



Internal Audit Report

Insurance



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Principal Auditor
17th November 2011



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Audit: Insurance
Auditor: Stephen James

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1 Introduction

- 1.1. Chichester District Council is currently insured with Zurich Municipal to November 2013. It is the industry norm to have a long-term agreement. The schedule of policies held covers the following specific liability claim policies:
- Employers Liability
 - Public Liability
 - Motor Vehicles
 - Professional Negligence
 - Officials Liability
 - Libel and Slander
 - Land Charges
 - Fidelity Guarantee Insurance
 - Property Module
- 1.2. A separate contract is in place for the Engineering inspection, which was let to the company called Allianz, this contract is also to November 2013, with a possible 2-year extension.
- 1.3. In addition to the external insurance, Chichester District Council has an internal insurance fund. The internal insurance fund provides cover where Zurich doesn't.
- 1.4. An annual review of the level of insurance cover required is carried out by officers prior to the start of each year over the life of the contract. Both Zurich and Allianz submit their revised premiums for the forthcoming insurance year based on their new pricing/risk assumptions including any current market conditions trends. The premiums charged are reallocated to all services on an appropriate recharge basis e.g. no of employees, property value or vehicle value.



2 Scope

2.1 The scope of the audit focused on the management arrangements relating to the processing of insurance claims. The areas reviewed as part of this audit included:

- Financial Regulations Compliance
- Asset Management
- General Contingency Planning
- IT Contingency Planning



3 Findings

- 3.1. As part of the initial tender process in 2008, a broker assisted in setting out the Council's insurance specification needs, such as levels of cover and perils to be insured against plus update any cover taking into account current market trends. The broker also assisted officers to assess the tender submissions received. Once the insurance contract was awarded an annual renewal process is undertaken in June/July ready for the insurance year that commences on the 1st November. This annual review effectively ensures that the level of insurance and perils covered remain adequate and reflect any necessary changes in the Council's operation.
- 3.2. CCS has to notify the insurance officer of any changes to the Vehicle Fleet Purchase / Hire of Vehicle within 5 days in order that the officers can update the insurer's database records of council operated vehicles. The Insurance Officer notes the plant on a spreadsheet: in the majority of cases any new plant that is purchased is replacing existing equipment that has been disposed off. Plant and equipment is insured under the Miscellaneous Policy.
- 3.3. Pool cars are hired via Enterprise using the West Sussex County Council hire scheme. Each time a vehicle is hired it has to be added to Zurich Municipal's insurance database, which contains all vehicles, used by the Council. One of the samples selected did not have the licence checked, and another three had them checked by their line manager. There are no procedure notes to assist the hirer as to who licence checks should be undertaken by. Internal audit recommends that the Payroll Team undertakes all licence checks who hold details of staff who have either have an allowance to use their own vehicle for business use or where staff have claimed mileage. Any hirer of vehicles who have not been checked by the payroll team should provide details of their licence before taking a hire vehicle. The Council are currently reviewing the arrangement for the Hiring of Vehicles.
- 3.4. Reporting mechanisms between the Council and the Insurers appears to work well. Most of the documentation is sent via email, and read receipts are obtained for each piece of documentation that has been sent. The claims are allocated a claim reference number and also the type of claim. In the event of a motor vehicle claim photographs are sent. Insurance procedure notes are available as a guide of what to do. Zurich Municipal has 15 days to accept or deny liability. There is also an internal service target, which state that claims should be processed within five days of the incident. From the sample selected only one was within the five-day period, and three were outside, between 9 to 16 days after the incident. At the time of testing the insurance post was vacant. Zurich Municipal monitors Motor Vehicle timescales and will feedback if we are not adhering to their 15-day deadline.
- 3.5. Information concerning the level of Fidelity Guarantee Insurance is based on advice from the industry itself. In the event of them having a query the relevant member of staff would seek advice from Zurich Municipal. There are



seven delegated officers stated on the Fidelity Guarantee Insurance schedule. These officers have a limit of £5 Million; there is a separate guarantee for all other employees of £500,000. The current Fidelity Guarantee Insurance schedule, which states the designated officers, needs to be amended to reflect the changes in the management structure.

