**ETHICS**

ON THE RIGHT TRACK

Dr Fiona Robertson CA spoke to **Judge Professor Mervyn King** about Integrated Reporting

(IR), the role of directors and the future of auditing

**ERVYN KING** is one of the world’s foremost authorities on corporate governance, reporting and sustainability.

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He has spent decades advocating for companies to be accountable for their impact on society and the environment. He is chairman of the International Integrated Reporting Council (IIRC), whose vision is to align capital allocation and corporate behaviour to wider

goals of financial stability and sustainable development through the cycle of integrated reporting and thinking.

I asked him about his views on Integrated Reporting (IR), the role of directors and the future of auditing.

## INTEGRATED REPORTING AND BOARD RESPONSIBILITIES

King explains that IR was introduced to try to correct what he terms an

oxymoron: “lawful wrongs”. He argues that the mind-set advocated by economist Milton Friedman – who

stated, “there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game” – has led to these lawful wrongs.

This philosophy, according to King, has led to “… the collective mind of boards steering their companies down a road

of making money at any cost. And it was at a cost. It was a cost to society, and the environment”.

King supports the view of Harvard Professor Lynn Paine, who believes: “The error of corporate leaders through the 20th century has been a focus on the maximisation of shareholder wealth, rather than a focus on the long-term health of the company.”

According to King, “If you get the

Mervyn King argues that in a world of

finite resources businesses must have the

smallest possible impact upon

the environment and society

latter right, that’s in the long-term better interest of the shareholder, the employee, society, and environment.”

“The world has to develop sustainable development, and sustainable development requires the recognition that the three dimensions of sustainable development – the economy, society,

and the environment – are indivisible and integrated. These dimensions are crucial to organisations becoming good corporate citizens,” he states.

“In our resource-constrained world, being a good corporate citizen is critical and we need companies whose business model has as little adverse impact as possible on society and the environment.”

He argues: “The finance professional today should be more of a value officer than a financial officer, and look at things through a value-creation lens, not just a financial lens.”

**46** / CA MAGAZINE / ICAS.COM / MAY 2018

“The question is: have you left the world a better place, or a worse place?”

transparency in social media today, if you believe you can hide something in the corporate closet, think again. It’s

not possible.”

“International law recognises crimes against humanity but what of the wrongs lawfully committed by companies which impact adversely on individuals in society and society as a whole?”

“The question is: have you left the world a better place or a worse place? What do you think is your moral duty?”

At a recent IIRC convention, it was reported that more than 1,600

organisations globally are adopting the IR framework.

## THE FUTURE OF AUDITING

King finds the future of auditing an interesting subject on its own. The external auditor today is focused on the financials which are, he argues, “only 20%, maybe 30% of market capitalisation”.

He poses the question: “Is this the start of the demise of the auditing profession?”

“Without significant innovation in its business model, staff recruitment

strategies and audit execution processes, the audit profession may not remain relevant”, he warns.

King says: “The number of claims against auditors has significantly increased over the past 20 years … Regulation to monitor professional and ethical standards has increased, leading

firms to feel under even more financial pressure. In addition, the investor community is calling for greater insight and foresight from auditors. These challenges, coupled with the unlimited liability regime of auditors still applicable in many jurisdictions, are making audit firms and regulators nervous as to the systemic risk of another one of the Big Four failing.”

He points out that the Institute of Internal Auditors has in recent years raised its standards and is attracting many young accountants because of the wide scope of the internal auditor.

Many companies today have a “hybrid” approach to internal auditing, which dovetails with the external, risk-based audit plan. This means the external audit plan must link to the internal audit plan

– which considers intangibles.

This is King’s response to those who suggest that IR is not assured. As he puts it: “We’ve actually got external audit, we’ve got a hybrid internal audit system. We have given an assurance and these conclusions drawn are reasonable conclusions based on what we know has happened inside the company. It’s a whole new form of assurance.”

**Professor Mervyn King’s *The Auditor: Quo Vadis?*, which will**

**be published on 26 June, outlines the critical success factors needed for a sustainable audit profession.**

**The book is aimed at helping directors, investors, business people and regulators gain a greater understanding of the challenges and threats being faced by the audit profession, which in turn could**

**disrupt the capital market and affect businesses around the globe.**

“The company must make profit, of course, because it has to service its borrowings, pay its wages, pay its

# BIOGRAPHIES: JUDGE PROFESSOR MERVYN KING

AND **DR FIONA ROBERTSON**

service providers. But there’s always going be external outcomes on society and the environment. People have not yet appreciated that, and I think that an important part of global adoption of IR is the revolutionary immensity of considering the impacts on the company’s business model, on those three critical aspects: the economy, society and the environment.”

“For example, if I don’t find out what is happening in the supply chain, and something is found out about child labour in that supply chain, within two days the company can lose 50% of its market cap on the stock exchange. So the world is not what it used to be, it’s different. The collective mind of the board also needs to think differently.”

King points out: “Because of radical

**Mervyn King** is a Senior Counsel and former Judge of the Supreme Court of South Africa. He is Professor Extraordinaire at the University of South Africa

on Corporate Citizenship, Honorary Professor at the Universities of Pretoria and Cape Town and a Visiting Professor at Rhodes.

He is Chairman of the International Integrated Reporting Council (IIRC) in London, Chairman Emeritus of the Global Reporting Initiative in Amsterdam, Chairman of the King Committee on Corporate

Governance in South Africa, which produced King I, II,

III and IV, and Chairman of the Good Law Foundation and a member of the Private Sector Advisory Group to the World Bank on Corporate Governance. He chaired the United Nations Committee on Governance

and Oversight, was President of the Advertising Standards Authority for 15 years and a member of the ICC Court

of Arbitration in Paris for seven years.

**Fiona Robertson CA** is a Senior Lecturer at Leeds Beckett University and has a doctorate in Integrated

Reporting. She is a member of ICAS and a member of ICAS Corporate Reporting Committee. She has more than 25 years’ experience of accountancy and financial management in several large national and multinational organisations.

MAY 2018 / CA MAGAZINE / ICAS.COM / **47**