



Create
Opportunities

Citizens Property Insurance

2021 External Quality Assessment Review

FINAL REPORT

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Executive Summary

Overview

CliftonLarsonAllen LLP (“CLA”, “we”) was engaged to perform an External Quality Assessment Review (“QAR”) of Citizens Property Insurance’s (“Citizens”, or the “Company”) Internal Audit Activity (“IA Activity”) to evaluate the IA Activity’s level of conformance with *The International Standards for the Professional Practice of Internal Auditing* (“Standards”). Recommendations covered by this report were agreed to by IA Activity management.

This report, which has been prepared in accordance with American Institute of Certified Public Accountants consulting standards, is intended solely for the use of the Company and its management and is not intended to be and should not be used by anyone other than these specified parties. Any unauthorized use of this report is strictly prohibited. CLA assumes no liability for its use by any party not authorized to do so.

The results of our review noted the IA Activity **Generally Conforms (“GC”)** to the required elements of the Institute of Internal Auditors’ (“IIA”) International Professional Practices Framework (“IPPF”), which includes the “International Standards for the Professional Practice of Internal Auditing”. “Generally Conforms” means that an internal audit activity has defined and implemented documents and/or practices in accordance with the IPPF Requirements. A GC rating may be given even though the reviewer identifies some opportunities for improvement.

The results of this QAR are summarized below.

Background

The IIA issued professional guidance for internal audit activities as documented in the IPPF. The IPPF was most recently updated in January 2017. The IPPF contains four specific areas where conformance is deemed mandatory by the IIA:

- Core Principles for the Professional Practice of Internal Auditing
- Definition of Internal Auditing
- Code of Ethics
- International Standards for the Professional Practice of Internal Auditing

The *Standards* require an internal audit activity complete a QAR at least once every five years to verify conformance to the Standards. The *Standards* allow two approaches for complying with this requirement: an external QAR, where the IA Activity engages an independent party to determine conformance to the Standards and a self-assessment with independent validation, where the IA Activity itself performs the necessary procedures to determine conformance to the Standards, but then engages an independent party to validate the assessment. The Company's IA Activity selected the external QAR for this assessment.

This report addresses the objectives listed above based on the QAR approach.

Scope of Procedures Performed

We conducted a QAR of the IA Activity during October 4, 2021 through October 27, 2021 to determine conformity to the IIA Standards. The scope of the QAR consisted primarily of meeting with the IA Activity Chief Internal Auditor and IA Activity Directors to gather background information, select management personnel to interview and finalize planning and administrative arrangements for the QAR. We reviewed the IA Activity’s risk assessment and audit planning processes, audit tools and methodologies, engagement and staff management processes and a sample of the IA Activity’s workpapers and reports. A total of nine interviews were conducted with the Audit

Committee Chair, President and Chief Executive Officer, Chief Financial Officer, Chief Claims Officer, Chief Operating Officer, Chief Technology Officer, Controller, Vice President - Information Technology Services Delivery, the Internal Audit Chief and Audit Directors, and a focus group session with the IA Activity Staff.

Currently, the IA Activity consists of the Internal Audit Chief, two directors and eight internal audit staff. One director and one manager, both responsible for executing the information technology (“IT”) internal audits, are set to retire by the end of the year, leaving the IA Activity without in-house IT skillsets. The Chief Internal Auditor has settled on a succession plan to maintain IT audit coverage. The rest of the staff represent diverse skill sets, including fraud auditing, data analysis and industry acumen. The Internal Audit Chief also oversees the Company’s Enterprise Risk Management (“ERM”) and its Internal Control Framework functions, both which operate independently from the IA Activity.

The IA Activity’s internal audit plan is based off a baseline annual risk assessment that is updated quarterly, resulting in a quarterly internal audit plan. This allows the IA Activity to be more responsive to changes to the Company’s risk environment by performing audits that address key risks timely. At the time of this QAR, the IA Activity had executed 16 combined internal audit and process advisory projects during the current fiscal year. The audit plan is split between internal audit and process advisory projects, allowing the IA Activity to provide consulting projects based on needs and requests of Management.

