenda has grown in the years since. The work of the audit committee has never been more important: Investors, other stakeholders and regulators demand far more informative and reliable reporting, not just of the results and financial position, but of strategy, resilience, long-term value creation, of values, of a company's role in climate change and other sustainability areas, not to mention the community and the whole public interest agenda. The audit committee plays a prominent role in establishing and maintaining deserved trust in a company, with specific independent endorsement by the auditors in certain areas.

We have based our updated framework on the latest Danish Recommendations on Corporate Governance (the Code), issued by the Committee on Corporate Governance in December 2020, which are concise and digestible. The recommendations under the Code are used by listed and many other leading Danish companies when establishing their board and committee charters and preparing their corporate governance reports. Furthermore, we have added key guidance from the revised Danish Audit Committee Guide (the Guide), issued by the Danish Business Authority, and the latest version is from April 2022. However, when we prepared our dedicated Danish evaluation framework, we found that the recommendations under the Code and the Guide need some help if an audit committee wishes to be confident that it creates value and operates effectively from 2023 and beyond, especially in the area of oversight of ESG reporting and assurance, which is expected to come into force from 2024, 2025 and beyond, but also from other leading sources of guidance for audit committees around the world.

> Regulators are challenging audit committees to adopt a transformative and long-term strategic approach to prioritise and monitor sustainability risks, controls, reporting and assurance.

Our updated framework therefore incorporates the current legal requirements, the latest recommendations under the Code, the key elements of the Danish Audit Committee Guide, and the new expected upcoming EU and Danish legal requirements on ESG reporting and assurance, as well as leading practice guidance from elsewhere around the world.

We trust you will find this framework helpful, and we would be very interested to hear your feedback. If you believe your audit committee evaluation could benefit from professional external facilitation, you know where to find us.

Deloitte Denmark
May 2023

Starting from 2024, audit committees shall monitor sustainability reporting, risks and controls, integration into the annual report, as well as into the financial reporting, audit and assurance processes.

These new requirements are significant, comprehensive and detailed, and require audit committees to monitor sustainability reporting at the same level as they monitor financial reporting.

Martin Faarborg
Audit Committee Advisory Leader in Deloitte Denmark

2 Audit committee update for Denmark

This audit committee update for Denmark is based on the latest development, requirements, recommendations and related guidance for composition as well as the duties of an audit committee in Denmark.

These responsibilities are described in the Danish Act on Approved Auditors and Audit Firms (“the Auditor Act” or “Danish Auditor Act”), the recommendations on corporate governance in Denmark related to audit committees (December 2020) and the Danish Business Authority’s Audit Committee Guide (April 2022), which are summarised below.

A. Composition

As regards the composition of an audit committee in Denmark, we provide commentaries on the following issues:

1. the audit committee members shall collectively have competences relevant to the sector in which the company is operating,
2. at least one member of the audit committee shall have qualifications within accounting and/or auditing, and
3. the majority of the audit committee members, including the chair, shall be independent of the company unless all audit committee members are also board members of the company.

Re 1 – Sector knowledge

Firstly, it is a requirement that the committee members collectively shall have competences relevant to the sector in which the company operates. The Danish Auditor Act does not lay down any detailed requirements for a qualified member's qualifications or the overall competences of the committee, but they shall be sufficient to ensure that the audit committee can fulfil its duties regarding presentation of the company's accounts, internal controls, risk management and statutory audit, including the quality and independence of the audit. The composition shall therefore ensure that the relationship between special qualifications within accounting or auditing and competences within the sector in which the company operates contribute to high quality when discharging the committee's duties. Largely, there is no clear practice and no published rulings regarding the interpretation of this requirement.

As regards the company, board members’ experience in specific industries would be relevant, for example from current or previous executive management positions or non-executive management positions. In addition, the regulation of the specific industry may be considered knowledge relevant to the sector in which the company is operating.

Companies classified as a Public Interest Entity (”PIE”) shall according to the Danish Auditor Act establish an audit committee. Furthermore, the members of the audit committee normally consist of members of the board of directors of the company, which is also in accordance with the recommendation by the Committee on Corporate Governance. The Auditor Act does allow the board of directors to undertake the functions of the audit committee. In 2023, this is however rarely the case in Denmark.

Re 2 – Accounting or auditing qualifications

Secondly, the Danish Auditor Act requires that at least one member of the audit committee has qualifications within accounting or auditing. There are no changes to the required auditing/accounting skills in the revised Danish Audit Committee Guide by the Danish Business Authority (April 2022).

In accordance with this Guide, it will normally suffice if qualifications within accounting or auditing are obtained through one or more of the following experiences, educations or positions within a PIE or in entities that follow corresponding rules for presenting their accounts:

- management responsibility for presenting financial statements obtained as a finance director,
- responsibility delegated by management of an internal audit function,
- experience from membership of an audit committee,
- other experience from monitoring the presentation and auditing of accounts,
- authorisation to perform an audit of accounts (state-authorised or registered public accountant), or other corresponding qualifications, or
- other relevant experience.

The qualifications can be obtained through employment in Denmark or abroad and should include a full financial year as a minimum.

A key factor in evaluating competence is whether the person concerned has sufficient awareness of the requirements for presenting accounts (IFRS and other Danish reporting rules for listed companies) and/or conducting audits in companies corresponding to the company in question.

