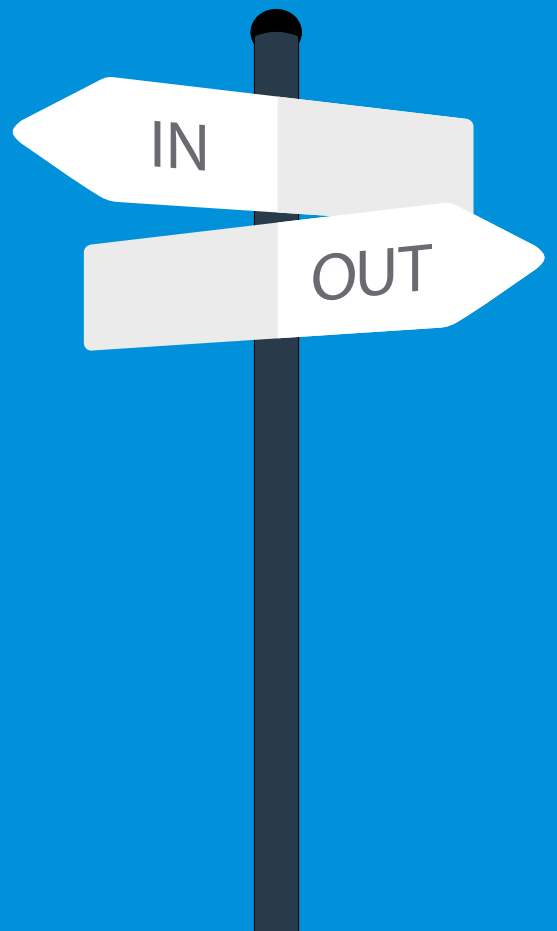




# Brexit in the boardroom



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After months of speculation and intense negotiation in Brussels, the date is set -23 June 2016 -for a referendum on whether or not the UK should remain in the European Union (EU). Britain's exit, or Brexit as it has become known, is beginning to look like a potential reality.

Brexit is certainly preoccupying corporate minds. It has surged onto boardroom agendas and risk radars. Leaders of some of Britain's biggest listed companies are already voicing their opinions on what departure from the EU might mean for jobs, the UK economy and foreign investment.

Every company should be considering how it might be affected by Brexit, from a legal, regulatory and economic perspective. Each ought to be working through the principal upsides and risks of Brexit and identifying where they might feature in value chains.

This paper addresses potential implications and issues that organisations ought to consider and examines the role of Internal Audit in providing support, challenge and assurance to businesses as Britain decides whether to detach itself from the EU.



## Brexit –The unknown unknowns

### Membership of the European Union guarantees 'Four Freedoms'

1. The free movement of goods;
2. The free movement of services, and freedom of establishment;
3. The free movement of persons (and citizenship) including free movement of workers; and,
4. The free movement of capital.

If it happens, Brexit would fundamentally impact all four freedoms.

Secondly, there are a raft of laws and regulations that could potentially change, including the terms of trade between the UK and countries outside of the EU.

Finally, there are a series of potential direct and indirect economic impacts to consider that could arise as a consequence of Brexit.

The extent to which a company is affected will depend on how much it currently benefits from the Four Freedoms and how much the Four Freedoms are affected by Brexit. Additionally, laws and regulations, including terms of trade between the UK and countries outside the EU, might change, for better or for worse. And there could be direct and indirect impacts on economic conditions in the UK, the EU and the rest of the world too.

Right now, the UK faces a lot of unknowns. The biggest unknown, possibly, is how separation from the EU would work. According to the rules of the Lisbon Treaty, a 'leave vote' would be followed by up to two years of negotiations. The eventual outcome –the UK's future legal and trading relationships with the EU –would hinge on those negotiations.

It is possible that the final outcome would leave very few changes. At the other extreme a discordant separation could see the UK fail to reach any agreements with the EU within two years, resulting in a return to World Trade Organisation rules and trade tariffs on certain goods.

While it is possible that the UK might engage in a relationship with the EU that is similar to other non-EU countries, like Norway, Switzerland and Turkey, it is also possible that a new, bespoke relationship between the UK and the EU could result.

