



The flying Dutchman

BY ANTHONY O'BRIEN PHOTOGRAPHY STEVE BACCON

Thirty-eight years ago, Professor Arnold Schilder and his wife Eefke arrived in a small Dutch outpost called Almere. Established in the 1970s, Almere was built below sea level on reclaimed land (called a polder) in the Dutch province of Flevoland in the centre of the country.

“We knew how deep we could fall and it could have paralysed the function of society. If we hadn’t succeeded it could have been like an avalanche coming down”

Schilder’s employer at the time, PricewaterhouseCoopers, had decided the town’s fledgling business community was crying out for auditing and advisory services and sent him to establish a practice there. The town also needed basic social infrastructure such as schools, churches, sporting clubs and hospitals, and Schilder became involved in a number of community boards that helped deliver social infrastructure to Almere.

Schilder, who was awarded a knighthood for his pro bono work in 2001, credits his experience of being at the heart of a small town’s business community for his enduring interest in the intersection of professional life and public service.

These days Schilder, 62, is chairman of the International Auditing and Assurance Standards Board (IAASB), one of the four standards-setting boards that sit under the New York-based International Federation of Accountants. He visited Australia recently to talk about its work, in particular the Clarity project.

The Clarity project, initiated in 2004, has the ultimate aim of achieving consistent application of the International Standards on Auditing (ISA) worldwide. The IAASB believes the development of high-quality, globally accepted auditing standards is the main way it can contribute to the improvement and maintenance of audit quality.

Australia was one of the first countries to adopt the standards, along with New Zealand, the Netherlands and the UK, and in one of his presentations in Australia Schilder said the IAASB was hopeful the European Union would be coming on board too.

China and the US would also be big catches and Schilder says there are encouraging signs the Chinese are moving towards adoption. “China’s gradually opening markets for foreign issuers and China’s strong commitment to the adoption of ISAs are encouraging developments,” he says.

However, he thinks the US is likely to be the toughest nut to crack. While the American Institute of Certified Public Accountants and the US Auditing Standards Board (ASB) are very supportive, the *Sarbanes-Oxley Act* requires a different set of standards for listed companies, so full convergence there is unlikely.

Schilder is an experienced regulator. He was until recently an executive director on the board of the Dutch central bank and is a former chairman of the Basel Committee on Banking Supervision’s accounting task force.

When the global financial crisis hit the Dutch banking system in 2008, it fell to Schilder and his fellow central bank board

members to find a way to dig commercial banks ING and, in particular, Fortis out of their respective debt holes.

Eventually, Fortis was taken over by the governments of the Netherlands, Belgium and Luxembourg.

A mountaineering enthusiast who has conquered Italy’s Gran Paradiso (4061 metres to the peak) and Switzerland’s only marginally less challenging Allalinhorn (4027 metres), Schilder says that the Fortis crisis was similar to standing on a precipice and looking down into a yawning valley.

“We knew how deep we could fall and it could have paralysed the function of society. If we hadn’t succeeded it could have been like an avalanche coming down,” he says.

“The next day, it would not have been possible for the bank to complete its usual transactions and payments. Other banks would have been waiting for that money.”

The finger-in-the-dyke work helped save the Dutch banking system.

Schilder, who earned an undergraduate degree in theology and ethics as well as a PhD in auditor independence, says there are lessons to be learned from the GFC. “Much of what is driving the economy is still about pursuing personal interest and this is the same for institutions. We have learnt that we have to put in place measures to govern against self-interest and we now have [more] government regulations and oversights to fight against the abuse of self-interest.”

Which brings us to the role of the auditor. Determining the auditor’s responsibilities is “a moving target” because of differing expectations, Schilder says.

“So there has to be a compromise between the auditing profession and those who are using the information – the auditee, directors, the audit committee and wider stakeholders. All groups have to make clear what they expect from an audit,” he says.

“But then you have the question of what is to be reasonably expected from the audit, and if it disappoints expectations the question auditors need to ask is whether they could have done more, reported more or disclosed more.”

