

**FROM:** Principal 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 Noone)

**SUBJECT:** Insurances  
**DATE:** 7 June 2021

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## 1 Introduction

- 1.1 In accordance with the Audit Plan for 2021/22, an examination of the above subject area has recently been completed by Jemma Butler, Internal Auditor, and this report presents the findings and conclusions for information and, where appropriate, action.
- 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.
- 1.3 The audit was undertaken during the COVID-19 pandemic. This has meant a slightly different approach has been taken to complete the audit with staff interviewed via MSTeams, email and phone.

## 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 (IRO) 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 for the period 1 November 2020 – 31 October 2021 is £421,715.13 which includes specialist cover such as: terrorism, leaseholder/shared ownership, engineering and fine art.

## 3 Objectives of the Audit and Coverage of Risks

- 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 risks:
- The insurance held may not be appropriate – e.g. maximum limit, unnecessary cover for redundant risks.
  - Poor procurement of insurance could result in inadequate cover or the Council paying more than necessary.
  - Failure to have fidelity guarantee in place.
  - Service areas failure or delay in informing the insurance office of new assets requiring insurance.
  - Poor claims processing and timeliness of reporting claims resulting in reputational damage.
  - False claims submitted.
  - Health and safety requirements not complied with resulting in claims against the Council.
  - Reliance on one insurance officer.
  - Poor information, incident reporting and monitoring resulting in the Council being liable for claims it could otherwise challenge.

3.3 These were drawn from a combination of risks identified in the Significant Business Risk Register, the departmental risk register, and discussion between the Internal Auditor and the Insurance and Risk Officer (IRO).

3.4 These risks, if realised, would be detrimental to the Council with regards to meeting the following corporate objectives, as set out in the Fit for the Future Strategy:

- Without appropriate cover in place, other Council services may not be able to operate, so the service indirectly helps the Council to achieve all of the Fit for the Future (FFF) Strategy strands - People, Services and Money.

## 4 Findings

### 4.1 Recommendations from Previous Reports

4.1.1 The current position in respect of the recommendations from the audit reported in October 2018 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	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	The insurance contract has been renewed since the last audit, with the sum insured being reviewed as part of the renewal. The recent audit raised no concerns over the sums insured so this recommendation is considered completed.

Recommendation	Management Response	Current Status
insurance cover if appropriate.	<p>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 audit recommendation.</p> <p>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.</p> <p>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 IRO 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>	The procedure manual is up to date and no concerns have been noted in the current audit, so this recommendation is considered completed.

## 4.2 Financial Risks

### 4.2.1 The insurance held may not be appropriate – e.g. maximum limit, unnecessary cover for redundant risks.

Valuations of Council assets are not routinely carried out, apart from the art collection which was last valued in 2020. There have been some ad-hoc

valuations of buildings carried out although the sums insured for buildings are inflated each year by a percentage set by the insurers. The sums insured for new property purchased are in line with the sums insured for similar sized existing housing property. If a building is accidentally underinsured, the claim would still be paid in full, subject to the Council paying the additional premium.

Where there are changes to the insurance requirements, for example when the Council purchases new property or changes a vehicle, the service areas are advised to inform the IRO.

The IRO requests inventory lists from service areas on a regular basis which allows the items covered to be checked and ensures that changes are picked up. Items with a value of £50 or higher are expected to be added to the list although computer equipment does not get included on service lists as the ICT department maintains a separate inventory.

Unfortunately, obtaining up-to-date lists is a challenge and the current lists may not, therefore, be accurate. To allow for some inaccuracies or discrepancies, there is a floating sum of ten percent to cover contents which, when checked, more than covers the inventories obtained.

It is understood that the office equipment inventory is likely to be out of date due to homeworking. Office equipment is covered within the UK, so staff have not needed to change their own insurance for the office equipment they use at home. Some office equipment may have been disposed of to accommodate the changes needed to make the office Covid secure. As this is a frequently changing situation, the floating sum would still cover any losses.

#### **4.2.2 Poor procurement of insurance could result in inadequate cover or the Council paying more than necessary.**

There are three insurance-related contracts on file at the moment. One for the broker, one for the claims system and one for the insurance cover. The insurance cover, which is the main focus of this audit, is held with a number of providers and has been in place since 1 November 2019. The insurance contract, which is valued at approximately £2.13 million and was procured through OJEU, is a three-year agreement with an option to extend for an additional two years.

The insurance covers various items including (but not limited to): housing property, general properties, public liability, cash, and work equipment. The schedule is a thorough document which breaks down the cover provided, detailing claim limits, key dates, endorsements and the required excess. A number of individual items are covered for all risks as it is the only way they could be covered, especially if they are not in any of the Council's insured buildings.

