

Office of the  
Internal Auditor

# Engagement Report

August 2025

Enterprise Risk



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## Executive Summary

### Background

In today's rapidly evolving business environment, organizations face a wide array of risks that can affect their strategic objectives, operational efficiency, financial performance, and reputation. These risks may arise from internal sources such as process failures, technology limitations, or governance weaknesses, as well as external factors including regulatory changes, market volatility, cybersecurity threats, and external influences.

Enterprise Risk Management (ERM) is a structured approach to identifying, assessing, managing, and monitoring risks that could impact an organization's ability to achieve its objectives. As a property insurance company, Citizens operates in a high-risk environment, facing challenges from catastrophic weather events, regulatory changes, financial market volatility, and operational risks.

ERM at Citizens is expected to provide a comprehensive framework for risk governance, ensuring that risks are systematically identified, measured, and mitigated in alignment with strategic objectives. Given the increasing exposure to natural disasters and changing regulatory expectations, a robust ERM program is critical to sustaining financial stability, fulfilling policyholder obligations, and maintaining public trust.

As Citizens is a state-backed insurer with a public mandate, its ERM function must also align with best practices, including COSO's ERM framework and ISO 31000, ensuring resilience against both predictable and emerging risks.

### Objectives and Scope

The scope of this audit included an assessment of Citizens' Enterprise Risk Management framework, processes, and controls to determine whether they effectively identify, assess, mitigate, and monitor key risks. The audit covered:

- Foundational Elements
- Risk Governance
- Risk Management Processes
- Measurement, Data, and Technology
- Integration with other Governance and Controls Processes
- Lines of Defense
- Risk Disciplines

### Results

The audit determined that the organization has a well-established and effective Enterprise Risk Management (ERM) framework. Foundational policies and governance structures are clearly defined, risk management processes are standardized, and data and technology effectively support measurement and reporting. Integration with other governance processes, along with clearly delineated lines of defense and well-managed risk disciplines, ensures comprehensive coverage and accountability. Overall, the framework operates effectively, supports compliance, strengthens resilience, and promotes a proactive risk culture across the organization. In addition, the Ernst & Young LLP audit team observed that the organization has, for its size, a well-documented and robust Enterprise Risk Management program.

No control observations were identified during this review. However, we did highlight a few opportunities for enhancement that could further refine processes and strengthen overall effectiveness.



## Executive Summary

- Internal Audit noted that Key Risk Indicators (KRIs) have not yet been implemented within the current risk governance process. Management has indicated that KRIs are scheduled for introduction in 2026. Key Risk Indicators (KRIs) are crucial for effective risk management as they provide early warnings of potential risks, help monitor risk appetite, and offer objective, data-driven insights for better decision-making and governance. They also build stakeholder confidence and enable ongoing risk trend analysis.
- The process for operational risk issue management, along with the associated roles and responsibilities, should be clearly documented to promote transparency and provide consistent guidance for all stakeholders. As a critical component of Enterprise Risk Management (ERM), effective issue management enables the timely identification, resolution, and monitoring of risk-related matters. A structured and well-documented approach strengthens accountability, supports informed decision-making, ensures regulatory compliance, and fosters a proactive risk culture across the organization.
- Internal Audit recommends that Enterprise Risk continue to explore further development of the draft risk appetite statements and implement them as appropriate for the organization. Additionally, consideration should be given to aligning these statements with the organization's strategic imperatives to ensure coherence and effectiveness. Risk appetite statements define the types and levels of risk an organization is willing to accept, guiding consistent and aligned decision-making. They help ensure risks are managed within acceptable limits, improve resource allocation, strengthen governance, and build stakeholder confidence. Developing and implementing these statements is essential for fostering a risk-aware culture and effective risk management.

### Conclusion

Internal Audit observed opportunities to strengthen the Enterprise Risk Management framework by introducing Key Risk Indicators (scheduled for 2026), formalizing operational risk issue management roles and processes, and advancing the development and alignment of risk appetite statements with strategic objectives. These enhancements will improve transparency, accountability, and governance while fostering a proactive, risk-aware culture.

We would like to thank management and staff for their cooperation and professional courtesy throughout this audit.



## Distribution

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*Completed by John Fox, Director Internal Audit, in conjunction with a co-sourced audit team from Ernst & Young LLP.*