

INTERNAL AUDIT REPORT

FROM: Audit and Risk Manager

SUBJECT: Insurances

TO: Head of Finance

DATE: 1 September 2015

C.C. Chief Executive

Audit & Risk Manager

Insurance and Risk Officer

1 Introduction

1.1 In accordance with the Audit Plan for 2015/16 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 July 2012.

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 The council's insurance service is managed by the Insurance and Risk Officer as a member of the Audit and Risk team.

2.2 Insurance premium costs for the year ending 31 October 2015 for policies held with Zurich Municipal are confirmed and are £435,000. Premium costs are unlike any other item of Council expenditure in that they are governed by the state of the insurance market which is in turn governed by the effects of claims, global events and natural phenomena.

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 tendering processes for insurance services in relation to insurance cover and the insurance broker were also covered as part of the audit.

4 Findings

4.1 Regulatory Compliance

4.1.1 The Insurance and Risk Officer (IARO) advised that the only insurance that a council is, in effect, required to have under legislation is Fidelity Guarantee insurance. This is set out under the provisions of Section 114 of the Local Government Act 1972 which highlights that 'a council shall take a security for employees who are dealing with money and may take a security for other employees for the faithful execution of the office and for the due accounting for all money or property which may be entrusted to that employee(s)'.

4.1.2 The existing Fidelity Guarantee insurance maximum limit is £5m, and this was not updated when the insurance renewal was undertaken in November 2014.

4.1.3 However, Internal Audit consider that this value should be reviewed, due to the value of certain transactions that take place, specifically in relation to the council's planned programmes of works relating to its housing stock and the investments placed with counterparties as part of the treasury management portfolio.

Risk

The existing Fidelity Guarantee maximum limit may not be appropriate.

Recommendation

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.

4.1.4 District councils are not required, under legislation, to have any employer's or public liability insurance. However, the council does have these insurance policies in place as well as various other policies.

4.1.5 The IARO advised that she regularly attends regional meetings of other local authority insurance officers as well as meetings of ALARM (the public sector risk management association). Informal updates are also received from insurance brokers and insurers.

4.1.6 The contents of the insurance procedures manual were reviewed and it was confirmed that the manual is regularly updated. However, it was noted that updates were required in relation to three sections: hirer's liability; insurance excess accruals; and provisions at year end.

Risk

The process, documentation and controls for the insurance procedures manual may not be fully complete.

Recommendation

The Insurance & Risk Officer should update the insurance procedures manual for hirer's liability, insurance excess and provisions.

4.2 Risk Management

- 4.2.1 The IARO is appropriately involved in the risk management processes as she is a member of the risk management group and takes the minutes of the meetings. Upon review of the minutes, it was highlighted that the frequency of the meetings has recently changed. They used to be held each quarter, but are now to be held annually on a 'needs basis'. This was considered by Internal Audit to be acceptable.
- 4.2.2 The IARO explained that the MOSS system for service risk registers is no longer actively used. Risk registers are now set out in Word documents, allowing for relevant departmental reviews and discussions by the Finance & Audit Scrutiny Committee.
- 4.2.3 The risks included on the Finance risk register are 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.
- 4.2.4 Audit observation confirms that the MOSS records are still available and highlights that almost two thirds of the risks have "No Insurance" recorded against them. The IARO advised that this is largely down to the fact that not all risks are insurable. The MOSS records still record the relevant insurance policy against the insurable risk.

4.3 Review & Renewal

- 4.3.1 The previous audit report recommended that a formal process should be implemented to advise the IARO of relevant changes to services. This had been appropriately addressed by including an article in the Core Brief publication which is issued to all staff.
- 4.3.2 The article, which was seen by Internal Audit, advised staff to notify the IARO in advance of service issues that may have insurance policy implications. Examples were given in the article, such as proposed changes to working practices before they are implemented. In addition, the article raised staff awareness of the need to communicate service issues that may have insurance implications such as insurance claims.
- 4.3.3 Audit testing was successfully completed, confirming that known changes in services had been correctly notified to the insurer Zurich Municipal (ZM) as part of the annual renewal process.
- 4.3.4 Testing also confirmed that ZM had been appropriately made aware of some new properties that the council are taking ownership of and that they had been kept informed of relevant project developments so that they could

update their policy records and advise on any impacts that this would have on policy premiums.

- 4.3.5 Audit testing was undertaken to ensure that the processes used to appoint ZM for the provision of insurance cover and Gallagher Heath as the council's insurance broker had complied with the council's Code of Procurement Practice. This test proved satisfactory.
- 4.3.6 The contract period for the insurance provider finishes on 31 October 2015, and the IARO advised that an evaluation will take place prior to this date to decide whether the option to extend the contract by two years is taken up.
- 4.3.7 Renewal of the property contents insurance arrangements, which is made available to housing tenants and leasehold occupiers, commenced on 1 June 2015. Upon review, it was confirmed that the process to appoint Thistle Insurance Services complied with the Code of Procurement Practice.

4.4 Claims Processing

- 4.4.1 The JCAD LACHS claims management system is used to record the details of all insurance claims.
- 4.4.2 Initial notification of an insurance claim will come in various forms from service departments, either by telephone, email or letter and a claim record will be created on the JCAD LACHS system.
- 4.4.3 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.
- 4.4.4 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.
- 4.4.5 The information will be passed to the insurers, with the insurer's reference number for the claim being entered onto the system by the IARO. Emails or letters are sent to claimants advising them of the relevant insurer details.
- 4.4.6 A random sample of insurance claims made since the insurance renewal on 1 November 2014 was tested with the objective of verifying that they were being progressed by ZM with the aim of the claim being settled.
- 4.4.7 Testing confirmed that all of the claims had been registered with ZM 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 ZM.
- 4.4.8 The JCAD LACHS system has contained the council's insurance claim records since 2008/2009. This will be a key source of insurance claims history to share with potential bidders when the next insurance procurement process is initiated, with the objective of the council managing the annual financial cost of insurance cover.

4.5 Internal Financing

- 4.5.1 Testing was undertaken to ensure that the insurance policy premiums, for the year to 31 October 2015, had been recharged to the relevant service departments. The testing confirmed that all of the insurance premium costs had been appropriately recharged to the relevant revenue expenditure cost centres on the TOTAL general ledger.
- 4.5.2 The basis for the apportionment of the insurance premiums to service departments was reviewed in comparison with the CIPFA 2015/16 Service Reporting guidance principles of apportionment of service costs. Internal Audit testing confirmed that the council's apportionment approach for insurance costs meets the CIPFA guidance.
- 4.5.3 Control reports are run from the JCAS LACHS system that provide the base data in relation to the excess provisions that are required for each financial year.
- 4.5.4 The IARO's monitoring spreadsheet for the insurance excess provisions was reviewed which confirmed that provision has been appropriately made to cover the maximum insurance 'stop loss' for the relevant period.
- 4.5.5 The Finance risk register recognises that the Insurance Reserve, which is largely in place to cover any Municipal Mutual Insurance (MMI) claw back, is regularly reviewed for adequacy to settle future levies.
- 4.5.6 The insurance broker recommends the levels of MMI reserves that may be required for future settlements. The financial reserve as detailed on TOTAL, as at 31 March 2015, is considered by Internal Audit to be adequate to settle any demand levies imposed. The IARO confirmed that there have been no demand levy requests in the current financial year.

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 Fidelity Guarantee maximum limits and the updating of certain sections of the Insurance procedures manual.

6 Management Action

- 6.1 The recommendations arising above are reproduced in the Action Plan for management attention.