

<b>Title of Report:</b>	<b>Insurance Internal Audit Report</b>
<b>Committee Report Submitted To:</b>	<b>Audit Committee</b>
<b>Date of Meeting:</b>	<b>21<sup>st</sup> Sept 2022</b>
<b>For Decision or For Information</b>	<b>For Information</b>

<b>Linkage to Council Strategy (2019-23)</b>	
<b>Strategic Theme</b>	Improvement and Innovation
<b>Outcome</b>	Satisfactory
<b>Lead Officer</b>	Audit, Risk & Governance Manager
<b>Cost: (If applicable)</b>	Internal Staffing Cost

<b>Budgetary Considerations</b>	
Cost of Proposal	n/a
Included in Current Year Estimates	<b>YES/NO</b>
Capital/Revenue	Revenue
Code	n/a
Staffing Costs	Internal Staffing Cost to Complete

<b>Screening Requirements</b>	Required for new or revised Policies, Plans, Strategies or Service Delivery Proposals.		
Section 75 Screening	Screening Completed:	Yes/No	Date:
	EQIA Required and Completed:	Yes/No	Date:
Rural Needs Assessment (RNA)	Screening Completed	Yes/No	Date:
	RNA Required and Completed:	Yes/No	Date:
Data Protection Impact Assessment (DPIA)	Screening Completed:	Yes/No	Date:
	DPIA Required and Completed:	Yes/No	Date:

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## Executive Summary

The internal audit of Insurance was completed in accordance with the Council's approved annual Internal Audit Plan for 2022/23. This report summarises the findings arising from a review of the Insurance management for the Council.

A number of areas where controls could be enhanced have been highlighted in this report. The following table summarises the total number of recommendations with all recommendations being accepted by management:

Risk	Number of recommendations & Priority rating		
	1	2	3
Insurance held is inadequate to enable the Council to meet its legal requirements	-	2	-
Insurance claims are not dealt with promptly or appropriately leading to claims not being paid and financial loss to the Council.	-	-	2
<b>Total recommendations made</b>	<b>-</b>	<b>2</b>	<b>2</b>

Based on audit testing the following overall level of assurance is provided:

### Satisfactory

Overall, there is a satisfactory system of governance, risk management and control. While there may be some residual risk identified this should not significantly impact on the achievement of system objectives.

The weaknesses identified during the course of the audit have been brought to the attention of Management. The weaknesses outlined have come to the auditor's attention during normal audit work and are not necessarily all the weaknesses, which may exist. The content of this report has been discussed with the Chief Officer responsible for Insurance to confirm factual accuracy. The assistance and cooperation received during the audit is gratefully acknowledged.

## Objective

The main objective of the audit was to review the key systems and controls in relation to the management of the Insurance that have been established by the Council.

*This report has been prepared for the Members of Causeway Coast and Glens Borough Council and should not be disclosed to any third party, quoted or referred to without prior written consent of the author.*

## Background

The council's insurance service is managed by the Head of Performance, Corporate Health & Safety & Insurance Services Manager and an Insurance Officer.

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. Local Councils, by their nature, are exposed to a variety of insurable risks. Councils decide on the need for insurance protection based on the legal requirements, the risk exposures and the level of insurance required to cover those risks that the Council cannot self-finance.

The Council uses an insurance broker to organise insurance cover and provide a link between the Council and insurers. A joint procurement exercise to tender for the provision of insurance brokerage services was carried out in December 2021 on a collaborative basis between Causeway Coast and Glens Borough Council, Derry City and Strabane District Council and Fermanagh and Omagh District Council for the period 1st April 2021 until 31st March 2023. This can be extended by two years if the Council so wishes.

The successful tenderer was ABL Group (previously Willis Towers Insurance Brokers) for this service who specialise in provision of insurance to the public sector bodies.

## Risks

The risks identified relating to the audit of Insurance and agreed with management are as follows:

- Insurance held is inadequate to enable the Council to meet its legal requirements
- Insurance claims are not dealt with promptly or appropriately leading to claims not being paid and financial loss to the Council.