Re 3 – Independence

Thirdly, there is no independence requirement in the Danish Auditor Act if all members of the audit committee are concurrently members of the board of directors of the company. The special independence requirement therefore only applies if an external member of the committee is elected. There are no changes to the independence requirements in the revised Danish Audit Committee Guide by the Danish Business Authority (April 2022).

However, the Committee on Corporate Governance recommends that the majority of the audit committee's members be independent. The Committee on Corporate Governance also recommends that the audit committee's members be selected among board members and that a chair be appointed for the committee who is not the chair of the board of directors of the company. It is not a requirement for the committee member with qualifications within accounting or auditing to also be independent. If the independence requirement applies, it is thus not also a requirement that the qualified member is subject to the independence requirement if the requirement concerning the independence of the majority of members (including the chair) is fulfilled.

The Danish Auditor Act does not lay down any detailed requirements for when a member is deemed to be independent. According to the notes to the provision, the board of directors is responsible for ensuring that the independence requirement is met. The definition of the term "independence" has not changed. The European Commission's recommendation lays down a series of criteria which the board of directors can use when evaluating independence. According to the recommendation, the criteria should be adapted to national requirements. The Committee on Corporate Governance has adapted the criteria according to the recommendation to Danish requirements. The criteria of the Committee on Corporate Governance for independence are stated below:

To be independent according to the recommendation, the person concerned cannot:

- be or within the past five years have been a member of executive management or an executive employee in the company, a subsidiary or a group company,
- within the past five years have received large emoluments (i.e. remuneration) from the company/group, a subsidiary or a group company in another capacity than as member of the board of directors,
- represent or be associated with a controlling shareholder,
- within the past year have had a business relationship (e.g. personally or indirectly as a partner or an employee, shareholder, customer, supplier or member of a governing body in companies with similar relations) with the company, a subsidiary or a group company which is significant for the company and/or the business relationship,
- be or within the past three years have been employed or been a partner in the same company as the company's auditor elected by the general meeting,
- be a CEO in a company with cross-membership in the company's management,
- have been a member of the board of directors for more than 12 years, or
- be closely related to persons who are not independent, cf. the above-stated criteria.

The recommendation also states that, regardless of whether a board member is not covered by the above criteria, other factors may cause the board of directors to decide that one or more members cannot be regarded as independent. In the opinion of the Committee on Corporate Governance, employee representatives are not independent.

The Committee on Corporate Governance recommends that at least half of the members of the board of directors elected by the general meeting be independent persons, for the board of directors to be able to act independently of special interests.

If the recommendations of the Committee on Corporate Governance concerning independence are to be followed, this documentation requirement will apply instead of the general documentation requirement, and the board of directors shall therefore ensure that the independence requirement is fulfilled.

Deloitte recommendation

In audit committee charters, we generally recommend wording for **setting the minimum number of committee members to be operational, strengthen independence requirement, align wording with the Danish Auditor Act on the qualification requirement, and on the collective company sector knowledge requirement** to the audit committee from the Auditor Act as follows:

"The audit committee shall consist of no less than three members, of whom the majority shall be independent as defined by the Danish Recommendations on Corporate Governance. At least one member shall have accounting or auditing qualifications. The audit committee shall collectively have competences relevant to the sector in which the company operates."

Here is an alternative wording for setting the minimum number of committee members to be operational, however, not to set strengthening independence requirements, but align the wording with the Danish Auditor Act on qualifications, and include the collective company sector knowledge requirement to the audit committee from the Auditor Act as follows:

"The audit committee shall consist of no less than three members. At least one of the committee members shall be considered independent as defined by the Danish Recommendations on Corporate Governance. At least one member shall have accounting or auditing qualifications. The audit committee shall collectively have competences relevant to the sector in which the company operates."

B. Duties

As regards duties, or described below as tasks and responsibilities, of an audit committee in Denmark, Deloitte provides commentaries to the following issues, including meetings:

The legal requirements under the Danish Auditor Act for 2023 are for the audit committee to:

1. **Inform the board of directors**
   Inform the board of directors of findings of the statutory audit, including the financial reporting process

2. **Monitor financial reporting**
   Monitor the financial reporting process and make recommendations or proposals to ensure integrity

3. **Monitor internal controls and risk**
   Monitor operating effectiveness of the internal control system, internal audit function and risk management systems with respect to financial reporting, without compromising independence

4. **Monitor external audit**
   Monitor the statutory audit of the financial statements etc., taking into consideration the outcome of the latest quality assurance review of the audit firm

5. **Review and monitor external auditors' independence**
   Review and monitor auditor's independence and approve auditor's rendering of services other than auditing and ensure compliance

6. **Elect external auditors**
   Be in charge of the procedure for selecting and recommending auditors for election

Deloitte recommendation

As there are **no changes** to the duties of audit committees under the Auditor Act for 2023, these six tasks and responsibilities are all typically reflected appropriately in the audit committee charters, including the annual assessment of the need for an internal audit function. **However, we recommend adding explicitly that the audit committee should inform the board of directors of findings of the statutory audit**, including the financial reporting process if this is not already the case.

Deloitte recommendation

The fundamental role of audit committees is to monitor the integrity of the financial statements, which entails accurate financial reporting with strong internal control over financial reporting, but that does not mean that the associated responsibilities are static or predictable. Therefore, we recommend that the company add to the annual wheel of activities of the audit committee **a specific activity related to "assessment of internal controls in relation to financial reporting"**.