Schilder contends that auditors need clear guidelines and expectations to achieve success and that they can play a wider role. >

Out of hours

What are the words you live by?

My grandchildren Fenne (6), Pieter (4), Kiana (5) and Minou (1).

What keeps you awake at night?

Nothing.

What are you reading?

Predictably Irrational – The Hidden Forces that Shape Our Decisions, by Dan Ariely (revised edition 2009, Harper).

How do you relax?

I run almost every morning. It's to stay healthy but also gives me time to gather my thoughts. I also play tennis with my wife Eefke (62) now and then.

Do you volunteer?

I have done a lot of volunteering to help establish social infrastructure for my city, Almere. I was on many community boards and chaired the board of the Flevosiekenhuis (the local hospital) and was given a knighthood for this service.

Do you have any other interests?

Classical music – piano recitals. My favourite composer is Bach. I used to play the organ. I like the structure and the harmony of classical music.

What have you done to improve the world?

I was part of the managing board of the Dutch central bank that went to Brussels to help save the ING and Fortis banks in 2008. It was important for the man in the street with bank savings, and for the financial system.



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Schilder considers the banker's assessment fair enough. He's adamant an auditor adds value and quality to financial statements. "As an auditor, I'm proud of the work I do, and the financial statements wouldn't have that quality without my work. [SMEs] can derive assurance from a compilation report."

Enhanced reporting on greenhouse gases is another current IAASB project and Schilder says that work on auditing standards in this evolving area is well advanced. Australia-based IAASB member Caithlin McCabe and former IAASB member Roger Simnett are co-chairing its greenhouse gases taskforce. (As an aside, Schilder notes that Australians make up three of the six technical staff at the IAASB.)

The IAASB issued a consultation paper on the assurance of greenhouse gases reporting last October that included a working draft of the standard (see www.ifac.org/Guidance/EXD-Outstanding.php).

"Caithlin [McCabe] reported back on the reactions to the consultation paper in March, many of which urged us to push on with

the standard," Schilder says. "The major firms are urging us to press ahead with this."

Schilder also told his Australian audience that the IAASB is looking at eXtensible Business Reporting Language (XBRL), which is the standards-based method for exchanging information between accounting systems. It underpins the Standard Business Reporting system that went live in Australia on 1 July.

XBRL is expected to provide benefits in the preparation, analysis and communication of business information but its use varies across jurisdictions. The IAASB is considering whether to develop a policy addressing assurance on XBRL-tagged data.

Meanwhile, Schilder and his wife still live in Almere. It's not such a small town any more, but it provides a welcome contrast to Schilder's regular trips to New York, the frenetic hub of world commerce where the IAASB conducts much of its work. ■

< "As a society, let's expand the role of the auditor. Maybe auditors should play a role in assessing the quality of the business model, or report back on the judgmental estimates and assumptions in the accounts, more than they do now," he suggests.

In France, for example, management is more explicit in its notes to auditors about more subjective areas, he says.

"However, we live in a very litigious society. So, if you ask auditors to do more work and report more, there needs to be protections and more common ground."

Schilder has praise for the Australian federal Treasury's discussion paper on audit quality, "Audit Quality: A Strategic Review".

"In many parts of the world this is a very comprehensive subject and a number of factors need to be taken into account. It's not just input factors such as auditing standards – the level of quality also depends on factors such as the staff the auditor employs, their education, mindset and ethics," he says.

"Also, audit quality is only as good as how it is perceived by the users such as the managers, audit committee, regulators, the general public and so on.

"They all have a role to play and must understand how the process works."

Schilder spent a significant part of his early career at PwC auditing small and medium businesses and says the IAASB is also looking at the level of assurance that is available to this business segment.

Compilation reports, which aren't designed to provide an expression of assurance on the financial information contained within, have long been an area of interest for Schilder and the IAASB is reviewing its standards in this regard.

"Auditors express explicitly that a compilation report is not an audit and doesn't provide an opinion," he says. "But I have never forgotten explaining this to a banker many years ago. He said, 'Thank you very much Mr Schilder, but as long as I see your signature on the audit that provides me with some assurance.'"

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