

Mutual One Gap Analysis – CIIA Effective Internal Audit in the Financial Services Sector

Introduction

In July 2013 the Chartered Institute of Internal Auditors published its recommendations as to the best practices that should be adopted by Financial Services Firms and their internal auditors. The guidance emphasises that a more influential internal audit function can play a more significant role in supporting Non-Executive and Executive Management of Financial Services firms to better manage risks. Whilst the recommendations are not mandatory, Mutual One agrees with the Institute’s statement that organisations should embrace the ‘spirit and principles’ of the guidance. The PRA and FCA are supportive of it.

The following gap analysis outlines Mutual One’s position.

An action plan is in place to track the resolution of gaps where required. Updates will be provided in 2014 to confirm progress has been made.

Version Control:

Version	Date	Position
1	11 September 2013	Initial draft gap analysis
2	18 September 2013	Final Gap Analysis
3	20 November 2013	Updates to Actions as a result of establishing the Company within Baker Tilly

Reference	Recommendation	Current Position	Gap (Y/N)	Action		
				What is Required?	Owner	Target Date
The Role and Mandate of Internal Audit						
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>Mutual One has an Audit Charter that sets out our role. However, this is in need of review post-sale to Baker Tilly</p> <p>Where Mutual One is the incumbent internal auditor on a fully outsourced basis, the audit plan is compiled on the suggested basis, with all business activities receiving assurance on a risk based approach (unless specifically excluded at the request of the Audit Committee) at least once per three year cycle.</p> <p>Mutual One's audits include reviewing client risk registers. Any material 'gaps' would be flagged through our audit reports. However, Client Management retains overall responsibility for the content of its risk registers.</p>	Y	<p>Review of the Charter with input from Risk Advisory.</p> <p>Ensure that an updated charter is put in place for each client where Mutual One provides outsourced internal audit.</p>	<p>Jon Pepper</p> <p>Senior Managers</p>	<p>31/12/2013</p> <p>31/01/2014</p>
2	<p>The Board, it's Committees and Executive Management should set the right "tone at the top" to ensure support for, and acceptance of, Internal Audit at all levels of the organisation.</p>	<p>Mutual One looks to influence and educate its clients to achieve this. Ultimately, this is not the responsibility of Mutual One</p>	N	N/A	N/A	N/A

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Scope and priorities of Internal Audit						
3	<p>Internal Audit's scope should be unrestricted</p> <p>There should be no aspect of the organisation which Internal Audit should be restricted from looking at as it delivers on its mandate. Whilst it is not the role of Internal Audit to second guess the decisions made by the Board, its scope should include information presented to the Board as discussed further below.</p>	<p>Section 9.2 of the Mutual One's standard Letter of Engagement states "All M1 personnel involved in providing the Services to the Client will have the right of access, but only for the purposes of the Services, to any document, record, notes etc belonging to the Client and held on the Client premises, whether or not owned by the Client."</p> <p>The scope of internal audit coverage is agreed with the client. Mutual One would flag any concerns at a client should it feel that the scope of work was being restricted.</p>	N	N/A	N/A	N/A

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4	<p>Risk assessments and prioritisation of Internal Audit work.</p> <p>In setting its scope, Internal Audit should take into account business strategy and should form an independent view of whether the key risks to the organisation have been identified, including emerging and systemic risks, and assess how effectively these risks are being managed. Internal audit's independent view should be informed, but not determined, by the views of management or the Risk function. In setting its priorities and deciding where to carry out more detailed work, Internal Audit should focus on the areas where it considers risk to be higher.</p> <p>Internal Audit should make a risk-based decision as to which areas within its scope should be included in the audit plan – it does not necessarily have to cover all of the potential scope areas every year.</p>	<p>Section 3 of Mutual One's Audit Plan details the drivers of a year's audit activity. This includes all of the areas suggested.</p> <p>Our view of the risks faced by a client is determined partly by their risk register, but also from our experience in their sector.</p> <p>All of our audit coverage is proposed on a risk basis and this is demonstrated in section 3 and 4 of the Audit Plan.</p> <p>Mutual One operates on a 3 year audit cycle for clients where it is internal auditor on a fully outsourced basis.</p>	N	N/A	N/A	N/A
5	<p>Internal Audit planning</p> <p>Internal Audit plans, and material changes to Internal Audit plans, should be approved by the Audit Committee. They should have the flexibility to deal with unplanned events to allow Internal Audit to prioritise emerging risks. Changes to the audit plan should be considered in light of Internal Audit's on-going assessment of risk.</p>	<p>All of Mutual One's audit work is approved by the client's Audit Committee prior to it being undertaken.</p> <p>For clients where we provide internal audit on a fully outsourced basis, the Audit Committee is provided with our view of current risks (both internal and external) at each meeting we attend.</p>	N	N/A	N/A	N/A

