



INTERNAL AUDIT
FINAL REPORT

Title: Insurance & Inventory

Report Distribution

For Action: Vince Rimmington Manager of Audit and Risk Services

For Information: Mark Kimberley Head of Corporate Services
Pauline Moore Principal Accountant
Sarah Ironmonger Audit Commission

Prepared By: Diane Hyett

Draft Issued: 22nd April 2010

Final Issued: 4th May 2010

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EXECUTIVE SUMMARY

Introduction

An audit of Insurance and Inventory Management was undertaken as part of the approved internal audit plan for 2009/10.

The audit reviewed claims settled during the 2009/10 financial year.

For insurance that is arranged through external insurance companies, annual premiums of approximately £420,000 were paid in 2009/10, which is expected to fall to around £319,000 in 2010/11; this fall is due to the loss of the Housing Department. The audit also covered items that the Authority self-insures, including the excess value of claims on the insurance policies. In 2008/09, the value of such claims was approximately £42,000.

Our previous audit report on insurance management, report IAR0708-22 issued in May 2008, provided substantial assurance of the effectiveness of controls. The report contained three recommendations, each of which was followed up at this audit. We found that: one recommendation, relating to the procedures for notifying of leased assets, has been superseded; the recommendation concerning the procedure for giving notice of claims had been satisfactorily implemented but now requires a further review due to the centralisation of the management of the insurance claims; and the final recommendation, regarding the payment of the insurance premiums, has been implemented and continues to be reliant on the prompt issue of invoices by the insurers.

The five inventories checked as part of the audit testing were for the Small Workshop, Direct Services – Depot Yard, Planning Department, Food, Health and Safety and the Personnel and Service Development.

Principal Findings

	High	Medium	Low
Number of recommendations	0	1	3

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

- Increased compliance with the authority’s financial regulations to ensure that inventories are maintained in an up to date manner and high value, desirable items are adequately security marked.

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.

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.

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.
- Accurate and up to date inventories are maintained.

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 Level of Risk - Low</p>			
<p>Two key documents are available to provide guidance to staff:</p> <ul style="list-style-type: none"> • Insurance Procedures Notes (dated Sept 2007), • Basic Guide to Processing Insurance Claims (dated January 2008). <p>Both of these documents require updating, particularly in light of recent structural changes within the Council, such that the administration of all insurance claims has now been centralised.</p>	<p>Important guidance for staff may be out of date, leading to possible delays or failures in dealing with insurance claims.</p>	<p>The 'Insurance Procedures Notes' and the 'Basic Guide to Processing Insurance Claims' should be brought up to date to reflect current practices and structures, and then be subject to regular, annual review. This should then be distributed to the relevant staff in the Departments, with a copy being posted on the intranet.</p> <p>Action: Vince Rimmington – Manager of Audit & Risk Services</p>	<p>Management Comment: Recommendation agreed.</p> <p>Planned Corrective Action: Following completion of the organisational restructure the current procedure notes will be reviewed and updated. Upon completion of the review, revised procedure notes will be posted on the intranet.</p> <p>Timescale: 30th September 2010.</p>

Observation	Risks	Recommendation	Management's Response
<p>Recommendation 2 - Progress of Claims Level of Risk - Low</p>			
<p>A record is made of each claim as it is received in the Risk and Insurance office. However, the details recorded do not provide for a ready analysis of the status of each claim at any given time. It was found during the sample testing that one claimant (ref. D541) had sent in all details of their claim in August 2009, but the claim had not been dealt with and there was no explanation for the delay on the spreadsheet record.</p>	<p>Delay in the payment of insurance claims can create additional work for the officers, and negative feedback from the public.</p>	<p>The spreadsheet record is developed to include a status indicator for each claim, such that delays with processing are more readily highlighted.</p> <p>Action: Vince Rimmington – Manager of Audit & Risk Services</p>	<p>Management Comment: Recommendation agreed.</p> <p>Planned Corrective Action: The current spreadsheet will be amended immediately to include a status indicator. In the longer term, a review is currently underway to develop the current Accident Recording database to accommodate insurance claim details.</p> <p>Timescale: Amendment of spreadsheet – immediate. Insurance Database – 31st December 2010.</p>

Observation	Risks	Recommendation	Management's Response
<p>Recommendation 3 - Insurance Costs & Claims (Risk Review) Level of Risk - Low</p>			
<p>We did not identify a process to formally review claims by value, type, frequency and department, which could identify repeat claimants or areas for the reduction of possible risk.</p>	<p>Failure to identify repeat claimants and the opportunity to reduce the risk in some situations, which may afford the possibility of reducing costs to the Authority.</p>	<p>A formal process is introduced, as part of the annual risk review and reporting process, whereby past claims are analysed with a view to identifying trends for further investigation. This information should be cascaded out to the relevant officers in the Authority and discussed at the CHAS Group meetings.</p> <p>Action: Vince Rimmington – Manager of Audit & Risk Services</p>	<p>Management Comment: Due to the relatively small size of the team, repeat claimants are readily identifiable. This enables identification of recurring risks and repeat claimants. Break-ins at leisure centres were identified during 2009-10, with a review of security undertaken and funding provided from the Risk Management Fund to improve security. In addition, action has been taken to minimise risks associated with VWF (HAVS) and Hearing claims. Identified Health & safety risk are reported at quarterly CHAS meetings.</p> <p>Planned Corrective Action: As outlined in recommendation 2, a formal database for monitoring Insurance claims will further enhance risk reviews.</p> <p>Timescale: 31st December 2010.</p>

Observation	Risks	Recommendation	Management's Response
<p>Recommendation 4 - Inventories Level of Risk - Medium</p>			
<p>The authority's Financial Regulations require the following in respect of inventories:</p> <ul style="list-style-type: none"> • Maintenance of an inventory with adequate descriptions of assets held; • An annual check of all items on the inventory and to annotate the record with any changes; • Security mark desirable on portable items. <p>Testing of the five selected areas revealed:</p> <p>a) Three of the inventories held on the central system were over a year old: Planning Department; Food, Health and Safety; and Personnel and Service Development.</p> <p>b) There have been a number of room changes within the authority and the inventories have not been updated to reflect this.</p> <p>c) One item selected for testing from the Personnel inventory (pedestal fan – CEO 459187) could not be located at the time of audit.</p> <p>d) Assets held in the small depot workshop and most of those held in the depot yard were found to be security marked, but otherwise we found that few items are protected in this way. This included desirable items, such as cameras.</p>	<p>If the inventory is not kept up to date and subject to regular verification, items of value may not be adequately insured and they may be misappropriated.</p> <p>Lack of security marking increases the risk of assets being stolen.</p>	<p>Each office should have a signed, hard copy of an inventory which is complete, accurate and up to date.</p> <p>In addition, all high value, desirable items should be adequately security marked.</p> <p>Action: Vince Rimmington – Manager of Audit & Risk Services</p>	<p>Management Comment: Recommendation agreed.</p> <p>Planned Corrective Action: A full review of Inventories across the Council is currently being undertaken by Internal Audit.</p> <p>The review will also provide the opportunity to ensure all high value, desirable items are adequately security marked.</p> <p>Timescale: 30th September 2010.</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 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 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, Manager of Audit & Risk Services on telephone number 0115 9013850 or via e-mail to vince.rimmington@gedling.gov.uk