

INTERNAL AUDIT REPORT

FROM: Senior Internal Auditor
TO: Head of Finance
C.C. Chief Executive
Deputy Chief Executive (AJ)
Audit and Risk Manager
Insurance and Risk Officer
Portfolio Holder (Cllr Whiting)

SUBJECT: Insurances
DATE: 25 September 2018

1 Introduction

- 1.1 In accordance with the Audit Plan for 2018/19 an examination of the above subject area has been undertaken and this report presents the findings and conclusions drawn from the audit for information and action where appropriate. This topic was last audited in September 2015.
- 1.2 Wherever possible findings have been discussed with the staff involved in the procedures examined and their views are incorporated, where appropriate, into the report. My thanks are extended to all concerned for the help and cooperation received during the audit.

2 Background

- 2.1 Insurance premiums are unlike any other item of Council expenditure, in that they are governed by the state of the insurance market which, in turn, is governed by the effects of claims, national events and natural phenomena.
- 2.2 As a member of the Audit and Risk team, the Council's Insurance and Risk Officer (IARO) is the designated officer who provides oversight and operational management across the Council to manage the insurance risks associated with services and assets of the Council.
- 2.3 The total value of the insurance premiums payable for policies held with Zurich Municipal for the period 1 November 2017 – 31 October 2018 is £350,356.39 with an additional £16,227.79 for terrorism cover (12% nett of Insurance Premium Tax).

3 Scope and Objectives of the Audit

- 3.1 The audit was undertaken to test the management and financial controls in place.
- 3.2 In terms of scope the audit covered the following areas:
- Regulatory compliance
 - Risk management
 - Review and renewal

- Claims processing
- Internal financing

3.3 The audit programme identified the expected controls. The control objectives examined were:

- Insurance in place is in line with any regulatory / legislative levels of cover
- All relevant business and operational risks are accurately assessed as the basis for providing adequate and appropriate insurance cover
- Cover levels remain appropriate to the needs of the Council
- Insurance cover held provides value for money
- Claims are valid, authorised, agreed and controlled
- Costs are accurately and appropriately recharged to service areas
- Reserves and provisions are maintained at appropriate levels.

3.4 The existing cover provided by Zurich Municipal was procured as a Long Term Agreement (LTA) of three plus two plus two years. As part of the existing arrangement, the first extension was taken out on 1 November 2015 and the Council will be entering into the final year of the second extension from 1 November 2018.

3.5 It is expected that the rollout of the new tender to insurance providers will take place in January 2019 and be completed between May and June 2019.

4 Findings

4.1 Recommendations from Previous Reports

4.1.1 The current position in respect of the recommendations from the audit reported in September 2015 was also reviewed. The current position is as follows:

Recommendation	Management Response	Current Status
1 The Insurance & Risk Officer should obtain details of significant future high value investment programmes in relation to housing stock and future treasury investment plans to assess Fidelity Guarantee maximum limits, updating insurance cover if appropriate.	All indemnity levels are kept under review. In assessing the limit, account has to be taken of the controls in place and the amount of money which it is felt could be taken before the loss is discovered. Increasing the limit will increase the premium payable and could make insurers feel that we are not confident about our controls. Insurers have been asked to provide an indicative quote to double the sum insured – it has been made clear this is to assist us in considering the	Discussed with IARO as part of the 2018/19 internal audit review and it was confirmed that this has been actioned.

Recommendation	Management Response	Current Status
	<p>audit recommendation. Consideration could also be given to having a higher level of cover for specified staff having regard to the levels of expenditure that they can authorise. It would take time to assess who this would apply to and appropriate levels to apply. During the audit the auditor quoted many authorities as having a limit of £10m but most of these were unitary, metropolitan or county councils.</p> <p>The IARO will contact Insurance Officers at District and Borough authorities in the Midlands asking for details of their limit of indemnity so we can compare.</p> <p>Advice will also be taken from our broker.</p>	
2 The Insurance & Risk Officer should update the insurance procedures manual for hirer's liability, insurance excess and provisions.	<p>Hirers' liability notes have been produced.</p> <p>Notes on calculation on insurance provisions and reserve will be produced when estimate figures for 2015/16 are done.</p>	Discussed with IARO as part of the 2018/19 internal audit review and it was confirmed that this has been actioned.

