

# Office of the Internal Auditor



## Internal Audit Quality Assurance and Improvement Program Report January 2024

## Quality Assurance and Improvement Program Executive Summary

### BACKGROUND

Internal Audit follows the audit standards prescribed by the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* (IIA Standards), which include the Definition of Internal Auditing, the Core Principles for the Professional Practice of Internal Auditing, and the Code of Ethics.

These audit standards require Internal Audit to develop and maintain a Quality Assurance and Improvement Program (QAIP) that includes internal and external assessments.

Internal assessments are ongoing monitoring of Internal Audit's performance and an annual self-assessment review. The IIA Standards require that the assessment results be communicated to the governing board at least annually.

This report summarizes Internal Audit's activities and compliance with applicable audit standards.

### RESULTS

Internal Audit conforms with the IIA Standards, the Definition of Internal Auditing, the *Core Principles for the Professional Practice of Internal Auditing*, and the IIA's *Code of Ethics*. One opportunity for improvement was noted in the review.

Internal Audit began tracking and measuring its performance through Key Performance Indicators (KPIs) in 2023. There is an opportunity to improve the level of detail recorded in AuditBoard, the internal audit system of record. This would allow for a clear view of audit engagement progress, improve the quality of data quality, report progress, and measure individual and department performance.

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### Background

Citizens Internal Audit follows the audit standards prescribed by the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing (IIA Standards). These audit standards require Internal Audit to develop and maintain a Quality Assurance and Improvement Program (QAIP) that includes both internal and external assessments:

- Internal assessment is an ongoing monitoring of the performance of the Internal Audit's activity and annual self-assessment reviews. The IIA Standards require that the results of the yearly self-assessments be communicated to the Board at least annually.
- External assessment (Peer Review) is a review of the Internal Audit function conducted by a qualified, knowledgeable Peer Review team. Citizens Internal Audit usually partners with a vendor to complete this assessment. The Peer Review team will determine if internal audit is in conformance with applicable standards, and the external assessment may provide feedback on operational and strategic issues.

### Internal Assessments

The internal assessment includes ongoing monitoring as well as an annual self-assessment. The continuous monitoring consists of a review of all audit documentation, audit recommendations, and reports for each engagement conducted by Internal Audit in a fiscal year before finalizing an engagement file.

The annual self-assessment includes verifying that Internal Audit follows all required compliance and performance audit standards. In addition, Internal Audit provides information on the following:

- Key Performance Indicators (KPIs)
- External assessment recommendations progress

### External Assessments

Every five years, the Chief of Internal Audit begins the process to obtain a Peer Review team. The Peer Review team issues a public report rendering an overall opinion on whether Internal Audit complied with the audit standards and whether QAIP provides reasonable assurance that Internal Audit complies with applicable professional standards in all material aspects. Internal Audit received its most recent Peer Review in 2021.

### Internal Assessment Results

For 2023, the Chief of Internal Audit conducted a review to determine if the Internal Audit function followed all required applicable compliance and performance audit standards. In addition, the Chief of Internal Audit analyzed data collected throughout the year to report on Internal Audit's KPIs and Capability Model.

### Overall Conclusion

Based on the review, the Internal Audit function conforms with the IIA Standards, the definition of internal auditing. One opportunity for improvement was noted in the review. There is an opportunity for improvement related to updating the audit charter to clearly state that Internal Audit follows the Definition of Internal Auditing and better defines Internal Audit's scope. The Audit Committee reviewed and approved the Audit charter at the July 2023 meeting.

### Compliance Audit Standards

A review of Internal Audit's charter, procedures, and engagement programs was conducted to determine if Internal Audit followed all compliance audit standards. Compliance standards include the following items:

- **Purpose, Authority, and Responsibility** - The internal audit function must be formally defined in an internal audit charter, consistent with the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework (the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Institute of Internal Auditors (IIA) Standards, and the Definition of Internal Auditing).
- **Independence and Objectivity** - The internal audit function must be independent and perform work in an objective manner.
- **Proficiency and Due Professional Care** - Engagements must be performed by proficient staff with due professional care.
- **Quality Assurance and Improvement Program** - A quality assurance and improvement program must be established and must enable an evaluation of the internal audit function's conformance with the audit standards and any applicable other requirements. The program should also assess the efficiency and effectiveness of the internal audit function and identify opportunities for improvement for the function.
- **Managing the Internal Audit Activity** - The internal audit function must be effectively managed to ensure it adds value to the organization.
- **Nature of Work** - The internal audit function must evaluate and contribute to the improvement of the organization's governance, risk management, and control processes using a systematic, disciplined, and risk-based approach.
- **Monitoring Progress** - A system to monitor the disposition of results must be established, maintained, and communicated.

Based on the review, Internal Audit met all the compliance audit standards; however, an opportunity to improve the level of detail recorded in AuditBoard, the internal audit system of record. This would allow for a clear view of audit engagement progress, improve the quality of data quality, report progress, and measure individual and department performance.

