



**FINAL INTERNAL AUDIT REPORT
CHIEF EXECUTIVE'S DEPARTMENT**

REVIEW OF INSURANCE 2019/20

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INTRODUCTION

1. This report sets out the results of our internal audit (audit) of Insurance. The audit was carried out as part of the work specified in the 2019-20 Internal Audit Plan agreed by the Section 151 Officer and Audit Sub-Committee. The controls we expect to see in place are designed to minimise the Council's exposure to a range of risks. Weaknesses in controls that have been highlighted will increase the associated risks and should therefore be addressed by management.
2. The Insurance function is subject to periodic audit on the basis that insufficient insurance cover could lead to significant financial strain. If the Council does not robustly challenge claims against it, it may pay out when it is inappropriate to do so (including potentially fraudulent cases), which could put further pressure on the budget.
3. Since March 2019, the Council has appointed an in-house Insurance and Risk Manager who reports to the Head of Audit and Assurance (who assumed responsibility for the service at the same time). Claims handling is carried out by the Royal Borough of Greenwich (RBG) under a contract which will end on 31st March 2020. The service will be transferred to the London Borough of Sutton. The Insurance Fund is managed by the Technical and Control Team under the management of the Chief Accountant. The audit objective is therefore to review the key controls and performance of the Insurance function, including a review of the contractual arrangements with RBG for claims handling and preparation for the transfer of function.
4. Details of current insurance policies held are as follows:

Type of policy	Provider	Premium (Exc Insurance Premium Tax @12%)
Casualty (Public and Employers Liability)	Maven Public Sector	£297,489.00
Property	Travelers	£148,787.54
Terrorism	Lloyds Syndicate organised through JLT	£25,687.99
Personal Accident and Travel	Risk Management Partners	£12,241.45
Fidelity Guarantee	Risk Management Partners	£5,650.00
General and Leased Motor Vehicle	Zurich Municipal	£29,830.24

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Type of policy	Provider	Premium (Exc Insurance Premium Tax @12%)
Minibus	Zurich Municipal	£6,961.76
School Journey	Risk Management Partners	£1,248.00

- 5. Monitoring reports are provided by RBG. The report dated 21 October 2019 identifies 322 outstanding claims and the policy year to which they relate, with a total claim value of £2,332,877. It is noted that 227 of these open claims are Public Liability. It also identifies there were 12 legacy claims, where the incident occurred pre-2014, of which five are motor and seven Public Liability claims.
- 6. We would like to thank all staff contacted during this review for their help and co-operation.

AUDIT SCOPE

- 7. The scope of the audit was outlined in the Terms of Reference issued on 4 October 2019.
- 8. The following were considered to be the key risks inherent to the Insurance function:
 - If insurance cover is inappropriate, all areas of the Council requiring insurance cover are not identified, or if the level of excess and premiums charged are inappropriate, the Council may not obtain value for money from its insurance arrangements. The conditions set by the insurer may also not be complied with, resulting in unexpected financial losses and resultant unfavourable media coverage. The Council may inadvertently invalidate its insurance cover.
 - Inappropriate and/or invalid insurance claims may be paid or the Council may face unduly high premiums and/or unduly high/inappropriate pay-outs where it self-insures. This may result in a negative financial impact if there are missed opportunities to claim on insurance due to insufficient evidence to support claims.
 - Premium payments may be inaccurately recorded/recharged, and service budgets and performance data may not fairly reflect insurance activity where premiums (and fund contributions) are not recharged to departments on an agreed basis. Renewals processed may therefore fail to provide the updated information on assets etc., from which the insurer can correctly calculate premiums for the year, leading to either a potential increase in financial costs to the Council or under-insurance in some areas.

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- Self-insurance coverage (funds available) may be inappropriate, leading the Council to take on too much risk. The Council may experience financial loss, putting further pressure on budgets. The Council may also fail to leave itself with the money to cover its costs (or deductibles) in the event of accidents, property damage / destruction etc. Claims may then have to be funded from savings made in other budget areas.
- Insurance budgets may not be well controlled, or the insurance system not reconciled to the Oracle Financial System. As a result, unanticipated under or overspends may occur.
- Excessive and/or avoidable insurance claims may not be identified and reduced / eliminated. Multiple similar claims could then materialise. Excessive claim numbers may lead to significant avoidable resources needed to deal with the numerous cases to be processed. The payment of avoidable claims may add pressure to the budget and also result in significant public criticism of the Council’s inability to prevent claims, potentially undermining the ability to deliver services.
- Insufficient management information may be produced to facilitate effective oversight. Any required remedial action may not be taken or robust decision making at both operational and strategic level may not take place. The risk management framework of the Council may be weakened and opportunities to avoid or reduce costs may not be exploited.

