



Zavarovalnica Triglav, d.d.
Miklošičeva cesta 19, 1000 Ljubljana

triglav

www.triglav.eu
www.triglav.si

ANNUAL REPORT OF THE INTERNAL AUDIT DEPARTMENT OF ZAVAROVALNICA TRIGLAV, d.d., ON INTERNAL AUDITING FOR THE YEAR 2021



Date of issue: 10 March 2022

Recipients: Management Board
Audit Committee
Supervisory Board
Shareholders' Assembly
Financial statements' auditor

Maja Romih
Director of the Internal Audit Department

TABLE OF CONTENTS

1. PURPOSE OF THE REPORT	3
2. OVERVIEW OF WORK OF THE INTERNAL AUDIT DEPARTMENT AND IMPLEMENTATION OF PLANNED INTERNAL AUDIT ACTIVITIES	4
3. SUMMARY OF SIGNIFICANT FINDINGS BASED ON PERFORMED INTERNAL AUDITS	6
4. ASSESSMENT OF THE ADEQUACY OF RESOURCES FOR THE INTERNAL AUDIT DEPARTMENT OPERATIONS	10
5. PROGRAMME AND FINDINGS REGARDING QUALITY ASSURANCE AND IMPROVEMENT OF THE INTERNAL AUDIT DEPARTMENT OPERATIONS	11
6. STATEMENT ON THE INDEPENDENCE AND OBJECTIVITY OF THE INTERNAL AUDIT DEPARTMENT AND INTERNAL AUDITORS	12



1. PURPOSE OF THE REPORT

Pursuant to Article 281a of the Companies Act, Article 165 of the Insurance Act and Article 41 and 43 of the Internal Audit Policy of Zavarovalnica Triglav, d.d., the Internal Audit Department (hereinafter: the Department) must compile an annual report on internal auditing and submit it to the Management Board, the Audit Committee, the Supervisory Board and the financial statements' auditor, whereas the Management Board must inform the Shareholders' Assembly with this Report and with the Supervisory Board's opinion on the Report.

The Department also prepares more detailed reports on individual internal audits performed for the Management Board and the management of the audited areas, i.e., persons responsible for measure taking, as well as periodic (quarterly, semi-annual) reports on internal auditing for the Management Board, the Audit Committee and the Supervisory Board.

The purpose of the Annual Report on Internal Auditing for the year 2021 is to inform the above mentioned stakeholders on:

- the Department's activities and the implementation of planned internal audit activities in the reporting period;
- the summary of significant findings by internal auditors based on the internal audits in the reporting period, including the assessment of the adequacy and effectiveness of risk management and the internal control system of the audited areas;
- the assessment of the adequacy of the resources for the Department's operations in the reporting period;
- the content and conclusions of the quality assurance and improvement programme of the Department's operations;
- the statement on independence and objectivity of the Department's and internal auditors' activities.

The report contains all the information required under Paragraph 2, Article 165 of the Insurance Act and Article 43 of the Internal Audit Policy of Zavarovalnica Triglav, d.d.

2. OVERVIEW OF WORK OF THE INTERNAL AUDIT DEPARTMENT AND IMPLEMENTATION OF PLANNED INTERNAL AUDIT ACTIVITIES

In 2021, the Internal Audit Department was performing activities on the basis of adopted plans for the Department's operations, mainly on the basis of the Annual Work Plan of the Internal Audit Department of Zavarovalnica Triglav, d.d., for the year 2021, adopted by the Management Board (on 5 November 2020) with the consent of the Supervisory Board (of 12 November 2020). In accordance with professional rules and best practice guidelines on the internal auditing, the Department was carrying out internal audits in Zavarovalnica Triglav (hereinafter: the Company) and other companies in the Triglav Group (hereinafter: the Group), along with several other internal audit activities.