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6a	<p>Internal governance</p> <p>Internal Audit should include within its scope the design and operating effectiveness of the internal governance structures and processes of the organisation.</p>	<p>Our internal audit plans include a specific review of a client's governance structure on a holistic basis, and provides an assessment of its effectiveness.</p> <p>In addition, each business area review considers how the governance structure specific to that area operates.</p>	N	N/A	N/A	N/A
6b	<p>The information presented to the Board and Executive Management for strategic and operational decision making</p> <p>Internal Audit should include within its scope the processes and controls supporting strategic and operational decision making. It should assess whether the information presented to the Board and Executive Management fairly represents the benefits, risks and assumptions associated with the strategy and corresponding business model.</p>	<p>Mutual One covers this area in a number of ways:</p> <ul style="list-style-type: none"> • How the Board challenges the information it receives is considered in our Governance review. • The quality of minutes taken is considered within our Governance review. • Each business area review considers what management information is produced, whom it is presented to, and the flow of information between fora. • Our Financial Risk reviews include the area 'Strategy and Financial Forecasting'. This looks at how strategy is set, approved and monitored. 	N	N/A	N/A	N/A

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6c	<p>The setting of, and adherence to, risk appetite</p> <p>Internal Audit is not responsible for setting the risk appetite but should assess whether the risk appetite has been established and reviewed through the active involvement of the Board and Executive Management. It should assess whether risk appetite is embedded within the activities, limits and reporting of the organisation.</p>	<p>The risk appetite for each area is assessed in detail in the appropriate review (e.g. credit risk is part of a mortgages review). This includes ascertaining whether policies are aligned, and how this is monitored.</p> <p>Our Risk Management reviews consider the framework on a holistic basis, and how the different appetites feed into the framework.</p>	N	N/A	N/A	N/A
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>Mutual One does not undertake specific ‘culture’ audits on clients. However, it does consider the appraisal process (Board and staff) and the client’s remuneration policy. There have been instances where Mutual One has queried decisions taken at clients given their ethics and risk appetite.</p> <p>Mutual One does monitor actively Management’s attitude in addressing known control deficiencies, including its Management Actions Tracking database, an update on which is provided to the Audit Committee each time it attends.</p>	Y	<p>Senior Managers to present the proposed approach to this area as part of the Audit Plan approval process.</p> <p>Mutual One to work with Baker Tilly to offer a cultural audit to clients.</p>	<p>Senior Managers</p> <p>Jon Pepper</p>	<p>31/12/2013</p> <p>31/03/2014</p>

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6e	<p>Risks of poor customer treatment, giving rise to conduct or reputational risk</p> <p>Internal Audit should evaluate whether the organisation is acting with integrity in its dealings with customers and in its interaction with relevant markets. Internal Audit should evaluate whether Business and Risk Management are adequately designing and controlling products, services and supporting processes in line with customer interests and conduct regulation.</p>	<p>Consideration of conduct and reputational risk are built within all audit activity. This is explicitly stated within our Audit Plan for each client.</p> <p>Mutual One's audit programme includes a review of client's product development cycle. The frequency of review is determined on a client by client basis.</p>	N	N/A	N/A	N/A
6f	<p>Capital and liquidity risks</p> <p>Internal Audit should include within its scope the management of the organisation's capital and liquidity risks.</p>	<p>Where Mutual One is the internal auditor on a fully outsourced basis, the Audit Plan includes detailed reviews of both capital and liquidity risks.</p>	N	N/A	N/A	N/A

