

Audit of Insurance

Draft Report Issued: 11 August 2020
Draft Report reissued: 12 August 2020
Director Draft Issued: 02 September 2020
Final Report Issued: 09 September 2020



Audit Report Distribution

Client Lead:	Finance Officer (Corporate Insurance and Governance)
Chief Officer:	Corporate Director of Finance and Resources Chief Executive
Others:	Financial Services Manager Principal Accountant Information Governance Manager
Audit Committee:	The Audit Committee, which is due to be held on 24 th September 2020 will receive a copy of this report.

Note: Audit reports should not be circulated wider than the above distribution without the consent of the Designated Head of Internal Audit.

1.0 Background

- 1.1. This report summarises the findings from the audit of Insurance. This was an internal audit review included in the 2020/21 risk-based audit plan agreed by the Audit Committee on 30th July 2020.
- 1.2. The Council is required to have in place an appropriate level of insurance cover to demonstrate good combined financial and risk management. It is important that the Council has full insurance which covers all the risks that affect the Council.
- 1.3. The Council's main insurer is Zurich Municipal. Marsh UK is the appointed Insurance Broker who provide specialist advice and guidance to help ensure appropriate and adequate insurance cover arrangements are in place to address the risks exposed.

2.0 Audit Approach

Audit Objectives and Methodology

- 2.1 Compliance with the mandatory Public Sector Internal Audit Standards requires that internal audit activity evaluates the exposures to risks relating to the organisation's governance, operations and information systems.
- 2.2 A risk-based audit approach has been applied which aligns to the five key audit control objectives (see section 4). Detailed findings and recommendations are reported within section 5 of this report.

Audit Scope and Limitations.

- 2.3 The Client Lead for this review was the Finance Officer (Corporate Insurance and Governance) and the agreed scope was to provide independent assurance over management's arrangements for ensuring effective governance, risk management and internal controls of the following scope areas:
 - Failure to achieve business objectives due to insufficient governance.
 - The Council does not have adequate insurance cover leading to avoidable financial losses and reputational damage.
 - Inadequate insurance cover for third parties who complete work / provide services on behalf of the Council and events and activities held in Council premises / land leading to avoidable financial losses and reputational damage.
 - Insufficient management, monitoring, reporting and defence of insurance claims resulting in avoidable financial losses and reputational damage.
 - Insurance cover does not provide value for money. (for example, through excessive or duplicated cover)
- 2.4 There were no instances whereby the audit work undertaken was impaired by the availability of information.

3.0 Assurance Opinion

3.1 Each audit review is given an assurance opinion intended to assist Members and Officers in their assessment of the overall governance, risk management and internal control frameworks in place. There are 4 levels of assurance opinion which may be applied (See **Appendix B** for definitions).

3.2 From the areas examined and tested as part of this audit review, we consider the current controls operating within Insurance provide **Reasonable assurance**.

Note: as audit work is restricted by the areas identified in the Audit Scope and is primarily sample based, full coverage of the system and complete assurance cannot be given to an audit area.

4.0 Summary of Recommendations, Audit Findings and Report Distribution

4.1 There are two levels of audit recommendation; the definition for each level is explained in **Appendix C**. Audit recommendations arising from this audit review are summarised below:

Control Objective	High	Medium
1. Management - achievement of the organisation's strategic objectives achieved (see section 5.1)	-	2
2. Regulatory - compliance with laws, regulations, policies, procedures and contracts (see section 5.2)	-	2
3. Information - reliability and integrity of financial and operational information (see section 5.3)	-	1
4. Security - safeguarding of assets (N/A)	-	-
5. Value – effectiveness and efficiency of operations and programmes (see section 5.4)	-	-
Total Number of Recommendations	-	5

4.2 Management response to the recommendations, including agreed actions, responsible manager and date of implementation are summarised in Appendix A.

4.3 Findings Summary (good practice / areas for improvement):

There is a strong governance framework in place with no significant areas of weakness identified and therefore reasonable assurances are in place. Insurance forms part of the accountancy structure, service plan and risk register.

The Finance Officer (Corporate Insurance & Governance) has regular meetings with their line manager, the Council's Insurer and broker. Both the insurer and broker offer advice and support to ensure that the Council is not overly exposed to any risk of financial or reputational loss as a result of a claim.

The main concern raised during this audit review was that there are limited documented procedures / guidance to cover the Finance Officer's (Corporate Insurance & Governance) tasks and as a result there continues to be a risk that there may be a lack of continuity if the officer was absent for some time. However, it should be noted that there are contingencies in place such as the lines of communication with brokers and insurers for any instances where a claim happens and the comprehensive filing system of previous actions to be able to follow if necessary.

The Council's Insurance Broker assists the Council in preparing tender documentation in consultation with the Council for the procurement process for the Council's insurance cover and preparing the documentation for insurance renewals. There is adequate segregation of duties in place for purchasing insurance.