### Opportunity for Improvement

Internal Audit should, in their execution of the engagement and management review of progress and quality, ensure that all required and relevant information and data is recorded for every step of the engagement as described in the Internal Audit Procedures document. This will ensure a detailed flow of events, conformance to standards, and measurement of achievement of key performance indicators and performance goals.

### Performance Audit Standards

Internal Audit must also meet performance audit standards. To determine whether performance audit standards were met, the Chief of Internal Audit selected two completed audit engagements for review (Underwriting Moratorium, and Third-Party Technology Risk). The engagements selected provided a clear view of the quality of the work product, management review, and data to form an opinion and corrective action needed. Specifically, the Chief of Internal Audit verified that the Internal Audit complied with the following performance audit standards:

- **Engagement Planning** - A plan must be developed and documented for each engagement.

- o **Performing the Engagement** - Internal auditors must identify, analyze, evaluate, and document sufficient information to achieve the engagement’s objectives.
- o **Communicating Results** - Results from the audit engagements must be communicated to management and those in charge of governance.

Based on audit documentation, Internal Audit met all performance audit standards. An opportunity for improvement was noted and commented on earlier in the report.

**Key Performance Indicators**

Internal Audit is developing KPIs to provide information to the Audit Committee and Executive Management on the overall performance of the function. Internal audit will continue to expand on the KPIs as our quality of available data improve KPIs currently measured are noted below:

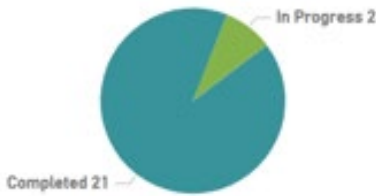
**Audit Plan Completion**

Internal Audit measures how well it tracks against the approved Internal Audit Plan. During the year Internal Audit worked on 23 planned engagements. At the time of this assessment, 21 engagements had been fully completed, and 2 engagements were in progress for the fiscal year 2023:

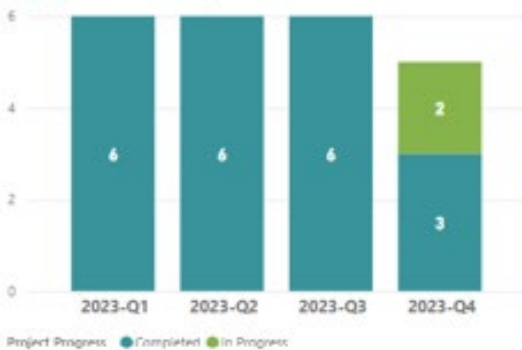
**Internal Audit Engagements Report**

Period From: 01/01/2023 to 12/31/2023

**Engagement Status**



**Engagement Status by Period**



**Completed Engagements**

Plan Year	Project Name
2023-Q4	Flood Insurance Requirements
2023-Q4	Identity Governance & Access Management
2023-Q4	Unified Communication as a Service
2023-Q3	2023 Legislative Session
2023-Q3	Citizens Reimagined Procurement
2023-Q3	Claims Legal Billing
2023-Q3	Emergency Procurements: Ian
2023-Q3	Third-Party Technology Risk
2023-Q3	Underwriting Vendor Management
2023-Q2	CAT Preparedness
2023-Q2	Claims Litigation Management System Procurement
2023-Q2	Cloud Based Insurance Suite Procurement
2023-Q2	Enterprise Operational Readiness
2023-Q2	Special Legislative Session 12 2022
2023-Q2	Underwriting Moratorium
2023-Q1	Bulk Intake Private Insurer Policies
2023-Q1	Claims Litigation Triage
2023-Q1	Information System Technology Policies Review
2023-Q1	Omnibus
2023-Q1	Professional Liability Insurance
2023-Q1	Regulatory Support: Market Conduct Exam

**In Progress Engagements**

Plan Year	Project Name
2023-Q4	Distributed Workforce
2023-Q4	IT Service Management

**Planned Engagements**

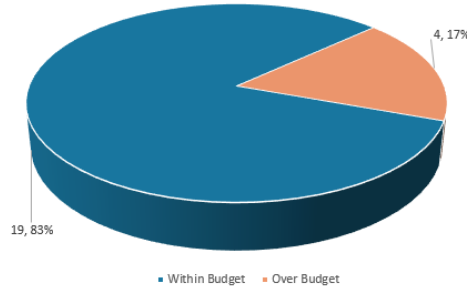
Plan Year	Project Name
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**Engagement Budgets**

We monitor the hours spent on engagements against the initial engagement budget to measure Internal Audit's efficiency. Engagements must come within 10% of the initial engagement budget. The initial engagement budget is the budget given to the engagement when it is started.