Conformance with IIA Standards

The IPPF defines three ratings that may be assigned to document the results of a QAR as follows:

- **Generally conforms (“GC”)** means that an internal audit activity has defined and implemented documents and/or practices in accordance with the IPPF Requirements. A GC rating may be given even though the reviewer identifies some opportunities for improvement, as discussed below.
- **Partially conforms** means the reviewer has identified deficiencies in practice design or operation that are judged to deviate from the IPPF Requirements, but these deficiencies did not prevent the internal audit activity from performing its professional responsibilities in an acceptable manner.
- **Does not conform** means deficiencies in practice are judged to be so significant as to impair seriously or preclude the internal audit activity from performing adequately in all or in significant areas of its responsibilities.

Recommendations to enhance current conformance to the IIA Standards are documented from page 9 onwards and were accepted by the Management of the IA Activity for inclusion in this report.

Key Themes and Observations

Overall, the IA Activity generally conforms to the IIA Standards, the Core Principles, and the Code of Ethics. Below is a summary of the areas of strength and opportunities to further strengthen the IA Activity. The summary includes key themes from stakeholder interviews.

The detailed results of our QAR are listed in order of most importance, in addition to conformance gaps identified in the conformance evaluation summary. Other items that came out of the stakeholder interviews but were not documented here, were shared with the IA Activity such that all input was communicated to them for consideration.

Areas of Strength

- The IA Activity generally conforms to the Standards, the Core Principles and Code of Ethics and satisfactorily addressed most recommendations from the prior QAR performed in 2014.
- The IA Activity has a positive, collaborative relationship with Management and understands Management's value expectations of the IA Activity.
- IA Activity leadership is viewed as strong, involved in executive leadership meetings, and well-respected throughout the Company.
- The IA Activity is composed of staff with a diverse skill sets, including IT, data analytics and fraud.
- The IA Activity has a well-documented and thorough IA policy, charter, and strategic plan, with both its strategic plan and internal audit plan tied to the Company's strategic plan.
- The IA Activity's competency framework incorporates elements of the IIA's Global Competency Framework.
- The IA Activity has adopted a rolling quarterly risk-assessment practice, which facilitates agility to address the highest risks within the organization with timely internal audits of those areas.
- Process advisory services, the IA Activity's consulting projects, are deemed value-added by Management and demonstrate the IA Activity's versatility in meeting Management's needs.
- Audit reports are well-written, concise, accurate containing no surprise audit results.
- IA Activity leadership oversees ERM and the organization's internal control framework without compromising independence of the IA Activity.
- The Audit Committee is fully and frequently apprised of the status of the IA Activity audit plan and results.
- Management values the IA Activity's input on new regulations or laws that might impact Citizens' business.

Improvement Opportunities

- Include an evaluation of its conformance to the Standards, Code of Ethics and Core Principles as part of its annual internal assessment as required by IIA Standards 1311 and 1320.
- Adhere to the five-year requirement for an external quality assessment, per IIA Standard 1312.
- Annually, affirm and document whether any conflicts of interest exist between IA Activity professional staff and the Company and document procedures to take in the event a conflict has been detected.
- Consider opportunities to educate the Audit Committee on their role and responsibilities to foster effective relationships between the Audit Committee and the Board and the IA Activity.

Please see Appendix B for other observations identified to enhance existing IA Activity practices, which were discussed with IA Activity leadership.



Standards Conformance Evaluation Summary

CITIZENS PROPERTY INSURANCE IA ACTIVITY

		("X" Evaluator's Decision)		
		GC	PC	DNC
OVERALL EVALUATION		X		
ATTRIBUTE STANDARDS		X		
1000	Purpose, Authority, and Responsibility	X		
1010	Recognition Mandatory Guidance in the Internal Audit Charter	X		
1100	Independence and Objectivity	X		
1110	Organizational Independence	X		
1111	Direct Interaction with the Board	X		
1112	Chief Audit Executive Roles Beyond Internal Auditing	X		
1120	Individual Objectivity	X		
1130	Impairments to Independence or Objectivity	X		
1200	Proficiency and Due Professional Care	X		
1210	Proficiency	X		
1220	Due Professional Care	X		
1230	Continuing Professional Development	X		
1300	Quality Assurance and Improvement Program		X	
1310	Requirements of the Quality Assurance and Improvement Program	X		
1311	Internal Assessments		X	
1312	External Assessments		X	
1320	Reporting on the Quality Assurance and Improvement Program		X	
1321	Use of "Conforms with the <i>International Standards for the Professional Practice of Internal Auditing</i> "			X
1322	Disclosure of Nonconformance	X		
PERFORMANCE STANDARDS		X		
2000	Managing the Internal Audit Activity	X		
2010	Planning	X		
2020	Communication and Approval	X		
2030	Resource Management	X		
2040	Policies and Procedures	X		
2050	Coordination and Reliance	X		



