



AUDIT COMMITTEE

Committee Report

Public

Date of Meeting: 27th September 2007

Title: Audit Services Progress Report

Report of: Head of Audit Services

Report reference: CORP 47/07

Summary:

This report summarises the work carried out by Audit Services since the previous report to Committee on 22nd June 2007.

Recommendations:

Members are requested to receive the report.

Contact Officer: Ian Beckett, Head of Audit Services **Ext:** 7292

Audit Services Progress Report

1 Summary of Audit Work

- 1.1 As previously agreed by Members of this Committee, Members will be supplied, at each meeting, with the Management Summary and the Summary of Recommendations and Action Plan for each audit which has been completed since the previous meeting. The following is attached -

Insurances Appendix **A**

2 Actions taken on Recommendations ("Follow-up Reviews")

- 2.1 The follow-up reviews for Disaster Recovery and Pollution Control have been undertaken.
- 2.2 There are no outstanding issues, from either of the follow-up reviews referred to above, to which I need to draw Members' attention.

3 Ongoing work

- 3.1 The following reviews have also commenced

High Risk Reviews:

- Tendering and Contract Procedures
- Energy Efficiency
- Concessionary Fares
- IT Management and Financial Control
- Performance Indicators (first quarter completed, second quarter ongoing)
- Facilities Management and Building Maintenance
- General Management of Property Portfolio (Draft Report issued)
- Customer Contact Centre (Draft Report issued).

Material Reviews:

- Council Tax
- Fixed Assets
- Renovation Grants
- Payroll

3.2 The results of the above will be presented to Members in due course.

4 Issues Relevant to the Statement on Internal Control (SIC)

4.1 No issues relevant to the SIC have arisen during the period covered by this report to which I need to draw Members' attention.

5 Other Emerging Issues

5.1 There are no further emerging issues to which I wish to draw Members' attention.

6 Recommendation

6.1 Members are requested to receive the report.

I. Beckett
Head of Audit Services
September 2007

1. Reason for the Audit

- 1.1. The audit was undertaken as part of the agreed Audit Plan for 2006/07. Using the strategic risk model evaluation, the provision of Insurance emerged as being one of the high-risk areas for the Authority.
- 1.2. This particular audit was an overview of the processes already undertaken by the insurance professionals that the Authority appoints, i.e. Marsh UK (Brokers), St Paul Travelers (General Insurers), Zurich Municipal (Highways) and the insurers for the more specialist activities.
- 1.3. It is not Audit Services' remit to challenge this professional judgement, but rather to determine that there are sufficient internal controls in place to ensure that the information provided to the insurance professionals is correct and complete to ensure that Carlisle City Council is adequately insured.

2. Background Information.

- 2.1. St Paul Travelers Insurance Plc have been Carlisle City Council's appointed insurers since May 1998. They adopted responsibility for insuring the City's main portfolio, excluding Highways Insurance Claims. These remain to be covered by Zurich Municipal, the Authority's previous insurance providers.
- 2.2. The Highways Insurance claims are subject to a separate periodic audit review, last undertaken in April 2005.
- 2.3. The Authority undertook a full retendering exercise for its insurance in the spring of 2003 in line with the requirements of the Constitution. St Paul Travelers were successfully reappointed as the main insurance providers for the Authority.

3. Scope of the Audit

- 3.1. Audit testing and verification has been carried out to form an opinion over the adequacy of systems and controls in place relating to the risks identified. Key areas for review are:

Matters Arising – Section of Report	Area Examined
1.	Review of Insurance Policies & Contracts.
2.	Review of Insurance Costs & Premiums.
3.	Review of Uninsured Risks.
4.	Risk Management.

4. Associated Risks of Providing this Service/Function

- 4.1. Examination of the Risk Registers noted the following identified risks:

Strategic Risks.