In the run up to the referendum, it should not be forgotten that the EU, as a large and powerful trade bloc, has negotiated terms of trade with many other countries, including the USA, China and Japan. If the UK leaves the EU, it would no longer be party to those agreements and would have to negotiate its own trade terms with each country and EU state itself.



## How Brexit would impact your organisation

Brexit would result in different regulatory conditions for every EU-regulated sector.

Companies that currently profit from EU agreements would be likely to see an impact on trade patterns; others might see key suppliers or customers relocate to the Continent.

However, the following considerations are common for all organisations:

- Investors will want to know the likely cost of Brexit on the business and what is being done about it.
- Employees will want to understand how Brexit will impact them and the steps the firm is taking to address it.
- If the vote to leave the EU is 'yes' there will be a process of laws and regulations being reassessed, unwound and possibly changed. Companies need to know how this might affect their own business and therefore, which areas they should be ready to influence in Government.
- Companies will need to understand the new opportunities that might result from Brexit and how to respond from an operational, strategic and legal standpoint.

A 'yes' to Brexit vote is likely to have an impact on the UK economy as a whole and have potential repercussions on the longer-term status of the European Market.

Though Brexit's impact will differ according to the profile and nature of each business, management should ask themselves:

- Who are our customers, suppliers, outsource providers? What impact will the outcome of the referendum have on them and our business interactions with them?
- What impact might future political or economic volatility have on our business?
- What impact will this have on our workforce, in terms of immigration, working hours, employee availability, etc?
- How will Brexit impact our current financing arrangements? What about other direct financial implications, such as transfer pricing, tax, jurisdictional issues, exchange rate differences, etc?
- To what extent do we rely on EU grants or trade agreements?
- Following Brexit, might we align voluntarily with EU requirements? If so, what might the potential cost of this be?
- What will the loss of EU laws or directives mean for our organisation? What about reporting requirements and regulatory regimes, etc?

## How should organisations respond?

Organisations that give serious upfront consideration to the potential impacts of Brexit will be on the front foot, if or when it comes to influencing Government and lobbying decision-makers on changes to laws and regulations that might have detrimental outcomes.

Reaching an informed understanding requires a thorough review of the legal implications, as well as regulatory and economic consequences of Brexit on the business.

Organisations will need a clear understanding of crucial EU trade agreements and regulations and how they might change. They should identify risks and importantly, not overlook potential opportunities.

A coordinated company-wide response is an imperative when giving opinion on the merits of leaving or staying in the EU and public pronouncements must be defensible.





## What is the role of Internal Audit in the Brexit challenge

Audit committees need reassurance that management is well prepared for what is potentially the biggest shake-up in the UK trading environment in decades.

It is here that Internal Audit has a crucial role to play by:

- Helping management to understand how Brexit might affect the business (including legal, regulatory and economic impacts); potential costs and benefits; and risks and upsides.
- Understanding and challenging the extent of Brexit risk assessments, along with mitigation strategies for negative outcomes and the execution of potential upsides.
- Developing a programme of Internal Audit work that will deliver assurance to the Audit Committee on the business's response to Brexit, including its plans to communicate internally and externally.

Internal Audit can assist in providing a level of assurance that the company has an appropriate plan in place (along with necessary oversights and governance) to consider and respond to the changing landscape and its associated impacts on the business.

However, the dynamic nature of the work might mean that Internal Audit needs to evolve, and traditional approaches and reporting processes may need to be reconsidered.

## Ready for Brexit?

If you have not done it already, it is not too late to put Brexit on your boardroom agenda and risk radar. But, by 23 June, all companies must be clear on how they will respond to a 'yes' to the EU-exit decision.

Consider the impact Brexit will have on your organisation; the exposures you face; your level of preparedness; how you will respond to the outcome of the referendum, and the immediate actions you will take. Having a clear communications strategy, both internally and externally, will ensure that your company is well placed to give opinion and justify decisions, as well as push through any changes that Brexit necessitates.

KPMG is already helping companies to pre-empt the Brexit challenges. For instance, working with a FTSE 100 company, we evaluated the impact of Brexit on its supply chain. Though the direct impact was limited, our advisers identified that the UK's influence in Brussels had been important in securing beneficial regulatory outcomes that would impact both its UK and European operations. Under Brexit, we identified that such benefits could be compromised.

What about you? If the UK public says 'yes' to Brexit, are you ready for it?



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