The Council uses Claims-Control, a software platform for managing incidents, claims, risks, insurance and associated information. Information is also stored electronically on the Council's IT network, access to this should be restricted to appropriate officers only as it includes sensitive personal data.

A review of the minutes for both the Risk Management Sub-group and the Corporate Risk Management Group highlighted that processes need to be tightened to ensure adequate monitoring and reporting of actions for issues that are raised in relation to insurance.

The Managing Occupational Road Risk Policy explains that all incidents should be reported to their line manager or another designated person and an incident / accident form completed and sent to Fleet and Insurance. Audit testing highlighted that this process is not always completed. Examples were noted during audit testing where incident / accident forms had not been completed and several forms had not been completed in full.

Comment from the Corporate Director of Finance and Resources

A useful audit review of the Council's Insurance arrangements which has highlighted a strong governance framework with no significant weaknesses. Given the importance of having appropriate insurance cover in place to protect, as far as possible, the Council and its assets, and adequate insurance procedures to manage the risk, the recommendations made in this report have been accepted by management and will be implemented within the agreed timescales.

5.0 Audit Findings & Recommendations

Management – Achievement of the organisation's strategic objectives

- 5.1.1 Insurance is included within the accountancy team structure, which was last reviewed in February 2020. The Finance Officer (Corporate Insurance & Governance) has a current job description and the role reports directly to the Financial Services Manager.
- 5.1.2 One of the overall responsibilities for the Finance Officer (Corporate Insurance & Governance) is to administer the Council's insurances and to contribute to ensuring the City Council has an effective risk management programme in place.
- 5.1.3 The Financial Services Manager or the Principal Accountant provides cover when the Finance Officer (Corporate Insurance & Governance) is absent.
- 5.1.4 The Financial Services Manager confirmed that resilience / succession planning is being considered. In preparation the Finance Officer has been requested to document procedure notes for tasks as they are completed.
- 5.1.5 At the time of the audit review there was little documented procedures / guidance for tasks relating to insurance and as a result there continues to be a risk that there may be a lack of continuity if the officer was absent. It should be noted that this was a medium risk recommendation in the previous audit report of Insurance in 2015/16.

Recommendation 1 – Procedures / guidance should be documented to cover the Finance Officer's (Corporate Insurance & Governance) role.

- 5.1.6 The Finance Officer (Corporate Insurance & Governance) has regular meetings with their line manager. Training needs / requests are discussed during the annual appraisal process, or when relevant training events arise.
- 5.1.7 Insurance forms part of the accountancy service plan which is retained on SharePoint. The insurance objective is to ensure the Council is not overly exposed to any risk of financial or reputational loss as a result of a claim.
- 5.1.8 There is a risk detailed in the accountancy risk register on SharePoint, which relates to insurance - "There is a risk that the Council assets could be lost if they are not adequately insured or that inadequate cover elsewhere could cause reputational and financial risk to the City Council" This risk was last reviewed in July 2020, the control strategy / mitigating actions include documented procedures, however this remains outstanding. **See Recommendation 1.**

- 5.1.9** Quarterly reports are sent to directorates and any concerns are discussed with management and raised during the monthly Risk Management Sub-group meetings. If necessary, issues are escalated to the Corporate Risk Management Group.
- 5.1.10** The Finance Officer (Corporate Insurance & Governance) attends the Risk Management Subgroup which meets regularly. A review of the minutes for these meetings highlighted there is no suitable tracking of actions. For example, the November 2019 minutes record that issues have been noted with poor quality of completion of accident report forms. No progress was included in the minutes of the next three meetings. These minutes are usually presented to the Corporate Risk Management Group (CRMG); however, a review of this group's minutes identified there was no evidence recorded to confirm that the subgroup meeting minutes for October and November 2019 and January and March 2020 had been presented.
- Recommendation 2 – The Risk Management Sub-Group should ensure suitable tracking of outstanding actions and meeting minutes should be formally recorded as presented to the Corporate Risk Management Group (CRMG).**
- 5.1.11** The Finance Officer (Corporate Insurance & Governance) attends quarterly review meetings with the Council's insurer and the broker.
- 5.1.12** Budgets are reviewed monthly and a copy of the monthly FIS report is received.
- 5.1.13** The Council's Insurance Broker provides advice and assists in undertaking the procurement process for the Council's insurance cover. There is adequate segregation of duties in place for purchasing insurance.
- 5.1.14** The Council's insurance arrangements are reviewed and renewed each year in line with the long term agreement. The basis of the renewals are spreadsheets containing financial information. The spreadsheets are reviewed and updated prior to each renewal. For example, all directorates are asked to contribute to information held on inventories. Up to date information is regularly provided for vehicles.
- 5.1.15** Property valuations and inventories are reviewed annually.
- 5.1.16** Much of the information that insurers base the policy cover on is updated as and when information or assets change.
- 5.1.17** There are no documented procedures or guidance for renewals. The Insurance Officer confirmed that in their absence the officer undertaking the role would be guided by the insurer, the broker and the previous renewal documentation. **See Recommendation 1.**