The Department carried out **24 planned internal audits**, namely 2 audits that remained unfinished from 2020 and all of 22 audits from the 2021 plan. Of those, 18 audits were performed in the Company and 6 in the other Group companies. 20 audits were concluded by issuing of final reports, for 2 the Department prepared interim or draft report, while 2 audits were still underway at the end of the calendar year and are to be concluded in 2022.

No extraordinary internal audits were carried out in 2021.

The Department also performed **a series of other internal audit activities:**

- **formal consulting activities**, including:¹
 - assistance to the Subsidiary Management Division in the implementation of the system for monitoring the implementation of minimum standards for the operation of subsidiaries;
 - assistance to the Legal Department at regular annual compliance review of the management system of the Company and the Group with the strategy, internal acts and legal and other regulations;
- **informal consulting activities**, mostly involving consultations and advice relating to drawing up or updating of internal documents of the Company, implementation of business processes, risk management, improvement of internal controls and implementation of recommendations issued by internal and external auditors;
- **monitoring of the implementation of recommendations** issued by internal and external auditors;

¹ Consulting activities to the IT Management Support Service in upgrading the business continuity management system were carried out to a lesser extent than planned, as at the request of the said service they were carried out only in the form of occasional advice and not in the form of originally planned more extensive assistance in upgrading these plans.

- **periodical reporting** to the Management Board, the Audit Committee and the Supervisory Board on Department's operations, the findings of the internal audits and the implementation of recommendations issued by internal and external auditors;
- **planning** of the Department's operations for 2022 based on the risk assessment of the business processes of the Company and the Group;
- **tasks related to quality assurance and improvement** of the Department's operations as well as internal audit departments in other Group companies, which mainly included:²
 - constant supervision by the Department Director over the work of internal auditors;
 - monitoring of the Department's key performance indicators, also on the basis of the assessment of work of internal auditors and the Department as a whole by internal audit stakeholders (members of the Management Board, the Audit Committee, the Supervisory Board and directors of organisational units);
 - participation at in-house and external trainings;
 - cooperation with other key functions, keeping updated on the operations of other departments in the Company and exchanging of information within the Department;
 - activities related to the implementation of the software for support of internal audit and risk management processes in the Company (the implementation process was completed at the end of September);
 - activities related to upgrading of continuous auditing and combined assurance;
 - cooperation with an external assessor of the quality of the Department's operations (key results of the assessment are presented in Chapter 5);
 - monitoring of the operations of internal audit departments in other Group companies, advising to them and coordinating with them:
 - on the implementation of internal audits and other internal audit activities;
 - on the planning of activities for the year 2022;
 - on the implementation of Minimum Standards for Internal Auditing in the Group;
 - (on-line) conference of internal auditors of the Group companies;
- **other activities**, mostly including administrative activities and management of the Department, participation in meetings, cooperation with the external auditor, etc.

The implementation of internal audits and other activities in 2021 was significantly impacted by the increased volume of sick leave. Nevertheless, the Department managed to carry out most of the planned audits and other activities by the end of the year, while the implementation of unfinished activities will continue in 2022. **I, the Department Director, hereby estimate that in 2021, taking into account the smaller number of available working days, the Department performed the planned internal audit activities successfully and in expected extent.**

² The Department completed the majority of the tasks concerning quality assurance and improvement. Some activities that took longer than planned due to higher levels of unforeseen sick leave (such as, activities related to the introduction of continuous auditing by means of analytical IT tools and to upgrading the overall opinion on risk management and functioning of the internal control system in the Company and the Group) are to be continued in 2022.

