



## INTERNAL AUDIT REPORT



### INSURANCE COVERAGE 2016/17

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# INSURANCE COVERAGE 2016/17

## EXECUTIVE SUMMARY

### 1. Introduction and overall opinion

The Council must ensure that it has appropriate insurance in place to cover key risks associated with its activities and responsibilities. Insurance is one of the main methods of transferring risk and is therefore likely to play an important role in the Council’s risk mitigation strategies.

Based on interviews and testing, Internal Audit has concluded that there are adequate procedures in place to ensure insurance renewals take place on time and that the level of cover is appropriate to the Council’s circumstances. There is scope, however, to improve evidence and documentation of the renewal process. In particular:

- ensuring receipt of all policy schedules from the insurer;
- evidencing and updating the basis for determining the level of cover for each risk; and
- obtaining assurances that policy conditions are adhered to.

Based on these findings, the framework of controls currently in place provide **Sufficient Assurance** that the identified risks have been appropriately mitigated. Detailed findings are set out in section 2 of this report. The audit was carried out in line with the scope set out in the approved audit planning record (APR). The assurance opinion is based upon testing of the design of controls to manage the identified risks and testing to confirm the extent of compliance with those controls, as summarised in Table 1 below.

**Table 1 – Assurance opinion**

Internal Audit Assurance Opinion	Direction of Travel				
Sufficient Assurance	N/A				
Risk	Design	Comply	Recommendations		
			H	M	L
Risk 1 - Failure to renew insurance cover at the appropriate time.	Sufficient Assurance	Sufficient Assurance	0	1	0
Risk 2 - Failure to renew insurance cover at the appropriate level.	Sufficient Assurance	Sufficient Assurance	0	0	1
Risk 3 - Insurance cover is not amended in line with changes at the Council, during the period of cover.	Sufficient Assurance	Sufficient Assurance	0	0	0
Risk 4 - Insurance policy conditions are not complied with.	Sufficient Assurance	Sufficient Assurance	0	0	1
<b>Total Number of Recommendations</b>			<b>0</b>	<b>1</b>	<b>2</b>

## 2. Summary of findings

The Council's key risks are currently insured with Zurich Municipal and there has been a relatively low level of claims in recent years. A summary of insured risks and levels of cover for 2016/17 are set out in table 2 below.

**Table 2 – summary of insured risks**

Risk area	Limit of cover
<b>Property</b>	
Material damage - general properties & play equipment	£22,668,606
Business interruption - gross revenue at council offices, covered market, HIC etc.	£3,950,000
Business interruption - additional costs	£3,500,000
Money - cash and cheques in various locations and in-transit	Various
All risks - office machinery, CCTV equipment, civic regalia, artwork etc.	£559,000
Theft - Contents of all buildings	£3,100,000
<b>Casualty</b>	
Public liability	£20,000,000
Employers liability	£20,000,000
Officials indemnity	£2,000,000
Libel & slander	£500,000
Professional negligence – legal and building control	£2,000,000
Professional negligence – blanket cover	£10,000,000
<b>Motor</b>	
Motor vehicles	Comprehensive
<b>Engineering</b>	
Damage to plant, surrounding property & fragmentation.	£100,000
<b>Additional covers</b>	
Land charges – claims arising from errors & omissions	£2,000,000
Personal accident – employees, members & volunteers	Various
Public Health Act	£50,000
Computer – additional expenditure	£10,000
Crime – employee dishonesty, computer fraud & forgery	£5,000,000

### **Risk 1: Failure to renew insurance cover at the appropriate time.**

The current insurance agreement was re-awarded to Zurich Municipal from 1<sup>st</sup> April 2016 for a period of 3 years, with the option to extend for a further 4 years. Within the contract period the Council receives an automatic reminder email from Zurich in October each year with a link to download the relevant renewal forms. This acts as a useful prompt to commence the renewal process.