- 3.6. The insurance fund is used to meet insurance claims, which fall under the excess, and perils that are not insured. The Director of Corporate Services and the District Treasurer will negotiate respective claims and award ex gratia payments of up to £200 where it is an uninsured peril and not mentioned on the certificate.
- 3.7. Recharge costs are calculated using a formula for different services across the Council, e.g. Motor Vehicles use the number of vehicles by type multiplied by a given formula; Employers Liability is the number of employees split between blue and white-collar staff. When the insurance model was built ratings were used from the insurance company to enable contributions to be made to the insurance fund using known data. This fund is reviewed annually to take account of changes / trends which have occurred throughout the year and forms the minimum balance excluding Housing.
- 3.8. All incidences received are logged onto the insurance database, which is an internal bespoke system. All documentation relating to a claim is held in an open filing cabinet. All of the claims are filed in claim number order and contain personal information.
- 3.9. Valuations can vary depending on what property is being insured. The Council has a blanket policy in place, which stipulates the number of properties, which are covered. Once this has been exceeded due to a series of acquisitions or alternatively reduced due to disposals, adjustments can be made to the amount of cover. Building Services and the Estates Service undertake most of the valuations. The valuations are up lifted by known building indices as part of the annual review. Any additions or deletions of cover can be notified to the underwriter; generally there is no in year effect on the premiums.
- 3.10. The Estates Section maintains an asset register, which details the valuations of each of the properties owned by the Council. The insurance model/spreadsheet is loaded with all address details of properties in the Estates Section's Asset register; however, the values recorded in the insurance model reflect fire valuations specifically obtained every 5 years within the life of the insurance contract. This effectively provides the property inventory for the Council and its insurers. The Facilities Service is at present producing an inventory for all of the fixtures and fittings. Also the inventory for computerised equipment is in the process of being completed. The up to date inventory for fixtures and fittings and the computerised equipment has yet to be reviewed once this has taken place, the appropriate values will be loaded onto the insurance model.



- 3.11. Asset re-valuations are undertaken every 5 years. Re-valuations can be made during the year for example where a significant purchase has been made.
- 3.12. Zurich Municipal informs the Council of the premiums after the renewal terms have been issued. The insurance model then reflects this when recharging out to departments.
- 3.13. The insurance system forms part of the IT contingency plan. Zurich Municipal's website is web based and they are starting to load more information including claims information which staff can access via a secure login.
- 3.14. There are no system procedure notes available in the event of a problem accessing the Zurich Municipal website however, there is a 24/7 phone number of who to contact and the account manager. The IT contingency plan is linked to business continuity. All of the insurance policy information and contacts are held on shadow planner; and a desktop exercise to test the system was undertaken in 2010. IT backups can be re-installed to recover systems should there be a loss of information.
- 3.15. The Technical and Systems Accountant has written a bespoke system for the insurance function, it is an access database to record insurance claims and trigger significant dates. There is no back up should the member of staff not be available, the applications team would be best placed to help if the Insurance Administration Officer needed assistance. Internal Audit recommends that the Technical and Systems Accountant produce system procedure notes for future reference.
- 3.16. Zurich Municipal organise a three days training for staff that are involved in the insurance process. They also have customer days informing staff of changes in legislation. Magazines are sent to the Council about risk management cases where claims have been made, and emails are received by the Insurance Administration Officer on articles of interest. Training is also undertaken in house by the Insurance Administration Officer to assist with the processing of work. Additional training will be offered by Zurich for staff should it be required. Allianz is a company, which the Council uses for engineering inspections, procedure notes are produced for staff to follow and the Council has a named officer at Allianz to contact in the event of a query.



4 Conclusion

- 4.1 Internal Audit is satisfied with the way that potential insurance claims are being processed. However, further strengthening of controls is recommended.
- 4.2 Internal Audit has made five recommendations, of which one is high priority two are medium priority and two are low priority.
- 4.3 The implementation details of these recommendations can be seen in the Action Plan in Section 5






5 Action Plan

Recommendation		Officer	Priority	Agreed?	Comments	Implementation Date
3.3.	That the Payroll Team checks all licences before Enterprise (WSSC) cars are taken.	Payroll Manager	High	Yes	In future staff who hire vehicles will have their licenses checked by the HR/Payroll team. Guidance information should be added to the Driving at Work policy within the Corporate Health & Safety policy. Which is available on the intranet.	January 2012
3.4.	A review should be undertaken of all relevant parties to make improvements in the flow of information for motor vehicle claims in order that they are processed within 5 days in accordance with the service standard.	Insurance Administration Officer	Medium	Yes	This service standard was introduced to assist Zurich Municipal.	With immediate effect



Recommendation		Officer	Priority	Agreed?	Comments	Implementation Date
3.5.	That the Fidelity Guarantee insurance schedule should be amended to reflect the changes to the management structure.	Insurance Administration Officer	Low	Yes	During the course of the Audit this has now been completed.	Complete
3.8.	Consideration should be given to holding claims documentation securely.	Insurance Administration Officer	Low	Yes	Past claims were held in shuttered cupboards, which could be closed. Facilities were asked to move cabinets around to increase the number of cupboards for Insurance matters.	March 2012
3.14.	That the Systems and Technical Accountant produce system documentation for future reference.	Technical & Systems Accountant	Medium	Yes		March 2102



-  **High = Fundamental System Weakness – Action is Essential**
-  **Medium = Potential Control Weakness – Action Required**
-  **Low = Advised for Best Practice**