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6g	<p>Key corporate events</p> <p>Examples of key corporate events could include significant business process changes, introduction of new products and services, outsourcing decisions and acquisitions/divestments. Internal Audit should decide if these events are sufficiently high risk to warrant involvement on a real time basis. In doing so, Internal Audit will evaluate whether the key risks are being adequately addressed (including by other forms of assurance, e.g. third party due diligence) and reported. Internal Audit should also assess whether the information being used in such key decision making is fair, balanced and reasonable, and whether the related procedures and controls have been followed.</p>	<p>For all material events such as those described in this recommendation, Mutual One will provide its opinion to the client's Audit Committee as to what level of assurance is requested. This is done on a risk basis, including considering what 'second line' assurance will be provided on that area.</p>	N	N/A	N/A	N/A
6h	<p>Outcomes of processes</p> <p>Internal Audit should evaluate the design and operating effectiveness of the organisation's policies and processes. As part of this evaluation, Internal Audit should consider whether the outcomes achieved by the implementation of these policies and processes are in line with the objectives, risk appetite and values of the organisation.</p>	<p>This approach is fundamental to our internal audit approach. It is evidenced in a number of way, including:</p> <ul style="list-style-type: none"> • Review of individual risk appetites and consideration as to how these are reflected in Policies and procedures • Review of MI and assessing how outcomes are monitored and assessed • Review of the Risk Management Framework 	N	N/A	N/A	N/A

Reference	Recommendation	Current Position	Gap (Y/N)	Action		
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Reporting Results						
7	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.	Mutual One attends the Audit Committee for each client where it provides internal audit services. A full internal audit management information pack is provided for each meeting. Mutual One does not currently attend any other Committees at clients.	Y	Each Senior Manager to speak with clients as part of the audit planning process to establish which committees are to be attended.	Senior Managers	31/12/2013

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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. 	<ol style="list-style-type: none"> 1. All risk and control observations raised through our audit work provide an opinion on the significance of the observation, and an opinion as to what the cause of the observation is. 2. Mutual One's audit reports will summarise any themes identified within specific reviews. Given the size of our 'typical' client, these are inherently organisation wide 3. Section 2 of Mutual One's Audit Report includes an area where Management outlines its remediation plans. Mutual One will provide an opinion, if required on the appropriateness of these. 4. Mutual One does not currently produce an annual assessment. 	Y	<p>An annual assessment document to meet the recommendation of bullet '4' is required. This should be a template document that is then produced once per year for all clients. This annual assessment will also reflect on any thematic issues identified, where appropriate.</p> <p>We need to liaise with our colleagues at Baker Tilly to identify any practices already in place that we can adopt.</p>	Jon Pepper	31/12/2013

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Interaction with Risk Management, Compliance and Finance						
9	Effective Risk Management, Compliance and Finance functions are an essential part of an organisation's corporate governance structure. Internal Audit should be independent of these functions and be neither responsible for, nor part of, them.	The fact that Mutual One provides internal audit on an outsourced basis, means that this is always the case. Mutual One operates strict Chinese walls between its Internal Audit and Compliance, Risk & Governance teams.	N	N/A	N/A	N/A
10	Internal Audit should include within its scope an assessment of the adequacy and effectiveness of the Risk Management, Compliance and Finance functions. In evaluating the effectiveness of internal controls and risk management processes, in no circumstances should Internal Audit rely exclusively on the work of Risk Management, Compliance or Finance. Internal Audit should always examine, for itself, an appropriate sample of the activities under review.	Mutual One has an established practice in working in the way suggested by this recommendation. The only exception being when Compliance undertakes 100% sampling in an area.	N	N/A	N/A	N/A
11	Internal Audit should exercise informed judgement as to when to place reliance on the work of Risk Management, Compliance or Finance. To the extent that Internal Audit places reliance on the work of Risk Management, Compliance or Finance, that should only be after a thorough evaluation of the effectiveness of that function in relation to the area under review.	Mutual One has an established practice in working in the way suggested by this recommendation. Mutual One never places reliance on work undertaken by finance functions.	N	N/A	N/A	N/A

