

# Leaving Europe: The road ahead for Risk and Internal Audit

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British business has entered a new era following the EU referendum. The spectrum of possible outcomes – be they legal, social, economic or political – are so varied it is almost impossible to predict what the impact of Brexit will be for an individual entity. Each organisation will have its own unique set of considerations. The only impact assessment that matters is the one that is specific to you.

In a historic referendum in which more than 30 million of us voted, 52% determined that Britain will leave the EU, thereby severing a relationship that has lasted for over 40 years. We might not be leaving straight away - and will probably remain a member for several years to come - but the vote immediately triggered an extraordinary chain of events in an uncertain and fast moving political and economic environment.

Businesses need time to assess the implications but are resilient. They are used to responding to change and will adapt to any new landscape. Naturally, boards will drive the response of every business. But beyond that strategic role, Risk Management and Internal Audit must stand up and be counted in a period of uncertainty and rapid change. They are both key players in determining how successfully your organisation evolves and deals with the downsides, and possible opportunities, of the referendum's outcome.

## What we can say now

Perhaps one of the few things we knew with some certainty, was just how little we understood the consequences of a Leave vote. With the result delivered, some of those unknowns will start to shift into the 'known' column. Risks and implications that may have been discussed as a possibility now start to become a known reality and will need quantifying. Time to ask a few questions:

- How will our workforce be affected? And how quickly? Consider changes to migration, the working time directive and employee availability.
- What about the impact on your business plans? Can we explain to stakeholders where the big impacts might be to both cash and the P&L and what does it mean for our headroom and financial covenants?
- Are we flexible enough to react to the fiscal and economic consequences like access to finance, tax changes or exchange rate volatility?
- How should we manage relationships with European customers and partners?
- What are the positive and negative implications for our markets?
- Do we face direct consequences of severing ties – could there be a loss of EU grants? How will trade agreements evolve?
- How might our cost profile change?
- How might our overall business performance and outlook be affected.
- .... and how can we manage the change to outlook with investors, the markets or lenders?
- How will this affect other stakeholders including trade bodies and regulators? Have we identified which matter most?
- How will Brexit uncertainty affect culture, morale and employee attrition?

## Every business will need to give existing risk management processes a shot of adrenalin

Your impact assessment is unique to your organisation and risk specialists have a key role to play in identifying and quantifying likely outcomes and scenarios, as well as supporting the creation of a plan to manage the changes ahead.

'Steady state' risk management won't be enough.

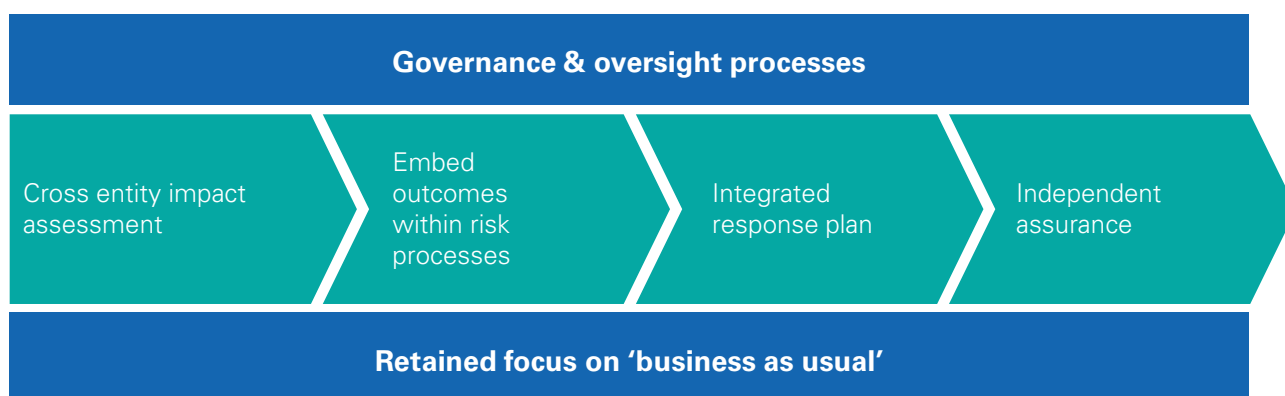
Don't divorce this exercise from the way you already manage risk, but remember that the implications are potentially so significant and varied that you may have to challenge existing processes.

