

**ANNUAL REPORT  
OF THE INTERNAL AUDIT DEPARTMENT  
OF ZAVAROVALNICA TRIGLAV, D.D.,  
ON INTERNAL AUDITING  
FOR THE YEAR 2019**

Date of issue: 5 March 2020

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

Maja Romih  
Director of the Internal Audit Department

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## **1 PURPOSE OF THE REPORT**

Pursuant to Article 281a of the Companies Act, Article 165 of the Insurance Act and Articles 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 2019 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 information required under the 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 2019, 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 2019, adopted by the Management Board (of 11 December 2018) with the consent of the Supervisory Board (of 20 December 2018). 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, along with several other inter audit activities.

The Department carried out **30 planned internal audits**, namely 2 audits that remained unfinished from 2018 and all of 28 audits from the 2019 plan. Of those, 24 audits were performed in the Company and 6 in the other Triglav Group companies. 29 audits were concluded by issuing of final reports, while 1 audit was still underway at the end of the calendar year and is to be concluded in the 1st quarter of 2020.

**No extraordinary internal audits** were carried out in 2019.

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

- formal consulting activities, including:
  - assistance to the Compliance Department in reviewing direct telephone marketing provided by external contractual partners;
  - assistance to the management of the Subsidiary Management Division in the renewal of the system of minimum standards for operation of subsidiaries;
  - counselling to one of subsidiaries in planning the upgrade of the key information system;
  - counselling to one of subsidiaries in relation to registering work time;
- informal consulting activities, mostly involving consultations and advice relating to drawing up or updating internal acts of the Company, implementation of business processes, risk management and implementation of recommendations issued by internal and external auditors;
- monitoring of the implementation of recommendations issued by internal and external auditors;
- 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 2020 based on the risk assessment of the Company's business processes and with due consideration of risks important at the Triglav Group level;
- internal audit services at Triglav Osiguranje, Banja Luka, which does not employ its own internal auditor due to small scale of business operations;
- tasks related to quality assurance and improvement of the Department's operations as well as internal audit departments in other Triglav Group companies, which mainly included:<sup>1</sup>
  - continuous supervision of work performed by internal auditors by the Department Director (over the implementation of internal audits and other internal audit activities);
  - 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;
  - keeping updated on the operations of other departments in the Company and exchanging of information within the Department;
  - regular updating of the work methodology and internal rules of the Department;
  - internal supervision of the arrangement of working papers and implementation of internal workshop on the topic;
  - cooperation in the selecting procedure of the software solution provider to support internal audit and risk management processes (in December 2019, a contract was signed with the

<sup>1</sup> In 2019, the Department completed the majority of the tasks concerning quality assurance and improvement, except for the activities relating to the introduction of software support to the internal audit process, which took longer than planned. Activities are to be continued and have been included in the annual work plan for 2020.

- selected provider, activities related to the implementation of the solution are already underway and will be completed by the end of 2020);
- monitoring of the operations of internal audit departments in other Triglav Group companies, advising to them and coordinating with them:
    - on the implementation of internal audits and other internal audit activities;
    - on the implementation of Minimum Standards for Internal Auditing in the Triglav Group;
    - on the planning of activities for the year 2020;
  - review of the operations of the internal audit department in one of the subsidiaries abroad;
  - organising a conference for internal auditors within the Triglav Group;
  - other activities, mostly including administrative activities and management of the Department, cooperation with the external auditor, etc.

**I, the Department Director, hereby estimate that in 2019 the Department performed the planned internal audit activities successfully and in expected extent.**

### **3 SUMMARY OF SIGNIFICANT FINDINGS BASED ON PERFORMED INTERNAL AUDITS**

When conducting internal audits, the Internal Audit Department focuses mainly on checking and assessing the adequacy and effectiveness of risk management and functioning of the internal control system established in the Company 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 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.

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 performed in the Company, 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 violations, 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 2019, **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 did recognize the following significant opportunities for improvement:

- in the field of own risk and solvency assessment (ORSA process): consideration should be given to better communication of all participants, giving clear guidelines/methodology for identifying and measuring of risks and timely exchange of opinions about the results of assessments of Group companies;
- in the field of insurance (insurance development, sales, underwriting and claims handling): in the development of FOS business models in new markets more attention should be paid to developing exit strategies and action scenarios in view of the identified risks in conducting these transactions, timely and clear definition of how data is exchanged with local partners and supervision of work of local partners; regular monitoring of the availability of human resources for product development (particularly in the part of software development) and timely adoption of measures for efficient and successful realisation of the set goals should be ensured; some application controls in the insurance software need to be improved; additional 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 and prompt implementation of procedures; competences of employees in charge of managing the rules for automatic life insurance underwriting in a special application tool should be improved and a plan for gradual increase of automatic underwriting should be prepared; more attention should be paid to timeliness of complaint registration and resolution;
- in the field of sales network commissioning: the rules for calculating commercialists' commissions should be harmonized and the software support for calculating these commissions should be improved;
- in planning of reinsurance protection: consideration should be given to optimisation options, as the share of the Company's retention in non-life insurance has been declining over the last ten years; consistent consideration of relevant documents at the meeting of relevant committees prior to the Management Board meeting should be ensured;
- in the field of strategic financial investment management: monitoring of the achievement of the set goals of investment decisions should be improved and a trustee in charge of monitoring the investment and preparing adequate measures should be assigned to each investment; classification of investments should be verified at least once a year;
- within the preparations for the implementation of IFRS 17: deadlines and responsible persons for resolving identified dilemmas/issues should be set/identified and implementation statuses should be regularly monitored; needs for additional human resources should be identified (in view of predicted process and organisational changes) and activities to ensure the resources should start as soon as possible; planning of the required project activities in subsidiaries should began as soon as possible;
- in the field of accounting: an action plan should be drawn up for a more systematic development of the segment accounting system;
- in the field of marketing: guidelines for setting advertising goals and measuring advertising performance should be prepared in more detailed manner;
- in the field of fixed assets management: proper project plan should be prepared for each investment project; more consideration should be given to the supervision over investment projects, including supervision documentation; all server rooms (with no exceptions) should be equipped with access control devices;
- in the field of IT management and IT systems: activities for introduction of privileged accesses management software should continue; an action plan for the optimisation of the identity management system and establishment of the central user directory at the Group level should be prepared;

- in the field of business continuity management: recovery plans for critical IT services need to be updated regularly; a more comprehensive testing of business continuity plans of critical IT services should be performed.

