



## Financial reporting 2012 and internal controls

The Auriga group has planned a number of internal controls to protect the company against losses and misappropriation of the company's assets and to ensure correct reporting.

Pursuant 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 division of work 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. Pursuant to the EU Directive on statutory audits of annual accounts and consolidated accounts (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 Board of Directors charged solely 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 also responsible for the ongoing risk management and 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 misstatements and the unlawful use of assets, losses and/or material errors and omissions are avoided in the financial reporting.

The operational responsibilities are delegated to decentralized units in the group's matrix organization. The organizational structure contributes to an effective control environment



to which internal controls are delegated. Corporate Finance is responsible for monitoring the company's internal controls and for performing group-related control activities with a view to ensuring correct and complete financial reporting. The daily accounting and finance activities are performed by local finance functions in accordance with internal guidelines and policies as well as local requirements.

The business procedures and the financial routines, including the definition of areas of responsibility of the individual management levels and the financial organization, are thus regulated by the governance structure, ensuring the uniform and structured management of the global group.

## **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 the ongoing 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. The group 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 group's organizational structure and appointments to key positions, including areas of activity pertaining to the financial reporting process, including IT, risk management, treasury, tax and controlling.

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.

For the 2012 financial year, Deloitte acted as the external auditor of all major companies in the Auriga group. The external auditor draws up an annual auditing strategy and plan, which includes a risk assessment. Auriga's risk assessment is reconciled with this and includes the following areas, among others:

- Recoverable amount of goodwill – impairment testing
- Inventories
- Tax
- Development projects
- Receivables
- Provisions and contingent liabilities
- Fraud



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 following up on the implementation of observed weaknesses in the group's companies and on issues 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 the group's accounting and reporting systems and financial reporting procedures.

The closing of the interim financial statements follows a detailed plan and comprises, among other things, the reconciliation of significant financial items such as reconciliation of wages and salaries, bank accounts, receivables, payables and inventories. All the group's companies globally report monthly financial data and comments to a central consolidation system, which contributes to ensuring correct and complete financial reporting to the group management. For this purpose, financial controlling is performed of the reported financial data with a view to carrying out any preventive and diagnostic controls required to protect the company's assets against loss and misappropriation.

To prevent fraud, such as losses or the misappropriation of cash funds and other assets, the following controls have been established:

- Preventive IT-based controls, including 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.

A functional separation of incompatible functions is part of the preventive control activities. In small subsidiaries where functional separation is difficult due to the small size of the finance function, supplementary actions are performed to compensate.

The performance of the individual companies and departments is assessed regularly with reference to the agreed key performance indicators (KPIs).

## **Financial reporting**

Auriga applies uniform accounting policies in accordance with IFRS as described in the company's accounts manual. The accounts manual comprises accounting and assessment principles and reporting instructions and must be complied with by all group companies. The manual is updated and reviewed regularly, and compliance with the manual is monitored at group level.

In connection with the financial reporting, all subsidiaries submit reports based on a reporting package defined by Corporate Finance. The reporting package, which forms the basis of the annual report, is also audited or reviewed by Deloitte and signed by the local



management. The reporting packages form the basis of the consolidation of the financial statements and notes for the external financial reporting.

In connection with the presentation of the financial statements for the year, group controllers visit most of the group's subsidiaries and review the reporting package. The controller also attends the final audit meeting with Deloitte.

In 2012, a project was launched with a view to further describing, strengthening and measuring the effectiveness of the group's internal controls. The project has, among other things, included the restructuring and development of the Corporate Finance function, focusing on new competencies and financial reporting processes. In 2013, consistent focus will be on strengthening the group's general risk management and the effectiveness of the internal controls.

In step with the roll-out of the ERP system SAP to all the group's companies globally, the internal financial reporting controls will gradually be improved and made more uniform. Today, about half the group's companies use SAP, and the project is expected to be fully implemented in 2016.

## **Auditing**

The auditing framework is agreed by the auditors, the Audit Committee and the Executive Board. The auditors report material aspects directly to the Board of Directors in the long-form audit report and at Audit Committee meetings prior to the adoption of the interim financial statements and the financial statements for the year, at which the auditors' observations are discussed. The chairmanship and the Audit Committee hold one meeting a year with the auditors without the participation of the Executive Board.

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.

## **Whistle-blower system**

For several years, the group has had a whistle-blower system which makes it possible to anonymously report apparent infringements of the group's Code of Business Principles.

The whistle-blower system has been formally approved by the Danish Data Protection Agency and is managed by a CSR committee responsible for handling claims and reporting to the group management in depersonalized form. In 2012, the whistle-blower system was managed by an external law firm in collaboration with the internal whistle-blower committee.

The whistleblower system is mentioned in the group's annual reporting and on the website.