EU referendum – key questions audit committees should ask

June 2016

As the EU referendum draws near, many organisations are reflecting on their level of preparedness, and considering the implications that a 'leave' vote may have for them. With recent polls suggesting the result is too close to call, it is vital that organisations use these last few days to prepare and plan for the outcome – whatever that might be.

For Audit Committees, the focus should be on challenging these preparations. It's not too late. In the event of a vote to leave the EU, those organisations which can mobilise action plans and respond swiftly will be ahead of the game. To facilitate the Audit Committee's challenge, we have summarised some key questions for Audit Committees to ask.

Considering the organisation's preparations to date:

- How pro-active has the organisation been?
- Are there any obvious gaps in the planning?
- Have the potential implications and benefits of a 'leave' vote been critically assessed and is there a robust response plan in place to address them?

If there is a response plan in place:

- How comprehensive is it? Does it cover implications and opportunities in all of the following areas – operational, financial, legal, strategic and regulatory?
- Does it consider the short, medium and long term implications and opportunities?
- Have the potential scenarios been modelled?

Areas for consideration include:

a) What will the outcome mean for customers, suppliers and outsource providers?

b) How might future political or economic volatility affect the organisation?

c) What might the impact be on the workforce? Have potential impacts on immigration, working hours, employee availability etc. been considered?

d) How will a leave vote affect current financing arrangements?

e) Can the organisation foresee any direct financial implications – for example, transfer pricing, tax jurisdictional issues, exchange rate differences etc.?

f) To what extent does the organisation rely on EU grants or trade agreements?

g) What might the potential impacts be of aligning voluntarily with EU requirements following an exit?

h) What might the non-applicability of EU laws and directives mean for the organisation and its reporting and regulatory framework?

- Does the plan take all of the organisation's stakeholders, both internally and externally into account eg employees, investors, suppliers, trade bodies, regulators etc.? What is the role of the organisation's parent or subsidiary in the response, and in stakeholder management in particular?
- Does the plan clearly identify the primary areas of concern/opportunity for the organisation in the event of a 'leave' vote? Does the plan consider how the organisation may be able to influence policy on these factors in the negotiation period following a vote to leave?
- Has the organisation established appropriate governance arrangements to frame their response? For example, a number of organisations have established 'Brexit Committees' to oversee and challenge the business response.
- Does the organisation have a clear communication strategy in place covering before and after 23 June?
- If appropriate, has the organisation adequately explained and presented the risks associated with the outcome of the vote in its external reporting (in line with the UK Corporate Governance Code)?
- Bearing this in mind, does the organisation's risk management framework require further development to enable those charged with governance to carry out a robust assessment of the principal risks in line with the UK Corporate Governance Code?

The key thing for Audit Committees to bear in mind is that it is not too late. In fact these next few days, and the days immediately following the referendum will be crucial to shaping the direction and future of the organisation. Audit Committees should use this vital time to assess, plan and respond to the outcome of the vote on the June 23 – whatever this might be.

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