

Policy Title:	<b>Internal Audit</b>	Policy Number:	<b>801</b>
Effective Date:	<b>March 26, 2019</b>	Policy Administrator:	<b>Chief of Internal Audit</b>

## I. Purpose/Scope

The Office of the Internal Auditor (OIA) was established by the Legislature to provide a central point for coordination of and responsibility for activities that promote accountability, integrity and efficiency to the policyholders and taxpayers of the state of Florida. In accordance with statute, the OIA is instructed to:

1. Provide direction for, supervise, conduct, and coordinate audits, investigations, and management reviews relating to the programs and operations of the corporation.
2. Conduct, supervise, or coordinate other activities carried out or financed by the corporation for the purpose of promoting efficiency in the administration of, or preventing and detecting fraud, abuse, and mismanagement in, its programs and operations.
3. Submit final audit reports, reviews, or investigative reports to the Board of Governors, the Executive Director, the members of the Financial Services Commission, and the President of the Senate and the Speaker of the House of Representatives.
4. Keep the Board of Governors informed concerning fraud, abuses, and internal control deficiencies relating to programs and operations administered or financed by the corporation, recommend corrective action, and report on the progress made in implementing corrective action.
5. Cooperate and coordinate activities with the corporation's Inspector General.

The purpose of the audit function is to provide reasonable assurance to the Board and senior management that the controls designed and implemented by management can be relied upon to identify and appropriately mitigate risk. The Internal Audit Procedures Manual; Internal Control Framework, and Enterprise Risk Management Framework explains the internal audit/internal control/enterprise risk processes applied by the OIA to help Citizens Property Insurance Corporation (Citizens) accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

The OIA is accountable to Citizens' Board of Governors (Board) and, as delegated by the Board, to the Audit Committee.

## II. Policy

### A. General Rules

All systems, operations, processes, functions, and activities are subject to review by the OIA.

1. The OIA will conduct enterprise and fraud risk assessments to identify the risk profile of the corporation.
2. Internal Audit engagements may include an evaluation of: (1) the reliability and integrity of financial and operational information, (2) the effectiveness and efficiency of

- operations and programs, (3) the safeguarding of assets, (4) fraud mitigation, and (5) compliance with laws, regulations, policies, procedures, and contracts.
3. Appraise the economy and efficiency, with which resources are employed, identify opportunities to improve operating performance and recommend solutions to problems where appropriate.
  4. Review compliance with the organization's guidelines for the ethical business conduct and see that the highest standards of personal and corporate performance are met.
  5. Participate in the planning, design, development, implementation and operation of major computer-based systems to determine whether:
    - a. Adequate controls are incorporated in the system
    - b. Thorough system testing is performed at the appropriate stages
    - c. System documentation is complete and accurate
    - d. The needs of user organizations are met.
  6. Conduct periodic audits of computer service centers and make post-installation evaluations of major data processing systems to determine whether these systems meet their intended purposes and objectives.
  7. On or before February 15 of each year, the Chief of Internal Audit will prepare an annual report evaluating the effectiveness of the internal controls of the corporation and providing recommendations for corrective action, if necessary, and summarizing the audits, reviews, and investigations conducted by the office during the preceding fiscal year. The final report will be furnished to the Board and the Executive Director, the President of the Senate, the Speaker of the House of Representatives and the Financial Services Commission.

## B. Responsibilities

### 1. Office of the Internal Auditor Responsibilities

The OIA provides independent, objective assurance and consulting services designed to add value and improve corporate processes. The OIA will develop an annual proactive and reactive fraud prevention plan and establish enterprise-wide partnerships with the respective business units to ensure that audit and investigative processes are consistent with the business strategy through the creation of an appropriate fraud risk assessment process. The OIA is responsible for conducting its activities in accordance with the following:

- a. The Institute of Internal Auditors' (IIA) *International Standards for the Professional Practice of Internal Auditing*
- b. The IIA *Code of Ethics*
- c. The Association of Certified Fraud Examiners' (ACFE) *CFE Code of Professional Standards*
- d. The ACFE *Code of Ethics*
- e. Section 627.351 (6)(i), Florida Statutes
- f. The OIA Procedures Manual.

## 2. Chief of Internal Audit Responsibilities

The Chief of Internal Audit reports directly to the Audit Committee and administratively to the President. The Chief of Internal Audit is responsible for all internal audit activities including managing resources, establishing policies and procedures, and coordinating activities to meet the OIA's charter.

When nonconformance with the Definition of Internal Auditing, the IIA *Code of Ethics*, the ACFE *Code of Ethics*, the IIA *Standards*, or the ACFE *Standards* impacts a specific engagement, communication of the results must be disclosed to the Board and appropriate level of management.

## 3. Audit Committee Responsibilities

The Audit Committee, which is formed by the Board, is instrumental in the Board's fulfillment of its oversight responsibilities relating to the integrity of the corporation's financial statements, the corporations' compliance with legal and regulatory requirements, the qualifications, independence and performance of the corporation's independent auditors and the performance of the corporation's internal audit function in accordance with the Audit Committee Charter.

## 4. Management Responsibilities

Management is responsible for ensuring that the OIA has the ability to conduct their activities in accordance with the OIA Charter. Management will support the OIA by:

- a. Providing unrestricted access to all Citizens activities, records, property and personnel
- b. Providing responses within established guidelines to audit and management advisory services reports
- c. Providing concurrence with final reports and
- d. Providing monthly updates to outstanding audit issues in response to the Open Items Policy.

## 5. Employee Responsibilities

Employees are responsible for responding to requests from the OIA in a timely manner in support of audits that are conducted.

