

Appendix 1: Mutual One Action Plan

Rec No.	Recommendation	Action	Target Date
1	<p>The primary role of Internal Audit should be to help the Board and Executive Management to protect the assets, reputation and sustainability of the organisation.</p> <p>It does this by assessing whether all significant risks are identified and appropriately reported by management and the Risk function to the Board and Executive Management; assessing whether they are adequately controlled; and by challenging Executive Management to improve the effectiveness of governance, risk management and internal controls.</p> <p>The role of Internal Audit should be articulated in an Internal Audit Charter, which should be publicly available.</p>	<p>Review of Mutual One's internal audit Charter.</p> <p>Ensure that an updated charter is put in place for each client where Mutual One provides outsourced internal audit.</p>	<p>31/12/2013</p> <p>31/01/2014</p>
6d	<p>The risk and control culture of the organisation</p> <p>Internal Audit should include within its scope the risk and control culture of the organisation. This should include assessing whether the processes (e.g. appraisal and remuneration), actions (e.g. decision making) and "tone at the top" are in line with the values, ethics, risk appetite and policies of the organisation.</p> <p>Internal Audit should consider the attitude and assess the approach taken by all levels of management to risk management and internal control. This should include Management's actions in addressing known control deficiencies as well as Management's regular assessment of controls.</p>	<p>We will consider an approach to auditing culture, and discuss with Audit Committees as part of development of future internal audit plans where appropriate.</p> <p>Mutual One to work with Baker Tilly to offer a cultural audit to clients.</p>	<p>31/12/2013</p> <p>31/03/2014</p>
7	<p>Internal Audit should be present at, and issue reports to, the appropriate governing bodies, including the Board Audit Committee, the Board Risk Committee and any other Board Committees as appropriate. The nature of the reports will depend on the remits of the respective governing bodies.</p>	<p>Each Associate Director to speak with clients as part of the audit planning process to establish which committees are to be attended by Mutual One.</p>	<p>31/12/2013</p>

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8	<p>Internal Audit's reporting to the Board Audit and Risk Committees should include:</p> <ol style="list-style-type: none"> 1. a focus on significant control weaknesses and breakdowns together with a robust root-cause analysis; 2. any thematic issues identified across the organisation; 3. an independent view of Management's reporting on the risk management of the organisation, including a view on Management's remediation plans (which might include restricting further business until improvements have been implemented) highlighting areas where there are significant delays; and 4. at least annually, an assessment of the overall effectiveness of the governance, and risk and control framework of the organisation, together with an analysis of themes and trends emerging from Internal Audit work and their impact on the organisation's risk profile. 	<p>We will develop an approach to provide our clients who receive a full internal audit service with an annual summary report, This will also reflect on any thematic issues identified, where appropriate.</p>	31/12/2013
13	<p>Internal Audit should have the right to attend and observe all or part of Executive Committee meetings and any other key management decision making forum.</p>	<p>The right of internal audit (that is Mutual One) to attend Committee meetings and other decision making fora will be set out for each client within the internal audit charter (see our response to Recommendation 1).</p>	31/01/2014
15	<p>The primary reporting line for the Chief Internal Auditor should be to the Chairman of the Audit Committee. In exceptional circumstances, the Board may wish for Internal Audit to report directly to the Chairman of the Board, or delegate responsibility for the reporting line to the Chairman of the Board Risk Committee, provided the Chairman of the Board Risk Committee and all the other Committee members are independent Non-Executive Directors. The reporting line must avoid any impairment to Internal Audit's independence and objectivity.</p>	<p>Reporting lines for internal audit will be discussed with each client, and set out within the Internal Audit Charter (see also Recommendation 1).</p>	31/01/2014
20	<p>If Internal Audit has a secondary Executive reporting line, this should be to the CEO in order to preserve independence from any particular business area or function and to establish the standing of Internal Audit alongside the Executive Committee members.</p>	<p>Reporting lines for internal audit will be discussed with each client, and set out within the Internal Audit Charter (see also Recommendation 1).</p>	31/01/2014

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26	<p>Internal Audit functions of sufficient size should develop a quality assurance capability, with the work performed by individuals who are independent of the delivery of the audit. The individuals performing the assessments should have the standing and experience to meaningfully challenge Internal Audit performance and to ensure that Internal Audit judgements and opinions are adequately evidenced.</p> <p>The scope of the quality assurance review should include Internal Audit's understanding and identification of risk and control issues, in addition to the adherence to audit methodology and procedures. This may require the use of resource from external parties. The quality assurance work should be risk-based to cover the higher risks of the organisation and of the audit process. The results of these assessments should be presented directly to the Audit Committee at least annually.</p>	<p>Mutual One will be included in the next external QA review that Baker Tilly commissions of its internal audit services.</p> <p>Mutual One will also now be subject to Baker Tilly's internal quality assurance arrangements. The firm has an independent QA Department which undertakes cyclical QA reviews of client facing work and services. From 2014, where the internal QA reviews cover a Mutual One client, the outcome of that review will be reported to the relevant client's Audit Committee.</p>	<p>2014 – 2015</p> <p>30/06/2104</p>
27	<p>Where the Internal Audit function is outsourced to an external provider, Internal Audit's work should be subject to the same quality assurance work as the in-house functions. The results of this quality assurance work should be presented to the Audit Committee at least annually for review.</p>	<p>Mutual One will be included in the next external QA review that Baker Tilly commissions of its internal audit services.</p> <p>Mutual One will also now be subject to Baker Tilly's internal quality assurance arrangements. The firm has an independent QA Department which undertakes cyclical QA reviews of client facing work and services. From 2014, where the internal QA reviews cover a Mutual One client, the outcome of that review will be reported to the relevant client's Audit Committee.</p>	<p>2014 – 2015</p> <p>30/06/2104</p>

Appendix 2 – Recommendations for Consideration by Name of Committee

Rec. No	Recommendation
16	The Audit Committee should be responsible for appointing the Chief Internal Auditor and removing him/her from post.
17	The Chairman of the Audit Committee should be accountable for setting the objectives of the Chief Internal Auditor and appraising his/her performance. It would be expected that the objectives and appraisal would take into account the views of the Chief Executive. This appraisal should consider the independence, objectivity and tenure of the Chief Internal Auditor.
18	The Chairman of the Audit Committee should be responsible for recommending the remuneration of the Chief Internal Auditor to the Remuneration Committee. The remuneration of the Chief Internal Auditor and Internal Audit staff should be structured in a manner such that it avoids conflicts of interest, does not impair their independence and objectivity and should not be directly or exclusively linked to the short term performance of the organisation.
19	Subsidiary, branch and divisional Heads of Internal Audit should report primarily to the Group Chief Internal Auditor, while recognising local legislation or regulation as appropriate. This includes the responsibility for setting budgets and remuneration, conducting appraisals and reviewing the audit plan. The Group Chief Internal Auditor should consider the independence, objectivity and tenure of the subsidiary, branch or divisional Heads of Internal Audit when performing their appraisals.
23	The Audit Committee should be responsible for approving the Internal Audit budget and, as part of the Board's overall governance responsibility, should disclose in the annual report whether it is satisfied that Internal Audit has the appropriate resources.