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Independence and authority of Internal Audit						
12	The Chief Internal Auditor should be at a senior enough level within the organisation (normally expected to be at Executive Committee or equivalent) to give him or her appropriate standing, access and authority to challenge the Executive. Subsidiary, branch and divisional Heads of Internal Audit should also be of seniority comparable to the senior management whose activities they are responsible for auditing.	Mutual One's position as an outsourced provider means that this recommendation is not directly applicable. However, Mutual One always provides an individual of suitable seniority to be responsible for the internal audit service provided to each client.	N	N/A	N/A	N/A
13	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.	Section 9.1 of the Mutual One's standard Letter of Engagement states "M1 personnel involved in providing the Services to the Client will have a direct right of access to any and all personnel of the Client, including any Directors and the Board as a whole and may report any matters to them."	N	Review of the Charter with input from Risk Advisory. Ensure that an updated charter is put in place for each client where Mutual One provides outsourced internal audit.	Jon Pepper Senior Managers	31/12/2013 31/01/2014

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14	<p>Internal Audit should have sufficient and timely access to key management information and a right of access to all of the organisation's records, necessary to discharge its responsibilities.</p> <p>In organisations in which the Internal Audit function is outsourced, the Chair of the Audit Committee should identify an appropriate individual responsible for ensuring that the Chief Internal Auditor has sufficient and timely access to key management information and decisions.</p>	Section 1 of Mutual One's Letter of Engagement requests that the client nominates an officer to act in the role of 'Audit Liaison Officer'.	N	N/A	N/A	N/A
15	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.	In practice, Mutual One reports to the Chair of the Audit Committee at all clients. However, the Letter of Engagement does not clarify this.	Y	<p>Review of the Charter with input from Risk Advisory.</p> <p>Ensure that an updated charter is put in place for each client where Mutual One provides outsourced internal audit.</p>	<p>Jon Pepper</p> <p>Senior Managers</p>	<p>31/12/2013</p> <p>31/01/2014</p>
16	The Audit Committee should be responsible for appointing the Chief Internal Auditor and removing him/her from post.	This recommendation is not the responsibility of Mutual One as a provider of outsourced and co-sourced internal audit services.	N	N/A	N/A	N/A

Reference	Recommendation	Current Position	Gap (Y/N)	Action		
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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.	This recommendation is not the responsibility of Mutual One as a provider of outsourced and co-sourced internal audit services.	N	N/A	N/A	N/A
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.	This recommendation is not the responsibility of Mutual One as a provider of outsourced and co-sourced internal audit services.	N	N/A	N/A	N/A
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.	This recommendation is not currently applicable to Mutual One given its size, and the size and structure of its clients.	N	N/A	N/A	N/A

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20	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.	In practice, Mutual One does not have a secondary reporting line, and works with all members of the executive. However, the Letter of Engagement does not clarify this.	Y	Letters of Engagement required to be updated to specifically state Mutual One's reporting line to a client.	Jon Pepper	31/12/2013
				Review of the Charter with input from Risk Advisory.	Jon Pepper	31/12/2013
				Ensure that an updated charter is put in place for each client where Mutual One provides outsourced internal audit.	Senior Managers	31/01/2014

Reference	Recommendation	Current Position	Gap (Y/N)	Action		
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Resources						
21	The Chief Internal Auditor should ensure that the audit team has the skills and experience commensurate with the risks of the organisation. This may entail training, recruitment, secondment from other parts of the organisation or co-sourcing with external third parties.	<p>Mutual One actively manages the skills and experience within the Team.</p> <p>Mutual One regularly assesses the skills and experience within the Team. This includes a documented appraisal system for all of the Team.</p> <p>Technical training is regularly delivered through attendance at industry seminars and internal Team days.</p> <p>The Team is now able to take advantage of Baker Tilly's training academy and the skills and experience available through the Risk Advisory service line.</p>	N	N/A	N/A	N/A
22	The Chief Internal Auditor should provide the Audit Committee with a regular assessment of the skills required to conduct the work needed, and whether the Internal Audit budget is sufficient to allow the function to recruit and retain staff with the expertise and experience necessary to provide effective challenge throughout the organisation and to the Executive.	<p>Mutual One does confirm to clients that it has sufficient skills in order to undertake the work proposed.</p> <p>The skills and experience available to the Team is strengthened through our sale to Baker Tilly.</p>	N	N/A	N/A	N/A