## C. Risk Assessments

Each quarter, Internal Audit will conduct an independent risk assessment of the corporation that includes, but is not limited to, formal interviews with senior and other levels of management, analysis of financial and operational information, review of business objectives and strategies, analysis of potential exposure to fraud, and align their assessment of risk with that compiled by Enterprise Risk and a review of previous audit results. The result of this risk assessment will form the basis of audit engagements presented in the quarterly rolling audit plan.

## D. Annual Audit Plan

Internal Audit will develop an annual comprehensive audit plan consistent with Citizens' strategic goals. The plan will be based on key factors such as the results of the enterprise and fraud risk assessments, the timing and results of previous audits, Audit Committee or management requested audits and regulatory concerns. The annual audit plan will be

prepared and presented to the Audit Committee for approval and will be refreshed quarterly based on Internal Audit's view of risks and the potential impact upon the plan.

E. Relationship with External Auditors

Internal Audit shall co-ordinate their work with the external auditors to minimize duplication of audit effort. This will be accomplished via:

1. Meetings between the internal audit function and external auditors to discuss the annual internal and external audit plans and other audit-related activities
2. Access by the external auditors to internal audit documentation
3. The exchange of management letters/audit reports.

F. Maintaining Quality

To ensure quality, Internal Audit will perform on-going monitoring and periodic self-reviews that will include:

1. Reviewing and documenting work papers during engagements
2. Utilizing the Internal Audit Procedures Manual for each engagement to ensure compliance with applicable planning, fieldwork and reporting standards
3. Analyzing the performance metrics established to enhance the effectiveness and efficiency of Internal Audit activities
4. Reporting periodically the OIA's activity and performance to the President and the Audit Committee
5. Updating annually the Internal Audit Procedures Manual
6. Updating the Audit Committee Charter and the Internal Audit Charter and presenting the revisions to the Audit Committee for approval on an annual basis
7. Consulting a qualified independent reviewer or review team to perform an external review of the OIA department at least once every five years.

G. Communicating Results of Audit Engagements

Report to those members of management who should be informed or who should take corrective action, the results of the audit engagements, the audit opinions formed, and the recommendations made.

H. MONITORING PROGRESS (Open Audit Issues)

The Chief of Internal Audit will establish and maintain a system (automated or manual) to monitor the disposition of audit results communicated to management.

1. The OIA will follow up with management on action plans delineated in OIA, Auditor General, Market Conduct, External Auditor, or Investigation reports to validate that action plans have been effectively implemented, or that senior management has accepted the risk of not acting.
2. When management chooses to accept the residual risk associated with an internal control that does not provide adequate risk mitigation, the OIA Risk Acceptance Process will be followed. Depending on the level of residual risk, the Chief of Internal Audit will either obtain a formal approval of acceptance of the residual risk from the appropriate senior manager or refer the risk acceptance for discussion and agreement by Citizens Risk Steering Committee.

### III. Definitions

For the purposes of this Policy, the following definitions apply:

1. Audit Plan – a plan used to analyze all areas of the corporation’s operations based on risks associated with those programs and activities and determine required audit coverage and frequency.
2. Control – any action taken by management, the board, and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved.
3. Engagement – a specific internal audit assignment, task or review activity such as an internal audit, control self-assessment review, fraud examination or consulting (advisory) services. An engagement may include multiple tasks or activities designed to accomplish a specific set of related objectives.
4. Governance – the combination of processes and structures implemented by the board to inform, direct, manage, and monitor the activities of the corporation toward the achievement of its objectives.
5. The Institute of Internal Auditors’ *Code of Ethics* – a document containing principles relevant to the profession and practice of internal auditing, and Rules of Conduct that describe behavior norms expected of internal auditors. The *Code of Ethics* promotes an ethical culture in the global profession of internal auditing and applies to all personnel that provide internal audit services. The purpose of the *Code of Ethics* is to promote an ethical culture in the global profession of internal auditing.
6. The Association of Certified Fraud Examiners’ (ACFE) *Code of Ethics* – a document containing principles relevant to the profession and practice of fraud investigations, and Rules of Conduct that describe behavior norms expected of Certified Fraud Examiners (CFE’s). The Code of Ethics promotes an ethical culture in the global profession of fraud investigation. CFE’s must exemplify the highest moral and ethical standards and must agree to abide by the bylaws of the ACFE and the Certified Fraud Examiners’ *Code of Professional Ethics*.
7. Risk – The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.
8. Risk Assessment – A formal evaluation of significant risks associated with a business product, service, or operation.
9. Fraud Risk Assessment – A process to determine exposure to internal and external fraud. The assessment reviews the organization’s operations and controls, including policies and procedures, to determine where gaps exist that could allow an individual, or individuals, to carry out fraud against the organization.
10. Risk Management – A process to identify, assess, manage, and control potential events or situations to provide reasonable assurance regarding the achievement of corporate objectives.

### IV. Authority

Citizens Plan of Operation, Section 7(I)(6)  
Section 627.351(6)(i), Florida Statutes  
Audit Committee Charter  
Office of Internal Audit Charter

## V. History

Action	Date
Created	March 24, 2010
Revised	February 14, 2011
Revised	March 21, 2013
Revised	March 26, 2019

## VI. Resources

For information regarding this Policy, contact the Office of the Internal Auditor, at [Internal.Audit@citizensfla.com](mailto:Internal.Audit@citizensfla.com).

## VII. Approval

Policy Title	Internal Audit
Approved by	Citizens' Audit Committee at its meeting on March 26, 2019