<i>Ref</i>	<i>Risk Description</i>	<i>Risk Score</i>
7.	<i>There is a risk that the Council may not be adequately insured and as a result suffers reputational and financial implications.</i>	4. (Low)

Operational Risks:

<i>Ref</i>	<i>Risk Description</i>	<i>Risk Score</i>
7.	<i>Those duties have not been reviewed to ensure continuous cover for the Insurance function.</i>	4. (Low)

5. Overall Conclusion of the Audit Review

- 5.1. It has been made evident from previous experience, i.e. the devastating flood in January 2005, that reliance can be placed not only on the performance of the internal insurance function but also the proficiency of the nominated insurance brokers and insurance company. This review confirmed that conclusion.
- 5.2. There are twenty recommendations within this report. These recommendations have been discussed with the Treasury and Insurance Manager who in turn will consult with the Authority's brokers and insurers. If the professional advice deem these recommendations practicable they can be adopted as part of a general housekeeping exercise.
- 5.3. No serious problems were found during this review, with regard to the administration of the insurance function. Therefore, assurance that the function is running effectively and efficiently can be given.

Corporate Services Directorate

<u>Ref</u>	<u>Issue</u>	<u>Recommendation</u>	<u>Grade</u>	<u>Action to be Taken</u> <u>(including responsible</u> <u>officer for overseeing the</u> <u>implementation)</u>	<u>Level of</u> <u>Risk</u> <u>(H, M or L)</u>	<u>Target</u> <u>Date</u>
1a.	The Insurance Broking function has not been tendered in line with Contract Procedures for a considerable time. This has been due to extenuating circumstances, i.e the flood and the insurance renewal exercise where a working knowledge of the Authority was required.	To fully comply with the Authority's Contract Procedure Rules and ensure good practice, the Deputy Chief Executive is required to authorise a temporary extension of the current broker arrangements.	A	The Treasury and Insurance Manager will draft a memo for the Head of Financial Services to send to the Deputy Chief Executive requesting that this temporary extension be approved.	L	31/7/2007
2a.	The budget against actual expenditure information in the 13/06 FIS report for insurance allocations highlighted some variations. It was established that this was due to a potential restructure within the unit, that did not happen for Accounting reasons.	The budgets relating to Employer's and Public Liability Insurance for the Environmental Services section should be rejournalled/reallocated to project the true position for the 2007/08 financial year.	B	This has been actioned in 2007/08.	L	N/A

2b.	The Material Damage, "Specified All Risks" policy has a heading entitled 'Miscellaneous'. It is not evident what is defined under this heading.	The Treasury and Insurance Manager should liaise with St Paul Travelers to ensure that the 'Miscellaneous' clause is clearly defined so the Authority is clear as to what is covered by this heading.	B	This has been actioned. The Treasury and Insurance Manager has spoken to St Paul regarding this clause which was inserted as a 'catch all' item in the All Risks cover following the flood. There is a £25,000 limit on any one item and the cover attracts a higher premium than named risks but it has already enabled one otherwise ineligible claim to be pursued.	L	N/A
2c.	The Athletics Track at the Sheepmount is specified as covered under the 'Specified All Risks Policy' to the limit of £225,000. The Property Schedule covers 'Sheepmount Track & Grandstand' to a limit of £1,495,000. These descriptions may imply that the Sheepmount track is doubly insured though All Risks cover is different from Property cover.	The Treasury and Insurance Manager should clarify whether or not the Sheepmount Track is insured both under the Property Schedule and the Material Damage Specified All Risks Schedule and take the appropriate action if this is the case.	B	The Treasury and Insurance Manager will pursue this action in conjunction with Property Services.	L	31/7/2007
2d.	Specified All Risks cover has been arranged for the 'Model of Carlisle City' to a limit of £13,000. This model was destroyed during the floods and was not replaced, therefore cover is not required.	The Material Damage Specified All Risks cover for the 'Model of Carlisle City' should be cancelled.	B	The Treasury and Insurance Manager will arrange for this item to be deleted from the All Risks schedule.	L	31/7/2007