4.2 Regulatory Compliance

- 4.2.1 The IARO advised that the only insurance a council is, in effect, required to have under legislation, is Fidelity Guarantee insurance which covers fraud committed by staff. This is to be compliant with the provisions of Section 114 of the Local Government Act 1972. The insurance maximum limit that the Council has is £5m.
- 4.2.2 Since the last Internal Audit review in 2015, Section 2.4 has been added as part of the Fidelity Guarantee pertaining to the use of corporate credit cards, stating that, "The insurer will indemnify the insured for loss occurring as a direct result of the fraudulent use of a corporate credit card by the designated employee to whom the insured has issued the card". One of the requirements is that the name of the employee allocated the card is noted in the insured's records. This was confirmed during the audit with the IARO.
- 4.2.3 District councils are not required, under legislation, to have any employers' or public liability insurance. However, the Council does have these insurance policies in place.

- 4.2.4 A Long Term Agreement is in place with Gallagher's, Insurance Brokers for the Council which has been extended for two years until 2019. The broker is used independently from the insurers to help achieve value for money.
- 4.2.5 As part of the initial insurance tender process and the annual contract renewal processes, and over the life of the contract, the broker has assisted in setting out the Council's insurance specification, such as levels of cover and perils to be insured against, taking into account current market trends.
- 4.2.6 This annual review effectively ensures that the level of insurance remains adequate and reflects any necessary changes in the Council's needs.
- 4.2.7 Indemnity levels are also managed internally by the IARO. Contact is made between insurance officers at other authorities in the Midlands region in order to benchmark limits of indemnity as and when required.
- 4.2.8 It was stated by the IARO that, whilst no formal benchmarking is carried out, as Secretary to a Midlands based Insurance Group, advice can be sought on current practices. The insurance brokers have suggested looking at cyber security coverage in the future as part of business continuity.
- 4.2.9 It was noted that whilst insurance arrangements are embedded within the Council there is no formal insurance strategy in place.

Risk

Insurance arrangements may not be maximised to develop a coordinated approach to insurance management and transparency.

Recommendation

Development of a formal insurance strategy be considered that provides the framework to ensure that the Council has in place an optimal balance between external insurance and self-insurance.

- 4.2.10 An insurance manual is maintained and was reviewed as part of the audit. Over time, hand written updates and other ad-hoc documents as required have been added to the manual.
- 4.2.11 The index of the insurance manual refers to a number of sections including: Insurer Information; Broker Information; Claims Handling; Policy Information and the Local Authority Claims Handling System (LACHS). The IARO indicated that some of the information, such as sums insured, may not be current as they are included at a specific point in time and are provided as examples. However, the general processes are correct, although minor tweaks will be made as and when required.

4.3 Risk Management

- 4.3.1 The IARO is a member of the risk management group and provides a quarterly update report to the Senior Management Team (SMT). An action plan was included in the Risk Management Strategy in 2016/17 listing fourteen recommendations designed to advance risk management within the

Council. One of these requires the "Insurance & Risk Officer to engage more closely in the risk management process including issuing a quarterly report to SMT on insurance claims and risk management lessons learned."

- 4.3.2 SMT minutes from May 2018 were obtained and were found to include a number of action points. Included in the report is reference to new claims, the overall claim position and learning points following claims. Currently, under the heading of learning points, specific referral is made to unoccupied buildings and theft from car park machines.
- 4.3.3 Following the meeting, actions included advising tenants of the need to leave heating on during periods of cold weather to prevent burst pipes, and taking action to reduce the risk of cash being stolen from car parking machines. Whilst a verbal update may be provided at the subsequent meeting, it is not evident from the minutes if actions had been completed.

Risk

Actions may be omitted or not undertaken on a timely basis.

Recommendation

An action tracker be included as part of the update to SMT.

- 4.3.4 Whilst the audit has not included a detailed review of risk management arrangements, the Council does have in place a Risk Management Strategy. A copy of the strategy was found on the Council's website and is for the period 2016-17. The summary of responsibilities included within the document requires that experience of risk and risk management issues are shared with the IARO, a number of other services / teams, and Council employees. However, it does not reflect sharing with SMT.

Risk

There may be a lack of transparency and engagement.

Recommendation

The Risk Management Strategy be updated and made available on the Council web site.

- 4.3.5 The risks included on the Finance risk register continued to be categorised into those which can be insurable, such as fraud by having a Fidelity Guarantee insurance policy in place, or risks which cannot be insured against such as loss of information technology.
- 4.3.6 On a rotational basis, service risk registers are presented quarterly to the Finance and Audit Scrutiny Committee. On occasion, the IARO is asked to comment and challenge the risk registers and specifically link any matters relating to insurance / emerging themes / matters arising across the district or nationally. E.g. the IARO cited an example relating to the potential impact on the Building Control partnership of the Northamptonshire authorities reorganisation.

