



Internal Audit Report
Chief Executives Service
Insurance 12-13
December 2012

Final Report

Chief Executive's Service
Finance Division
Perth & Kinross Council
2 High Street
Perth PH1 5PH

Background and Introduction

This assignment forms part of the Internal Audit plan for 2012/2013, as approved by Audit Sub-Committee on 27th March 2012.

The Finance Division undertakes an assessment of insurance risk and updates it regularly. This forms the basis of insurance provision, in line with the Corporate Insurance Strategy, which was approved by the Strategic Policy & Resources Committee in November 2011.

Acknowledgements

Internal Audit acknowledges with thanks the co-operation of Chief Executive's Finance Division's Insurance team during this audit.

Control Objectives and Opinions

This section describes the purpose of the audit and summarises the results. A 'control objective' is a management objective that requires the maintenance of adequate and effective internal controls to ensure that it is achieved. Each control objective has been given a rating describing, on the basis of the audit work done, the actual strength of the internal controls found to be in place. Areas of good or poor practice are described where appropriate.

Control Objective: A risk assessment has been carried out in respect of the Council's insurance requirement	
Auditor's Comments: A risk assessment is carried out on an annual basis in respect of the Council's insurance requirement. The Council systematically assesses risk and determines whether to deal with the consequences of an event through 'self insurance' or obtaining insurance cover from the insurer. Whether or not insurance is purchased for specific risk depends on both the probability and potential cost of a risk materialising compared with the cost of insuring against this risk. The financial capacity of the organisation to self insure, and the need to take account of catastrophic losses, are also taken into account.	
Strength of Internal Controls:	Strong

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Control Objective: Appropriate and adequate insurance cover is provided on the basis of 'best value' and in accordance with an established policy	
<p>Auditor's Comments: The Council ensures appropriate and adequate insurance by routinely tendering for a three year period of cover for its main insurance with the option for a two year extension. The main insurance contract was awarded in October 2009 in accordance with the Council's Contract and Procurement Guidance. In addition a renewals exercise has been concluded in September 2012 and as a result the Council's insurance contract has been extended by a further two years to September 2014</p> <p>In addition the council's insurance broker was appointed after a tender process and was appointed on the basis of cost. The marine insurance contract was not subject to the tendering process because of its specialist nature and the limited number of companies that provide this cover.</p> <p>The Insurance Fund is subject to a 3 yearly Actuarial review. In line with the council's procurement guidance for lower value contracts this specification was issued to 3 Actuaries requesting quotations to provide a review of the Council's Insurance Fund.</p>	
Strength of Internal Controls:	Strong

Control Objective: Efficient and effective processes are in place for processing insurance claims	
<p>Auditor's Comments: The claims handling process is carried out by the Council's main insurer as part of the contract. An audit of the claims handling is carried out by the insurance section every six months to ensure that the claims are processed in a timely and efficient manner in accordance with the agreement. The average number of claims per annum is 310, and during the current year 40 claims were sampled. At the time of the audit there was no documented procedure for this process.</p> <p>The insurance section meets on a monthly basis to discuss the status and progress of the 20 highest value claims to ensure they are processed in a timely and efficient manner. A report is produced which is sent to The Chief Exchequer Officer for his comments.</p>	
Strength of Internal Controls:	Moderate

Management Action and Follow-Up

Responsibility for the maintenance of adequate and effective internal controls rests with management.

Where the audit has identified areas where a response by management is required, these are listed in Appendix 1, along with an indication of the importance of each 'action point'. Appendix 2 describes these action points in more detail, and records the action plan that has been developed by management in response to each point.

It is management's responsibility to ensure that the action plan presented in this report is achievable and appropriate to the circumstances. Where a decision is taken not to act in response to this report, it is the responsibility of management to assess and accept the risks arising from non-implementation.

Achievement of the action plan is monitored through Internal Audit's 'follow up' arrangements.

Management should ensure that the relevant risk profiles are reviewed and updated where necessary to take account of the contents of Internal Audit reports. The completeness of risk profiles will be examined as part of Internal Audit's normal planned work.

Feedback

Internal Audit welcomes feedback from management, in connection with this audit or with the Internal Audit service in general.

Distribution

This report has been distributed to:

B Malone, Chief Executive

D Burke, Executive Director (Housing and Community Care)

J Fyffe, Executive Director (Education & Children's Services)

J Valentine, Executive Director (Environment)

J Walker, Depute Director, Housing and Community Care

H MacKenzie, Head of Human Resources

J Symon, Head of Finance

E Sturgeon, Chief Exchequer Officer

M Cowdery, Senior Exchequer Manager

C Robertson, Assistant Exchequer Manager

B Wilson, Senior Corporate Insurance and Claims Officer

P Dickson, Complaints & Governance Officer

M Kay, Senior Committee Officer

External Audit

Authorisation

The auditor for this assignment is M Morrison. The supervising auditor is J Clark.

This report is authorised for issue:

Jacqueline Clark
Chief Internal Auditor
Date: 19 December 2012

Appendix 1: Summary of Action Points

No.	Action Point	Risk/Importance
1	Loss control visits	Medium
2	Claims Handling	Medium

Appendix 2: Action Plan

Action Point 1- Loss Control Visits

Loss control visits are no longer carried out by the Insurance section due to staffing and budget issues. Under this programme all Council premises received a visit from a member of the Insurance Team. A review of the property's interior and exterior was undertaken and a report produced identifying potential future claims and any resolution that could be put in place to mitigate these claims

There is a risk therefore that issues will either not be identified or remain unresolved and the council's claims will be higher as result of the loss control visits not being carried out.

Management Action Plan

Plans for increased staffing are now in place. A modern apprentice is to be recruited to cover administration duties releasing resources which will be available to recommence loss control visits.

Importance:	Medium
Responsible Officer:	Mike Cowdery
Lead Service:	Chief Executive's Service
Date for Completion (Month / Year):	1 April 2013
Required Evidence of Completion:	Documentation of loss control visits being carried out

Auditor's Comments

Satisfactory

Action Point 2 – Claims Handling

The claims handling process is carried out by the Council's main insurer as part of the contract. An audit of the claims handling is carried out by the insurance section every six months to ensure that the claims are processed in a timely and efficient manner in accordance with the service level agreement.

However at the time the internal audit was carried out there were no documented procedures in place and there was a risk therefore that without the required level of guidance for management and staff, no assurance can be given that the current sampling is in accordance with the agreement.

Management Action Plan

Documented procedures are now in place.

Importance:	Medium
Responsible Officer:	Bill Wilson
Lead Service:	Chief Executive's Service
Date for Completion (Month / Year):	Completed
Required Evidence of Completion:	Copy of Documented Procedures

Auditor's Comments

Satisfactory