

Oxford City Council

Insurance Review

FINAL

Internal Audit Report
2012/2013
August 2012




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Distribution List

For action	Anna Winship (Financial Accounting Manager)
For information	Nigel Kennedy (Head of Finance) Jackie Yates (Executive Director – Organisational Development & Corporate Services) Peter Sloman (Chief Executive)

1. Executive summary

Report classification	Trend	Total number of findings																								
 Medium risk (10 points)	N/a - no previous review has been performed in this area	<table border="1"> <thead> <tr> <th></th> <th>Critical</th> <th>High</th> <th>Medium</th> <th>Low</th> <th>Advisory</th> </tr> </thead> <tbody> <tr> <td>Control design</td> <td>0</td> <td>0</td> <td>2</td> <td>3</td> <td>0</td> </tr> <tr> <td>Operating effectiveness</td> <td>0</td> <td>0</td> <td>0</td> <td>1</td> <td>0</td> </tr> <tr> <td>Total</td> <td>0</td> <td>0</td> <td>2</td> <td>4</td> <td>0</td> </tr> </tbody> </table>		Critical	High	Medium	Low	Advisory	Control design	0	0	2	3	0	Operating effectiveness	0	0	0	1	0	Total	0	0	2	4	0
	Critical	High	Medium	Low	Advisory																					
Control design	0	0	2	3	0																					
Operating effectiveness	0	0	0	1	0																					
Total	0	0	2	4	0																					

Summary of findings:

Oxford City Council ('the Council') has a five year insurance contract with Zurich which is due for re-tender in December 2012. Management of insurance is the responsibility of the Council's Risk and Insurance Manager. The processing of claims is the responsibility of individual services.

Our review highlighted some areas of good practice relating to overall management of the contract:

- The Risk and Insurance Manager retains overall responsibility for the management of the contract;
- Quarterly meetings are held to discuss contract performance; and
- Insurance data is held centrally on the Zurich website which can be accessed on the internet by approved users.

More work is needed to improve the internal control environment to ensure that consistent processing and monitoring procedures are adopted by all departments and that the Risk and Insurance Manager has appropriate visibility of claims processed at a departmental level.

Two *medium risk* issues have been noted:

- There are no up-to-date procedure notes outlining how claims should be processed. This has led to the adoption of different working practices across the Council; and
- Departments adopt different methods of monitoring claim status. There is a risk this information is incomplete.

Four *low risk* issues have been identified:

- Outcomes of quarterly meetings are not shared with departments. Departments are unaware of key developments and areas of good practice shared by their insurance provider;
- There are no key performance indicators 'KPIs' covering insurance activity and activity is not monitored or reported on a formal basis;
- One instance was noted where claims data was stored within a non-secure office; and
- A formal review of all insurance policies has not been performed for a number of years. This is due to be performed as part of the re-tender exercise.

2. Background and scope

Background

The Council has a five year insurance contract in place with Zurich. The contract was awarded in 2007 and is due to for re-tender in December 2012. Overall management of insurance is the responsibility of the Council's dedicated Risk and Insurance Manager however the processing of claims is the responsibility of individual services. The objective of this review was to ensure the efficient and effective arrangement and administration of the Council's insurance portfolio and claims management system.

Scope and limitations of scope

Scope

We have reviewed the design and operating effectiveness of controls identified relating to Insurance. The sub-processes and related control objectives included in this review are:

Sub-process	Control objectives
Roles and responsibilities	<ul style="list-style-type: none">• Roles and responsibilities are clearly defined.
Communication	<ul style="list-style-type: none">• Adequate processes and procedures are in place in relation to the administration and maintenance of insurance policies and records.• Effective communication systems are in place to ensure officers are aware of how claims should be processed and where queries should be logged.
Insurance cover	<ul style="list-style-type: none">• There are adequate/appropriate levels of sums insured/indemnity limits.
Financial Regulations	<ul style="list-style-type: none">• Insurance covers are arranged and administered in accordance with Financial Regulations, and the Council's Constitution.
Claims	<ul style="list-style-type: none">• Claims are submitted to the insurer in the appropriate format with any necessary supporting documentation, within any locally or statutory agreed timescales.
Post claim operations	<ul style="list-style-type: none">• Claims are reviewed to identify lessons learnt and future plans put in place to mitigate against the risk occurring again.• Fraudulent claims are identified and investigated.