## Audit Approach

Our audit fieldwork comprised:

- Documenting the systems via discussions with key staff
- Consideration of the key risks within each audit area
- Examining relevant documentation
- Carrying out a preliminary evaluation of the arrangements and controls in operation generally within the Council
- Testing the key arrangements and controls
- Testing the completeness and accuracy of records.

The table below shows the staff consulted with and we would like to thank them for their assistance and co-operation.

Job Title
Chief Executive
Head of Performance
Corporate Insurance Officer

## Findings and Recommendations

This section of the report sets out our findings in relation to control issues identified and recommendations.

### 6.1 Risk 2

#### ISSUE 1 - Develop an insurance Strategy

**a) Observation-**

During the internal audit of insurance in April 2018, it was noted that 'Council does not have an Insurance Strategy in place'. An insurance strategy would provide an overarching framework to ensure that Council has the appropriate level of insurance in place.

As part of the current audit, Internal Audit was provided with a document called a 'Corporate Insurance Strategy 2022-2024' and informed that this is the draft insurance strategy for Council. This strategy does not look to be complete nor has it been presented to a Council Committee for consideration and for approval.

**b) Implication-**

In the absence of an insurance strategy an inconsistent approach could be taken by Council in the management of insurance leading to additional risks and costs to the Council.

**c) Priority Rating-**

2

**d) Recommendation-**

It is recommended that the Insurance strategy for Council is finalised and taken to the relevant Committee for approval. The current draft strategy is dated 2022-2024. The Council tenders on a 4-year cycle for the appointment of an Insurance Broker and it is recommended by audit that the Councils Insurance Strategy Covers the same period as the insurance policy for the Council.

The insurance strategy developed for the Council should provide a framework for the Council to ensure that it has in place a balance between external insurance and internal self-insurance considerations. The strategy should consider the balance between insurance and the overall level of risk, policies for handling insurance claims, policy for recharging insurance to budget holders and considerations of how Council will deal with insurance policy excesses. The Corporate Insurance Strategy developed should be reviewed to ensure that these aspects are included.

**e) Management Response- Agreed**

**Responsible Officer & Implementation Date-**

Head of Performance & November 2022.

### 6.2 Risk 1

#### ISSUE 2 - Cost Benefit Analysis of Insurance Options

<p><b>a) Observation-</b> Audit noted that the insurance cover and associated costs for Council's insurance has increased from £866,091 (2019/20) to £1,217,046 (2021/22), this represents an increase in cost of 40% over a two year period.</p>
<p><b>b) Implication-</b> The rise in insurance costs to Council may outweigh the benefit of insuring with external brokers.</p>
<p><b>c) Priority Rating-</b> 2</p>
<p><b>d) Recommendation-</b> In the event that insurance costs for the Council continue to increase, officers should undertake a detailed analysis to determine the optimum balance between insurance with external providers and establishing an internal insurance fund/reserve account for self-Insurance.</p>
<p><b>e) Management Response-</b> Agreed. This will be kept under review on an annual basis</p>
<p><b>Responsible Officer &amp; Implementation Date –</b> Head of Performance &amp; April 2023.</p>

### 6.3 Risk 1

ISSUE 3 - Regular Review of Property and Assets Insured
<p><b>a) Observation-</b> The insurance officer maintains a list of land and buildings, plant &amp; machinery that is updated on a regular basis or amended when the Insurance Officer becomes aware of changes to Councils assets. The Insurance Officer is not always automatically informed of changes to the assets held by Council.</p> <p>As part of the annual insurance exercise and to take account of inflationary increases that may impact on maintenance charges it was suggested by the Councils Insurance Broker to add 15% to the property revaluations for 2022/23 to ensure that Council has adequate cover in place.</p>
<p><b>b) Implication-</b> There is a risk that Council may not have the adequate level cover in place and may be over/under insured as valuations fluctuate.</p>
<p><b>c) Priority Rating-</b> 2</p>
<p><b>d) Recommendation-</b> It is recommended that an annual meeting is held between Finance and the Insurance Officer to ensure that the list held for insurance purposes links to its fixed asset register maintained and held as at the year end. This would ensure that the property valuations would be reviewed on an annual basis and in line with the most recent Valuations as provided by Land &amp; Property Services therefore ensuring a</p>

systematic approach to revaluation of the properties insured and provides some control against both under or an excess of insurance cover.