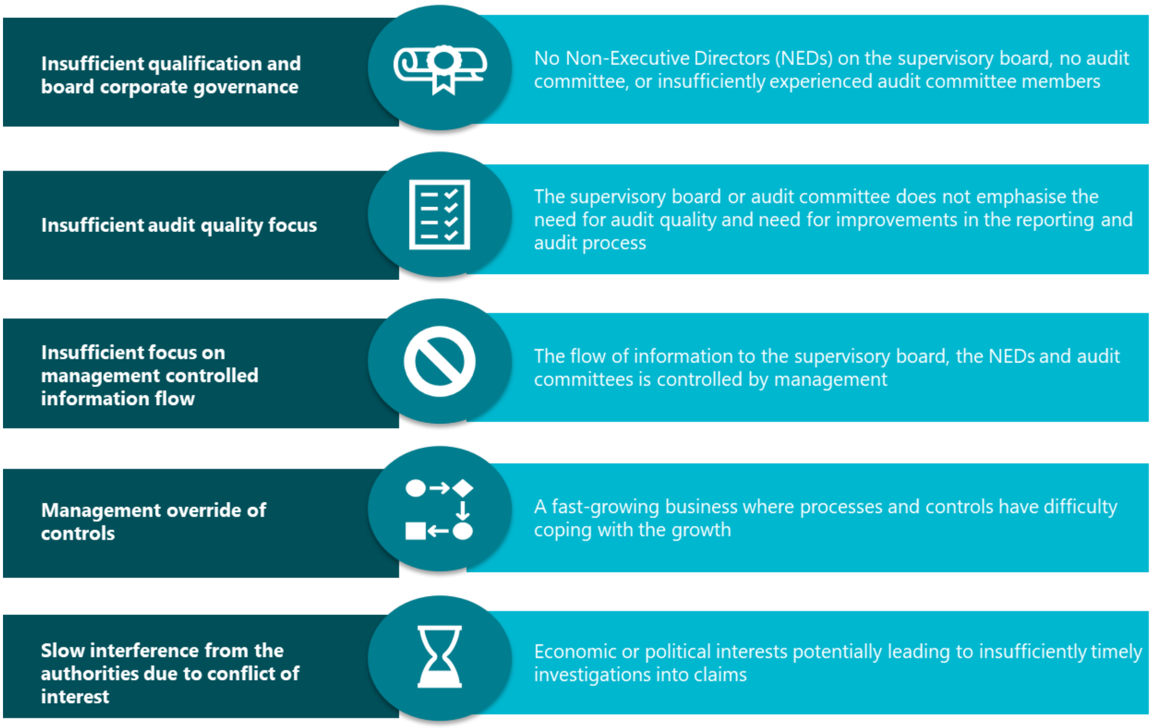
EU developments - Strengthening of the quality of corporate reporting

During 2022, the European Commission undertook a public consultation process where they analysed the need for strengthening of the quality of corporate reporting by way of EU regulation, and they concluded that they need more time to build a consensus on policy options.

In December 2022, McGuinness, the EU Commissioner, mentioned three takeaways from the consultation on corporate reporting:

- support for the Commission's holistic approach and the three pillars of the corporate reporting ecosystem – corporate governance; auditing; and supervision.
- a lot of interest in better risk management and internal controls, and in strengthening boards' responsibilities for corporate reporting, and auditors carry out an essential task in the public interest.

Potential risk areas (not all inclusive) for audit committees:



Emerging trends in ESG governance for audit committees

During 2023, audit committees should understand trends that are rapidly emerging in climate reporting and the broader ESG governance landscape.

Deloitte recommendation

Due to the growing significance and importance of ESG risk and reporting and the developing market practice for audit committees in Denmark to include oversight of sustainability reporting into the mandates of audit committee, Deloitte also **recommends the company to include "sustainability reporting" as a responsibility of the audit committee with related duties concerning oversight of the sustainability reporting process, risks and internal controls**. We also recommend that the company add to the annual wheel of 2023 activities of the audit committee **a specific activity related to review of "Roadmap for Integrated Sustainability Reporting for 2024, 2025 and beyond"**, and in January/February 2024, **a specific activity related to review of "Sustainability Report for 2023"**.

There is no 'one-size-fits-all' solution for the monitoring of environmental, social, and governance (ESG) matters – and with good reason. Each company shall navigate its own uniqueness related to its business strategy, operations, organisational structure, global reach, environmental impact, current business circumstances and industry and sector requirements.

While the expectations on ESG reporting continue to rapidly evolve, the overall trend towards a defined structure, disclosure and increasing involvement on the part of multiple committees and company functions is clear. Companies may need to adapt quickly to advance their climate data measurement and reporting and to drive decision-making regarding the allocation of resources.

As disclosure moves from voluntary to mandatory and becomes further aligned with annual financial reporting, the audit committee should understand the related data and measurement controls in place and the oversight structure across the "E", the "S" and the "G" to monitor and address related risks.

