

Internal Control Framework

INTERNAL CONTROL



PREVENTIVE



DETECTIVE



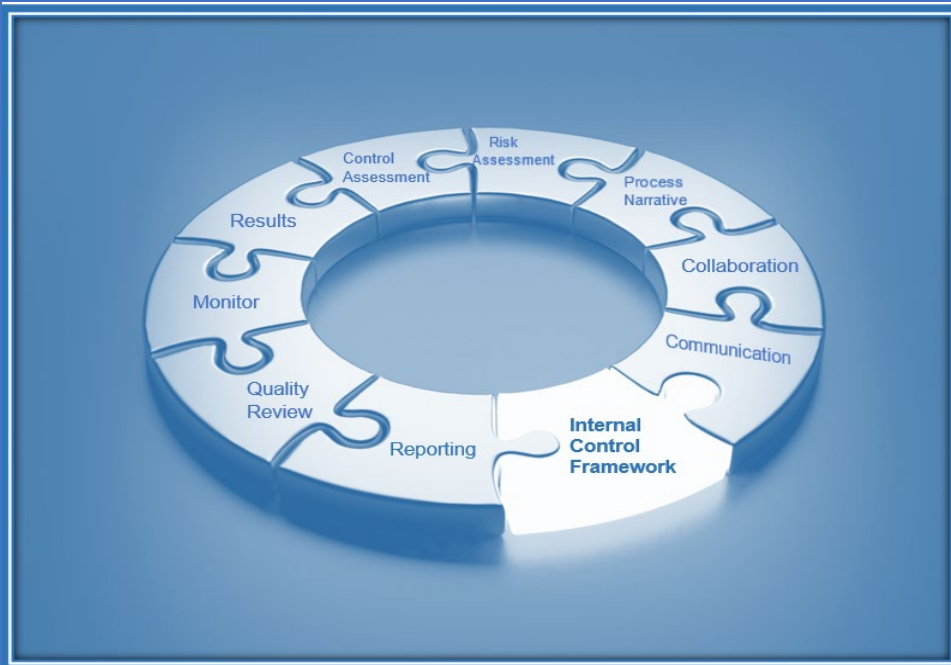
CORRECTIVE



PRIMARY

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Overview

Citizens' Internal Control Framework (ICF), aligned with the COSO Internal Control Integrated Framework, adopts a dynamic and proactive approach to ensuring a robust internal control environment. This framework integrates a comprehensive management control self-assessment process, ensuring operational excellence and financial integrity throughout the organization. Continuous monitoring and improvement of internal controls ensure they remain effective and current with evolving industry standards and regulations.



COSO Cube for Internal Control

By rigorously evaluating internal controls, the ICF delivers a clear and informed opinion on the effectiveness of the Citizens' control system. This evaluation identifies areas for improvement and supports future performance enhancements. The framework fosters a culture of accountability and continuous improvement, ensuring that Citizens remains resilient and adaptable in a dynamic business environment.

Roles and Responsibilities

Citizens' ICF follows the widely accepted Three Lines Model, which clarifies the division of responsibilities: management, oversight, and independent assurance. The Chief of Internal Audit, who reports to the Board through the Audit Committee, provides leadership and ensures that internal control activities are executed in accordance with this framework:

- ❖ First Line - **Management** is primarily responsible for the design and operational effectiveness of controls.
- ❖ Second Line - The **Internal Control** team oversees the ICF's design, maintenance, and oversight. The **Enterprise Risk, Compliance, IT Security & Risk, and Privacy** functions provide independent monitoring and oversight, ensuring alignment with regulatory and corporate requirements.
- ❖ Third Line - **Internal Audit and the Inspector General** provide independent assurance on the adequacy and effectiveness of internal controls.







All employees design, implement, and monitor internal controls, ensuring a shared responsibility across the organization.

Internal Controls

Controls are actions to ensure risk mitigation, operational efficiency, compliance, asset protection, accuracy, and fraud prevention.