Reference	Recommendation	Current Position	Gap (Y/N)	Action		
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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.	This recommendation is not the responsibility of Mutual One as the provider of outsourced and co-sourced internal audit services.	N	N/A	N/A	N/A
Quality Assessment						
24	The Board or the Audit Committee is responsible for evaluating the performance of the Internal Audit function on a regular basis. In doing so it will need to identify appropriate criteria for defining the success of Internal Audit. Delivery of the audit plan should not be the sole criterion in this evaluation.	Mutual One agrees service levels with all clients and these are documented within our Letters of Engagement.	N	N/A	N/A	N/A
25	Internal Audit should maintain an up-to-date set of policies and procedures, and performance and effectiveness measures for the Internal Audit function. Internal Audit should continuously improve these in light of industry developments.	Mutual One has a suite of Policies and operational procedures. At the time of writing, all are up to date. Mutual One constantly evolves its approach and this can be evidenced through the evolution of its documentation and Audit Plans.	N	N/A	N/A	N/A

Reference	Recommendation	Current Position	Gap (Y/N)	Action		
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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 has a quality control framework for individual reviews to ensure that all assignments are thoroughly reviewed and signed off before any report is issued to a client.</p> <p>The Baker Tilly QA team undertakes independent quality assurance reviews of work undertaken for clients and of the internal audit services provided to clients. Baker Tilly (previously RSM Tenon Ltd) has previously arranged independent external QA of its internal audit services to meet Standard 1312 of the International Standards for the Professional Practice of Internal Auditing,</p> <p>All internal audit work produced is available for review by Mutual One's clients' external auditors.</p>	Y	<p>Mutual One will be included in the next external QA review that Baker Tilly commissions of its internal audit services. The precise date of this has yet to be confirmed.</p> <p>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>	Jon Pepper	30/06/2104
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 does not currently meet this recommendation.</p>	Y	<p>See response to 26.</p>	Jon Pepper	30/06/2014

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28	In addition, the Audit Committee should obtain an independent and objective external assessment at appropriate intervals. This could take the form of periodic reviews of elements of the function, or a single review of the overall function. The conformity of Internal Audit with the recommendations included in this guidance should be explicitly included in this evaluation. The Chairman of the Audit Committee should oversee and approve the appointment process for the independent assessor.	This recommendation is not the responsibility of Mutual One, but by addressing recommendations 26 and 27 would enable us to resolve this recommendation on behalf of our clients.	Y	See response to 26.	Jon Pepper	31/12/2013
Relationships with Regulators						
29	Nature and purpose of the relationship The Chief Internal Auditor, and other senior managers within Internal Audit, should have an open, constructive and co-operative relationship with regulators which supports sharing of information relevant to carrying out their respective responsibilities.	Mutual One has established relationships with the PRA and FCA. This is evidenced through our 121, non-client specific meetings. Mutual One also has a strong relationship with the Building Societies Association.	N	N/A	N/A	N/A
Wider Considerations						
30	The Chartered Institute of Internal Auditors should consider developing additional guidance on the application and implementation of the recommendations detailed in this guidance. In particular, less well established areas for Internal Audit activity, such as auditing culture and outcomes would benefit from additional guidance.	This recommendation is not the responsibility of Mutual One.	N	N/A	N/A	N/A

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31	This Committee recommends that the Chartered Institute of Internal Auditors should review this guidance after a period of two to three years, and consider amending or updating the guidance as required.	This recommendation is not the responsibility of Mutual One.	N	N/A	N/A	N/A

The term "partner" is a title for senior employees, none of whom provide any services on their own behalf.

Mutual One Limited is a subsidiary of Baker Tilly UK Holdings Limited.

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