Deloitte recommendation
Key audit committee activities in 2023 include:
1. Strengthen individual ESG competences
2. Reassess ESG governance structures of the organisation, including mapping of competences
3. Establish revised board of directors and executive management oversight structures
4. Request ESG governance, risk and reporting training for the board of directors, the audit committee and the executives
5. Request report from management on the foundation and ambition level for integrated reporting
6. Monitor identification of stakeholder issues and assess 'double materiality' against business strategy and priorities
7. Monitor identification of key ESG data and reporting gaps
8. Monitor roadmap for project design and implementation for mandatory sustainability reporting
9. Ask probing questions about preparations for mandatory sustainability reporting
10. Develop roadmap for new audit committee activities related to sustainability reporting for 2023, 2024 and 2025

Here we also offer **ten questions related to ESG reporting for audit committees to consider in 2023**:
1. How is ESG defined for the organisation and how is the board's governance structure aligned around ESG from a strategic perspective?
2. Is there a clear division of responsibilities among the board of directors and its committees regarding the various components of ESG?
3. What framework is in place for coordinating ESG activities across geographies and business units and avoiding the siloing of potential topics?
4. If a single committee is currently charged with overseeing ESG, will it be able to handle the wide-reaching complexities of ESG components and disclosures as reporting transitions from voluntary to mandatory?
5. How often are ESG topics on the agenda of the appropriate board committee(s), and what level of information is being presented?
6. Is the company prepared to disclose the oversight structure for climate risks?
7. Who on the board of directors has experience in climate risk matters? Is the audit committee equipped to review climate risk and other ESG disclosures effectively?
8. Does management's presentation and reporting of ESG-related information meet the board of directors' and the audit committee's requirements to understand the company's related risks and opportunities?
9. To what extent is the finance organisation involved in building and strengthening the control environment for climate disclosures?
10. What adjustments, if any, will be needed to align greenhouse gas emissions reporting and other reporting with the annual report?

Source: Emerging Trends in ESG Governance for 2023 | Deloitte US

The Corporate Sustainability Reporting Directive ("CSRD") defines new legal oversight tasks for audit committees
With the CSRD implementation, legal requirements are expected for the audit committees in relation to monitoring ESG reporting, risks and controls, integration into the annual report, as well as into the financial reporting, audit and assurance processes.

The final CSRD text includes the following description of the role and **the mandatory tasks of the audit committee**:

"The audit committee shall:

a) inform the board of directors of the outcome of the statutory audit and the assurance of sustainability reporting and explain how the statutory audit and the assurance of sustainability reporting contributed to the integrity of financial reporting and sustainability reporting respectively, and what the role of the audit committee was in that process;
b) monitor the financial and sustainability reporting process, including the electronic reporting process and the process carried out by the undertaking to identify the information reported in accordance with the sustainability reporting standards adopted, and submit recommendations or proposals to ensure their integrity;
c) monitor the effectiveness of the undertaking's internal quality control and risk management systems and, where applicable, its internal audit, regarding the financial reporting and sustainability reporting of the undertaking, including its electronic reporting process, without compromising its independence;
d) monitor the statutory audit of the annual and consolidated financial statements and the assurance of the annual and consolidated sustainability reporting, in particular its performance, taking into account any findings and conclusions by the competent authority; and
e) review and monitor the independence of the statutory auditors or the audit firms, and in particular the appropriateness of the provision of non-audit services to the audited entity."

Member States may allow the functions assigned to the audit committee relating to sustainability reporting and relating to the assurance of sustainability reporting to be performed by the board of directors or by a dedicated other board committee (like a sustainability committee).

Source: Corporate Sustainability Reporting Directive (EU) of the European Parliament and of the Council of 14 December 2022

Therefore, the CSRD will amend and expand the Danish Auditor Act on the audit committee's legal responsibilities:

The ten new, significant, comprehensive and detailed tasks related to ESG reporting and assurance

From 2024, 2025 and beyond, the audit committee shall:

1. Inform the board of the outcome of the assurance of sustainability reporting
2. Explain how assurance of sustainability reporting contributed to integrity, and what the role of the audit committee was
3. Monitor the sustainability reporting process, including the electronic reporting process
4. Monitor the process to identify sustainability information reported, and submit recommendations to ensure their integrity
5. Monitor the effectiveness of the internal quality control and risk management systems regarding the sustainability reporting
6. Monitor, where applicable, the effectiveness of its internal audit regarding the sustainability reporting
7. Monitor the effectiveness of electronic reporting process regarding the sustainability reporting
8. Monitor the assurance of the sustainability reporting, in particular its performance and any findings
9. Review and monitor the independence of the statutory auditors, also related to sustainability reporting
10. Review and monitor the appropriateness of the provision of non-audit services, also related to sustainability reporting

Member States implement the text into their national laws within 18 months from 5 January 2023, i.e. before 6 July 2024.

Deloitte recommendations

As these new requirements are significant, comprehensive and detailed for audit committees, we recommend board of directors to reassess their ESG governance structures, strengthen their ESG competences, request ESG training for the board of directors, the audit committee and the executives, and develop a roadmap for audit committee activities related to sustainability reporting in 2023, 2024 and 2025. Finally, we recommend that the audit committee charter and the associated annual wheel of activities be updated accordingly.