Types of Controls

	<p>Preventive: Focused on preventing errors or irregularities from occurring e.g.:</p> <ul style="list-style-type: none"> • Authorization and approval processes: requiring management approval for certain transactions to ensure they are valid and appropriate. • Segregation of duties: assigning different people the responsibility for authorizing transactions, recording them, and handling the related assets to prevent fraud and errors. • Access controls: restricting physical and logical access to assets and information systems to authorized individuals only.
	<p>Detective: Designed to identify and detect errors or irregularities that have already occurred e.g.:</p> <ul style="list-style-type: none"> • Management or quality assurance reviews: periodic reviews of financial records and operations to evaluate alignment with procedures and detect irregularities. • Reconciliations: comparing data from different sources to ensure consistency. • Monitoring or exception reports: comparing actual performance to budgeted or expected performance.
	<p>Corrective: Aim to correct issues after they have been detected e.g.:</p> <ul style="list-style-type: none"> • Repair damage or restore resources and capability: system patches and restoring data from system backups. • Corrective actions: implementing changes to processes or controls to address identified weaknesses or errors. • Follow-up procedures: ensuring corrective actions have been implemented effectively and resolved the issues.
	<p>Primary: Critical controls that are essential for achieving the organization's objectives and mitigating significant risks. These controls are the first line of defense in preventing, detecting, and correcting errors or irregularities. Citizens' primary controls are subject to the annual control self-assessment process.</p>

ICF Assessment Lifecycle

Control self-assessments are performed for Citizens' top primary controls or key activities that may significantly impact achieving objectives and mitigating higher-rated risks. The cyclical approach consists of five steps:



- 1 **Risk Assessment:** Risks are identified and assessed using the organization's Enterprise Risk Management (ERM) Framework, enabling the identification of critical primary controls.
- 2 **Control Documentation:** Key business processes are documented through narratives and flowcharts, highlighting critical controls and setting the stage for effective assessment.
- 3 **Control Testing:** Management, supported by the Internal Control team, performs self-assessments to validate the effectiveness of primary controls.
- 4 **Reporting Results:** Based on the control self-assessment, controls are categorized as Effective, Ineffective, Recommendations for Improvement, or requiring Control Redesign. Material weaknesses are escalated to Internal Audit for further evaluation.

Control Self-Assessment Conclusions	
Effective	The control is working and operating as intended.
Ineffective	The control is not adequately designed or working as intended.
Recommendations	Minor process and/or documentation improvements are recommended to further strengthen the control.
Control Redesign	Process changes that require redesigning the control and/or control test steps are planned or in progress.

- 5 **Monitoring:** The Internal Control team, in collaboration with management, monitors the completion of control assessments and the implementation of improvements. This ensures ongoing effectiveness and compliance with internal standards.

Collaborative Approach

The Internal Control team ensures that internal control activities are collaborative, engaging stakeholders across the organization. This approach is built on the following key principles:

- **Consulting and Facilitating Control Self-Assessments (CSA):** The team consults with management on leading control practices and facilitates the CSA process.

- **GRC System Integration:** The team supports management in documenting and assessing controls using the organization's Governance, Risk, and Compliance (GRC) system. This ensures a structured, transparent approach to managing risks and controls.
- **Alignment with Industry Frameworks:** Citizens' ICF integrates best practices from industry standards which include Control Objectives for Information and Related Technologies (COBIT), National Institute of Standards and Technology (NIST), International Organization for Standardization (ISO) and Critical Security Controls (CSC) Frameworks, ensuring controls are effective and aligned with regulatory requirements



By fostering collaboration between key stakeholders, including IT Security, Risk, Compliance, Ethics, and Vendor Management, the Internal Control team ensures that control objectives are met, including compliance with external regulations and internal policies.

Quality Reviews

Quality reviews are performed to ensure adherence to ICF standards and the reasonableness of the control self-assessment results.

- **Validation Techniques:** The Internal Control team performs periodic reviews of control self-assessment validation steps with business areas to ensure the assessments remain relevant and continue to add value.
- **Secondary Reviews:** Some control assessments may require a secondary review by an independent team member, documented in the GRC system.
- **Review of Self-Assessments:** The Internal Control team ensures that all annual control self-assessments meet the ICF's quality standards and are adequately supported by documentation.



Additionally, the Director of Risk and Control oversees quality reviews of the Internal Control team's work, ensuring continuous improvement in the control environment. The Chief of Internal Audit reviews and approves any significant changes to primary controls.

Reporting and Communication

Results from the ICF assessments are regularly shared with relevant governance bodies, including the Risk Steering Committee, Audit Committee, and the Board of Governors, ensuring transparency and accountability in the control process. All resources related to internal control, including guidance documents and templates, are made available to employees through the organization's GRC system.