

## An internal audit perspective on the 2018 Autumn Budget

In the final Budget before Brexit, the Chancellor confirmed that the “era of austerity is finally coming to an end” after eight years of central government spending cuts of £45bn.

We briefly outline potential assurance and consultancy activities for audit leaders to consider in relation to key aspects of the Budget.

<b>All - 1</b>	<b>Public Sector - 2</b>	<b>Private Sector - 3</b>	<b>Charities - 4</b>
<b>Healthcare - 5</b>	<b>Retail - 6</b>	<b>Construction - 7</b>	<b>Utilities - 8</b>

### National Living Wage - 1

The National Living Wage will increase by 4.9%, from £7.83 to £8.21 an hour, from April 2019.

- Internal audit should be aware of how the organisation will fund this increase. Where are savings to be made, are controls being squeezed, are poorly informed risks being taken?
- Is it time to revisit compliance with National Minimum Wage regulations? Technicalities such as uniforms, time off in lieu can lead to embarrassing breaches.
- How does NLW impact the overall reward strategy, does the increase disadvantage salaried employees? Would the board benefit from assurance that it remains sustainable whilst attracting and retaining talent?

### Employment Tax - 2

Since April 2017 enforcement rules have been in place for IR35 in the public sector (off-payroll working such as contractors). These will be extended to the private sector from April 2020.

- Auditors will need to understand the existing **rules** and impact of non-compliance.
- For organisations with a sizeable population of contractors (e.g. IT, management consultants, designers) a readiness assurance audit may be useful as this impacts multiple areas including recruitment, workforce planning, payroll, operations, projects and budgeting.

## Plastic tax - 1

A consultation will begin to “introduce a new tax on the manufacture and import of plastic packaging which contains less than 30% recycled plastic... transforming the economics of sustainable packaging.” The government ruled out a levy on disposable cups.

- Either through stakeholder engagement or regulation, organisations cannot evade the need to transition to sustainable packaging. How can audit leaders provide assurance on capability and progress towards such goals? [Risk in Focus 2019](#) provides useful insights.
- Companies are increasingly expected to behave in an environmentally and socially responsible manner, both by regulators and the public. This is creating sustainability reporting challenges and is influencing the strategic decisions companies must take to achieve future growth.

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## Artificial Intelligence - 1

Continued [investment](#) supporting the Chancellors comments in 2017 that the “UK is in a global race when it comes to the adoption of AI technology, and it cannot afford to lose.”

- The cost and efficiency benefits of automation and other digital processes can be transformative, if harnessed to their full potential. But organisations and internal audit must also consider the risks associated with such transformation. [Risk in Focus 2019](#) explores this further.
- Audit leaders must address assurance needs around AI technology. Digital skills are essential in all sectors. Multiple government reviews in the public sector will look at capabilities and drive productivity benefits. Can internal audit provide a consulting role in automating controls and processes to improve efficiency and effectiveness?

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## Apprenticeships - 1

The levy transfer facility increases from 10 to 25% and small business levy payments reduce to 5% although timing is to be determined and auditors should check whether this applies outside England.

- Auditors should ensure that apprenticeships are included in audits of talent management, training, skills etc. Audit leaders are reminded that the Chartered Institute also runs a scheme.
- A number of apprenticeship/training pilot projects have been announced for the Greater Manchester area which auditors in the locality should be mindful of when scoping engagements.

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## Regulation - 1 and 8

Brexit uncertainty stifled regulatory change however; a consultation will be launched encouraging innovation in the utilities sector.

- Auditors should be aware of the [UK Regulators Network](#), a collective for the benefit of consumers and the economy. Work is ongoing regarding technological change, vulnerable customers and future

infrastructures.

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## Private Finance Initiative - 2, 3 and 7

No new Private Finance Initiative contracts will be entered into by the public sector. A new centre of excellence will be created to manage contracts.

- In his budget speech, the Chancellor said he was “committed to the use of public/private partnership where it delivers value for the taxpayer and genuinely transfers risk to the private sector.” Audit and risk professionals need to be alert to the reality of such arrangements as it is not possible to transfer the accountability for risk only its management.
  - Project assurance, contract management, tendering and supplier management are all key assurance needs. Key supplier audits are important assurance tools, ideally a first or second-line activity with methodology and effectiveness independently assured by internal audit.
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## Major infrastructure - 2, 3 and 7

Significant investment was confirmed for the housing sector; £500m for the Housing Infrastructure Fund, designed to enable a further 650,000 homes to be built and new partnerships with housing associations in England to deliver 13,000 homes. A £30bn package for England's roads was also advised, including an additional £420m to repair potholes.

- Securing contracts is a commercial imperative. Audit assurance on tendering processes should be regularly provided to the board. What strategic decisions are being made following the budget...does the audit plan reflect these changes?
  - A government **green paper** on social housing is advised reading for auditors in the sector.
  - Road **lobbyists** claim the budget still leaves local councils underfunded for road repairs. How recently has assurance been provided on the assessment, prioritisation and remediation of repairs?
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## NHS Funding - 2, 4 and 5

Unsurprisingly the £20.5bn for the NHS over the next five year forms the bulk of budget spending; significant commitment to mental health services is noted within this.

- Potential for lots of initiatives/projects. How agile is the audit team to respond quickly and efficiently to assurance needs?
  - Charities and third-sector organisations may find funding available again for previously cut services. Audit leaders need to be alert to the speed of change and the robustness of controls to safeguard outcomes.
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## Retail - 3 and 6

£900m in business rates relief for small businesses and £650m to rejuvenate high streets plus a potential tax on digital services.

- Business rate relief of a third for businesses below the £51k threshold. This has the potential to increase pressure on medium/large retailers as niche, independents translate benefits into competitive pricing. High street regeneration could negatively impact retail parks.
- UK Digital Services Tax will impact companies with over £500m revenue from 2020 although if **OECD** proposals for taxing the digital economy gain international acceptance they are likely to be adopted. Audit leaders should watch this space for developments.

The next budget, the Spring Statement is scheduled for March 2019.

Depending on Brexit negotiations it could be upgraded to full Budget.

The **Budget** in detail