Risk

Relevant risks may be omitted from the reviews undertaken by the IARO.

Recommendation

Oversight of risk registers by the IARO be embedded to ensure that insurance is considered in all cases.

4.4 Review & Renewal

- 4.4.1 An annual review of the level of insurance cover required is carried out by the IARO prior to the start of each year, over the life of the contract.
- 4.4.2 Revised premiums for the forthcoming insurance year are submitted based on pricing / risk assumptions including any current market conditions and trends. Examples were provided relating to Asset Management following the Grenfell Tower incident and theft from parking machines. No other service changes are known.
- 4.4.3 Reporting mechanisms between the Council and the insurers operate well. Most documentation, correspondence and claims are now managed via email. Information is also accessible via a secure login on Zurich Municipal's website.
- 4.4.4 The insurance cover from Zurich also provides for a Risk Management fund. To date, the Council has received six years funding at £5,000 a year. Expenditure over the last four years is detailed below:

Date	Description	Cost (£)
17/03/2014	IRM certificate C O'Rourke	1,560
28/03/2014	Building valuation surveys 2014	7,000
03/12/2015	Tree liability report CEN-090490	5,000
05/02/2016	Risk management health check	3,500
27/09/2016	Risk appetite workshop 9/9/16	1,500
25/10/2016	Special events training 4 & 5 Oct	1,500
17/05/2017	Managing events safely training	1,000
Total		21,060

The balance in the fund is currently £8,940.00. The Council has ordered some building valuation work to be carried out in August 2018 at a cost of £2,250.

- 4.4.5 The IARO stated that, as part of the retender process, the broker will be assisting Council officers to assess the tender submissions received, but without the power of decision making. The procurement exercise will be undertaken by the Council's in-house Procurement team.

4.5 Claims Processing

- 4.5.1 The Council has continued to use the JCAD LACHS claims management system to record details and manage all insurance claims. All claims are allocated a claim reference number and the type of claim is detailed.

- 4.5.2 The policies in place cover the assets and activities of the Council. It was stated by the IARO that if a claim has been processed, this is on the basis that it is covered by the policy. Where necessary, advice is sought from Zurich to confirm acceptance / refusal of a claim.
- 4.5.3 The IARO explained that, for any type of claim, the initial notification can be received in various forms from service departments and claimants, either by telephone, email or letter. All claims must be documented, following which a claim record is created.
- 4.5.4 An Accident / Incident Report Form is also accessible on the Council website and instructions are provided on how to make a claim for compensation resulting from loss or personal injury. Contact details for the IARO are also made available along with a statement that any decision on the claim will be made by the Council's insurers only.
- 4.5.5 Section 4 of the form provides for the claimant to complete a declaration confirming that the 'particulars' (of the claim) are true. It also informs them that "Information will also be supplied to insurers, claim handlers and solicitors who may be appointed to deal with your claim".
- 4.5.6 Currently the declaration does not make reference to the General Data Protection Regulations (GDPR) which came into force on 25 May 2018 repealing the Data Protection Act 1998. The new regulations place further obligations on organisations processing personal data, and increase the potential fines for non-compliance with the regulations.

Risk

GDPR requirements may not be complied with.

Recommendation

The claim forms should be refreshed and reflective of GDPR requirements.

- 4.5.7 The claim will be allocated to an insurance cover category on the system and all relevant information will be recorded, including the claimant details and / or solicitors as appropriate and will be allocated against the relevant policy.
- 4.5.8 All correspondence relating to the claim will be recorded and can be imported into the system, with some correspondence being generated directly from the system. The IARO has access to the Council's Active H system and can access this to confirm if there is any previous repairs history relating to the property.
- 4.5.9 Information is passed to the insurers, with the insurer's reference number for the claim being entered onto the system by the IARO once provided by the insurers. Emails or letters are sent to claimants advising them of the relevant insurer details.
- 4.5.10 Walk through testing was undertaken of a claim which was pending and one that had been closed. Sample documentation was reviewed covering the processes and specific checks that need to be undertaken for each type of claim e.g. operational and housing property, non-operational property,

mortgaged and leasehold property, public liability, employers liability, motor and other liability. It was identified that claims are processed as promptly as possible but delays are outside the control of the IARO.