The Management Board and the management of the audited areas are aware of the potential impact of detected violations, irregularities and deficiencies on the achievement of the Company's key objectives and have adopted appropriate measures, i.e., have been performing appropriate activities for their remediation. **In 2019, the trend of decrease of given recommendations continued, which indicates constant improvement of the internal control system in the Company. The majority of recommendations was implemented within the agreed deadlines.**

Below we enumerate significant 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 subsidiaries. In general, **the control environment and control procedures are improving**, while the listed opportunities apply to individual subsidiaries that were subject to audits:

- in the field 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, prompt submission of payment instruments, consistent input of data/documents in the insurance software and prompt implementation of procedures; supervision over handling objections to concluded policies should be improved; competences of sales staff and the supervision over the work of the external sales network should be improved; more attention should be paid to regular monitoring of unsolved claims and up-to-date adjustment of the provisions to known facts; recourse handling procedures should be improved; some application controls in the insurance software need to be improved;
- in the field of sales network commissioning: controls in the commission calculation procedures should be improved;
- in the field of marketing: guidelines for setting marketing campaigns goals and measuring campaign performance should be prepared in more detailed manner;
- in the field of financial assets/investment management: procedures for monitoring payments and recovery of receivables from premiums and recourses should be improved; investment policies need to be updated, in the course of investing more attention should be given also to the maturity of liabilities and to thorough respect of authorisations/powers; liquidity planning procedures need to be improved;
- in the field of accounting: more attention should be paid to timely/prompt recording of business events and allocation of costs to business activities;
- in the field of human resources and general affairs: internal acts that relate to the organisation and job systemisation need to be updated; the system of internal act management should be improved; archiving procedures of business documents should be improved; invoice confirmation procedures should be improved;
- in the field of IT management and IT systems: implementation of measures for improvement of information security should actively continue and more attention should be paid to adoption or upgrades of security policies; identity management and change management procedures should be further improved;

- in the field of business continuity management: more attention should be paid to regular updating of business continuity plans (also disaster recovery plans); regular and comprehensive testing of business continuity plans and system/data backups should be ensured;
- in the field of anti money laundering and terrorist financing: more attention should be paid to risk assessment procedures; procedures for clients' identification and obtaining data on origin of clients' assets should be improved; software support to facilitate monitoring of clients with increased risk for money laundering should be improved;
- in the field of personal data protection; more attention should be given to educating and raising employees' awareness on the duties and procedures of personal data protection and to ensuring that these procedures are consistently implemented; procedures for handling sensitive personal data should be defined in more detailed manner.

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.

With the purpose of constant improvement of risk management and functioning of internal control systems in the Triglav 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 2019. Likewise, the Internal Audit Department is placing growing attention to internal audit activities on the Group level.

#### **4 ASSESSMENT OF THE ADEQUACY OF RESOURCES FOR THE INTERNAL AUDIT DEPARTMENT OPERATIONS**

Throughout 2019, the Internal Audit Department had 12 persons employed. Of those, 9 persons hold at least one of the professional certificates awarded by the Slovenian Institute of Auditors or equivalent professional institutions abroad following completed education in auditing and/or related disciplines:

- 2 persons hold 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<sup>2</sup>« and »CGEIT<sup>3</sup>«;
- 1 person holds the professional certificates of »CIA<sup>4</sup>« and »CISA«;
- 1 person holds the professional certificate of »CISA«.

The number and competencies of employed internal auditors generally allow for the completion of the planned internal audits and other internal audit activities, with the presumption that the Department is not dealing with unforeseen long-term sick leaves, maternity/paternity leaves and other exceptional absences of employees.

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<sup>2</sup> CISA – Certified Information Systems Auditor

<sup>3</sup> CGEIT – Certified in the Governance of Enterprise IT

<sup>4</sup> CIA – Certified Internal Auditor



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. In 2019, the Department mostly did not use the services of external experts.

The Company enables the internal auditors to receive an appropriate extent of professional education and training. In 2019, the internal auditors attended formal trainings within and outside the Company, and also spent part of their time for informal education by reading professional literature and exchanging knowledge within the Department.

**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 Section 6.

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

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

- compliance of operations with the 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.

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

- 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;
- 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 Department's operations was performed in 2016 by DELOITTE REVIZIJA, d.o.o. It established that the Department operated in compliance with the International Standards for the Professional Practice of Internal Auditing in all significant aspects, and provided some recommendations for further development and introduction of best global practices into the Department's operations, which the Department follows when planning and executing its activities.

On the basis of performed quality assurance and improvement activities of Department's operations in 2019, which are presented in more detail in Chapter 2, I, **the Department Director, hereby estimate that the Department operates in compliance with the International Standards for the Professional Practice of Internal Auditing 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). 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 personell 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 Triglav Group level. It reports directly to the Management Board and the Supervisory Board. 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 strengthening 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.<sup>5</sup>

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<sup>5</sup> 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;

**I, the Department Director, hereby declare that in 2019 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.

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- 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 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.