AUDIT OPINION

9. Our overall audit opinion, number and rating of recommendations are as follows:

AUDIT OPINION		
Reasonable Assurance		(Definitions of the audit assurance level and recommendation ratings can be found in Appendix B)
Number of recommendations by risk rating		
Priority 1	Priority 2	Priority 3
0	1	1

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SUMMARY OF FINDINGS

10. Controls noted to be in place and working effectively, based on the audit testing conducted, included:
- Prior to March 2019, the Insurance function was managed exclusively by the Council's Finance service. Since the changes made in March 2019, a dedicated Insurance & Risk Manager has been appointed to manage the Insurance function and the relationship with RBG. This is therefore perceived to add value through the introduction of more specialised resource.
 - An analysis of the self-insurance funds was undertaken by the Council's insurance brokers, with a report produced 20 February 2019, for the benefit of the Council's then Insurance service.
 - Documented insurance policies for Casualty (Public Liability, Employers Liability, Officials Indemnity and Professional Indemnity), Property, Terrorism, Fidelity Guarantee, Personal Accident and Travel, Motor Vehicles and School Journeys were retained by Insurance and Risk Services.
 - Following a tender exercise managed by the Council's insurance brokers, the insurance providers, listed in section 4 of this report, were appointed by the Executive on 27 March 2019 for a five year term, with an option to extend for a further three years.
 - Insurance claims are all recorded on the Bromley Council insurance system (LACHS) by RBG as claims handler.
 - There is a formal agreement in place between the Council and RBG as current claims handler which dates from April 2015 and will expire on 31 March 2020.
 - The new claims handler (Sutton Council) undertook a due diligence exercise which was shared with the Council. This identified they would only require 2.5 additional claims handlers to manage the Council's workload, and that Sutton Council already employ the LACHS software for managing claims (which is the same as that employed by RBG and the Council). In addition, the Insurance & Risk Manager will be requiring RBG to provide, for each outstanding claim, a file handover note. At the time of audit, the draft contract for the new arrangements between Bromley and Sutton, remained with the Council's Legal Team for final updates and sign-off.
 - Insurance claims documentation retained on LACHS can be viewed directly by the Insurance & Risk Manager. This was confirmed by observation of a sample claim.
 - Where a payment on a claim is recommended, this is reviewed and approved by two officers from RBG. It is then passed for approval by the Insurance & Risk Manager. This was confirmed through examination of a sample of 13 claims in 2019

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(approximately 10% of claims closed in 2019), which were approved by either the Insurance & Risk Manager, or an appropriate officer (prior to this individual's appointment).

- Each insurance provider raises one invoice in respect of the premium for the whole amount of the policy for each year. This was confirmed for all eight premium payments paid in 2019/20.
- The Principal Accountant completes an annual recharge of insurance costs to services. This is completed as part of the financial year-end and the most recent one completed was for 2018/19. The basis of the recharge was identified and found to be appropriate in that Public Liability is based on claims history, Employers Liability on Full Time Equivalent staff and property / terrorism based on the property sum insured.
- An annual report is prepared by the Insurance & Risk Manager which reviews the level of the self-insurance fund. The most recent report was produced for 2018/19 and identified the fund had grown from £3.7 million to £4 million over the year. The reason for the increase in the fund was that the number of claims was lower than expected, and the increase mainly due to the value of claims settled in the year being less than the interest which accrued to the fund. This report was presented to the Executive, Resources & Contracts Policy, Development & Scrutiny (PDS) Committee on 9 October 2019 for scrutiny before a decision was made by the Portfolio Holder.
- The Principal Finance Officer (Technical & Control) completes a quarterly reconciliation of the financial system (Oracle) with LACHS. While, as at November 2019, it had only been completed up to the 30 June 2019, the reason for the delay was due to staff absence for leave and sickness. It has however since been brought up to date.
- Monitoring reports have been submitted by RBG on 28 May, 23 July, 27 August and 21 October 2019. Audit were informed there are meetings held with RBG on the last Friday of each month at which such reports and other issues are discussed, though no minutes are taken of such meetings.

Examination of monitoring reports noted they include information, such as the number of claims and trends. They analyse the numbers of outstanding claims by incident year and sum of such outstanding claims. They also identify the number of legacy claims (where the incident dates from before 2014). There is a further analysis of claims by class e.g. Employers Liability and Public Liability.

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11. We would however like to bring to management attention the following issues:
 - Examination of the 21 May 2018 report to the Executive, seeking approval of the procurement process, confirmed that paragraph 3.1.5 stated '*as a result of changes to the service profile of the Council, as well as external changes, it may now be appropriate to take out cover for additional risks, such as medical malpractice and cyber, and officers will be exploring options for these*'. It was subsequently noted that the March 2019 report to the Executive recommending the award of insurance contracts noted that, at that time, there were no suitable cyber risk policies, though this may change in the future. A low level action has been suggested to help facilitate future / ongoing review in respect of this point.
 - While there is a target to acknowledge claims received within three days and investigate within three months, there is no review of the progress of outstanding claims and whether such targets are achieved. It was noted that this is something that the Council should be looking to build into its new contractual arrangements with Sutton Council, as the new outsourced claims handler.