### **4.3 Legal and Regulatory Risks**

#### **4.3.1 Failure to have fidelity guarantee in place.**

It is a statutory requirement for local authorities to take security against the infidelity of officers whose duties involve the custody and control of money. Section 114 of the Local Government Act 1972 reaffirms this. The Council currently has fidelity guarantee in place covering all employees, third party computer fraud and a sum towards the auditor's fees.

The policy provides cover in respect of loss of money, securities, goods or other property (either belonging to or in the trust or custody of the Council, for which they are legally responsible) as a direct result of fraud or dishonesty.

#### 4.3.2 **Service areas failure or delay in informing the insurance office of new assets requiring insurance.**

Staff are reminded when procuring items of value to notify the IRO ensuring there is appropriate cover in place. The Insurance page on the intranet provides information to staff in easy to understand language, as well as providing access to the policies in place. The information also covers some of the more frequently asked questions and reminders to staff to ensure they notify the IRO when purchasing or hiring items, such as work vehicles, so they can be added to the relevant policy.

There are reminders issued by the Procurement team when staff use the service for procuring items, with a further reminder on their intranet page to notify the IRO of purchases to ensure they are insured.

A review of the risk registers was completed to ensure insurance has been considered when reviewing the risks a service area may face. Although insurance is mentioned on some of the registers, only one register identifies not having appropriate insurance as a risk. Vehicle insurance is mentioned in a number of registers but only in the terms of staff driving their own vehicles for work purposes. One register identifies theft of Council vehicles as a risk but does not have a control to ensure there is insurance in place. Five service areas have access to a Council vehicle and a total of fifteen Council-owned vehicles are currently insured.

There have only been a few purchases made over the last year where insurance has been required. Unfortunately, officers do not always inform the IRO when they have purchased or hired items of value.

The IRO highlighted that a recent vehicle purchase was discovered when they happened to notice it in the Council's car park, by which point the vehicle could have been used and driven. The IRO had not been informed of its purchase and had not, therefore, added it to the policy. Sometimes the IRO has been notified after the purchase. One such example was given whereby housing stock had been recently taken on by the Council and the IRO was informed the day after.

#### **Recommendation**

**The Senior Management Team should be reminded to contact the Insurance and Risk Officer when purchasing high value items or property to ensure they are included in the insurance policy.**

The insurers also need to be notified of changes in ways of working, new services to be provided or major projects or where additional cover needs arranging. The IRO tries to be proactive by reviewing committee papers and contacting the Service Area Managers to try to ensure that any information which implies the insurance may need to be adjusted or added to is identified.

#### 4.4 **Reputational Risks**

##### 4.4.1. **Poor claims processing and timeliness of reporting claims resulting in reputational damage.**

There are clear processes to follow when managing claims. The processes include relevant information such as who to contact and how to log the claim on to the claims system. The Audit and Risk team have access to the insurance folder which has all of the relevant procedure and user guides available. The guides, written by the IRO, are clear and detailed including images to ensure the instructions are unlikely to be misunderstood.

Claims are reported to the IRO in various ways. For members of the public there is an online form for them to complete, whilst Council staff can email the IRO directly.

The IRO logs the claim on the JCAD LACHS (claims handling) system as soon as the information of an incident has been received where a claim is likely. Where there has been an incident but it is unlikely a claim will be made, the IRO inputs the information onto an incident policy within the claims system to ensure that, if a claim is made at a later date, the process of gathering the information has already begun, allowing it to be quickly converted into a claim.

In the last twelve months there have been 55 claims made and there are currently 59 incidents recorded where there is a possibility that a claim will be made. A sample of 20 claims was reviewed in detail. The claims in the sample all had regular notes recorded on the system showing when information had been requested or the insurance company had been contacted for an update. The information and notes for each claim showed that the IRO was managing the claims in a timely manner.

#### 4.5 **Fraud Risks**

##### 4.5.1 **False claims submitted.**

Evidence to support each claim, in the form of documents, photographs and email correspondence, was found on the system for all of the claims covered by the above sample. The evidence gathered was reliable enough to ensure the claims were valid, understand what had happened and to enable the insurance companies to investigate the claim thoroughly. The evidence gathered also helps the IRO to identify claims where the claimant has potentially exaggerated claims. Where there are concerns of fraudulent or exaggerated claims the IRO can raise it with the insurers who can get specialist teams involved.

## 4.6 **Health and Safety Risks**

### 4.6.1 **Health and safety requirements may not be complied with resulting in claims against the Council.**

In March 2020, most Council staff were moved to homeworking due to the Covid-19 pandemic. Since then there has been little change, with only a few staff members returning to the office. Homeworkers were able to arrange to collect monitors and chairs from Riverside House and desks could be purchased.