Deloitte recommends further sources on the CSRD and the European Sustainability Reporting Standards (ESRS)

The Corporate Sustainability Reporting Directive (CSRD) has now entered into force:

Setting the standard for ESG policy | Deloitte

iGAAP in Focus — European sustainability reporting — Worldwide reach of the Corporate Sustainability Reporting Directive – final text published in Official Journal

The first set of draft European Sustainability Reporting Standards (ESRS) published:

iGAAP in Focus — European sustainability reporting — EFRAG submits first set of draft ESRS to the European Commission

Educational videos on sustainability standards reporting from EFRAG: First Set of draft ESRS - EFRAG

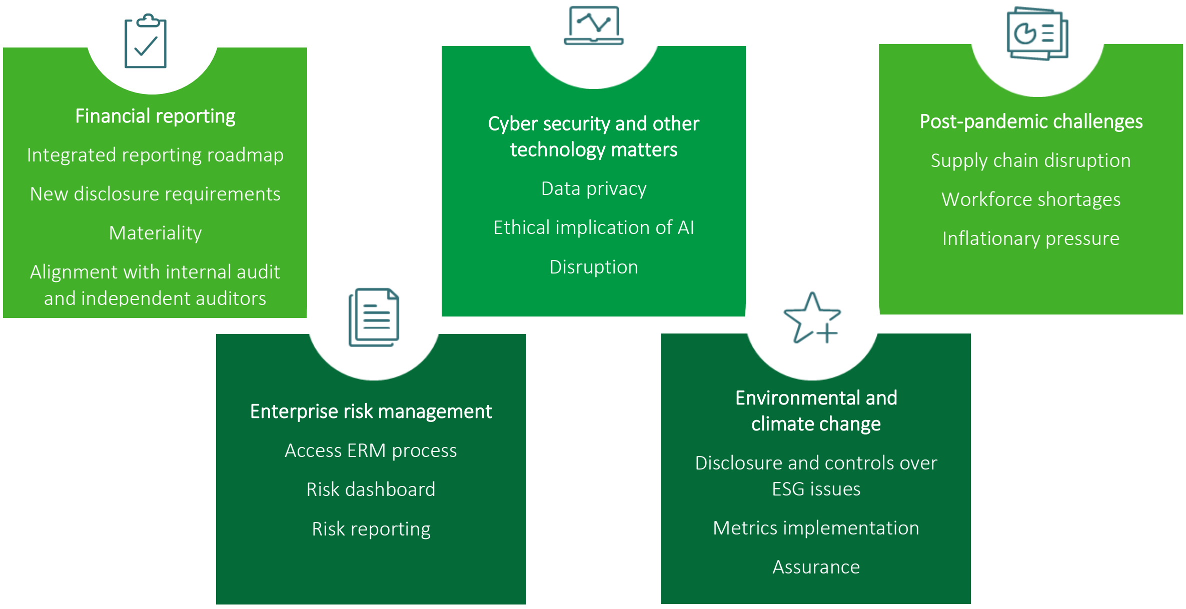
2023: The year of the risk-centric agenda for audit committees
The audit committee will increasingly need to focus on its risk oversight responsibilities.

Risk oversight is one of the most important responsibilities of the audit committee. While the audit committee is not responsible for overseeing all company risks, it is often responsible for oversight of the company's risk oversight policies and processes, principally the enterprise risk management (ERM) programme and risk reporting.

The committee is charged with an understanding of and advising on how management continuously identifies, monitors, and assesses risks and ensures that material risks are allocated to the full board of directors or the appropriate committee. And the audit committee is itself responsible for overseeing key areas of risk, such as risks that impact financial reporting and disclosure, including internal controls and fraud.

There are many other risk areas, including human capital, geopolitical instability and energy price volatility, to name just a few that will almost certainly call for audit committee oversight in the coming year. It is also likely if not certain that new risks will emerge as the year progresses.

In general, we recommend that audit committees increase their focus on their **risk oversight responsibilities in 2023**. Based on our research, the main areas of risk oversight are in 2023 expected to be:



Source: [2023: The Year of The Risk-Centric Agenda | Deloitte US]

For many PIEs, we understand that strategic risks, business development risks, cyber risks, IT security and IT resilience are all covered by the full board of directors. We also trust that the same applies to internal controls related to those other risks than those related to financial reporting (and sustainability reporting).

Cyber risk: Defining the role of the audit committee related to cyber security

However, some audit or risk committees do also increasingly include preparatory oversight on behalf of the board of directors related to cyber risks. We recommend that the company considers **whether it is also appropriate for 2023 or in the future to include IT security in the audit committee charter as a responsibility with related duties.**

On 7 December 2022, the Board Leadership Society of Denmark's Cyber Competence Centre issued the updated guide on cyber security for governance bodies, together with some collaborators. The objective of this guide is to establish a common frame of reference for governance bodies' understanding of and work with cyber security strategy and risk management as well as to provide inspiration for reporting and questions about a company's vulnerabilities and security aspects. The Committee on Corporate Governance and Deloitte refer companies to this guide and its recommendations, irrespective of how the board of directors decides to oversee IT security.

The helpful guide is based on the tasks of the board of directors and its responsibility for the company, employees, business platform and value creation. The guide has been framed so that boards of directors and executives of all sizes of enterprises can use it.

Audit committees are in many cases best positioned to focus in more details on cyber risk oversight in 2023, and then to report to the full board of directors. Therefore, we recommend that the audit committee members read and use the updated guide in their oversight work.

Key points from the toolbox in the guide are described below:

Policies, processes and contingency plan

Appropriate policies, processes and contingency plans, including safety measures, are in place, and the company has the right preparedness if it still gets hit. The board of directors (or the audit committee) shall inquire management about the established security measures, whether the policies are written down and whether plans and processes to prevent and handle cyber security incidents are tested thoroughly.

