



Why audit committees need help with technology issues

Experienced audit committee chair *Carla Smits-Nusteling* explains what auditors and boards alike could do to make her role easier

Carla Smits-Nusteling is the Netherlands-based audit committee chair of several companies in the technology and telecommunications sectors. She shares her thoughts on what she wants from her companies' auditors, and on what audit committees need to do to keep up with the changing corporate reporting landscape.

Get up to speed with data analytics

I've experienced the auditor rotation process three times, and one thing I've noticed is that use of technology is emerging as an important issue. I can see interesting differences in how companies use technology in the audit and how they cope with legacy IT systems. I don't know any company that has the perfect IT landscape and a system where everything immediately works.

I've found technology demonstrations to be very helpful in this regard. You have to remember, most of us on the audit committee are no longer active CFOs or businesspeople, so we may be less up to speed on data analytics. We need to keep educating

ourselves on the latest technology developments that are becoming available; it's something we have to work really hard at.

It's not just the new IFRS standards, but also digitalization and data analytics, and what this could do for audit quality. A lot of this is still in the early stages, but the audit profession as a whole could help us by not assuming that we know all the ins and outs. Facilitating technology demonstrations would be a good way forward.

In general, we as a business community should be more demanding of board members. They need to prove to us that they are keeping up with the latest developments. Some of us, as certified accountants, have obligations to stay educated, but there isn't a broad, permanent obligation on all board members to maintain that. That would be a good thing.

More technology expertise needed

I've had very good experiences with a diverse audit committee set-up in which not everyone comes from



Profile: Carla Smits-Nusteling

A member of Nokia's board of directors since 2016, Carla Smits-Nusteling is currently chair of the audit committee and a member of the corporate governance and nomination committees. She has previously served as CFO at KPN and held various financial and operational positions at TNT (formerly PTT) between 1990 and 2000. Since 2013, she has been a member of the supervisory board of ASML, where she is currently chair of the audit committee. She is also chair of the board of directors of Tele2 AB and has been a member of the management board of the Unilever Trust Office since 2015. She holds a master's degree in Business Economics from Erasmus University Rotterdam and is based in the Netherlands.

a financial background. But life would be better still if every audit committee had at least one IT and technology expert who could better assess cybersecurity risks and IT transformation projects and knew the relevant questions to ask.

I am really happy that in some of the companies where I am active, we have IT experts on the audit committee, but it's not always the case.

It's time to take nonfinancial metrics into account

We're all learning about nonfinancial metrics and getting more experience in them than was the case five years ago. Now we have to learn to make it more company-specific and fix the definitions.

For example, when it comes to examining the books on how to calculate revenues, you have IFRS to guide you, but it isn't standardized for nonfinancial metrics to the same extent as with financial metrics. We will see this coming to the fore in the next few years as a key theme, though, and it won't be easy to deal with.

The companies that perform best on this are usually those that have substantially integrated their businesses and sustainability activities and are not just putting their sustainability efforts at the end of the annual report as an afterthought.

Take a proactive approach

It's always a good idea to anticipate issues before they arise. It's helpful to be in a position to ask about things that are not immediately visible, and to understand what people in the finance function actually do, especially in the larger companies where more people tend to be involved in preparing the accounts and forecasts. It's therefore helpful to understand the quality of the people that have input, and how their perspective differs from the CFO's.

Auditors must be forward-looking

I respect the role of external auditors in enhancing audit quality and making the audit relevant. It's a lot of work for them, and I appreciate what they do for companies.

But I do think it would help if they adopted a more forward-looking approach. That implies taking a longer-term perspective, where you also have an interest in the continuity of the company. For example, is the company still going to exist in a couple of years from now? It's about not just looking back.

Of course, when you are looking forward you have the impairment test, and you look at the business case underpinning valuations. And then you have the issue of business continuity. There's room to give a bit more perspective on what auditors see in the company.

Communicate informally as well as formally

As an audit committee chair, I'd like to see informal communications with my audit partners, alongside the usual formal channels. In terms of formal communications, what I like best is at the end of the committee meeting, when we have the one-on-ones. That gives us the space to discuss the culture of the company and issues the auditor thinks might come up over time, rather than the more pressing issues that are discussed by the full group.

As a CFO, I learned that sometimes you can "touch the smell" better than others – sense something that others don't. If you have options to communicate that are informal in character, you can in effect exchange your intuitions. I typically talk to the auditor once a month on the phone, and we go for dinner on a yearly basis. That provides an opportunity to understand more about their working procedures and their key concerns. ■

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