

Financial reporting 2015 and internal controls

The report forms part of the management review in the Annual Report 2015
for the accounting period: 1 January 2015 - 31 December 2015
for AURIGA INDUSTRIES A/S

Financial reporting 2015 and internal controls

Auriga has planned several internal controls to protect the company against losses and misappropriation of the company's assets and to ensure correct reporting. According to the rules of procedure, the Audit Committee's terms of reference and Section 107b of the Danish Financial Statements Act (*Årsregnskabsloven*), a general outline is given below of the internal controls and risk management in relation to the company's financial reporting.

Control environment

The purpose of an effective control environment is to ensure compliance with both internal and external guidelines, acts, rules etc. The control environment is the overall framework for establishing effective internal controls.

The rules of procedure of the Board of Directors determine the work allocation between the Board of Directors and the Executive Board. The Board of Directors is responsible for laying down the general internal guidelines and directions based on the legislative framework. According to the EU Directive on statutory audits of financial statements and consolidated financial statements (8th Directive), the Danish Act on Approved Auditors and Audit Firms (*Revisorloven*) (Section 31(2)) and applicable recommendations on corporate governance, the Board of Directors has set up an Audit Committee, which is charged, among other things, with monitoring the financial reporting process. The Audit Committee is a committee appointed by the Executive Board, charged with preparing the decisions to be made by the Board of Directors as a whole.

The Executive Board is responsible for the day-to-day management of the company in compliance with the guidelines and directions issued by the Board of Directors. The Executive Board lays down the guidelines for the operational management of the company in a number of policies, procedures and directions, compliance with which is continuously being emphasized, and is also responsible for the regular monitoring and checking of compliance on a test basis.

The Executive Board is responsible for the ongoing risk management and the ongoing financial reporting in the form of monthly and quarterly internal financial statements and the preparation of external interim and annual reports. Risk management in relation to the financial reporting is designed to reduce the risk of material misstatement and can only provide reasonable and not absolute assurance that material misstatement and the unlawful use of assets, losses and/or material errors and omissions are avoided in the financial reporting.

As a consequence of the divestment of Auriga's operational activities, and that the company's activity primarily consisted of wind-down and distribution activities, the number of employees was reduced to a CEO and one employee during the year. The daily accounting and finance activities are performed by an external bookkeeping function.

Risk assessment

The Board of Directors and the Executive Board perform an ongoing assessment of the risk of losses and misappropriation of the company's assets as well as risks and internal controls associated with the financial reporting process. The work involves mapping of risks, an assessment of probabilities and potential consequences and the initiation of risk-limiting initiatives.

In the financial reporting, certain financial items are based on estimates or computed based on complex processes. These financial items may be associated with a relatively higher risk of error than other items. Management performs ongoing assessments of these items with a view to identifying particular risks and initiating supplementary action.

The Board of Directors performs an annual assessment of the organizational structure and appointments, including areas of activity pertaining to the financial reporting process.

The auditors appointed by the Annual General Meeting, currently Deloitte, reports any material weaknesses in the group's internal control systems in connection with the financial reporting process in the long-form audit report to the Board of Directors. Less significant matters are reported in a management letter to the Executive Board.

The Audit Committee monitors that the Executive Board responds effectively to any weaknesses and/or deficiencies, and that the agreed measures aimed at strengthening risk management and internal controls are implemented as planned. The Executive Board is responsible for the implementation and following up on these issues and other issues that might be described in management letters etc.

Control activities

The purpose of control activities is to prevent, detect and correct any errors and irregularities, including fraud. Control activities are integrated into financial reporting procedures.

The closing of financial statements comprises, among other things, the reconciliation of significant financial items such as reconciliation of wages and salaries, bank accounts, receivables, payables etc. To prevent fraud, such as losses or the misappropriation of cash funds and other assets, the following controls have been established:

- Double authorization of disbursements through electronic bank transfers.
- Investigative controls include, for example, the reconciliation of bank accounts, wages and salaries, inventory counts and other reconciliations in connection with the financial reporting process.

Financial reporting

Like previous years, Auriga's financial reporting is based on IFRS standards. In connection with the financial reporting, reports are received from the external bookkeeper. The reports form the basis of preparing the accounts and notes of the external annual report. This basis and the annual report are audited by Deloitte.

Auditing

The external auditing framework is agreed in cooperation with the Audit Committee and the Executive Board. The Board of Directors receives one or more audit reports from the external auditors concerning the results of the audit made. The audit reports are discussed with the Audit Committee and the Board of Directors prior to the approval of the financial statements. No internal auditing function has been established.

In order to ensure a correct basis for calculation of the share price in the distributions to the shareholders in 2015, key figures in the income statement and balance sheet per 31 May 2015 and per 30 September 2015, as well as the accounting policies, were audited by Deloitte. Regarding the wind-down budget for the period 1 October 2015 - 30 June 2016, a statement on agreed-upon procedures was issued by Deloitte.

Once a year, the Audit Committee carries out a critical assessment of the external auditor's qualifications, independence etc., and it is then for the Board of Directors to recommend independent auditors for appointment by the Annual General Meeting. The independent auditors must look after the interests of the shareholders and the general public.

Whistleblower system

Due to the size, purpose and situation of Auriga, it is the assessment of the Board of Directors that it is not relevant to establish a new whistleblower system.