DETAILED FINDINGS / MANAGEMENT ACTION PLAN

12. The findings of this report, together with an assessment of the risk associated with any control weaknesses identified, are detailed in Appendix A. Any recommendations to management are raised and prioritised, together with management's responses and timescales for implementation. Appendix B details the definition of the audit assurance and priority ratings.

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DETAILED FINDINGS AND ACTION PLAN

APPENDIX A

No	Finding	Risk	Recommendation and Priority *Raised in previous Audit	Management Response	Agreed timescale and responsible manager
1	<p>Insurance Cover Examination of the 21 May 2018 report to the Executive, seeking approval of the procurement process for the procurement of new insurance providers, stated in paragraph 3.1.5: <i>'as a result of changes to the service profile of the Council, as well as external changes, it may now be appropriate to take out cover for additional risks, such as medical malpractice and cyber, and officers will be exploring options for these'</i>. It was subsequently noted that the March 2019 report to the Executive recommending the award of insurance contracts noted that, at that time, there were no suitable cyber risk policies, though this may change in the future.</p>	<p>Without a periodic review of the continuing relevance of insurance policies, there is an increased risk that insurance policies held may not reflect current needs, and hence may require excessive claims to be made out of self-insurance funds and the Council's own budgets.</p>	<p>Options for alternative insurance cover to reflect the changed service profile of the Council should be explored and included within the annual report on the adequacy of the self-insurance fund.</p> <p style="text-align: center;">Priority 3</p>	<p>Review of the Councils Public Health function was undertaken in June 2019 by Insurance & Risk Manager following the commencement of new insurance policies on 1 May 2019. The result of this review was that the current public liability policy provides adequate cover for the Council.</p> <p>With regards to a Cyber Insurance policy, there isn't really a suitable product for local authority risk at present. The Council have elements of cover under the current public liability/fidelity guarantee policies. In addition to this, some other elements would be covered under the current IT contract. This will be kept under review if more comprehensive cover becomes available or other circumstances warrant it.</p>	<p>Further review by the Insurance & Risk Manager will be undertaken in early 2021 prior to the renewal of insurance policies for 2021-2022</p>

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DETAILED FINDINGS AND ACTION PLAN

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No	Finding	Risk	Recommendation and Priority *Raised in previous Audit	Management Response	Agreed timescale and responsible manager
2	<p><u>Outstanding Claims</u></p> <p>While there is a target to acknowledge claims received within three days, and investigate within three months, there is currently no formal review of the progress of outstanding claims and whether such targets are achieved.</p> <p>Audit were informed this is being raised with the new claims handling contract to commence as from 1 April 2020.</p> <p>As stated in section 10 of this report, at the time of audit the final contract for the new arrangements between Bromley and Sutton, was still being formalised.</p>	<p>There is an increased risk of increasing dissatisfaction where genuine claims are not addressed timely. In the event it is not possible to confirm the validity of older claims, inappropriate payments may arise.</p>	<p>The Council's claims handler should be required to report on the timeliness in which claims are acknowledged and settled, and identify those claims outstanding. Where targets are not achieved, the reasons for such failure should be investigated and appropriate remedial action agreed.</p> <p>As part of the final arrangements to get the new contract in place and signed-off, the Insurance and Risk Manager should liaise closely with the Council's Legal Team to ensure that any requirements to produce the suggested level of performance data are built into the contractual terms and conditions.</p> <p style="text-align: center;">Priority 2</p>	<p>Monthly Management Reports from LB Sutton will include:</p> <ul style="list-style-type: none"> - Compliance to 7 day response time for all claims correspondence - Average number of days to respond to claims correspondence - Total of outstanding reserves for all open claims - Compliance to pre-action protocol e.g. acknowledgement time and investigation period - Compliments and Complaints received 	<p>Insurance & Risk Manager will undertake a review of LB Sutton management reports in the first quarter of new contract commencing on 1 April 2020</p>

Assurance Level

Assurance Level	Definition
Substantial Assurance	There is a sound system of control in place to achieve the service or system objectives. Risks are being managed effectively and any issues identified are minor in nature.
Reasonable Assurance	There is generally a sound system of control in place but there are weaknesses which put some of the service or system objectives at risk. Management attention is required.
Limited Assurance	There are significant control weaknesses which put the service or system objectives at risk. If unresolved these may result in error, abuse, loss or reputational damage and therefore require urgent management attention.
No Assurance	There are major weaknesses in the control environment. The service or system is exposed to the risk of significant error, abuse, loss or reputational damage. Immediate action must be taken by management to resolve the issues identified.

Recommendation ratings

Risk rating	Definition
Priority 1	A high priority finding which indicates a fundamental weakness or failure in control which could lead to service or system objectives not being achieved. The Council is exposed to significant risk and management should address the recommendation urgently.
Priority 2	A medium priority finding which indicates a weakness in control that could lead to service or system objectives not being achieved. Timely management action is required to address the recommendation and mitigate the risk.
Priority 3	A low priority finding which has identified that the efficiency or effectiveness of the control environment could be improved. Management action is suggested to enhance existing controls.