Maintenance of details	<ul style="list-style-type: none"> • The insurance system is protected against unauthorised access/ processing and is secure against loss or damage of data.
Management information	<ul style="list-style-type: none"> • Insurance activity is monitored and reported on a periodic basis in line with set time scales.

Limitations of scope
The scope of our work was limited to those areas outlined above.

3. Detailed current year findings

1. Procedure Notes – Control Design

Finding

Procedure notes have not been reviewed since March 2006 and are not used by Council departments. This has led to the adoption of different practices across the Council. The following issues were identified:

- Roles and responsibilities at a departmental level are not defined. This means that insurance processing activity is not standardised across the Council;
- There is no external guidance for members of the public outlining who they should contact if they want to lodge a claim;
- None of the departments are using the 2006 guidance: only 1/4 departments interviewed knew of the existing guidance; 1/4 departments had created their own procedure notes to process insurance claims; 1/4 departments had a policy for handling complaints. No other procedure notes were identified;
- Only 1 /4 departments reviewed and authorised claim information before it was submitted to Zurich; and
- A standardised claim form should be used by officers. 1/4 departments complete these electronically, all other departments use hard copy claim forms.

Risks

Staff are unaware of procedures to be followed meaning claims are handled inappropriately.

A lack of administration and maintenance can lead to claims being processed incorrectly and overpayments.

Action plan

Finding rating

Medium

Procedure notes will be formally reviewed, updated and publicised internally so that Council departments are aware of procedures. This process will include identifying individuals within each department who are for responsible for processing and monitoring insurance claims. We will liaise with our insurers to ensure we include the correct information, and instructions on processing claims electronically, in our procedures and arrange for them to provide training to responsible officers (see issue #2 below).

Responsible person / title

Anna Winship (Financial Accounting Manager)

Target date:

31/12/2012

2. Incomplete claims listing – Control Design

<p>Finding</p>	<p>It is possible to download a complete listing of all insurance claims and their current status from the Zurich website. However, this is not currently performed and no centralised monitoring of claims across the Council is performed (see issue #4 below). We identified the following completeness issues surrounding insurance claims data:</p> <ul style="list-style-type: none"> • We were supplied with a listing of claims processed across the Council since April 2012. This data was supplied by multiple departments across the Council. The listing was incomplete and did not include motor insurance claims; • Departments do not have access to the Zurich website to monitor claims and have adopted different methods of monitoring claims: 1/4 departments interviewed use Lagan to monitor claims whereas 3/4 departments are using paper based files; and • During discussions with departments it was identified that they are not always consulted when a claim has been 'closed' meaning that a number of claims remain as 'open' when potentially these may now be resolved. This means that their monitoring is inaccurate.
<p>Risks</p>	<p>Departments do not have complete listings of insurance claims meaning they cannot accurately monitor claims. A lack of administration and maintenance can lead to claims being processed incorrectly and overpayments.</p>
<p>Action plan</p>	
<p>Finding rating</p>	<p>Agreed action</p> <p>Medium</p> <p>In the short term, the Finance department will investigate the viability of giving departmental access to the Zurich website. This will enable responsible individuals to see the current status of insurance claims and monitor the progress of claims. We will aim to do this by the end of September 2012.</p> <p>In the long term, we will supplement this by engaging with our insurance provider to come and provide training to responsible individuals.</p>
<p>Responsible person / title</p>	<p>Anna Winship (Financial Accounting Manager)</p> <p>Target date:</p> <p>30/09/2012 and 31/01/2012</p>