Risk appetite

The company's cyber security strategy and risk appetite are determined by the board of directors (or the audit committee) as often as relevant and at least once a year.

Risk assessment

The cyber risk assessment is based on what is most important to the company's business: What are the assets most worthy of protection, and it is discussed with the board of directors (or the audit committee).

Reporting and controls

The board of directors (or the audit committee) receives understandable and measurable reporting on cyber threats, risks and security incidents, to control corporate cyber security and integrate work with cyber security as a natural part of its supervisory and control task.

Governance and organisation

Management members and the board of directors (or the audit committee) are able to relate to significant matters concerning the company's cyber security, including assessment of whether the right competences and the right organisation are present.

Culture

Strategies and plans are one thing, but if they are not followed by management and employees, no results are achieved. The board of directors (or the audit committee) understands that the employees are the most important sources of a good safety culture and thus of a higher level of security.

What audit committees really want from CFOs

CFOs might wonder if they have used the audit committee's time productively with fulfilment of its expectations.

The audit committee's responsibilities are broad, ranging from reviewing management's approach to enterprise risk, to understanding financial reporting disclosures, to evaluating its processes and controls and compliance matters, to assessing the performance of its external and internal auditors, and beyond. For CFOs, whose role includes guiding the committee through the company's financial results and reporting on its risk management activities, it can be difficult to figure out where to begin and how to end.

Not only do CFOs have the task of deciding which details are most critical to communicate, but they also face the expectations to deliver it all concisely and confidently in a limited amount of time.

1. No surprises
By establishing a good relationship with audit chairs early on, CFOs can enhance mutual confidence in addressing difficult issues when they arise.

2. Strong partnering with the CEO and other leaders
The CFO's relationship with the CEO is the most important key to their success.

3. Confidence in finance organisation talent
The audit committee wants to know that the finance organisation is stable and supports and complements the skills of the CFO. It is good practice to have conversations on how to develop talent.

4. Command of key accounting, finance and business issues
CFOs need more than an accounting background. They need to make sure they are up to speed on the business, focusing on understanding the company business model.

5. Insightful forecasting and earnings guidance
The audit committee wants a CFO who can clearly articulate the underlying assumptions and drivers that guide estimates of future performance.

6. Effective risk management
Working with the audit committee, the CFO should make sure that most material risks are being discussed at the board of directors' level.

7. Clear and consistent stakeholder communications
Having strong investor relations and communications support is a must in addressing these needs.

Deloitte recommendations to CFOs in their engagement with the audit committee
Avoid bringing too many team members at once.
Boil the presentation down to three strategic objectives and then tie them back to the financial statements.
Come up with a proposed solution and then engage the committee members in helping to finalise a decision.
Make sure that pre-reads contain the right level of information and clear indications of areas of focus or actions.
Accept coaching, whether or not you agree you need it.

Audit committees play a critical corporate governance and oversight role. Their members can also bring a wealth of experience to CFOs. Attending early to the requirements to the right can create a context for both parties to effectively work together - making their meetings not only worthwhile but also productive.

Source: What audit committees really want from CFOs | Deloitte US

How ESG disclosures may expand the nature of the CFO's role

A significant share of the ESG-related challenges could fall under the purview of CFOs, given their responsibility for group data and oversight of budgetary matters.

It is not just regulators pushing for ESG disclosure. It is also shareholders, employees and customers. Stakeholders increasingly expect a company's business strategy to align with its broader ESG commitments, such as sustainability, diversity, equity and inclusion. As a result, ESG disclosure is not just about compliance. Across industries, the preparations companies make now will likely drive business performance and value in the future.

The involvement of the CFO or the Chief Sustainability Officer is a strong signal that businesses are integrating ESG reporting into their business strategy. Company size appears to make a difference. At companies with 5,000 or fewer employees, CFOs are more likely to be responsible for managing ESG disclosure. Such companies, however, may be less likely to have hired Chief Sustainability Officers.

Access to timely and higher quality data by investing in ESG data technologies or tools, as well as greater discipline and ESG preparedness, can help unlock transformation and value creation opportunities for a diverse range of stakeholders.

Source: How ESG Disclosures May Expand The Nature Of The CFO's Role | Deloitte US