2e	<p>Specified All Risks cover has been arranged for Pianos & Musical Instruments to a limit of £20,000. Initially this cover was taken out to cover damage to items held at the Sands Centre for concerts etc. Carlisle Leisure Limited are now the responsible agents for arranging contents insurance.</p>	<p>The Material Damage cover for 'Pianos and Musical Instruments' should be removed from the schedule as the Authority is not required to provide insurance cover for contents held within Carlisle Leisure Limited managed establishments.</p>	B	<p>The Treasury and Insurance Manager will action this after first checking with Community Services that the cover is not otherwise required.</p>	L	31/7/2007
2f.	<p>Under the Specified All Risks Cover there are four separate entries to cover CCTV equipment to a limit of £410,000. It is confusing as to what each of these entries specifically cover as the vague description insinuates that the equipment is doubly insured.</p> <p>Asset valuations obtained from the 2005/06 and 2006/07 balance sheets show CCTV asset worth of only £229,000 so the cover of equipment is unnecessarily high.</p>	<p>The Treasury and Insurance Manager should liaise with the Head of Environmental Services to establish the exact amount of CCTV equipment that may require cover. This should in turn be compared with the amount of cover that is specified on the schedule and the appropriate action taken.</p>	B	<p>The Treasury and Insurance Manager will action this following confirmation of the value of the Council's CCTV equipment with Community Services.</p>	L	31/7/2007

2g	<p>The Money Policy identifies all the safes the Authority owns and the levels of cover of any contents. During testing, it was identified that one safe was not included in this schedule.</p> <p>It is stipulated under the Financial Procedure Rules that it is the responsibility of the Heads of Service to inform the Insurance Section of any unidentified insurable risk.</p>	<p>The Head of Financial Services should remind other Heads of Service of the necessity of informing the Insurance Section of any changes within their service operations that may have insurance cover implications (as stated in the Authority's Financial Procedure Rules). This may involve informing the Insurance Section of any acquisitions of equipment over a certain value, or even a change to the normal use of existing equipment that would constitute an increased risk to that service.</p> <p>In the meantime, the Treasury and Insurance Manager should ensure that the missing safe is included on the Money Policy safe schedule.</p>	A	<p>The Treasury and Insurance Manager will draft a memo to be sent out by the Head of Financial Services in respect of this requirement.</p> <p>The Treasury and Insurance Manager will action this requirement</p>	M	31/7/2007
					L	31/7/2007

2h.	The Money Policy Premium cost is allocated over Directorates Payroll cost. Although the allocation of the premium involves a relatively small amount (£2,887 in 2006/07), it still appears unfair that some Directorates are incurring a charge when they have no direct responsibility for money.	The Money Policy premium could be allocated over Directorates on a more relevant basis. A suggestion could be to only charge services who have use of a safe as per (revised) schedule. As there may be a small resource implication to changing this method and also that the budgets for 2007/08 have already been set, this is to be at the discretion of the Treasury and Insurance Manager.	D	This requirement has been considered but no further action is proposed due to the low value of the premium concerned.	L	N/A
2i.	The Property schedule did not correspond to the Asset Register received from Property Services. Ideally these schedules should be aligned so that any legitimate variances can be explained.	It would be good practice if the Property Schedule that is submitted for renewal purposes is cross referenced to the Asset Register maintained by Property Services prior to being submitted to Marsh UK so that all discrepancies can be identified.	B	The current property schedule has been cross referenced to the records held by Property Services but it is agreed that such a check should form part of the annual renewal process.	L	At renewal time each year

2j.	When reallocating the Employers Liability Premium, casual staff are 'head counted' therefore 'charged', per casual, per event. This is not a fair means of allocation as each event tends to be manned by the same members of casual staff. E.g. the same member of casual staff working on the Spring Show and at the Fireshow is currently being charged as two employees.	A fairer way of allocating the Employers Liability premium over casual staff would be to allocate the charge over the Casual 'pool' instead of attendance at each event. This can be reviewed as part of the 2007/08 allocation process.	D	The allocation method has been reviewed and revised for 2007/08. No further action is proposed at present.	L	N/A
2k.	Vehicle PV55 HBZ is stated as being a Grounds Vehicle on the vehicle schedule yet it is held in the General Ledger under a Cemeteries code.	Financial Services staff should transfer the vehicle to the correct cost code in the General Ledger.	B	This has been actioned.	L	N/A
3a.	<u>Bitts Park Water Feature</u> is not specifically identified under the All Risks Policy despite incurring capital spend during 2006/07.	According to existing criteria (subject to any decisions arising from the implementation of recommendation 2b), Bitts Park Water Feature should be added to the Material Damage All Risks Schedule.	B	The Treasury and Insurance Manager will arrange for this asset to be added to the All Risks Schedule.	M	31/7/2007