3. Review and monitoring of claims – Control design

<p>Finding</p> <p>The Risk and Insurance Manager meets Zurich on a quarterly basis to discuss the insurance contract. Outcomes of these meetings are not shared with other departments responsible for claim processing meaning that key developments or areas of good practice are not shared across the Council.</p> <p>Zurich is responsible for identifying and reviewing fraudulent claims. When a fraudulent claim is identified, it is the responsibility of Zurich to notify the relevant department that this is being investigated. This information is not shared as part of quarterly meetings and there is no formal requirement for departments to share this information with the Risk and Insurance Manager.</p> <p>As claims are not formally reviewed to identify lessons learnt, plans cannot be made to mitigate against the risk of invalid claims in the future. It is not possible to quantify how many claims this relates to or the value of claims affected.</p>	<p>Risks</p> <p>Departments are unaware of key developments or areas of good practice shared with the Council by their insurance provider. This may mean inconsistent or inefficient working practices continue to be adopted.</p> <p>If claims are not reviewed, trends may not be identified, meaning fraudulent or invalid claims are made on a recurring basis.</p>
<p>Action plan</p>	
<p>Finding rating</p> <p>Low</p>	<p>Agreed action</p> <p>We have confirmed with Zurich that there have been no fraudulent insurance claims. Zurich will continue to collate this data for the NFI exercise. Zurich have provided a number of updates of key developments to the Council in the past. This has included communication of key changes in legislation, discussions with the Corporate Assets team and training on risk management practices. Going forward we will continue to communicate any key messages from our insurance provider and following the re-tender, we will liaise with our insurance provider to provide training to relevant individuals at a departmental level to continue to share good practice.</p> <p>Responsible person / title</p> <p>Anna Winship (Financial Accounting Manager)</p> <p>Target date:</p> <p>31/01/2012</p>

4. Management information – Control Design

Finding		
There are no formal KPIs covering insurance activity and activity is not monitored or reported on a formal basis. The Council is a member of the CIPFA Benchmarking Club which will enable them to compare their processes, performance and value for money achieved against other organisations.		
Risks		
Insurance activity is not monitored and reported on for follow up or risk management processes.		
Action plan		
Finding rating	Agreed action	Responsible person / title
Low	We will consider the implementation of some relevant KPIs to monitor insurance performance. This will be incorporated as part of our revision to procedure notes.	Anna Winship (Financial Accounting Manager)
		Target date:
		31/12/2012

5. Security of claims data – Control Design

<p>Finding</p> <p>Our audit work has identified varying levels of security surrounding the retention of claims data. In the majority, data is kept physically secure in locked filing cabinets and offices and/or is electronically protected on the computer system. However, one instance was noted where claims data is stored within a non-secure office.</p>									
<p>Risks</p> <p>Claims data is lost or damaged leading to reputational risk through failure to comply with data protection requirements or financial loss e.g. incorrect payments made on basis of incomplete information.</p> <p>Access to claims data is not restricted to appropriate personnel meaning potentially confidential information is released leading to reputational damage for the Council.</p>									
<p>Action plan</p>									
<table border="1"> <thead> <tr> <th data-bbox="783 64 836 2186">Finding rating</th> <th data-bbox="783 64 836 2186">Agreed action</th> <th data-bbox="783 64 836 2186">Responsible person / title</th> </tr> </thead> <tbody> <tr> <td data-bbox="836 64 874 2186">O Low</td> <td data-bbox="836 64 874 2186">We will update our procedure notes to ensure that departments are aware of the requirement to store data securely.</td> <td data-bbox="836 64 874 2186">Anna Winship (Financial Accounting Manager)</td> </tr> <tr> <td data-bbox="874 64 912 2186"></td> <td data-bbox="874 64 912 2186">Target date:</td> <td data-bbox="874 64 912 2186">31/12/2012</td> </tr> </tbody> </table>	Finding rating	Agreed action	Responsible person / title	O Low	We will update our procedure notes to ensure that departments are aware of the requirement to store data securely.	Anna Winship (Financial Accounting Manager)		Target date:	31/12/2012
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O Low	We will update our procedure notes to ensure that departments are aware of the requirement to store data securely.	Anna Winship (Financial Accounting Manager)							
	Target date:	31/12/2012							