		("X" Evaluator's Decision)		
		GC	PC	DNC
2060	Reporting to Senior Management and the Board	X		
2070	External Service Provider and Organizational Responsibility for Internal Auditing	X		
2100	Nature of Work	X		
2110	Governance	X		
2120	Risk Management	X		
2130	Control	X		
2200	Engagement Planning	X		
2201	Planning Considerations	X		
2210	Engagement Objectives	X		
2220	Engagement Scope	X		
2230	Engagement Resource Allocation	X		
2240	Engagement Work Program	X		
2300	Performing the Engagement	X		
2310	Identifying Information	X		
2320	Analysis and Evaluation	X		
2330	Documenting Information	X		
2340	Engagement Supervision	X		
2400	Communicating Results	X		
2410	Criteria for Communicating	X		
2420	Quality of Communications	X		
2421	Errors and Omissions	X		
2430	Use of "Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing"	X		
2431	Engagement Disclosure of Nonconformance	X		
2440	Disseminating Results	X		
2450	Overall Opinions	X		
2500	Monitoring Progress	X		
2600	Communicating the Acceptance of Risks	X		
IIA Code of Ethics		X		

Conformance with IIA Core Principles

The IIA has defined Core Principles, which when taken as a whole, articulate internal audit effectiveness. For an internal audit activity to be considered effective, all Core Principles should be present and operating effectively. Failure to achieve any of the Principles would imply that the function was not as effective as it could be in achieving internal audit's mission. The following is a summary of the Core Principles and observations noted.

IIA Core Principles	Operating Effectively
1. Demonstrates integrity	Yes
2. Demonstrates competence and due professional care	Yes
3. Is objective and free from undue influence (independent)	Yes
4. Aligns with the strategies, objectives, and risks of the organization	Yes
5. Is appropriately positioned and adequately resourced	Yes
6. Demonstrates quality and continuous improvement	Yes
7. Communicates effectively	Yes
8. Provides risk-based assurance	Yes
9. Is insightful, proactive, and future-focused	Yes
10. Promotes organizational improvement	Yes

We wish to extend our appreciation to management and staff for their timely cooperation and assistance during the project. This report has been prepared solely for use by management and is not intended for use, in whole or in part, by outside parties without the specific consent of CliftonLarsonAllen LLP.

CliftonLarsonAllen LLP

November 3, 2021

Appendix A: Conformance Observations and Recommendations

Standard	Observation	Recommendation
Standard 1311 - Internal Assessments Standard 1320 - Reporting on the QAIP	The IA Activity's QAIP does not include an internal assessment for conformance to the IIA Standards, Code of Ethics and Core Principles; therefore, there is no reporting of QAIP results to Management.	We recommend the IA Activity include an assessment of its conformance to the IIA Standards, Code of Ethics and Core Principles as part of its annual internal assessment. We also recommend the IA Activity report the results of its assessment to Management.
Standard 1300 - Quality Assurance and Improvement Program Standard 1312 - External Assessments	The IA Activity has not had an external assessment performed within 5 years of its previous assessment.	We recommend the IA Activity adhere to the five-year external assessment requirement.
Standard 1321 - Use of "Conforms with the <i>International Standards for the Professional Practice of Internal Auditing</i> "	The IA Activity erroneously disclosed to Management it conforms to the Standards, despite not generally conforming to IIA Standard 1311 and 1312.	We recommend the IA Activity cease disclosing its conformity until it implements the recommendations for IIA Standards 1311 and 1312.

Appendix B: Opportunities for Improvement

The following is a list of improvement opportunities identified based on the results of our testing. These recommendations are not required to meet conformance to the Standards but are designed to further strengthen the operations of the IA Activity. We have listed these opportunity improvements in order of importance; however, they can be addressed as time and resources allow. We recommend the IA Activity do the following:

- Document the methodology of how risk ratings were determined (high, moderate, low) within the audit unit-level risk assessment.
- Document continuing education expectations for IA Activity professional staff in the IA Activity policy.
- Clarify the type of risk assessed (inherent versus residual risk) in the rolling risk assessment such that the audits are assessed based on the correct risk type.