3. SUMMARY OF SIGNIFICANT FINDINGS BASED ON PERFORMED INTERNAL AUDITS

When conducting internal audits, the Internal Audit Department focuses mainly on checking the adequacy and effectiveness of governance, risk management and functioning of the internal control system in order to assure that:

- the risks are properly identified and managed;
- the financial information and the information needed for decision-making and operational functioning is correct, reliable and timely;
- the employees act in accordance with legal and other regulations, standards and good practice policies as well as in line with internal rules regulating the operations of the Company;
- the assets are used economically, efficiently and are properly protected;
- the programmes, plans and objectives are achieved;
- the Company continuously improves the quality of its operations;

whereby, when conducting internal audits, the Department also dedicates specific attention to the role of the Company as the controlling company in the Group. Further, the Department also dedicates attention to the areas and risks relevant at the Group level and for that purpose monitors the work of internal audit departments in subsidiaries, provides them with assistance and, if necessary, also performs internal audits in these companies.

The Department regularly reports, in writing, to the managers in charge of audited areas, i.e., the recommendations addressees, on the findings of internal audits, and informs the Management Board on the reports as well. Based on the Department's reports, the managers in charge of audited areas or recommendations addressees must adopt adequate measures and implement proper activities to correct any detected irregularities and deficiencies within the agreed deadlines, and report to the Department accordingly. The Department periodically monitors the implementation of the issued recommendations and reports to the Management Board, the Audit Committee and the Supervisory Board thereon. It also monitors and reports on the implementation of the recommendations issued by external auditors.

Based on the internal audits performed and the monitoring of the implementation of the recommendations in 2021, **the Department deems that, overall, risk management and functioning of the internal control system of the audited areas in the Company are adequate and continue to upgrade.**

However, the Department identified the following opportunities for additional improvement of the said system:

- **in the area of insurance development, sales, underwriting and claims handling:** some application controls in the insurance software need to be improved and more consistent use of embedded tools needs to be ensured; consistent inspections of claims reported by so-called higher risk customers need to be ensured; management oversights of long-term open claims and related claims reserves should be strengthened; the amount of gross operating costs for certain types of insurance should be analysed and based on the results appropriate measures should be adopted; additional possibilities for optimizing the implementation of back-office insurance processes should be examined, especially in the direction of continuing centralization or unification of these processes for non-life and life insurance;
- **in the area of customer relationship management:** the concept of customer relationship management and the necessary changes should be more clearly defined to achieve the target state; a calendar of tasks for B2B sales representatives in application support should be established; the protocol of product campaigns should be upgraded; the rules of response to customers for requests received via general e-mail addresses and general telephone numbers should be upgraded, as well as the rules for assigning the level of priority to the processing of requests;
- **in the area of investment management:** tasks, competencies and responsibilities in the alternative investment management process should be more clearly defined, as well as the criteria for investment classification; the reporting system for monitoring alternative investments should be completed;
- **in the area of IFRS 17 implementation:** a decision on the method of accounting for pension insurance in the Group should be made and implementation of further activities should be adjusted accordingly; the implementation of transitions (i.e. experimental evaluations of insurance contracts in accordance with the requirements of IFRS 17) should be upgraded by analysing the process, personnel, technical and methodological aspects of each transition; future processes for the needs of regular execution of IFRS 17 and the required number and competencies of personnel should be identified as soon as possible, and an action plan should be drawn up to provide the necessary personnel;
- **in the area of IT management and IT systems:** the implementation of measures to improving information security should be actively continued and special attention should be paid to continuous updating of security policies, scenarios of information security events and response plans, periodic independent security checks, upgrading the system of key performance and risk indicators and strengthening the independence of the information security function according to other IT functions; more attention should be paid to providing appropriate technical and user documentation when developing and maintaining information systems;
- **in the area of data quality management:** software support for this process needs to be improved; a plan for the expansion of the data set and a plan for providing the necessary human resources for the maintenance and further development of this system/process should be drawn up; in general, more attention should be paid to improving the data management system in the broadest sense (i.e. Data Management);
- **in the area of fraud management:** the requirements and conditions for notification of reported or perceived suspicions of insurance fraud in subsidiaries to the parent company need to be more clearly defined;

- **in the area of general affairs:** the manner and period of storage of received supplier invoices and accompanying documentation should be optimized.