5.2 Regulatory – compliance with laws, regulations, policies, procedures and contracts

- 5.2.1 The Finance Officer (Corporate Insurance & Governance) receives updates from the Council's insurer, broker and the North West Insurance Group to keep up to date with industry practices, regulations etc.
- 5.2.2 The Council uses Claims-Control, which is a software platform for managing incidents, claims, risks, insurance and associated information.
- 5.2.3 There is a signed agreement in place with Alphatec for Claims Control. This was completed prior to the implementation of GDPR in May 2018. The Information Governance Manager reviewed the existing contract and has advised that when the contract is extended or renewed that it is reviewed to ensure that GDPR is fully complied with. This should include document retention and disposal.
- 5.2.4 Alphatec are responsible for ensuring protective measures are in place to protect against data loss.
- 5.2.5 Documentation relating to insurance including personal information is also retained electronically on the Council's IT network. A list of officers with access to the insurance folder was provided by ICT Services. This identified several officers have access to the folder that do not need it.

Recommendation 3 – Access to the insurance documentation should be reviewed and restricted to appropriate officers only.

- 5.2.6 The Fleet & Depot Manager confirmed that all Council vehicles have an Accident Report Card. The card provides instructions and a check-list of what to do & complete in the event of an incident / accident and a tear-off slip to leave with the third party.
- 5.2.7 The Finance Officer (Corporate Insurance & Governance) is invited to attend the quarterly Health & Safety Service Improvement Group meetings to highlight and discuss insurance issues.
- 5.2.8 The Managing Occupational Road Risk Policy explains that all incidents should be reported by drivers to their line manager or another designated person and an incident / accident form completed and sent to Fleet. Fleet records the incident / accident and sends the form to the Finance Officer (Corporate Insurance & Governance). Upon receipt, a unique reference number is issued so all repair costs can be assigned. Should Fleet be aware of an incident or find damage upon a vehicle inspection, contact is made with the user departments requesting a completed form.

5.2.9 Audit testing included a review of a sample of claims. Testing highlighted that an incident / accident form has not always been completed and a number of submitted forms were incomplete.

Recommendation 4 – All relevant officers should receive formal training to ensure full compliance with the Council’s Managing Occupational Road Risk Policy. Ongoing monitoring should continue to take place to ensure that all incidents / accidents are appropriately recorded and reported.

5.3 Information – reliability and integrity of financial and operational information

5.3.1 Insurance is included within the Financial Services Privacy Notice which is available to view on the Council’s website.

5.3.2 A retention schedule and disposal log are in place for the Council which includes Insurance.

5.3.3 The Finance Officer (Corporate Insurance & Governance) confirmed all directorates have been advised that third party insurance documentation should be provided to themselves for any events on Council property or land including contractors working for the Council. These documents are recorded on a spreadsheet and monitored for expiry dates etc. The responsible officer is contacted when the insurance has expired to request updated information. An electronic copy of the insurance documentation is retained. There are no documented procedures / guidance for this process. **See Recommendation 1.**

5.3.4 Audit testing highlighted that Property Services work independently and manage third party insurances themselves, usually through the procurement process. The Finance Officer (Corporate Insurance & Governance) does not receive a copy of the insurance documentation. It is understood that the Council’s Insurer recommends that the Insurance Officer checks all insurance documentation.

5.3.5 A sample of Old Fire Station (OFS) events was reviewed to see if adequate third party insurance was provided. It was noted that evidence of third party insurance was not provided for three events.

Recommendation 5 – Guidance should be issued to officers to ensure that the Finance Officer (Corporate Insurance & Governance) receives copies of all third party insurance documentation to ensure appropriate cover is in place.

- 5.3.6** The Events Risk Management Group is responsible for reviewing and approving application forms for events held on Council property or land. Roles, responsibilities and membership of this group has been included in the Events Policy and Procedures. Two different versions of this policy and procedures were provided during the audit review. The Finance Officer (Corporate Insurance & Governance) confirmed they would ensure all officers are using the most up to date version.
- 5.3.7** The minutes of the Event Risk Management Group were reviewed. A review of a sample of events confirmed that copies of appropriate third party insurance were provided.
- 5.3.8** All insurance claims are monitored using Claims Control.
- 5.3.9** Several examples were provided to confirm that action is taken after a claim to reduce the risk of a duplicate claim.