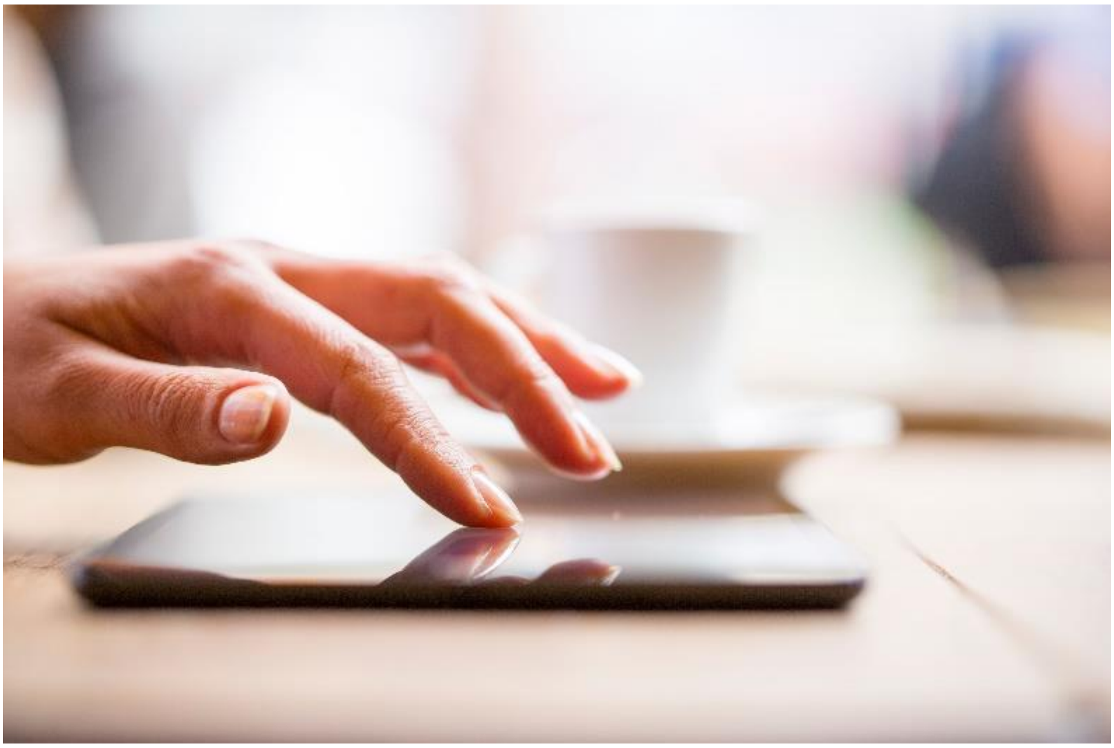
Number of meetings of the audit committee is expected to increase

As regards the number of meetings of the audit committee, Deloitte recommends setting a minimum number of meetings annually:

Deloitte recommendation

"Audit committee meetings are held as often as the chair of the audit committee considers it necessary subject to a **minimum of [four/five] meetings annually**. Any member of the audit committee and/or the external auditor may request a meeting of the audit committee if either considers it necessary."

Along with the new expected upcoming legal requirements for audit committees in Denmark (and the EU) related to ESG risks, reporting and assurance resulting from the implementation of the EU Corporate Sustainability Reporting Directive from 2024 and onwards, we expect the number of meetings of audit committees to increase, or they may also be extended.



3 How to use our framework

Inevitably perhaps, reflecting the complexities of modern business life, our framework is a long framework of over 200 structured and detailed questions. Audit committees will not want or need to answer all questions on an annual basis. Instead, we recommend covering the different sections on a rotation basis. The framework is structured to allow you to focus on the legal requirements or other regulation and then decide which areas of the audit committee's structure and remit merit a deeper dive into guidance and qualitative considerations.

To facilitate that decision, each section is broken down to five parts:

- **The Danish Auditor Act** – This provides the legal requirements in relation to the audit committee effective for 2023, and we have also added and highlighted the new expected upcoming legal requirements for 2024 and beyond related to ESG reporting and assurance resulting from the EU Corporate Sustainability Reporting Directive to be implemented into Danish laws before 6 July 2024. The new requirements are marked "**2024**" before each new statement in our framework.

- **Danish Recommendations on Corporate Governance** – This provides the recommendations provided by the Danish Committee on Corporate Governance in relation to the audit committee from December 2020.

- **Danish Audit Committee Guide** – This is the relevant key guidance from the Danish Business Authority (version 1.2 from April 2022) and the related Annex.

- **Additional guidance on audit committees** – Detailed leading practices from around the world, like the Audit Committee Guide from 2022 by Deloitte US and the Audit Committee effectiveness – 2021 Framework by Deloitte UK.

- **Qualitative considerations** – these are suggested best practice considerations developed by our global specialists to identify areas where audit committees can recognise their own leading practices and incorporate those used by other leading audit committees.

Some audit committees may wish to add one or more of the "deep dive" sections – covering ESG risk and reporting, stakeholders, climate change impact on financial reporting, cyber risk and data privacy – to assess their existing span of activities.

4 Finalising the assessment

Based on the findings in the sections of our framework, you will be able to give each area an overall rating and include an action plan where appropriate:

	1. Area for focus	2. Performing as expected	3. Special strength	Actions
Establishment, membership and appointment				
The audit committee chair				
Skills, experience, training and mindset				
Meetings of the committee				
Support and resources				
Relationship with the board of directors				
Oversight of accounting judgements, financial and sustainability reporting and other company announcements				
Internal controls and risk management systems				
Culture, values, whistleblowing, fraud and investigations				
Oversight of internal audit				
Oversight of the process for external audit of the financial statements and assurance of sustainability reporting				
The audit committee’s communication with shareholders				
ESG risk and reporting				
The public interest: Consideration of wider stakeholders				
Climate change: Impact on financial reporting				
Cyber risk				
Data privacy				

5 Our approach and how can Deloitte help?

Our approach

At Deloitte, we guide our clients on audit committee effectiveness, training, plans, establishment, compliance, development and leading practices. Our practice is built on an integrated model, supporting the audit committees, board secretariats, CFOs, finance and sustainability teams, internal audit and controlling functions, with our team of specialists.