- 4.5.11 A random sample of ten insurance claims for public liability and general property (commercial, operational building and housing), made since the date of renewal (1 November 2017) was reviewed with the objective of verifying that claims were subject to scrutiny and were being progressed by the IARO and referred to the Zurich Municipal on a timely basis.
- 4.5.12 Testing confirmed that all of the claims had been registered with Zurich Municipal and progress in relation to the settlement of the claims was being monitored. In addition, the IARO has been keeping service departments up to date with claim developments as instructed by Zurich Municipal.

4.6 **Internal Financing**

- 4.6.1 Prior to 1992, insurance would have been provided through Municipal Mutual Insurance (MMI). At that time, the Council had no need to maintain an insurance reserve as all insurance claims would have been paid in full by MMI as the policies had no deductible or excess limits. However, a reserve is now in place to meet to these costs.
- 4.6.2 The balance of the insurance reserve is monitored by the IARO. As part of the internal audit review, the IARO shared email communication relating to the possibility of requesting an increased levy.
- 4.6.3 Separate insurance provisions are also held for current and future liability claims in order to meet the excesses payable by the Council.
- 4.6.4 On an annual basis, the IARO will allocate the premiums due to each relevant budget code. The method of calculation for each premium varies depending upon the type of insurance policy but the main factors used are the number of staff in each department and the total sum insured for buildings and contents.
- 4.6.5 The IARO maintains a spreadsheet that shows how charges have been calculated and codes to which they have been charged. For 2017/18 the value confirmed as recharged equates to £489,825.13.

5 **Summary & Conclusion**

- 5.1 Following our review we are able to give a SUBSTANTIAL degree of assurance that the systems and controls in place for the management of Insurances are appropriate and are working effectively.
- 5.2 Minor issues were, however, identified relating to the enhancing transparency and updating the Insurance procedures manual following re-tender in 2019.
- 5.3 The assurance bands are shown below:

Level of Assurance	Definition
Substantial Assurance	There is a sound system of control in place and compliance with the key controls.

Level of Assurance	Definition
Moderate Assurance	Whilst the system of control is broadly satisfactory, some controls are weak or non-existent and there is non-compliance with several controls.
Limited Assurance	The system of control is generally weak and there is non-compliance with controls that do exist.

6 Management Action

- 6.1 The recommendations arising above are reproduced in the attached Action Plan (Appendix A) for management attention.

Sharon Birdi
Auditor

Appendix A**Action Plan****Internal Audit of Insurances – September 2018**

Report Ref.	Recommendation	Risk	Risk Rating*	Responsible Officer	Management Response	Target Date
4.2.9	Development of a formal insurance strategy be considered that provides the framework to ensure that the Council has in place an optimal balance between external insurance and self-insurance.	Insurance arrangements may not be maximised to develop a coordinated approach to insurance management and transparency.	Low	Insurance & Risk Officer	Agreed. Consideration will be given to the introduction of an insurance strategy.	End of March 2019
4.3.3	An action tracker be included as part of the update to SMT.	Actions may be omitted or not undertaken on a timely basis.	Low	Insurance & Risk Officer	This will be included from the next report.	November 2018
4.3.4	The Risk Management Strategy be updated and made available on the Council web site.	There may be a lack of transparency and engagement.	Low	Audit & Risk Manager	Agreed and now done.	September 2018

Report Ref.	Recommendation	Risk	Risk Rating*	Responsible Officer	Management Response	Target Date
4.3.6	Oversight of risk registers by the IARO be embedded to ensure that insurance is considered in all cases.	Relevant risks may be omitted from the reviews undertaken by the IARO.	Low	Audit & Risk Manager / Insurance & Risk Officer	Audit & Risk Manager in process of putting all risk registers on intranet site viewable by all staff. When set up these will be updated quarterly. Insurance & Risk Officer can then view these documents systematically and ensure that due provision has been made for insurance aspects of risks.	End of October 2018
4.5.6	The claim forms should be refreshed and reflective of GDPR requirements.	GDPR requirements may not be complied with.	Medium	Insurance & Risk Officer	Wording was reviewed and updated in May 2018 taking into account advice and examples from other authorities in the absence of an Information Governance Manager. Advice will be sought from the Information Governance Manager and wording updated accordingly.	End of March 2019

* Risk Ratings are defined as follows:

High Risk:	Issue of significant importance requiring urgent attention.
Medium Risk	Issue of moderate importance requiring prompt attention.
Low Risk	Issue of minor importance requiring attention.