The expectations of Audit Committees are higher than ever. New law requirements for Audit Committees are implemented in Denmark based on EU audit legislation. Additional focus is required on the financial reporting process, internal controls and election of external audit as well as the process for approval of non-audit services rendered from the independent external audit firm. As you are aware, shareholders rely on boards and especially the Audit Committees to execute their oversight duties while keeping up with an increasingly complex financial reporting environment and an ever-changing regulatory landscape. Setting the appropriate tone at the top has never been more important for Audit Committees or boards as a whole.

As an Audit Committee member, your judgement is important to management and shareholders who depend on you to appropriately execute your governance responsibilities. To fulfi l their responsibilities, Audit Committees need a clear understanding of what is required by the committee’s charter, listing requirements, and other relevant laws and rules.

While the specific duties of Audit Committees vary depending on the company’s governance structure, Audit Committees are typically expected to:

- Oversee the integrity of the financial reporting process, including forecasting
- Oversee the process for identifying and addressing financial and related risks, including internal controls
- Ensure that the company has policies and programmes to prevent and detect fraud, including cyber risk assessment
- Oversee financial information and earnings guidance provided to analysts and ratings agencies
- Support a culture that embraces the importance of ethics and compliance and develop a process for investigating related allegations
- Oversee the internal auditors (if any) and their audit plan
- Appoint, compensate, and oversee the independent external audit firm
- Discuss with the independent external audit firm those matters required to be communicated under applicable auditing standards, including key audit matters to be included in the auditor’s report in the annual report.

Message from
Anders Dons
Chief Executive Officer, Deloitte Nordic and Denmark
In the pages that follow and in our guide, we offer practical considerations and resources to help Audit Committee members execute these activities. By providing regulatory requirements, questions to consider, and tools and resources, this guide consolidates relevant information in one place for your reference.

While no one has provided specific guidelines on Audit Committee education and self-assessment, these topics are of increasing importance, particularly given the enhanced focus on board and Audit Committee responsibilities.

In addition to the specific information included here, the guide also contains links to an array of tools and resources provided by Deloitte's Center for Corporate Governance and other governance organisations.

The Audit Committee Resource Guide is an example of our commitment to providing Audit Committee members with resources and leading practices to help fulfil their responsibilities and raise the bar continually on individual and overall Audit Committee performance.

I hope you find this guide valuable as you execute your governance responsibilities as an Audit Committee member.

We are ready to help you and lead an Audit Committee Lab for the Chair, individual members or the full committee, where you set the right course.

Anders Dons
Chief Executive Officer
Deloitte Nordic and Denmark
Audit Committee Lab

Setting the right course - Deloitte will lead and facilitate the discussions
We are ready to help you and lead an Audit Committee Lab for the Chair, individual members or the full committee, where you set the right course. We suggest you try it as a substitute for the traditional audit committee evaluation.

Areas of discussion that a Lab may include:

- **Committee priorities**: Consider which issues facing the company will require the committee’s attention in the coming year. Assess the committee’s knowledge and preparedness in these areas and determine what steps will be taken to address related issues.

- **Oversight**: Examine the key oversight roles of the audit committee and determine where the committee’s performance can improve.

- **Committee dynamics**: Discuss committee dynamics and practices and how the group performs as a cohesive unit. Hear insights from other audit committee members about what has and has not worked for them.

- **Relationships**: Focus on relationships that are important to achieving the audit committee’s goals and explore ways to develop or enhance them.

- **Expectations**: Discuss how the audit committee, independent auditor, and management interact and communicate. Ensure that mutual expectations are understood.

- **Action plan**: Develop an action plan based on the dialogue and breakthroughs from your day in the lab.

To be addressed now

- **New law requirements**: Inform Board of Directors about the audit and financial reporting process, monitor internal controls, auditor’s report to include key audit matters, election of external audit, audit quality and effectiveness, independence requirements, pre-approval process for advisory services, 70% cap on advisory fees.

- **Risk management**: Determining the risk appetite, understanding and addressing the significant risks.