3b.	Artefacts stored at <u>Shaddonmill</u> are not specifically identified under the All Risks Policy despite incurring capital spend during 2006/07.	The Treasury and Insurance Manager should arrange for the artefacts stored at Shaddonmill to be logged and valued to ensure that an adequate level of cover is in place, subject to first establishing title.	B	The Treasury and Insurance Manager will review this item in conjunction with Tullie House as it is necessary first of all to resolve the issue of ownership. A visit by the St Paul risk manager will be arranged as part of this process.	L	31/8/2007
3c.	<u>Bitts Park Tennis Facilities</u> . Previously this asset consisted of a basic turf surface to the court, and as an outdoor area, did not require insurance cover. The court has now been improved and fitted with an all weather surface. The specification of the asset has now changed and the courts may require additional cover.	The Treasury and Insurance Manager should liaise with Marsh UK to establish whether additional cover is required due to the implications of the tennis court surface improvements and the subsequent cost of replacement.	B	The Treasury and Insurance Manager will pursue this as part of the review of the authority's All Risks cover	L	31/7/2007
3d.	<u>Sheepmount Bridge</u> . As in recommendation 3c, the specification of this asset has now changed and may require additional insurance cover as it is now considered to be a 'structure'. This structure will allow access to vehicles of a considerable weight due to the nature of business at the Sheepmount. It is not prudent to wholly rely on drivers of vehicles to be sufficiently insured against an incident on the bridge.	It is advisable that the Sheepmount Bridge has additional insurance cover to ensure that the Authority is covered for the risk of uninsured third party claims.	B	This issue will be clarified by the Treasury and Insurance Manager in conjunction with Marsh Ltd and Property Services.	M	31/7/2007

3e.	<u>Hardwicke Circus Fountain</u> . This has previously been uninsured.	As this asset is prone to acts of vandalism, it is recommended that insurance cover be specified.	B	The Treasury and Insurance Manager will add this asset to the All Risks schedule.	L	31/7/2007
3f.	<u>Bitts Park Play Area</u> . There is no specific insurance cover for play area equipment as this was viewed as an uninsurable outdoor area. This equipment is often valuable and prone to vandalism yet also has the added risk of high cost public liability claims if the equipment is not maintained to a high standard.	The Treasury and Insurance Manager should again liaise with Marsh UK as to the possible benefits of arranging specific cover for this equipment.	B	As above. The Treasury and Insurance Manager will first discuss the issue with Marsh in the context of the authority's All Risks cover.	L	31/7/2007
3g.	At present there is no <u>specific</u> cover for the actual Crematorium machinery. Cover is provided under the general property schedule. The 2007/08 level of cover for the Crematorium as a whole under this schedule was £3,766,204. This is a total rebuild cost and will include all other fixtures and fittings in addition to the cremators which cost £355,000 alone. There is a risk that the Crematorium will therefore be underinsured.	As the new cremators will be of considerable value when installed, it would be prudent to consider either arranging additional insurance to cover the possible replacement of these or to increase the overall level of cover on the Crematorium itself under the Property Policy.	B	The Treasury and Insurance Manager will clarify the basis of valuation in conjunction with Property Services in the light of the current works taking place at the crematorium.	M	31/7/2007
4a.	It was confirmed that information relating to past insurance history as specified in the Risk Management Policy and Strategy, does not get reported to the Risk Management	The Deputy Chief Executive should consider the merits of utilising the insurance claims experience information for risk	B	The Treasury and Insurance Manager will pursue this issue with the Deputy Chief Executive in the context of future meetings of the Risk	L	30/9/2007

	Group. As a result, the risks that may be identified from these reports cannot be accommodated into the Strategic Risk based Audit Plan.	management purposes. If it is considered not to be useful the reference towards the insurance data should be removed from the risk management strategy and policy.		Management Group.		
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