

International Auditing and Assurance Standards Board
529 Fifth Avenue, 6th Floor
New York, NY 10017
United States of America

22 November 2013

Dear Sir/Madam

Re: Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing

Novo Nordisk is pleased to provide our comments to IAASB's Exposure Draft on "*Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing (ISAs)*" (the "ED").

Key audit matters

Novo Nordisk acknowledges that key results of the statutory audit should be presented to the stakeholders in the audit report. Novo Nordisk also agrees that in order to ensure the confidence of stakeholders in the financial statements of the audited entity, it is particularly important that the audit report is well-founded and solidly substantiated. In the wake of the global financial crisis examples have been seen where the content of the audit report could have been expanded to include additional information specific to the audit carried out. However, Novo Nordisk has also significant concerns on the proposal especially on the important line between the responsibility of the preparer and the role of the auditor.

In particular Novo Nordisk:

- believe that the auditor's report should be as short and precise as possible, and that the proposed enhanced reporting requirements risk to obfuscate the overall conclusion of the audit i.e. qualified or not
- is concerned that the enhanced structure of the proposed auditor's report blurs the auditors responsibility and the fundamental principle that the presentation of financial statements is the responsibility of the preparer,
- believe that the focus on specific elements of the audit in section of Key Audit Matters ("KAM") challenge the overall purpose of an audit to express an opinion about 'a true and fair view' of the financial statements of the entity, and would be repetitive of the information already disclosed by the entity in the financial statements

We are concerned that the ED makes it more difficult to distinguish between the roles and responsibilities of the Board of Directors (the "BoD") and Executive Management on one side and the auditors on the other side. Areas for KAM should in our opinion not be different from Significant accounting policies and Judgements and estimates described in the financial statements. It is our concern that a very descriptive and comprehensive auditor's report would make the responsibility for financial statements more unclear for the users and we are concerned that the enhanced focus on the auditor's report blurs the fundamental principle that the presentation of financial statements is the responsibility of the preparer.

Furthermore, Novo Nordisk is of the opinion that the auditor's report should be as short and precise as possible. Therefore we are concerned that part of the information in the KAM would be a repetition of what is already stated in the financial statements by the entity using the current examples of the ED. Further we believe that the focus on specific elements of the audit challenges the overall purpose of an audit to express an opinion about 'a true and fair view' of the financial statements of the entity as a whole.

Other selected matters of the ED

Novo Nordisk is of the opinion that the disclosure requirement about going concern is too comprehensive in most cases. This matter should only be highlighted in a separate paragraph if the financial statements are not prepared under the going concern assumption, or if the auditors disagree with management's going concern assumption, in which case the auditors would qualify their opinion.

In relation to the section of compliance with ethical requirements we are of the opinion that this is a general pre-requisite for an audit and we see no further need for including detailed statements about ethical requirements in the auditor's report. A confirmation that ethical requirements for the audit profession has been applied is in the view of Novo Nordisk sufficient, and a general section describing the rules and regulation in every auditor's report does not add additional value.

Our detailed comments are set out in the appendix for the questions we have deemed to be relevant for us. If you have any questions regarding this matter, please do not hesitate to contact us.

Sincerely,

Jesper Brandgaard
Executive Vice President and
Chief Financial Officer

Lars Green
Senior Vice President
Corporate Finance

Kim Bundegaard
Senior Vice President
Business Assurance

Appendix

Key Audit Matters

1. Do users of the audited financial statements believe that the introduction of a new section in the auditor's report describing the matters the auditor determined to be of most significance in the audit will enhance the usefulness of the auditor's report? If not, why?

Novo Nordisk agrees that an audit enhances the credibility of financial statements and that a revision of the ISA's can also improve the quality of financial reporting and auditor's report hereon. However, Novo Nordisk believes that by introducing a new section in the auditor's report describing the key audit matters there is a risk that it will become more unclear who has the responsibility for the financial statements. The examples presented in the ED to a large extent are repetitive of what should already be described by the company in significant accounting policies and judgements and estimates. In their current state the KAM might be confused with the disclosures in the Basis of preparation of the financial statements and thereby lead to the uncertainty of responsibilities of the preparers and the auditor. It is our opinion that all important matters should be described by the company in the disclosures to the financial statements and should not be repeated by the auditor in the auditor's report.

Furthermore, in our opinion there should be no doubt that the responsibilities for the financial statements are those of the Board of Directors and the Executive Management of the company. The auditor's responsibility should be limited to expressing an opinion about the 'true and fair view' of the financial statements. By including the section of KAM in the current state it blurs the attention of the responsibility of the management of the company.