Areas of expertise

We provide advice on all areas under the mandates of audit and risk committees, including specific areas such as:

- Committee chair advisory
- Committee effectiveness reviews
- Committee training on trends
- Committee plans for activities related to monitoring of sustainability reporting
- Audit Committee Labs
- ESG Risk & Reporting Lab for the Audit Committee – a deep dive
- Cyber resilience for audit and risk committees
- Internal controls framework development, reporting and oversight
- Establishment of internal audit and controlling functions
- Establishment and development of risk management reporting
- Supporting internal audit functions with specialists, technologies and leading auditing and analytics tools
- Development of authorisation and signing polices
- Fraud risk assessments
- Code of conducts audits
- Charter and annual work plan
- Committee establishment, compliance, development and leading practices, including benchmarking

Team competences

Our experienced team includes specialists within corporate governance, audit and risk committee compliance, development and leading practices, including specific competences in IFRS and ESG reporting, data, processes, systems, internal controls, risk management, internal auditing, taxation, valuation and auditing specialists as well as senior audit partners.

6 Our Nordic Board & Executive Advisory

Deloitte enables boards and executive managements to transition into a sustainable future.

Providing best-in-class boardroom advisory
Based on Deloitte's rigor of capabilities, resources and global presence, we are uniquely positioned to assist boards and executive managements on all matters needed, in a professional and complete manner.

Collaborating with the most ambitious boards and executive managements
We focus on organisations – listed, private equity-backed, cooperative, family- and foundation-owned, and select public institutions. Our focus is on boards and their interface with executive managements concerning matters such as succession, culture and dynamics.

Being a long-term trusted advisor
As a long-term partner, we always tailor our services to the individual needs of our client.

Promoting sustainable value creation
We focus on helping our clients create sustainable value – financially, socially, and environmentally – so they can achieve undisputed leadership and maximise the impact of their company.

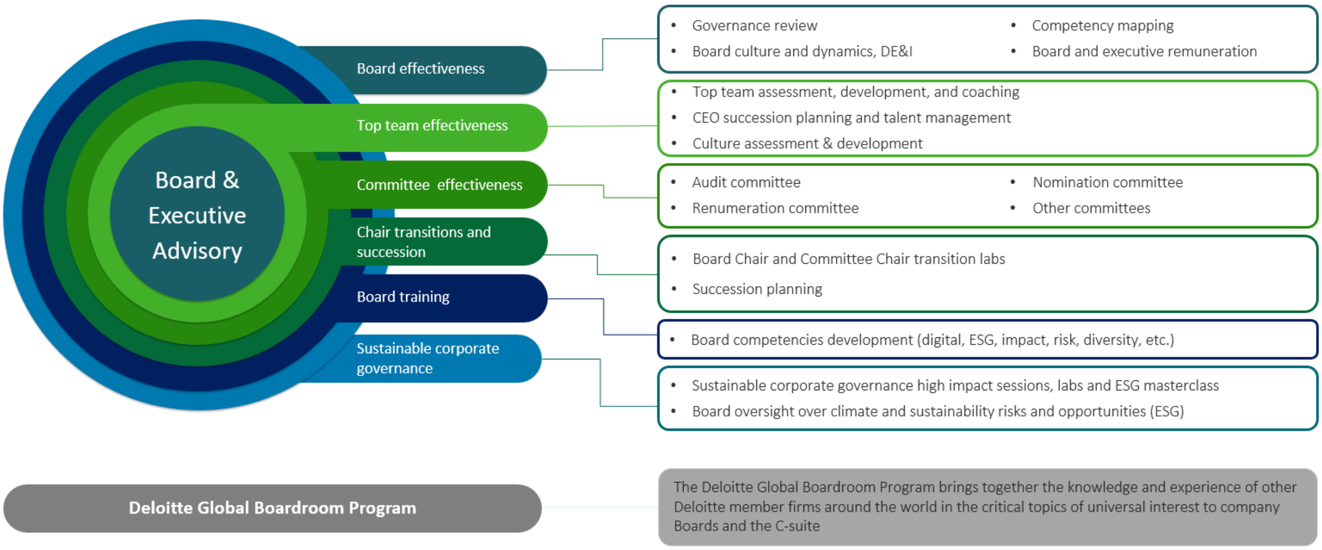
We help boards and executive teams of leading organisations become more strategic, effective and impact-focused.

Global uncertainty and rapid change are putting significant demands on chairs, boards and their executive teams
To overcome challenges and simultaneously prepare for the future, chairs and boards should play a more active role towards executive management, shareholders and stakeholders by serving as stewards of the organisation.

The need for anticipating future developments, accelerating strategic initiatives on climate change, sustainability transformation, impact, risk oversight, cultivating talent and culture is high.

By helping boards and executives, Deloitte supports businesses to become more strategic, effective and impact-focused.

Our offerings in the Nordics



7 Our contacts

If you would like further information on any of the areas covered in this report or help in interpreting or applying the framework in practice, please feel free to contact your Deloitte audit partner or:

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Martin comes with more than 17 years of experience as audit, advisory and assurance partner and has specialised in board effectiveness review, advising committee chairs on executive remuneration and audit committees' effectiveness, including sustainable corporate and foundation governance and board oversight of sustainability (ESG).

This report does not constitute the provision for advice or service to any reader of the report, and therefore Deloitte may not be named in a company's public documentation as having provided any assistance to the Board of Directors, the Audit Committee or the CFO based solely on the use of the information provided in this report.