5.4 Value – effectiveness and efficiency of operations and programmes

- 5.4.1** The tender and evaluation process for the Council's insurance cover was completed by the Council's Procurement Team with assistance of the Insurance Broker and complied with the OJEU procurement process. The evaluation scoring process included quality and price.
- 5.4.2** The current contract with the broker was awarded during the COVID-19 pandemic and was made via a direct award under a procurement framework, in line with the Council's procurement rules based on the value of the contract. The contract has been appropriately signed by both parties.
- 5.4.3** There are limited insurance options for local authority cover. The Council receives advice and guidance from both the insurer and its broker who are very knowledgeable. The Council's insurance broker looks at market comparisons for the annual policies which include cyber, fine arts and personal accident cover.

Appendix A – Management Action Plan

Summary of Recommendations and agreed actions					
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date
Recommendation 1: Procedures / guidance should be documented to cover the Finance Officer's (Corporate Insurance & Governance) role.	M	If procedures are not clearly documented, officers may be unsure of their roles and responsibilities this may lead to reputational damage to the Council.	A procedure manual and guidance notes are in the process of being completed and will be undertaken alongside the main activities as they occur. This was put in place prior to the audit as a succession planning strategy.	Financial Services Manager	31/03/21
Recommendation 2: The Risk Management Sub-Group should ensure suitable tracking of outstanding actions and meeting minutes should be formally recorded as presented to the Corporate Risk Management Group (CRMG).	M	If insurance issues are not monitored and reported this may lead to additional costs and reputational damage to the Council.	Agreed	Office Manager and PA to Chief Executive	30/09/20

Summary of Recommendations and agreed actions					
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date
Recommendation 3: Access to the insurance documentation should be reviewed and restricted to appropriate officers only.	M	There is a risk to the safeguarding of information if data was accidentally changed or deleted by unauthorised individuals.	Agreed – This has been completed	Financial Services Manager	31/08/20
Recommendation 4: All relevant officers should receive formal training to ensure full compliance with the Council's Managing Occupational Road Risk Policy. Ongoing monitoring should continue to take place to ensure that all incidents / accidents are appropriately recorded and reported.	M	Incorrect practice not identified and rectified may result in extra costs and reputational damage for the Council.	<p>Further & ongoing training for staff in terms of road risk, standards and incident reporting and training / briefings to support managers.</p> <p>Ongoing monitoring to ensure compliance.</p> <p>The approved Handbook for Drivers (approved by SMT) will be circulated to all drivers, relevant managers and supervisors.</p>	Fleet & Depot Manager	31/12/20

Summary of Recommendations and agreed actions					
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date
Recommendation 5: Guidance should be issued to officers to ensure that the Finance Officer (Corporate Insurance & Governance) receives copies of all third party insurance documentation to ensure appropriate cover is in place.	M	If third party insurance is inadequate this may lead to additional costs and reputational damage to the Council.	Agreed – A reminder will be issued to appropriate officers.	Financial Services Manager	30/09/20

Appendix B - Audit Assurance Opinions

There are four levels of assurance used; these are defined as follows:

	Definition:	Rating Reason
Substantial	There is a sound system of internal control designed to achieve the system objectives and this minimises risk.	<p>The control framework tested are suitable and complete are being consistently applied.</p> <p>Recommendations made relate to minor improvements or tightening of embedded control frameworks.</p>
Reasonable	There is a reasonable system of internal control in place which should ensure system objectives are generally achieved. Some issues have been raised that may result in a degree of unacceptable risk exposure.	<p>Generally good systems of internal control are found to be in place but there are some areas where controls are not effectively applied and/or not sufficiently embedded.</p> <p>Any high graded recommendations would only relate to a limited aspect of the control framework.</p>
Partial	The system of internal control designed to achieve the system objectives is not sufficient. Some areas are satisfactory but there are an unacceptable number of weaknesses that have been identified. The level of non-compliance and / or weaknesses in the system of internal control puts achievement of system objectives at risk.	<p>There is an unsatisfactory level of internal control in place. Controls are not being operated effectively and consistently; this is likely to be evidenced by a significant level of error being identified.</p> <p>High graded recommendations have been made that cover wide ranging aspects of the control environment.</p>
Limited/None	Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and this exposes the system objectives to an unacceptable level of risk.	<p>Significant non-existence or non-compliance with basic controls which leaves the system open to error and/or abuse.</p> <p>Control is generally weak/does not exist.</p>

Appendix C

Grading of Audit Recommendations

Audit recommendations are graded in terms of their priority and risk exposure if the issue identified was to remain unaddressed. There are two levels of audit recommendations; high and medium, the definitions of which are explained below.

	Definition:
High	Significant risk exposure identified arising from a fundamental weakness in the system of internal control
Medium	Some risk exposure identified from a weakness in the system of internal control

The implementation of agreed actions to Audit recommendations will be followed up at a later date (usually 6 months after the issue of the report).