The renewal form is downloaded by the Finance Senior Business Partner who then arranges to populate the form based on a combination of information already available to finance (e.g. salary information) and direct email requests for information from service managers. There is no formal timetable or procedures, although the renewal form is relatively straight-forward and acts as a prompt to ensure that all relevant information is provided. Once the form has been returned to the insurer, a policy quote is provided which is then checked and approved.



Audit review and analysis of the 2016/17 policy schedules found no gaps in cover compared to previous years. However, as previously reported in internal audit's review of Treasury Management, the policy schedule for Crime (formerly fidelity guarantee) cover was not issued by the insurer at the time of renewal. In addition, as part of this audit, it was noted that the Professional Indemnity schedule had also not been issued, although the premium had been invoiced and paid. Sickness absence of key officers is likely to have contributed to the failure to identify the missing schedules. However, improvements in record keeping and associated controls would help to ensure that this does not happen again (**see recommendation 1**). It should be noted that there is no suggestion that the relevant risks were not insured during this period, just that the relevant documentation was not in place.

Based upon these findings, the rating for the design and operation of controls in respect of this risk is **sufficient assurance**.

**Risk 2: Failure to renew insurance cover at the appropriate level.**

The process to determine the required level of cover is led by the Finance Services Manager and Senior Business Partner. Insured risks and the level of cover is considered in consultation with the insurance provider and based on various sources of information such as number of employees, pay, value of assets etc. Information is gathered and updated on an annual basis for submission to the insurance provider using the standard renewal form.

A specific review of insured risks was undertaken by Zurich as part of preparations for the 2016/17 tender process. This resulted in cover levels being adjusted for some risks as previous levels were historically based and increased each year for inflation.

A review and comparison of the level of cover for all risks for the past three years was undertaken by Internal Audit to identify any significant variances. In most cases the level of cover has remained relatively consistent and officers were able to provide satisfactory explanations where this was not the case. The basis for determining the level of cover was also discussed and found to be reasonable in all cases. Nevertheless, with the exception of building reinstatement costs, there is no formal record or evidence of the basis of the assessment. For example, business interruption cover was calculated based on budgeted income and cover for loss of money in transit is based on average daily cash takings from car parks and other sources. However, there is no formal record of how these estimates were established. Consequently, whilst officers are satisfied that the current levels of cover are adequate, there is a lack of audit trail to support the basis of this judgement (**see recommendation 2**).

Based upon these findings, the rating for the design and operation of controls in respect of this risk is **sufficient assurance**.

**Risk 3: Insurance cover is not amended in line with changes at the Council, during the period of cover.**

Based on discussion with the Finance Services Manager, there are no specific controls or arrangements for staff to notify finance of any specific issues impacting on insurance cover outside of the annual renewal period. However,



the Council has a relatively small asset base and the FSM is confident that the finance team will be aware of any significant purchases or disposals as part of their routine financial management and support responsibilities, including budget setting and budgetary control. Any other insurance implications arising from financial transactions or significant changes to services will be picked up as part of regular meetings between budget holders and finance business partners. A standard form is used to guide these meetings, which includes a reminder to consider any insurance related issues.

Based upon these findings, the rating for the design and operation of controls in respect of this risk is **sufficient assurance**.

**Risk 4: Insurance policy conditions are not complied with.**

Review of the 2016/17 policy documents identified a number conditions imposed by the insurance provider. For example:

- Money – conditions related to the location of safe keys.
- Computer – inventory, backup and data security conditions.
- Engineering – requirement for inspection reports.
- Property – testing and maintenance of fire alarms, fire extinguishers etc.
- Civic regalia – secure storage whilst travelling.

Based on discussions with the Finance Services Manager, there are no specific controls in place to obtain assurance that major policy conditions are complied with, although this is considered by management to be relatively low risk. There is no evidence of any claims having been rejected by the insurance provider as a result of failure to comply with policy conditions in recent years.

