



INTERNAL AUDIT
FINAL REPORT

Title: Insurance & Inventory

Report Distribution

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Contents	Page
Executive Summary	2
Introduction	3
Detailed Findings	4-7
Annex A – Audit Definitions / Responsibilities	8-9

EXECUTIVE SUMMARY

Introduction

An audit of Insurance Management was undertaken as part of the approved internal audit plan for 2007/08.

The audit reviewed claims settled between April 2006 and December 2007.

For insurance that is arranged through external insurance companies, annual premiums of some £408,000 were paid in 2007/08, which is expected to rise to £416,000 in 2008/09. The audit also covered items that the Authority self-insures, including the first amount of any claim on an insurance policy – the excess. In 2007/08 there were 88 claims made for such incidents with a value of about £138,000.

Our previous audit report on insurance management, report GBC13 issued in August 2003, concluded that arrangements were unsatisfactory. The report contained 16 recommendations, of which 5 related to inventory items and were outside the scope of this current review. Of the 11 remaining recommendations we found that nine had been satisfactorily implemented. The remaining two, which have been partially implemented, are included again in the recommendations in this report.

Principal Findings

	High	Medium	Low
Number of recommendations	0	1	2

The detailed findings and associated recommendations are provided in the second part of this report. The medium risk recommendation relates to:

- The late payment of insurance premiums, which could result in insurance cover being invalid.

Assurance Statement

Internal Audit can provide **substantial assurance** with respect to the adequacy and effectiveness of controls deployed to mitigate the risks associated with the areas reviewed.

However, controls to ensure the timely payment of insurance premiums require attention.

INTRODUCTION

Objective & Scope

The objective of our audit was to document and evaluate the auditable area with a view to delivering reasonable assurance as to the adequacy of the design of the internal control system and its application in practice. The control system is put in place to ensure that risks to the achievement of the organisation's objectives are managed effectively.

The audit evaluated whether insurable items owned by the authority are recorded within appropriate inventories and that an assessment of risk has been undertaken with a view to minimising loss/damage. It included a follow up of the recommendations in the previous audit report GBC13, issued in August 2003.

The key risks associated with the system objectives are:

- Potential risks of loss or damage to property have not been identified.
- Sufficient insurance cover is not in place.
- Loss or damage is not properly reported and claimed through the appropriate insurance policy.
- Insurance costs are not minimised through a programme of risk reduction.

The control areas included within the scope of the review are:

- Records of insurable items.
- Insurance policies.
- Records of losses and damages.
- Insurance claims.
- Risk management to reduce insurable losses.

This audit report is presented on an exception basis. The detailed findings include only those areas where controls should be enhanced to improve their effectiveness and mitigate the risks that affect the authority's objectives for the system reviewed. Controls and risks identified in the scope that are not mentioned in the detailed findings were considered to be adequate and operating effectively.

Acknowledgement

A number of staff gave their time and co-operation during the course of this review. We would like to record our thanks and appreciation to all the individuals concerned.

DETAILED FINDINGS

Observation	Risks	Recommendation	Management's Response
<p>Recommendation 1 - Written Procedure Notes (Acquisitions and Disposals) Level of Risk - Low</p>			
<p>There should be written procedures to ensure that Resource Services is notified of acquisitions, disposals and other relevant events, to enable the effective management of insurance policies.</p> <p>Two documents are available to provide guidance: Insurance Procedures Notes and a Basic Guide to Processing Insurance Claims. The latter document does include a section on the notification of insurable items. However it does not include detail on the notification of leased items and the notification of contracts, which place insurance obligations on the Authority. A similar recommendation was made in the previous audit report (GBC13).</p>	<p>The Authority is not fully insured.</p>	<p>The procedural documents should be revised to include detail on the notification of leased items and of contracts, which place insurance obligations on the Authority.</p> <p>Action: Vince Rimmington - Resource Services Manager</p>	<p>Management Comment: The Insurance & Inventory Procedure Notes were reviewed and updated in February 2008. These have been communicated to relevant staff.</p> <p>Leasehold assets are currently included on the annual review of Inventories and are, therefore, subject to adequate insurance cover, however, may not necessarily be identified as a leasehold asset.</p> <p>Planned Corrective Action: The Insurance Procedure Notes will be reviewed and updated to include the requirement to notify Resource Services of all leased items and contracts.</p> <p>Timescale: 31st August 2008</p>