Throughout the pandemic, the insurance provider has echoed the guidance from various health and safety agencies regarding homeworking and has provided regular advice to employers, highlighting the need to ensure that staff have the right equipment, are taking frequent breaks and DSE measures are being taken.

The Health and Safety at Work Act states that employers have a duty of care for their employees wherever they are working. The employer is responsible for the protection of the occupational health and safety of staff who work from home as well as office-based workers. This duty cannot be delegated to the worker, even though the employer is not in the worker's home and cannot control what goes on there.

The Health and Safety Executive (HSE) also provides a range of guidance and information, encouraging employers to frequently review the DSE arrangements and to provide support where issues are identified (e.g. aches, pains and discomfort due to the temporary working arrangements, effects of lone working etc.) The advice provided from HSE, the insurance providers and other external bodies should, if followed, help to minimise the potential issues and, therefore, reduce the possibility of claims that could be made against the Council.

Staff have been reminded of the healthcare scheme and the HR team issue regular health and wellbeing guidance however, if there are issues with their working conditions it is up to staff members to discuss it with their line manager

As yet, there have been no claims from employees for health, safety and wellbeing issues as a result of working from home due to Covid-19 requirements. If there were to be a claim the Council would be liable to pay the first £10,000, this would also have an impact on insurance premiums going forwards.

To reduce the risk of claims from members of the public and customers, there are various service area procedures and programmes in place, covering issues such as repairs and maintenance of Council properties, ensuring public spaces (including parks and playgrounds) are maintained and monitored, and various other initiatives to help keep residents and visitors safe within the district.

## 4.7 **Other Risks**

### 4.7.1 **Reliance on one insurance officer.**

Cover for the IRO is provided as needed by the Audit team. On discussions with the Audit team members the procedure is as follows:  
When a call comes in, details would be taken from the caller and emailed to the IRO to manage and respond to as needed on their return. If the issue was urgent, the Audit team would access the insurance manual and contact the claims handler. Alternatively, they could review the progress of the claim on JCAD LACHS.

Forms completed on the intranet are forwarded directly to the IRO from the insurance email account. An automated response message is sent informing of them of the time frame that they should expect to receive a response by.

Similarly, if emails are sent in (e.g. from other service areas with a claim or enquiry), the IRO's 'out of office' message will inform them of the absence and the expected response date. The IRO also has an answerphone to take messages when they are absent for short periods and the recorded message will again highlight this information.

If the issue cannot be resolved by the above methods, the Audit team would email the IRO and mark the email as urgent. The IRO has previously taken their work mobile phone and personal laptop (with virtual access) on leave with them in case of urgent issues, this is no longer possible so appropriate cover will need to be arranged for absences.

### 4.7.2 **Poor information, incident reporting and monitoring resulting in the Council being liable for claims it could otherwise challenge.**

A sample of ten claims from within the last twelve months was reviewed. The claims were selected due to there being potential for the Council to challenge liability. All of the sampled claims were made following the Council's failure to carry out repairs or for damage caused as a result of the repairs.

Upon review of the housing management system (Active H), no notes or information of the repairs could be found prior to the tenant raising their complaint, so it could not be determined how or when the need for a repair had been reported or when the work was carried out, unless the tenant was not home when the contractors arrived.

The lack of information regarding the original repair or the monitoring of the condition of the property prevents the Council from being able to challenge the claim. This would normally warrant a recommendation. However; a recent audit has addressed this issue so, moving forward, it is expected that the information will be entered onto Active H allowing the insurance company to assess a claim and determine liability.

## 5 **Conclusions**

5.1 Following our review, in overall terms we are able to give a SUBSTANTIAL degree of assurance that the systems and controls in place in respect of Insurances are appropriate and are working effectively to help mitigate and control the identified risks.

5.2 The assurance bands are shown below:

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

5.3 One issue was identified which requires further action regarding the need to remind staff to ensure high value items and property are insured.

## 6 **Management Action**

6.1 The recommendation arising above is reproduced in the attached Action Plan (Appendix A) for management attention.

Ian Davy  
Principal Internal Auditor

## Action Plan

## Internal Audit of Insurances – June 2021

Report Ref.	Risk Area	Recommendation	Rating*	Responsible Officer(s)	Management Response	Target Date
4.3.2	Legal and Regulatory Risks	The Senior Management Team should be reminded to contact the Insurance and Risk Officer when purchasing high value items or property to ensure they are included in the insurance policy.	Low	Audit and Risk Manager	A reminder will be issued at SMT.	End of June 2021

\* The ratings refer to how the recommendation affects the overall risk and are defined as follows:

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