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Our ref DH/AC

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Dear Sirs

Assurance on <IR>

Introduction

Mazars, the integrated international audit and advisory firm with 14,000 staff working in 73 countries, is pleased to respond to the invitation to submit its views in order to assist the IIRC in further considering the concept of Assurance over future Integrated Reports.

Mazars is fully supportive of the important and innovative work of the IIRC. As further evidence of this support, Mazars will be publishing in early 2015 its first annual report in accordance with the guiding principles defined in the international <IR> framework.

Integrated Thinking first

The Integrated Report should be the objective evidence of Integrated Thinking within a company, initiated by its Board and disseminated through the whole organisation. An Integrated Report may be factually reliable, though it has little value if what it portrays is not lived and breathed from the top to the bottom of the organisation.

At Mazars, we have developed the Board Charter. for Sustainable Success. It is a practical and, we believe, powerful tool for Boards wishing to adopt an approach that benefits business, other stakeholders as well as shareholders, and wider society. We firmly believe that this Board Charter, developed with the collective support and contribution of a number of leading organisations working in this space, from the corporate, investment and academic communities, can be a genuine contributor to Integrated Thinking. It asks tough questions of business whilst providing insightful guidance on the key factors that influence long-term success, including:

- boardroom leadership;
- purpose, values and ethics;
- fostering innovation; and
- the fair treatment of stakeholders.

To influence a genuine shift from short-term to long-term thinking and strengthen the trust between business and society, we need more corporate organisations to address the issues with whole-hearted commitment and courageous leadership from within the boardroom. We hope the Board Charter can provide another impetus to help make this happen.

It is important that companies should be given some freedom to experiment with <IR> and develop their Integrated Thinking. The question of Assurance on <IR> will develop as companies become clearer on how they want to approach <IR> and as external stakeholders identify what type of Assurance they would benefit from.

Innovation in Assurance

The purpose of Assurance - and of Integrated Reporting is not to remove failure. In fact, to try to remove failure of business is not compatible with development and growth. The purpose of all reporting, including Integrated Reporting, and Assurance is to allow the investor (broadly defined) to judge whether the business is sound or not, now or in the future - a definition of value, in a way.

We believe that a wide range of Assurance services can be provided on Integrated Reports (in fact we consider that most of these Assurance services already exist), from attesting to the factual accuracy of the outputs included in the Integrated Report (e.g. tons of carbon released, patents registered, number of training hours delivered, etc), to providing a professional opinion on the trustworthiness of the Integrated Report taken as whole. While some Assurance providers and companies will be more comfortable with the former, the real value for all stakeholders, we would argue, is in the latter: does the Integrated Report provide a competent, honest, i.e. fair and balanced, and reliable picture of the position, performance and prospects of the company that prepared it across the range of its capitals?

Therefore providing Assurance over the trustworthiness of the Integrated Report (rather than just its factual accuracy) also brings about further significant questions and challenges:

- Assessing the trustworthiness of the Integrated Report necessarily requires forming a view on the trustworthiness, skills and expertise of the Board and the management of the company. This would be an uncomfortable challenge for most Assurance providers, but one which a number of investors and other stakeholders would value and therefore one worth considering.
- Such Assurance would cast aside the traditional “3 lines of defence” approach which considers Assurance from the bottom up. While this approach is well suited for providing Assurance over transaction based activities, Assurance over the activities of a company viewed as a whole, directed and led by the Board of the company, is altogether a totally different proposition.
- Such an approach is likely to result in difficult situations where the Assurance provider is unable to attest to the trustworthiness of the Integrated Report, for as long as the process of assuring the Integrated Report is voluntary since an Assurance Report other than positive is unlikely to be published by the company.
- Given the six wide ranging capitals set out in the Framework, one of the major challenges to Assurance is the competence of the Assurance provider. However, the Framework should be seen as a wake-up call to Assurance providers to revise their skill sets and the training they provide, to develop more rounded teams capable of understanding business models as well as all the risks and challenges that companies face on a daily basis.
- High quality Assurance requires that those providing it both have detailed knowledge of the subject matter on which they are providing Assurance and of auditing processes relevant to the

client's business which in some instances will be complex global businesses. They also need to be subject to the highest professional standards including in relation to ethics and within that on independence. This raises the question of the need for the development of relevant professional qualifications and of appropriate professional and independent regulatory structures.

- Finally, the Integrated Report will need to set out the company's approach to materiality, which will be highly judgmental. Indeed information on the capitals and activities of a company cannot be captured exhaustively in an Integrated Report. This is a significant difference with the preparation of the financial statements which require the company to prepare full and accurate accounting records.

In order to enable innovative approaches to be developed, it is critical that more standards are not rushed through and developed ahead of best practice emerging. We believe that the existing IFAC Assurance Framework, ISAE3000, the Code of Ethics and ISQC1 on quality control provide enough of a sound basis for Assurance providers to innovate while at the same time providing confidence to the readers of Assurance Reports that these have been produced by Assurance professionals.

Assurance to all stakeholders

The current model of financial audits whereby the scope of the opinion is restricted to the shareholders of a company should not in our view be applied to Assurance over the Integrated Report. In our opinion, there should be a clear understanding by the professional preparing Assurance over the Integrated Report that the range of stakeholders to whom this Assurance could be relevant is unlimited. Consequently, safe harbours should be provided to the Assurance provider. We would suggest that only the "public interest regulator" (rather than civil courts) should be able to enforce the application of existing standards for Assurance providers and levy penalties where there are found to be deficiencies.

The future of Audit?

As we have said above, Integrated Reporting should be a lot more than about better reporting. It should demonstrate Integrated Thinking at the level of the Board and consistent application throughout the whole organisation. Financial auditors could benefit from following a similar thought process when providing a "true and fair" opinion on the financial statements. Assessing whether the financial statements show a "true and fair" view involves a lot more than verifying the correct application of accounting standards. It necessitates a deep understanding of the business model of the auditee, an ability to form a view on future levels of activity, the analysis of a multitude of risks which ultimately may or may not have an impact on the financial statements. It would not be unreasonable to imagine that, in due course, Assurance over the Integrated Report may become the only opinion issued and incorporate the opinion on the truth and fairness of the financial statements. In this approach lies an opportunity for auditors to reconnect with their original mission awarded to them by society.

Further discussion

If you would like to discuss further any of the issues in this letter, please do not hesitate to contact David Herbinet on 0207 063 4419.

Yours faithfully

Mazars