6. Annual review of insurance policies – Operating Effectiveness

<p>Finding</p> <p>Section 18.6 of Financial Regulations states that insurance policies should be reviewed on an annual basis. Policies are currently only reviewed when they are due for tender and have not been reviewed since 2007.</p>						
<p>Risks</p> <p>Amounts insured and indemnity limits are not appropriate leaving the Council liable to financial exposure.</p>						
<p>Action plan</p>						
<table border="1"> <thead> <tr> <th data-bbox="638 64 758 1064">Finding rating</th> <th data-bbox="638 64 758 1064">Agreed action</th> <th data-bbox="638 64 758 1064">Responsible person / title</th> </tr> </thead> <tbody> <tr> <td data-bbox="758 64 893 1064"> <p>1</p> <p>Low</p> </td> <td data-bbox="758 64 893 1064"> <p>The Finance department have updated insurance policies on an annual basis: in the past year we added a clause relating to terrorism; have updated motor vehicles and properties; and, reviewed our fidelity insurance. However, it is accepted that there has not been a formal review of other existing clauses within the contract. A full review will be performed with immediate effect as part of the re-tender exercise for the provision of insurance services.</p> </td> <td data-bbox="758 64 893 1064"> <p>Anna Winship (Financial Accounting Manager)</p> <p>Target date:</p> <p>31/12/2012</p> </td> </tr> </tbody> </table>	Finding rating	Agreed action	Responsible person / title	<p>1</p> <p>Low</p>	<p>The Finance department have updated insurance policies on an annual basis: in the past year we added a clause relating to terrorism; have updated motor vehicles and properties; and, reviewed our fidelity insurance. However, it is accepted that there has not been a formal review of other existing clauses within the contract. A full review will be performed with immediate effect as part of the re-tender exercise for the provision of insurance services.</p>	<p>Anna Winship (Financial Accounting Manager)</p> <p>Target date:</p> <p>31/12/2012</p>
Finding rating	Agreed action	Responsible person / title				
<p>1</p> <p>Low</p>	<p>The Finance department have updated insurance policies on an annual basis: in the past year we added a clause relating to terrorism; have updated motor vehicles and properties; and, reviewed our fidelity insurance. However, it is accepted that there has not been a formal review of other existing clauses within the contract. A full review will be performed with immediate effect as part of the re-tender exercise for the provision of insurance services.</p>	<p>Anna Winship (Financial Accounting Manager)</p> <p>Target date:</p> <p>31/12/2012</p>				





Appendix 1: Basis of our classifications

Individual finding ratings

Finding rating	Assessment rationale
Critical	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • <i>Critical</i> impact on operational performance (quantify if possible); or • <i>Critical</i> monetary or financial statement impact (quantify if possible = materiality); or • <i>Critical</i> breach in laws and regulations that could result in material fines or consequences (quantify if possible); or • <i>Critical</i> impact on the reputation or brand of the organisation which could threaten its future viability (quantify if possible).
High	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • <i>Significant</i> impact on operational performance (quantify if possible); or • <i>Significant</i> monetary or financial statement impact (quantify if possible); or • <i>Significant</i> breach in laws and regulations resulting in significant fines and consequences (quantify if possible); or • <i>Significant</i> impact on the reputation or brand of the organisation (quantify if possible).
Medium	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • <i>Moderate</i> impact on operational performance (quantify if possible); or • <i>Moderate</i> monetary or financial statement impact (quantify if possible); or • <i>Moderate</i> breach in laws and regulations resulting in fines and consequences (quantify if possible); or • <i>Moderate</i> impact on the reputation or brand of the organisation (quantify if possible).
Low	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • <i>Minor</i> impact on the organisation's operational performance (quantify if possible); or • <i>Minor</i> monetary or financial statement impact (quantify if possible); or • <i>Minor</i> breach in laws and regulations with limited consequences (quantify if possible); or • <i>Minor</i> impact on the reputation of the organisation (quantify if possible).
Advisory	<p>A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.</p>

Report classifications

Findings rating	Points
Critical	40 points per finding
High	10 points per finding
Medium	3 points per finding
Low	1 point per finding

Report classification	Points
 Low risk	6 points or less
 Medium risk	7– 15 points
 High risk	16– 39 points
 Critical risk	40 points and over

Appendix 2: Terms of Reference

Oxford City Council

Terms of reference –Insurance

To: *Anna Winship, Financial Accounting Manager*

Nigel Kennedy, Head of Finance

From: *Charlotte Bilsland, Audit Manager*

This review is being undertaken as part of the 2012/13 internal audit plan approved by the Audit and Governance Committee.