For the period in this review, Internal Audit met its target for the engagement budget. For the 23

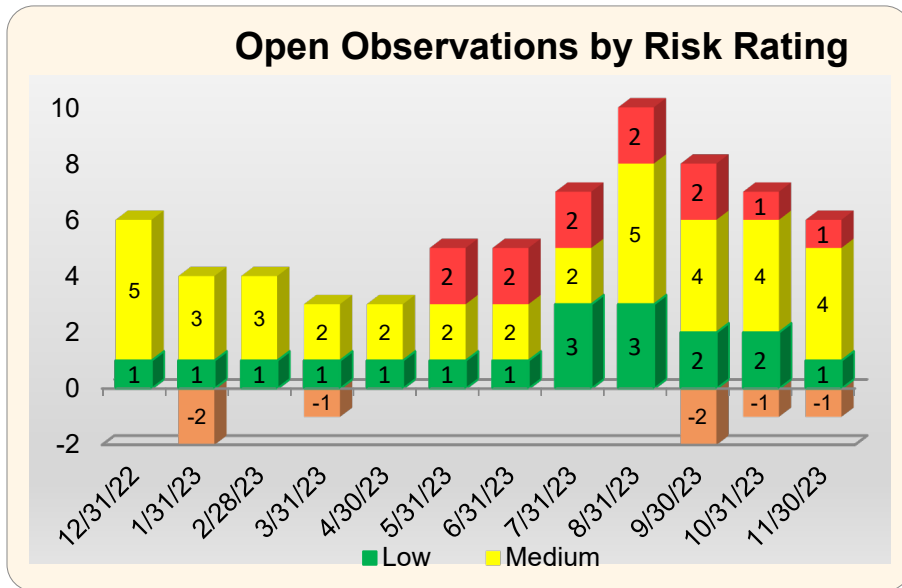
engagements planned for this year 19 (83%) were completed within budget, with 4 (17%) of the engagements exceeding budget, all within the 10% variance. Overall, engagements were completed within 87% of the planned budget for all engagements completed or in the reporting phase at the end of the fiscal year 2023.



**Audit Recommendations Implemented**

Internal audit tracks the number of internal audit recommendations implemented. The implementation rate shows Citizens’ commitment to improving processes and internal audit’s effectiveness.

In 2023, internal audit verified the implementation status of 13 internal audit observations. Citizens’ Management has fully implemented 7 internal audit observations (54%) and started 6 internal audit observations (46%), as noted in the chart below:



**Survey**

Internal Audit uses engagement surveys to determine if the auditees are satisfied with the engagement (customer satisfaction). The current KPI for each survey is at least 80% agreement. For the period, Internal Audit met its KPIs related to customer satisfaction:

**Questions Answered**  
60

**Average Answer**  
3.75 out of 4.00

**Total Points**  
225 out of 240

### Staff Certification

The internal audit measures staff certifications to ensure that the Internal Audit has staff that can perform the necessary audit work. The current KPI is that 100% of the recognized certifications must be present among the population audit staff.

For the period, 100% of the recognized certifications were present with audit staff. Audit staff had, among others, the following certifications:

- Certified Public Accountant
- Certified Internal Auditor
- Certified Information Systems Auditor
- Certified Fraud Examiner

### External Assessment

Internal Audit obtained a Peer Review in 2021. The results of the review completed by the selected external vendor included:

*The results of our review noted that Internal Audit 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 report noted the following:

#### Areas of Strength

- *The Internal Audit activity generally conforms to the Standards, the Core Principles and the Code of Ethics and satisfactorily addressed most recommendations from the prior QAR performed in 2014.*
- *Internal Audit has a positive, collaborative relationship with Management and understands Management’s value expectations of the Internal Audit Activity.*
- *Internal Audit leadership is considered strong, involved in executive leadership meetings, and well-respected throughout the Company.*
- *Internal Audit comprises staff with diverse skill sets, including IT, data analytics and fraud.*
- *Internal Audit has a well-documented and thorough Internal Audit policy, charter, and strategic plan, with its strategic and internal audit plans tied to the Company’s strategic plan.*
- *Internal Audit’s competency framework incorporates IIA’s Global Competency Framework elements.*
- *Internal Audit 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 Internal Audit’s consulting projects, are deemed value-added by Management and demonstrate Internal Audit’s versatility in meeting Management’s needs.*
- *Audit reports are well-written, concise, and accurate, containing no surprise audit results.*
- *Internal Audit leadership oversees ERM and the organization’s internal control framework without compromising the independence of the Internal Audit Activity.*
- *The Audit Committee is fully and frequently apprised of the status of Internal Audit’s audit plan*



*and results.*

- *Management values the Internal Audit'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.*
  - Internal Audit developed a detailed QAIP procedure and assessment procedure that will lead to the delivery of this annual QAIP report to the Audit Committee.
- *Adhere to the five-year requirement for an external quality assessment, per IIA Standard 1312.*
  - This requirement was addressed with the 2021 QAR and will again lead to a full QAR review in 2026.
- *Annually affirm and document whether any conflicts of interest exist between the Internal Audit professional staff and the Company and document procedures to take if a conflict has been detected.*
  - Internal Audit developed a formal affirmation procedure and an affirmation form that is completed and signed by every member of the team annually.
- *Consider opportunities to educate the Audit Committee on their role and responsibilities to foster effective relationships between the Audit Committee, the Board, and the Internal Audit Directors.*
  - Response to the improvement opportunity is being considered.