The Management Board and the management of the audited areas are aware of the potential impact of detected irregularities and deficiencies on the achievement of the Company's and the Group's objectives, and have adopted measures, i.e., have been performing appropriate activities for their remediation. The number of recommendations given in 2021 is slightly lower compared to the previous year, but on average somewhat longer deadlines for their implementation have been agreed. **The majority of recommendations was implemented within the agreed deadlines.**

Below we enumerate opportunities for improvement of risk management and functioning of the internal control systems in the subsidiaries, detected by the Department during internal audits in the subsidiaries or while monitoring the operations and findings of the internal audit departments of the subsidiaries³. **In general, the control environment and control procedures in subsidiaries are at an appropriate level and are constantly improving.**

The following opportunities apply to individual subsidiaries that were subject to audits:

- **in the area of insurance:** more attention should be paid to thorough consideration of the insurance terms, conditions and work instructions when concluding insurance policies and handling claims, as well as to provide full and well-completed documentation, consistent input of data/documents in the insurance software and prompt implementation of procedures; up-to-date and documented estimates of probable maximum loss must be provided during underwriting procedures; control over discounts given should be improved; returning procedures of strict records forms should be improved; the system of claims settlement powers should be improved; some applications controls in the insurance software need to be improved; support to the sales network should be improved; management control over sales activities, volume and quality of sales should be strengthened; the rules for international insurance transactions need to be upgraded;
- **in the area of sales network provisioning:** controls in the procedures for calculating commissions and travel expenses should be improved and greater automation of these procedures should be ensured;
- **in the area of financial assets/investment management and payment transactions:** procedures for recovery of receivables from premiums and recourses need to be further improved; the record of judicial recovery procedures should be improved; thorough consideration of the limits and authorisations/powers must be ensured in the course of investing; regular review of investment policies needs to be ensured; cash operation procedures should be improved;

³ The internal audit function is established in all insurance and other financial subsidiaries. The function in an individual company is performed by the organisational unit within the company or a person employed inside or outside the company (external provider of internal audit services), which is functionally and organisationally separated from other parts of the company and is simply called the internal audit department. Internal audit departments in subsidiaries perform their tasks in accordance with legal regulations and professional and ethical rules of internal auditing that apply to an individual company. They also consider the minimum standards and detailed methodological guidelines for the internal audit function within the Group that have been formed by the Internal Audit Department of Zavarovalnica Triglav, taking into account the International Standards for the Professional Practice of Internal Auditing, ethical rules and good practice of internal auditing.

- **in the area of accounting:** more attention should be paid to timely/prompt recording of business events and to consideration of accruals principle; some application controls in analytical and general ledger applications should be improved;
- **in the area of IT management and IT systems:** the implementation of measures to improving information security should be actively continued and more attention should be paid to adoption and upgrades of security policies, scenarios of information security events and response plans, the use of advanced detective tools, periodic independent security checks, upgrading the system of key performance and risk indicators, strengthening the independence of the information security function according to other IT functions and regular education and awareness-raising of users on information security; further attention should be paid to the compliance of the identity management and change management with the adopted internal rules and good practice;
- **in the area of project management:** project management needs to be improved; more attention needs to be paid to project risk and change management; monitoring of project costs should be improved;
- **in the area of anti-money laundering and counter-terrorism financing:** consistent implementation of procedures for clients' identification and obtaining data on origin of clients' assets should be ensured; continuous updating of the risk assessment of anti-money laundering and regular training of employees need to be ensured;
- **in the area of procurement of fixed assets, material and services:** invoice confirmation procedures should be further improved; a system of contract custody should be established; procurement planning and monitoring procedures should be further improved; analytical records of fixed assets need to be improved; procedures for borrowing/deleveraging fixed assets should be improved;
- **in the area of sponsorships, donations and prevention:** rules or methodology for allocating funds for these purposes need to be supplemented; the content of contracts should be improved and consistent monitoring of the implementation of contractual obligations needs to be ensured;
- **in the area of insurance fraud management:** employees' awareness of the importance of identifying and reporting suspected fraud should be strengthened; application support for suspected fraud reporting needs to be improved and more active use of the fraud detection application ensured; a system for immediate reporting of suspected fraud to the parent company should be established.