**e) Management Response-** Agreed. This meeting will be programmed in on an annual basis

**Responsible Officer & Implementation Date –**  
Head of Performance & January 2023.

## 6.4 Risk 2

### ISSUE 4 - Reporting Insurance Performance

**a) Observation-**

Audit observed that currently no reporting of insurance performance is taken to the Council for information purposes, previously this would have been reported as part of the performance improvement exercises within Council.

**b) Implication-**

There is a risk that Council may not be aware of the amount and nature of claims against the Council, leading to poor decision making.

**c) Priority Rating-**  
3

**d) Recommendation-**

Audit recommends that performance in relation to insurance claims is taken to a Council Committee at least annually in relation to the number of Employer's Liability, Public Liability and Motor Traffic Claims. This report should include updates in respect of the premiums paid and the Insurance Company/Brokers success in defending cases against Council.

**e) Management Response-** Agreed.

**Responsible Officer & Implementation Date –**  
Head of Performance & January 2023.

## Conclusion

The internal control environment, no matter how well designed and operated, can provide only reasonable and not absolute assurance regarding achievement of an organisation's objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. These include but are not limited to the possibility of poor judgement in decision – making, human error, control processes being deliberately circumvented by employees and others, management overriding of controls and unforeseen circumstances arising.

The risk associated with the management of Insurance is considered to be low. However, it is important that clear and concise policies are in place and made available to all staff to ensure a consistent approach is adopted.

As a result of the audit, senior management have been reminded of their obligations in relation to the ensuring that they have the appropriate Insurance cover in place. Internal Audit has made two medium recommendations and two minor recommendations. The recommendations have been accepted by management and procedures put in place to address the findings of this report.



## Appendix I: Definition of Assurance Ratings and Hierarchy of Findings

### **Satisfactory Assurance**

Evaluation opinion: Overall there is a satisfactory system of governance, risk management and control. While there may be some residual risk identified this should not significantly impact on the achievement of system objectives.

### **Limited Assurance**

Evaluation opinion: There are significant weaknesses within the governance, risk management and control framework which, if not addressed, could lead to the system objectives not being achieved.

### **Unacceptable Assurance**

Evaluation opinion: The system of governance, risk management and control has failed or there is a real and substantial risk that the system will fail to meet its objectives.

### **Hierarchy of Findings**

This audit report records only the main findings. As a guide to management and to reflect current thinking on risk management we have categorised our recommendations according to the perceived level of risk. The categories are as follows:

**Priority 1:** Failure to implement the recommendation is likely to result in a major failure of a key organisational objective, significant damage to the reputation of the organisation or the misuse of public funds.

**Priority 2:** Failure to implement the recommendation could result in the failure of an important organisational objective or could have some impact on a key organisational objective.

**Priority 3:** Failure to implement the recommendation could lead to an increased risk exposure.

## Appendix II: Limitations and responsibilities

### Limitations inherent to the internal auditor's work

We have undertaken this review subject to the limitations outlined below:

#### Internal control

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgement in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

#### Future Periods

Our assessment of controls is for the period specified only. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- The design of controls may become inadequate; or
- The degree of compliance with policies and procedures may deteriorate.

### Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control, and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.