Observation	Risks	Recommendation	Management's Response
<p>Recommendation 2 - Payment of Insurance Premiums Level of Risk - Medium</p>			
<p>Insurance premiums should be paid on time to ensure that insurance policies remain valid. Our review of a sample of 8 insurance premiums found that all were paid more than 30 days after the insurance period commenced. This is because the payments team processes invoices for payment 30 days after it receives them. This late payment was also identified in the previous audit report (GBC13).</p>	<p>The late payment of premiums could result in insurance becoming invalid.</p>	<p>Insurance premiums should be processed so that they are paid by the due date in the policy.</p> <p>Action: Vince Rimmington - Resource Services Manager</p>	<p>Management Comment: Invoices for insurance premiums are submitted annually by the insurers at the beginning of April. The premiums and level of cover are then verified within Resource Services and forwarded to the creditors section in the middle of April for payment. The standard terms are for payment to be made 30 days from receipt of the invoice within creditors, which results in payment in mid May.</p> <p>Planned Corrective Action: A request was submitted with the 2008-09 insurance premium invoices to the creditors team to ensure payment was made before the 30th April 2008. This practice will continue in the future, to ensure invoices are paid within 30 days of commencement of insurance cover.</p> <p>Timescale: Implemented</p>

Observation	Risks	Recommendation	Management's Response
<p>Recommendation 3 - Timeliness of Claims Submission Level of Risk - Low</p>			
<p>From a sample of 10 insurance claims we found one that was, in error, not submitted to the insurance company, resulting in the Authority bearing the cost of £429 (of which £179 above the policy excess of £250 would have been claimable).</p>	<p>Costs borne by the Authority, which could have been reclaimed from insurance policies.</p>	<p>Procedures should be reviewed to prevent failures to submit claims to insurance companies.</p> <p>Action: Vince Rimmington - Resource Services Manager</p>	<p>Management Comment: Recommendation agreed.</p> <p>Planned Corrective Action: The requirement to notify Resource Services of all potential insurance claims is outlined in the Insurance Procedure Notes.</p> <p>A reminder will be issued to all relevant staff outlining responsibilities, with ongoing monitoring to identify any further instances of failure to notify insurance claims.</p> <p>Timescale: 30th June 2008</p>

ANNEX A

Risk & Assurance – Standard DefinitionsAudit Recommendations

Audit recommendations are categorised, depending upon the level of associated risk, as follows:

Level	Category	Definition
1	High	Action is essential to manage exposure to fundamental risks.
2	Medium	Action is necessary to manage exposure to significant risks.
3	Low	Action is desirable and should result in enhanced control or better value for money.

Assurance Statement

Each report will provide an opinion on the level of assurance that is provided with respect to the risks emanating from the controls reviewed. The categories of assurance are as follows:

Category	Definition
No	The majority of the significant risks relating to the area reviewed are not effectively managed.
Limited	There are a number of significant risks relating to the area reviewed that are not effectively managed.
Substantial	The risks relating to the objectives of the areas reviewed are reasonably managed and are not cause for major concern.

What Happens Now?

The final report is distributed to those involved with discharging the recommended action, the Head of Finance, Audit Commission and, where applicable, the relevant Heads of Service.

A synopsis of the audit report is provided to the authority's Audit Sub-Committee. Internal Audit will carry out a follow-up exercise approximately six months after the issue of the final audit report. The on-going progress in implementing each recommendation is reported by Internal Audit to each meeting of the Audit Sub-Committee.

Any Questions?

If you have any questions about the audit report or any aspect of the audit process please contact the auditor responsible for the review or Vince Rimmington, Resource Services Manager on telephone number 0115 9013850 or via e-mail to vince.rimmington@gedling.gov.uk