Persons in charge in the subsidiaries have been informed on the findings, whereas implementation of recommendations for improvement of risk management and functioning of internal controls in these companies is being regularly monitored by internal audit departments of these companies. **The majority of recommendations was implemented within the agreed deadlines.**

With the aim of constant improvement of risk management and functioning of internal control systems in the Group companies, the Company continued to transfer the common minimum standards of business functions operations (including the internal audit function) into subsidiaries and monitored their implementation also in 2021.

4. ASSESSMENT OF THE ADEQUACY OF RESOURCES FOR THE INTERNAL AUDIT DEPARTMENT OPERATIONS

During 2021, the Internal Audit Department had 11 persons employed, of which one person worked part-time. Of all the employees, 8 persons hold at least one of the professional certificates awarded by the Slovenian Institute of Auditors and equivalent professional institutions abroad following completed education in auditing and/or related disciplines:

- 1 person holds the professional certificates of »certified internal auditor« and »authorised auditor«;
- 4 persons hold the professional certificate of »certified internal auditor«;
- 1 person holds the professional certificates of »certified information systems auditor«, »CISA«⁴ and »CGEIT«⁵;
- 1 person holds the professional certificates of »CIA«⁶ and »CISA«;
- 1 person holds the professional certificate of »CISA«.

The total number of working days in 2021 (2,677 days) was slightly less than planned (2,742 days) due to the unrealized new employment of one person, which was planned for October 2021. New employment was realized at the beginning of March 2022.

The number and qualification of employees in the Department enable an adequate extent of internal auditing and fulfilment of planned internal audits and other internal audit activities, assuming that the Department does not face unplanned long sick leave, maternity or other extraordinary absences.

If the internal auditors lack certain expertise or skills needed for the implementation of internal audits and/or other internal audit activities, the Management Board allows the Department to acquire help of adequately qualified experts from inside or outside the Company.

The Company enables the internal auditors to receive an appropriate extent of professional education and training. In 2021, the employees attended formal trainings within and outside the Company, which mostly took place in the form of webinars.

I, the Department Director, hereby estimate that the Management Board provides appropriate conditions and resources for the Department's operations. The conditions that enable independent and impartial functioning of the Department and internal auditors are presented in more detail in Chapter 6.

⁴ CISA – Certified Information Systems Auditor.

⁵ CGEIT – Certified in the Governance of Enterprise IT.

⁶ CIA – Certified Internal Auditor.

5. PROGRAMME AND FINDINGS REGARDING QUALITY ASSURANCE AND IMPROVEMENT OF THE INTERNAL AUDIT DEPARTMENT OPERATIONS

The Internal Audit Department maintains/develops and implements a quality assurance and improvement programme of its operations, with the aim of:

- compliance of operations with professional and ethical rules of internal auditing (particularly, with the International Standards for the Professional Practice of Internal Auditing);
- constant improvement of performance and efficiency of its operations, and also of operations of internal audit departments in subsidiaries.

The quality assurance and improvement programme of the Department's operations comprises:

- internal quality assessments including:
 - constant supervision by the Department Director over the work of internal auditors;
 - interim and annual assessment of the work of internal auditors and the Department as a whole;
 - annual monitoring of the Department's key performance indicators;
 - periodic self-assessment of the Department's operations at least once in the period between two external assessments;
 - regular monitoring of the operation of internal audit departments in subsidiaries;
- external quality assessments at least once every five years by a qualified independent assessor from outside the Company;
- activities for eliminating deficiencies identified during assessments and other activities for quality improvement.