The responsibility of the auditor is to express an independent opinion on the financial statements on behalf of the shareholders. Shareholders are represented by the Board of Directors of the entity (elected at the Annual General Meeting) and as such, Novo Nordisk believes that the primary focus should be to enhance the reporting and communication between the audit firm and those charged with governance i.e. in a long-form report to the BoD and/or in the Audit Committee reporting.

Communications and dialogue of key audit matters between an auditor and the management of a company should be an integrated part of an audit and should not be included in the auditor's report in order for this discussion to be facilitated. Instead we

find that key audit matters should be included in the normal reporting to the Audit Committee and in a Long-form Audit Report which is required by local legislation in e.g. Denmark.

Whereas professional investors might appreciate a longer auditor's report it is our assessment that professional investors already know how to read the information presented in the financial statements and know which accounting information is key and which information has higher risks. If key accounting matters, judgements and estimates and risks are not adequately described in the financial statements that should be the focus for the auditor in the auditor's report.

Sometimes less is more. We are concerned that by including requirements that result in auditor's reports of 3-4 pages or more, IAASB is trying to address the needs for communication with small private investors and the public regarding explaining what an audit is and how it has been performed. The audit report will become immense and users will find an auditor's report even more difficult to read and understand compared to existing auditor's report. A long auditor's report draws attention away from the opinion and thereby the conclusion of the audit. We are concerned that IAASB is trying to "educate" small private investors and the public about what an audit is, and which audit procedures have been performed through the auditor's report. In our opinion this should not be included in the audit report as the concept of auditing is already described in the ISA framework which is already referenced in the auditor's opinion.

A concern is also that auditor's reports will become generic "templates" applied by the audit companies or become very immense including almost all matters and aspects so that the auditor is safeguarded. In this way no value is added for the user of the financial statements.

4. Which of the illustrative examples of key audit matters, or features of them, did respondents find most useful or informative, and why? Which examples, or features of them, were seen as less useful or lacking in informational value, and why? Respondents are invited to provide any additional feedback on the usefulness of the individual examples of key audit matters, including areas for improvement.

It is our opinion that all matter that involves significant estimates or management judgement should be fully described by the company in details in the notes to the financial statements. If the auditors assess that relevant elements are not fully disclosed they should challenge those disclosures and only include in the auditor's report if the disclosures are not in compliance with the IFRS disclosure requirements. For that reason, Novo Nordisk is of the opinion that the illustrative examples included in the ED in general are too repetitive of matters that are (and should be) described in details in the financial

statements. Therefore, we are of the opinion that the illustrative examples should be reworded to only include matters specifically related to important elements of the audit.

Of the four illustrative examples, we find the example about *Revenue Recognition* most useful. Except for the first two sentences the example includes a description of why this area has required special audit considerations – not because revenue recognition in general is considered as high risk area, but because in this specific example the auditors consider the risk of side agreement to be of particular important. That is relevant and valuable information for users if relevant for the specific entity.

The example we find less relevant is the one about *Acquisition of XYZ Business* as this is a clear example of repetitive information. There is not specific audit related information other than reference that the transaction is material to the consolidated financial statements. We would expect such information to be clearly stated in the disclosures already.

For the illustrative example *Valuation of Financial Instruments* we have the following concrete comments to exemplify our general concerns:

The Group's disclosures about its structured financial instruments are included in Note 5. *[Our comment: Good to include clear reference to the specific disclosure in the financial statements]* ~~The Group's investments in structured financial instruments represent [x%] of the total amount of its financial instruments. [Our comment: Delete, as only repeating information in the financial statements but does not create further value] Because the valuation of the Group's structured financial instruments is not based on quoted prices in active markets, there is significant measurement uncertainty involved in this valuation. [Our comment: Delete as this should be described in the section of significant estimates] As a result, the valuation of these instruments was significant to our audit. [Our comment: Delete, as it is expected that all material estimates are significant areas to the audit]~~ ~~The Group has determined it is necessary to use an entity developed model to value these instruments, due to their unique structure and terms. [Our comment: Delete, as only repeating information in the financial statements but does not create further value]. We challenged management's rationale for using an entity-developed model, and discussed this with [those charged with governance], and we concluded the use of such a model was appropriate. Our audit procedures also included, among others, testing management's controls related to the development and calibration of the model [Our comment: Delete, as this is audit procedures of general nature that is sufficiently guided in the ISA standards] and confirming that management had determined it was not necessary to make any adjustments to the output of the model to reflect the assumptions that marketplace participants would use in similar circumstances. [Our comment: Delete, as it is repetitive of the conclusion above "...we concluded the use of such a model was appropriate."]~~

Based on the above comments, we would suggest the illustrative examples to be amended as follows:

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements. Key audit matters are selected from the matters communicated with [those charged with governance], but are not intended to represent all matters that were discussed with them. Our audit procedures relating to these matters were designed in the context of our audit of the consolidated financial statements as a whole. Our opinion on the consolidated financial statements is not modified with respect to any of the key audit matters described below, and we do not express an opinion on these individual matters.