Also remember that there are start ups, disruptors and competitors eyeing up your business and looking for opportunities and unless you are prepared, you may lose competitive advantage.

This is a moment for Risk Management to show the value it brings to the business. If Risk fails to lead on this exercise, it poses questions about just how well your risk processes have been serving the business up to now.

## Assessing the impacts and assuring the risks

The immediate need is for a process to capture the potential impact across all aspects of your business; allow a clear focus on those impacts that will critically shape future success, and deliver the business change required.



A number of organisations have already taken practical steps to plan their response to Brexit.

A provisional heat map that allows you to quickly grasp where the 'hotspots' are will help you to prioritise and plan. A more detailed analysis of the threats, challenges and opportunities across your markets, suppliers and operations then follows. Immediate actions to take:

Establish a Response Committee	<ul style="list-style-type: none"><li>• A response team to develop and own a comprehensive impact assessment, identifying opportunities, as well as risks:<ul style="list-style-type: none"><li>– Involve people that represent the constituent parts of the business with key skills and capabilities.</li><li>– Form a considered response to the many questions you will be receiving from your stakeholders.</li><li>– Support on communication - not to have all the answers but to demonstrate a clear approach and thinking.</li></ul></li></ul>
Assess the potential impacts	<ul style="list-style-type: none"><li>• Completed thoroughly, this provides a clear framework within which the full range of potential impact areas can be developed over time.</li><li>• Use the assessment to prioritise the most significant impacts and focus activity.</li></ul>
Apply suitable governance	<ul style="list-style-type: none"><li>• Brexit is a central issue in the boardroom so strong governance is required, specifically:<ul style="list-style-type: none"><li>– Direct sponsorship and representation of board / executive members.</li><li>– A reporting line to the board with regular communication.</li><li>– A clear mandate with the ability to prioritise and the authority to commandeer resources.</li><li>– Appropriate independent assurance in place.</li></ul></li></ul>

## So what about Internal Audit?

The important point here is that this is no different to any other significant change programme. Internal Audit should be involved from Day One.

The types of activities we recommend Internal Audit undertake include:

- Contributing to and challenging the business's impact assessment.
- Agreeing a programme of work with the Audit Committee, including real time assurance that the Brexit Response Committee is delivering on its commitments.
- Assuring management that the procedures to manage change have proper governance around them.
- And of course, giving the Audit Committee confidence that the everyday running of the business is not slipping.

## What does this mean for your team?

While supporting a Brexit mobilisation plan, Heads of Internal Audit should consider whether their own team can deliver what is needed in the months ahead:

- Is the Internal Audit plan for the coming year shaped to respond to the level of change you envisage? Do you have the right balance of maintaining focus on core activities and emerging risks?
- Does more work need to be delivered? If there is no increase in the expected level of activity or resources needed in the short to medium term, confirm the team is doing enough.

- Do we have the right mix of skills? The legal, tax or treasury consequences of Brexit may be complex.
- Do we need to change the way the function works and reports? Traditional reviews spanning weeks with a drawn out reporting process may not work if timeliness is critical. Make sure your team is showing it can work in a flexible and dynamic way. Change how it works if needed and shift to agile auditing.

## Choppy waters

The months ahead will throw up challenges, but also opportunities. Those businesses that can react fastest – while sensibly managing the risks – will be best placed. That is why Risk and Internal Audit have such a vital role in the response to Brexit.

As the organisation navigates this turbulence, these functions must play a central role in plotting the business's course, keeping watch for icebergs and helping it harness fair winds too.

KPMG has years of experience working with companies that are grappling with significant change. Our specialists support organisations in a number of ways, for example by challenging the robustness of their Risk management processes and the effectiveness of their Internal Audit functions.

The UK public has voted 'Leave' and Brexit is now a reality.

Is your response appropriate?





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