The last external quality assessment of the Departments' operations was carried out at the end of 2021 by KPMG, poslovno svetovanje, d.o.o. It established that the Department operated in compliance with the rules of internal auditing defined in binding legal regulations, standards and codes, and provided some recommendations for further development and introduction of best global practices into the Department's operations, which the Department will follow when executing its activities in 2022.

On the basis of performed quality assurance and improvement activities of Department's operations in 2021, which are presented above and in Chapter 2, I, **the Department Director, hereby estimate that the Department operates in compliance with the rules of internal auditing defined in binding legal regulations, standards and codes in all significant aspects and fulfils the expectations of its stakeholders** (members of the Management Board, the Audit Committee, the Supervisory Board and directors of organizational units in the Company). However, there are opportunities for improvement which the Department will take into account when planning and executing its future activities.

6. STATEMENT ON THE INDEPENDENCE AND OBJECTIVITY OF THE INTERNAL AUDIT DEPARTMENT AND INTERNAL AUDITORS

The Management Board provides the Internal Audit Department with appropriate working conditions, as follows:

- from the aspect of its organizational and functional independence;
- from the aspect of the resources provided for its operations;
- from the aspect of access to information, properties and personnel in the Company (including the members of the Management Board, the Audit Committee and the Supervisory Board);

thus allowing the internal auditors to perform their activities independently and objectively.

The Department is organised as an independent unit within the Company, which is directly subordinate to the Management Board, and is organisationally and functionally separated from other parts of the Company. The Department is independent in determining areas, objectives and the scope of internal auditing, performing of work and reporting on internal auditing. The internal auditors do not perform any development or operational tasks that might lead to conflict of interest and impair their objectivity, and do not decide on the activities in the areas subject to internal auditing.

The Department determines the areas, objectives and the scope of internal auditing based on the risk assessment of the Company's operations and risks important at the Group level. It reports directly to the Management Board and the Supervisory Board. To this purpose, the Department Director reports on the Department's operations, findings of the performed internal audits, implementation of the recommendations and the assessment of adequacy and effectiveness of risk management and functioning of the internal control system in the audited areas directly (in writing and orally):

- to the Management Board, thus preserving the independence from other business areas and functions in the Company;
- to the Audit Committee and the Supervisory Board, thus preserving the independence from the Management Board.

The responsibilities of the Department Director and other internal auditors concerning the assurance of independence and objectivity, avoiding conflict of interest and reporting on the occurrence of any circumstances that might impair the independence and objectivity of the Department or internal auditors are defined in the Internal Audit Policy of Zavarovalnica Triglav, d.d.⁷

I, the Department Director, hereby declare that in 2021 the Department operated independently and that no circumstances arose in the operations of the internal auditors that might have impaired their objectivity. The statement on the objectivity of the internal auditors is based on the statements signed by all internal auditors.

⁷ Together with the Management Board, the Department Director must inform the Audit Committee and the Supervisory Board on any restrictions regarding:

- the areas, objectives and the scope of internal auditing;
- the access to the records, physical properties and personnel in the Company needed by the internal auditors to successfully and effectively perform their job;
- the resources for the implementation of risk-based internal auditing.

Internal auditors must report on any circumstances that might lead to conflict of interest and thus impair their objectivity to the Department Director, who must in turn inform the Management Board, the Audit Committee and the Supervisory Board thereof. Circumstances that may lead to a conflict of interest mainly include:

- performing any development and operational tasks, deciding on the activities and/or directing the activities of the employees in the audited areas, especially within two years before the audit performed in such areas;
- family ties to the employees in the audited areas and employees at important or sensitive positions in the Company in general;
- any pecuniary advantage related to the operation of the audited areas and the Company in general;
- rewards, gifts and other benefits offered or received from the employees in the Company or persons outside the Company, which are assumed to be offered or given with the aim of impairing the objectivity of the Department Director and/or internal auditors.

