

ARGYLL & BUTE COUNCIL

Internal Audit Section

INTERNAL AUDIT REPORT

CUSTOMER DEPARTMENT	CUSTOMER SERVICES
AUDIT DESCRIPTION	RISK BASED AUDIT
AUDIT TITLE	INSURANCE ARRANGEMENTS
AUDIT DATE	AUGUST 2014

2014/2015



1. BACKGROUND

This report has been prepared as a result of the Internal Audit review of Insurances within Customer Services as part of the 2014/15 Internal Audit programme.

Argyll and Bute Council is required to purchase insurance and related services in relation to its portfolio requirements. The following is an indicative list of the type of insurance that is required; property, contents, works in progress, business continuity, motor vehicles, professional indemnity, employers liability and public liability.

The procurement of such services in the Scottish Public Sector takes place within the framework of European, UK and Scottish legislation. These are based on five key principles –equal treatment, transparency, proportionality, mutual recognition, and non-discrimination. The rules for Public Procurement are bound by;

- EU Treaty Obligations.
- EC Procurement Directives.
- Public Contracts (Scotland) Regulations 2012

Argyll and Bute Council budgeted expenditure for Insurance and related services for 14/15 is £902k.

2. AUDIT SCOPE AND OBJECTIVES

The audit will cover the arrangements in place for securing Insurance services. We will include a review of internal controls and other procurement and governance arrangements. We will also review risk monitoring and risk reduction measures to provide a reasonable assurance that management's objectives are furthered and supported. Areas to be reviewed include:

- Compliance with Procurement procedures manual;
- Roles and responsibilities including contractual delegations and thresholds;
- Contract specification and tendering protocols;
- Information /data systems, and;
- Claim, risk reduction and monitoring arrangements.

3. RISKS IDENTIFIED

- Council fails to secure best value.
- Failure to meet Public procurement rules.
- Failure to have robust information and monitoring protocols.

4. AUDIT OPINION

The level of assurance given for this report is substantial.

Level of Assurance	Reason for the level of Assurance given
High	Internal Control, Governance and the Management of Risk are at a high standard with only marginal elements of residual risk, which are either being accepted or dealt with.
Substantial	Internal Control, Governance and the Management of Risk have displayed a mixture of little residual risk, but other elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Limited	Internal Control, Governance and the Management of Risk are displaying a general trend of unacceptable residual risk and weaknesses must be addressed within a reasonable timescale, with management allocating appropriate resource to the issues.
Very Limited	Internal Control, Governance and the Management of Risk are displaying key weaknesses and extensive residual risk above an acceptable level which must be addressed urgently, with management allocating appropriate resource to the issues.

This framework for internal audit ratings has been developed and agreed with Council management for prioritising internal audit findings according to their relative significance depending on their impact to the process. The individual internal audit findings contained in this report have been discussed and rated with management.

A system of grading audit findings, which have resulted in an action, has been adopted in order that the significance of the findings can be ascertained. Each finding is classified as High, Medium or Low. The definitions of each classification are set out below:-

<p>High - major observations on high level controls and other important internal controls. Significant matters relating to factors critical to the success of the objectives of the system. The weakness may therefore give rise to loss or error;</p> <p>Medium - observations on less important internal controls, improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system and items which could be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified;</p> <p>Low - minor recommendations to improve the efficiency and effectiveness of controls, one-off items subsequently corrected. The weakness does not appear to affect the ability of the system to meet its objectives in any significant way.</p>
--

5. FINDINGS

The following findings were generated by the audit:

Procurement of Insurance tender:

- The provision of Insurances and Related services was carried out during July/September 2011 under the Public Contracts (Scotland) Regulations 2006 which have since been replaced by the 2012 regulations.
- The placement of a Prior Information Notice on Public Contracts Scotland was carried out resulting in 14 companies noting their interest of which 2 submitted a tender namely Zurich Municipal and Risk Management Partners Ltd. It was noted in the Contract Award Recommendation Report that the reason given for the low response was due to the Council choosing to deal directly with Insurances companies rather than via a broker. Zurich Municipal was the successful tenderer.
- The procedures carried out during the tender process adhered to the appropriate guidelines outlined in the Procurement Manual.
- The scoring mechanism used by the Council was reviewed and found to be in line with the appropriate guidelines.
- All potential liabilities should be covered by the insurance cover taken out by the Council. It was found that Rothesay Academy had taken out an insurance policy to cover trophies, which was not required as cover is provided by the main insurance policy.
- The tender document used was a generic tender document which had been edited in order to fit the required guidelines for the Insurance tender. However in reading through the document a number of errors were noted namely the date specified for questions to be submitted Re the tender documents was 10th August 2012 rather than 10th August 2011. The contract end date was shown as 31st September 2014 with the possible extension to 31st September 2016.

Claims, risk reduction and monitoring arrangements

- Procedures and protocols are in place for dealing with claims however documentation was found to refer to previous claims handling agents and requires to be updated.

- A random sample of each type of claim was selected and the procedures governing how each claim should be processed was checked to ensure that guidelines are being adhered to. All claims chosen were found to have been properly handled as per the guidelines supplied.
- In reviewing a sample of incident reports it was noted that the reporting for some areas was more comprehensive than other areas. All reports should include a comprehensive incident report with copies of all relevant documents and appropriate photographs.
- Claims analysis data is provided by Zurich however limited evidence exists in relation to management use /risk reduction control activity.
- As part of the Insurance agreement Zurich provide a training fund with access to a range of specialist training. This fund has been accessed however it has not been fully utilised as there was some uncertainty around co-ordinating roles.

6. CONCLUSION

This audit has provided a substantial level of assurance. There were a number of recommendations for improvement identified as part of the audit and these are set out in Appendix 1. There are 2 medium recommendations set out in Appendix 1 which will be reported to the Audit Committee. There are a further 4 low recommendations which are not reported to the Audit Committee. Appendix 1 sets out the actions management have agreed to take as a result of the recommendations, the persons responsible for the action and the target date for completion of the action. Progress with implementation of actions will be monitored by Internal Audit and reported to management and the Audit Committee.

APPENDIX 1 ACTION PLAN

Findings	Risk Impact	Rating	Agreed Action	Responsible person agreed implementation date
1. Incident Reporting		High/ Medium or Low		
In reviewing a sample of incident reports it was noted that the reporting for some areas was more comprehensive than other areas.	Failure to have a comprehensive incident report can result in the Council being liable for claims it would otherwise be able to challenge.	Medium	Legal Services to issue e-mail outlining responsibility to ensure that incident reports are comprehensive	31 August 2014 Insurance Assistant
2. Tendering Procedures		High/ Medium or Low		
It was noted there was a low response to the Invite to Tender due to the approach adopted .i.e. dealing directly with brokers.	Procurement strategy can impact on value for money.	Medium	Council's traditional requirements for single supplier of all insurances was the industry norm at time of tender. Procurement and legal to review sourcing strategy at time of insurance renewal.	31 December 2014 Procurement Commission Manager Legal Services Manager-Commercial

Contact Details

Name David Sullivan

Address Kilmory, Lochgilphead, Argyll, PA31 8RT

Telephone 01546 604215

Email David.sullivan@argyll-bute.gov.uk

www.argyll-bute.gov.uk

Argyll & Bute – Realising our potential together