Goodwill

Our audit procedures included, among others, using a valuation expert to assist us in evaluating the assumptions and methodologies used by the Group, in particular those relating to the forecasted revenue growth and profit margins for [name of business lines]. The Group's disclosures about goodwill are included in Note 3, which specifically explains that small changes in the key assumptions used could give rise to an impairment of the goodwill balance in the future.

Valuation of Financial Instruments

The Group's disclosures about its structured financial instruments are included in Note 5. We challenged management's rationale for using an entity-developed model, and discussed this with [those charged with governance], and we concluded the use of such a model was appropriate.

Revenue Recognition Relating to Long-Term Contracts

We identified revenue recognition of long-term contracts as a significant risk requiring special audit consideration. This is because side agreements may exist that effectively amend the original contracts, and such side agreements may be inadvertently unrecorded or deliberately concealed and therefore presents a risk of material misstatement due to fraud. In addition to testing the controls the Group has put in place over its process to enter into and record long-term contracts and other audit procedures, we considered it necessary to confirm the terms of these contracts directly with customers and testing journal entries made by management related to revenue recognition. Based on the audit procedures performed, we did not find evidence of the existence of side agreements. The Group's disclosures about revenue recognition are included in the summary of significant accounting policies in Note 1, as well as Note 4.

7. Do respondents agree that, when comparative financial information is presented, the auditor's communication of key audit matters should be limited to the audit of the most recent financial period in light of the practical challenges explained in paragraph 65? If not, how do respondents suggest these issues could be effectively addressed?

In Novo Nordisk's opinion, key audit matters should be limited to the most recent financial period. Key audit matters might differ from year to year and explaining the differences in key audit matters for several years will only add to the complexity and immenseness of the auditor's report making it more difficult for the users to understand.

8. Do respondents agree with the IAASB's decision to retain the concepts of Emphasis of Matter paragraphs and Other Matter paragraphs, even when the auditor is required to communicate key audit matters, and how such concepts have been differentiated in the Proposed ISAs? If not, why?

Novo Nordisk is concerned that by including key audit matters and still retaining the concepts of "Emphasis of Matter" and "Other Matter" paragraphs users will be confused on how to distinguish between the different sections of the auditor's report and which value/influence the different sections of the auditor's report should have when comparing them to each other. I.e. will a key audit matter rank above an emphasis of matter or how should these be valued against each other.

Going Concern

9. Do respondents agree with the statements included in the illustrative auditor's reports relating to:

(a) The appropriateness of management's use of the going concern basis of accounting in the preparation of the entity's financial statements?

(b) Whether the auditor has identified a material uncertainty that may cast significant doubt on the entity's ability to concern, including when such an uncertainty has been identified (see the Appendix of proposed ISA 570 (Revised))?

In this regard, the IAASB is particularly interested in views as to whether such reporting, and the potential implications thereof, will be misunderstood or misinterpreted by users of the financial statements.

In our opinion it should always be the assumption that a financial statement is presented applying the going concern assumption. Thereby the auditor should not include a section on this in the auditor's report unless management has applied the going concern assumption and the auditor disagrees to this assumption.

10. What are respondents' views as to whether an explicit statement that neither management nor the auditor can guarantee the entity's ability to continue as a going concern should be required in the auditor's report whether or not a material uncertainty has been identified?

Novo Nordisk is of the opinion that all information relevant to understand the financial position of an entity should be clearly disclosed in the financial statements. Thus, if going concern is a specific audit area in a given audit, all relevant information, explanation and disclaimers should be included in the financial statements. The auditor's report should provide relevant information to shareholders about the conclusion of the independent audit, and should not be blurred by different disclaimer sections.

Other matters

14. What are respondents' views on the proposal not to mandate the ordering of sections of the auditor's report in any way, even when law, regulation or national auditing standards do not require a specific order? Do respondents believe the level of prescription within proposed ISA 700 (Revised) (both within the requirements in paragraphs 20–45 and the circumstances addressed in paragraphs 46–48 of the proposed ISA) reflects an appropriate balance between consistency in auditor reporting globally when reference is made to the ISAs in the auditor's report, and the need for flexibility to accommodate national reporting circumstances?

Novo Nordisk would support that the ordering of the sections in the auditor's report would be mandated by the ISA's in order for the auditor's report to be aligned on a global scale. Especially taken into consideration the complexity of understanding the auditor's report will be increased by including key audit matters and further mandatory sections in the auditor's report.