- **Qualifications including the need for financial and sector expertise**: US PCAOB speech on lack of sufficient collective experience in accounting, auditing and financial reporting (May 2015).

- **Compliance**: Oversight of compliance with code of conduct/ethics, and scope discussions.
What should Audit Committees focus on right now, in the future and in on-going dialogue and discussions?

On-going dialogue and discussions

- Tone at the top
- Risk management – also on-going monitoring and external reporting responsibilities
- Compliance
- Internal controls
- Law requirements for Audit Committees
- Monitor financial reporting
- Going concern, including both solvency and liquidity assessments

Future trends in Denmark

Audit Committee Reporting
Significant issues in relation to the financial statements to be disclosed externally in the UK, including how the Audit Committee has addressed them

The longer term viability statement
Lookout period to be determined (e.g. three to five years) and connecting the statement with risk management and forecasting process should be considered in the UK

Governance and Audit Committee effectiveness
How does the Audit Committee work effectively in cooperation with the Board?

Value creation
How does the Audit Committee create value?
Tasks and responsibilities of the Audit Committee

Focus on financial reporting process, internal controls and election of external audit

- **Tendencies**

- **Compliance, including code of conduct and fraud**

- **Level of internal audit/ controlling**

- **IT security and risk, including cyber security**

- **Regulatory and legislation activities**

- **Capital resources and plans**

- **Competences in the Audit Committee/ self-evaluation**

**New law requirements**

- **Inform Board of Directors**
  - To inform those charged with governance of findings of the statutory audit, including the financial reporting process

- **Monitor financial reporting**
  - To monitor the financial reporting process and make recommendations or proposals to safeguard integrity

- **Internal controls and risk**
  - To monitor operating effectiveness of internal control system, internal audit function and risk management systems with respect to financial reporting, without compromising independence

- **Oversight of external audit**
  - To monitor the statutory audit of the financial statements etc., taking into consideration the outcome of the latest quality assurance review of the audit firm

- **External audit independence**
  - To check and monitor auditor’s independence and approve auditor’s rendering of services other than auditing, safeguard compliance with the 70% cap

- **Election of external audit**
  - To be in charge of the procedure for selecting and recommending auditors for election

- **Risk management and “business interruptions”**

- **Tax policy and strategy**

- **Review of transformation on projects**

- **Competences in the global finance function**
Input to process for approval of non-audit services

The Audit Committee needs to establish a pre-approval process

- The Board of Directors determines and approves the process
- All non-audit services that are not pre-approved or changes to approved services requires approval by Audit Committee before start-up
- Periodic reporting of non-audit services to Audit Committee
- The Audit Committee may pre-approve selected non-audit services provided that independence is not impaired (typically below a capped amount)

### Audit services

- The annual audit fee is approved, including scope changes and other changes in assumptions and fees
- The Audit Committee may approve other audit services that the statutory auditor is able to perform. Examples are:
  - Statutory audit of foreign subsidiaries
  - Extended audit of certain areas

### Audit-related services

- Investigations and other related services that are related to the audit of the financial statements and traditionally is performed by the statutory auditor, e.g.:
  - Due Diligence services
  - Advisory services regarding accounting treatment of selected areas, changes to accounting standards, accounting manual etc.
  - Agreed-upon procedures

### Tax services

- The Audit Committee may approve that the statutory auditor performs certain tax-related services without impairing the auditor’s independence, such as:
  - Tax planning (uncomplicated)
  - Tax compliance
  - Advisory services regarding the understanding of tax and VAT legislation.
- The Audit Committee should not approve that the auditor performs advisory services during a transaction for purposes of tax evasion and the tax treatment is not in accordance with applicable tax legislation

### Other services

- Other uncomplicated and recurring services that do not impair the auditor’s independence, as for example:
  - Other services with a fee below DKK 25 thousand
Audit Committee Brief and IFRS

We have various websites with monthly Audit Committee Brief, relevant information, publications and tools for Audit Committees, both in English and in Danish, including on IFRS where we refer to [www.iasplus.com](http://www.iasplus.com) and [www.deloitte.dk](http://www.deloitte.dk).
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