Assurances were provided to Internal Audit in respect of the specific conditions identified above. However, controls could be strengthened through routinely obtaining confirmation of compliance from service managers as part of the annual renewal process in future (**recommendation 3**).

Based upon these findings, the rating for the design and operation of controls in respect of this risk is **sufficient assurance**.

**3. Action Plan**

The Action Plan at Appendix 1 provides a number of recommendations to address the findings identified by the audit. If accepted and implemented, these should positively improve the control environment and aid the Council in effectively managing its risks.

**4. Limitations to the scope of the audit**

This is an assurance piece of work and an opinion is provided on the effectiveness of arrangements for managing only the risks specified in the Audit Planning Record.



The Auditor's work does not provide any guarantee against material errors, loss or fraud. It does not provide absolute assurance that material error, loss or fraud does not exist.



## Action Plan

## Appendix 1

Rec No.	ISSUE	RECOMMENDATION	Management Comments	Priority	Officer Responsible	Due date
<i>Risk 1: Failure to renew insurance cover at the appropriate time.</i>						
R1	The Council's insurer did not issue policy schedules for Crime and Professional Indemnity cover at the time of the last renewal. This was not identified until evidence was requested by Internal Audit.	Controls should be improved to ensure that insurance records are complete and accurate. This could include a simple timetable and checklist to ensure that all renewal information has been submitted to the insurer in a timely manner and that all policy documentation and schedules have been received.	A check will be added to ensure all policy documents are received.	Medium	Finance Services Manager	30 June 2017
<i>Risk 2: Failure to renew insurance cover at the appropriate level.</i>						
R2	The basis for determining levels of cover is reasonable. However, other than building reinstatement costs, there is no formal record or evidence of the basis of the assessment.	The basis for determining the level of cover of each risk should be clearly documented and updated on an annual basis to ensure that it remains appropriate and consistent with the Council's circumstances.	Evidence will be saved in the renewal folder, where obtained.	Low	Finance Services Manager	31 March 2018
<i>Risk 4: Insurance policy conditions are not complied with.</i>						
R3	There are a number of conditions attached to the Council's insurance policies. Lack of formal confirmation of compliance with these conditions could increase the risk of future claims being rejected.	As part of the annual renewal process, finance should seek formal assurances from service managers that all relevant policy conditions are understood and complied with.	When renewal documents are received, emails will be sent to service managers with any policy conditions and requesting confirmation of understanding.	Low	Finance Services Manager	30 June 2017

## Appendix 2

### Glossary

#### The Auditor's Opinion

The Auditor's Opinion for the assignment is based on the fieldwork carried out to evaluate the design of the controls upon which management rely and to establish the extent to which controls are being complied with. The table below explains what the opinions mean.

Level	Design of Control Framework	Compliance with Controls
<b>SUBSTANTIAL</b>	There is a robust framework of controls making it likely that service objectives will be delivered.	Controls are applied continuously and consistently with only infrequent minor lapses.
<b>SUFFICIENT</b>	The control framework includes key controls that promote the delivery of service objectives.	Controls are applied but there are lapses and/or inconsistencies.
<b>LIMITED</b>	There is a risk that objectives will not be achieved due to the absence of key internal controls.	There have been significant and extensive breakdowns in the application of key controls.
<b>NO</b>	There is an absence of basic controls which results in inability to deliver service objectives.	The fundamental controls are not being operated or complied with.

#### Category of Recommendations

The Auditor prioritises recommendations to give management an indication of their importance and how urgent it is that they be implemented. By implementing recommendations made managers can mitigate risks to the achievement of service objectives for the area(s) covered by the assignment.

Priority	Impact & Timescale
<b>HIGH</b>	Management action is imperative to ensure that the objectives for the area under review are met.
<b>MEDIUM</b>	Management action is required to avoid significant risks to the achievement of objectives.
<b>LOW</b>	Management action will enhance controls or improve operational efficiency.