## Appendix III: Summary of Key Controls Reviewed

Risk	Control issues
<p>Insurance held is inadequate to enable the Council to meet its legal requirements</p>	<ul style="list-style-type: none"> <li>• As part of the creation of the new Council a review of the legacy Council insurance cover was carried out and discussed with SMT and other senior Council officials</li> <li>• An Insurance Strategy for Council is in place which considers the insurance needs for Council; the structure of the cover, the overall level of risk, how Council will deal with insurance policy excesses etc.</li> <li>• The level of employer's liability insurance held by the Council is in line with the recommended minimum level for local authorities (£10m)</li> <li>• The level of public liability insurance held by the Council is in line with the recommended minimum level for local authorities (£5m)</li> <li>• The level of officials' indemnity insurance held by the Council is in line with the recommended minimum level of similar cover for professional indemnity (£1m)</li> <li>• The level of property insurance matches the total value of property set out on the property schedule prepared by the Council</li> <li>• The motor insurance held provides cover for any motor vehicle in the Council's custody or control and does not therefore require to be updated each time a vehicle is purchased or hired.</li> <li>• An appropriate procedure is in place to ensure the broker is informed of any changes to items insured which may affect the insurance cover</li> <li>• Brokerage services have been tendered or quoted for within the life of the new Council.</li> <li>• Impending renewal date(s) are flagged in a timely manner to the insurance officer</li> <li>• All levels of insurance are reviewed by the relevant Council personnel in advance of the annual meeting with the insurance broker and the result reported to the insurance officer</li> <li>• An annual meeting is held with the broker in a timely manner, in advance of the renewal date</li> <li>• The broker provides a renewal report in time to facilitate appropriate review and approval</li> <li>• The renewal report is reviewed, agreed and approved at the appropriate levels of Council.</li> </ul>

Risk	Control issues
<p>Insurance claims are not dealt with promptly or appropriately leading to claims not being paid and financial loss to the Council.</p>	<ul style="list-style-type: none"> <li>• There is a procedure in place for managing insurance claims which clearly lays down the roles and responsibilities of relevant officials across Council in relation to managing insurance claims (being made by Council and against Council)</li> <li>• All staff across Council are aware of this procedure</li> <li>• A single officer is responsible for managing claims; and staff in Council are aware who this person is; and that they should be notified of all claims (in a timely manner)</li> <li>• All details relating to claims are promptly forwarded to the relevant insurance company by the (insurance) officer</li> <li>• A file (and/or softcopy folder) is created to collate correspondence, any investigation records and other documents relating to the claim.</li> <li>• The (insurance) officer coordinates the collation of relevant information required by the insurers or solicitors, such as copies of accident logs or maintenance schedules</li> <li>• A summary database of all insurance claims against Council and of claims being made by Council is maintained, which contain information such as: <ul style="list-style-type: none"> <li>• Name of the claimant</li> <li>• Claim reference number (if provided by the insurer)</li> <li>• Date, location and description of the incident</li> <li>• Monies paid to the insurer (for inspection costs etc, but not for settlements)</li> <li>• Amount of funds that the insurer has highlighted that they are reserving as potential settlement of the claim (this is not always notified to the Council)</li> <li>• Comments on claim progress.</li> <li>• Status of claim e.g., rejected, investigation ongoing, resolved</li> </ul> </li> <li>• The database is regularly updated to reflect progress of claims</li> <li>• Claims progress and finalisation is periodically reported to SMT and Committee</li> <li>• Remedial action is planned and implemented where appropriate following investigation into each claim</li> </ul>

## Appendix IV: Points for the consideration of management

### ISSUE 1 – Spreadsheet for Insurance Claims

**Observation -**

The database of claims held by Council include legacy insurance claims in relation to the legacy four Councils. Audit recommends this data base is reviewed and updated to include only Causeway Coast and Glens Borough Council claims, this will provide a more streamlined view of the nature of the claims currently against the Council. This is a minor consideration for management consideration.

**Management Response-**

Agreed by Head of Performance

### ISSUE 2 – Spreadsheet for Insurance Policies

**Observation-**

Council currently maintains a spreadsheet of insurance policies for 2022/23 detailing the title of policy held and description. Audit recommends this spreadsheet is expanded to include further details including:

- Policy numbers and relevant insurers name and details
- Date policy taken out, duration of policy and renewal dates
- Details of the extent of the cover and any limitations
- Any endorsements, exemptions and claim excesses.

This will provide a complete overview of the insurance requirements for Council and allow for easier monitoring of when policies are due for renewal.

**Management Response-**

Agreed by Head of Performance