Background

Oxford City Council has a 5 year insurance contract in place with Zurich. The contract was awarded in 2007 and is due to for re-tender in July 2012. Overall management of insurance is the responsibility of the Council's dedicated Risk and Insurance Manager however the processing of claims is the responsibility of individual services. The objective of this review is to ensure the efficient and effective arrangement and administration of the Council's insurance portfolio and claims management system.

Scope

We will review the design and operating effectiveness of key controls relating to Insurance. The sub-processes and related control objectives included in this review are:

Roles and responsibilities	<ul style="list-style-type: none">• Roles and responsibilities are clearly defined.
Communication	<ul style="list-style-type: none">• Adequate processes and procedures are in place in relation to the administration and maintenance of insurance policies and records.• Effective communication systems are in place to ensure officers are aware of how claims should be processed and where queries should be logged.
Insurance cover	<ul style="list-style-type: none">• There are adequate/appropriate levels of sums insured/indemnity limits.
Financial Regulations	<ul style="list-style-type: none">• Insurance covers are arranged and administered in accordance with Financial Regulations, and the Council's Constitution.
Claims	<ul style="list-style-type: none">• Claims are submitted to the insurer in the appropriate format with any necessary supporting documentation, within any locally or statutory agreed timescales.
Post claim operations	<ul style="list-style-type: none">• Claims are reviewed to identify lessons learnt and future plans put in place to mitigate against the risk occurring again.• Fraudulent claims are identified and investigated.
Maintenance of details	<ul style="list-style-type: none">• The insurance system is protected against unauthorised access/ processing and is secure against loss or damage of data.
Management information	<ul style="list-style-type: none">• Insurance activity is monitored and reported on a periodic basis in line with set time scales.

Limitations of scope

The scope of our work will be limited to those areas outlined above.

Internal audit team

Richard Bacon	Engagement Leader
Chris Dickens	Chief Internal Auditor
Charlotte Bilsland	Audit Manager
Jenny Jones	Team Member

Key contacts – Oxford City Council

Anna Winship	Financial Accounting Manager	Audit Sponsor*	Review and approve terms of reference Review draft report Review final report Hold initial scoping meeting Review and meet to discuss issues arising and develop management responses and action plan
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Other Roles and Responsibilities – Oxford City Council

Nigel Kennedy	Head of Finance	Receive agreed terms of reference Receive draft and final reports
Jackie Yates	Executive Director – Organisational Development & Corporate Services	Receive final report
Peter Sloman	Chief Executive	Receive final report

* The audit sponsor should respond by email to the audit manager to confirm agreement with these Terms of Reference. By agreeing to the document, the responsible manager is confirming the following:

- Appropriateness of scope and any limitation;
- All relevant documentation, including source data, reports and procedures, will be made available to us promptly on request;
- Staff and management will make reasonable time available for interviews and will respond promptly to follow-up questions or requests for documentation; and
- Agreement with the timetable of reporting within the document and the audit reporting protocol within the Annual Audit plan.

Timetable

Fieldwork start	28/05/2012
Fieldwork completed	01/06/2012
Clearance Meeting	w/c 04/06/2012
Draft report to client	w/c 18/06/2012
Response from client	w/c 18/06/2012
Final report to client	w/c 02/07/2012

Agreed timescales are subject to the following assumptions:

- All relevant documentation, including source data, reports and procedures, will be made available to us promptly on request; and
 - Staff and management will make reasonable time available for interviews and will respond promptly to follow-up questions or requests for documentation.
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Appendix 3: Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken the review of Insurance, subject to the limitations outlined below.

Internal control

Internal control, no matter how well designed and operated, can provide only reasonable and not absolute assurance regarding achievement of an organisation's objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future periods

Our assessment of controls relating to the Insurance review is for the 2012/13 year.

Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- the degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.

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