

PRIVATE AND CONFIDENTIAL

EPPING FOREST DISTRICT COUNCIL

INTERNAL AUDIT REPORT No. 607

Subject: Risk Management & Insurance 2010

Client: Finance & ICT

Auditor: Nick Fanning

Date: March 2011

Signed Auditor:

Chief Auditor:

Distribution:

Full Report

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John Gilbert	Director of Environment & Street Scene

Management Summary

Richard Bassett	Portfolio Holder
Derek Macnab	Acting Chief Executive

Report No. Issued March 2011
Management Summary

1.0 Introduction

An audit of Risk Management & Insurance has been carried out as part of the approved Audit Plan for 2010/11, covering the period April 2010 to January 2011 and has looked in depth at the systems and controls as well as the policy and procedures currently adopted. Audit also reviewed the previous audit findings. Risk Management is a key aspect of the Authority's internal control framework. Risk Champions are established within the individual Directorates, leading their functions in risk management and feeding into the Risk Management Group (RMG). The subject of risk is a regular item on the Corporate Governance Group (CGG) agenda, a quarterly item on the Finance and Performance Management Cabinet Committee Agenda and is promoted on a Directorate level in all management meetings.

Reports are issued to Finance and Performance Management Cabinet Committee in relation to insurance trends and assurance that insurance policies are being monitored. In June 2010 the Council entered into a new 3 year agreement with Zurich Municipal (ZM), with the option of a 2 year extension. The Authority has an agreement with Uttlesford District Council to manage their Insurance claims, which has been in place since mid January 2010. Uttlesford has an agreement with ZM until the end of August 2013 and it is felt that this insurance claims handling service will continue until this time. Currently a charge of £1,000 a month is received for this service; this fee from April 2011 will be increasing to £1,500 to incorporate an extra charge for providing an insurance advice service.

2.0 Assurance Rating

Substantial Assurance, owing to the sound systems in place, good reporting chains and understanding and commitment to risk management, on a Directorate and Corporate level.

3.0 Audit Approach and Methodology

Audit review began with discussion with key persons within the process, to gauge opinion and gain understanding of the current systems and controls in place. A full review into the policies adopted and procedures followed was undertaken, focusing on the risk management process, insurance monitoring and the effectiveness of the current approach.

4.0 Opinion

Risk management is fully embedded and championed both at Directorate level and at a corporate level. The process is proactive in identifying risk and is efficient in ensuring the risk register remains current. Insurance policies are monitored and claims recorded accurately.

5.0 Implications for Governance Statement

Risk Management is a key element in the councils system of internal control and it is necessary to demonstrate sound processes that are embedded in service planning, delivery and monitoring.

6.0 Acknowledgements

We would like to take this opportunity to thank the Directorate Risk Champions, the Senior Finance Officer (Insurance & Income Control) and the Finance Officer (I&I) for their assistance during the audit.

1.0 Objectives

To establish if;

- Risk management processes are in place and fully embedded within the Authority.
- Each Directorate has risk management awareness within its structure.
- RMG represented by a 'Risk Champion' from each Directorate.
- Insurance Policies are in place and monitored to cover highlighted risk areas.
- Insurance claims are processed correctly
- Insurance trend analysis undertaken and trends monitored.

2.0 Scope

- Discussions with relevant officers
- Study of available material and documentation
- Sample of insurance claims from April 2010 – January 2011

3.0 Assurance Given

Substantial Assurance, owing to the sound systems in place, good reporting chains and understanding and commitment to risk management, on a Directorate and corporate level.

4.0 Findings

Audit review of the Risk Management and Insurance process, highlighted several areas showing good practice;

- **Risk Management is embedded within the individual Directorates and is monitored effectively.** Through conversation and written responses audit is confident in the understanding and importance given to risk management within their individual Directorates. Each Directorate has shown a good process and regular review to their risk registers is identified. The Directorates also are feeding risks up to a corporate level by means of initial discussion within Directorate, followed by the proposal of upgrading risks to this Corporate level.
- **Risk Management built into Directorate Business plans.** All Directorates have Risk Management as part of their Business Plans. A number of Directorate risks were linked to the Corporate Risk Register, risk matrices compiled and action plans for managing the risks have been created.
- **Risk Management Group well coordinated and represented in bringing Directorate risk to a Corporate level.** The RMG consists of each Directorate's Risk Champion, the Insurance & Income Control Manager and the Chief Internal Auditor. Also in attendance is the Business Continuity Manager. The group meets quarterly to discuss risk management and each Champion updates the group the specifics of each Directorate. The Corporate Risk Register is reviewed and any additional risk or amendments are proposed and discussed. Insurance and Business Continuity planning is also discussed.

- **Risk Management is shown to be embedded within the Authority's management framework and the Corporate Risk Register is being monitored effectively.** Risk Management is a regular item on the CGG agenda and is a quarterly agenda item on the Finance and Performance Management Cabinet Committee. Adjustment to the risk tolerance line is conversed and alterations and additions to the Risk Register are contemplated and passed through committee. Decisions made by the Risk Champions at RMG are discussed and fed into the CGG who then report up to Committee level.
- **Insurance claims are processed in a timely and accurate manner.** All claims were processed correctly and had been accurately recorded in the Insurance claims spreadsheet. There is efficient and timely processing of claims by the Finance Officer.
- **Good audit trail of claim progressions is stored.** Documentation and evidence of dialogue is kept together with the claims, both settled and ongoing.
- **Insurance policies are monitored effectively.** Claims trends are monitored regularly by the Senior Finance Officer and reported to the Director of Finance & ICT on a quarterly basis. The Council entered into an agreement with Zurich Municipal (ZM) which started on 30 June 2010. The insurance policies are consistently monitored throughout the year and reported into committee. The authority has achieved a net saving of £169,933 over the five years from 30th June 2005 – 29th June 2010, through the decision to increase the excess on Public Liability claims from £500 to £5,000, this saving continues to be monitored.

Findings	Risks Identified	Recommendations	Priority	Responsibility
4.1 Risk awareness training for key individuals to ensure awareness and effective management of current risk.	Outdated view on risk potentially causing damage to the financial and reputation image of Authority.	Evaluate need for training for key individual within the process and set into PDR's as appropriate. Also evaluate need to offer training on risk further down the scale to ensure, risk management's importance is recognised Authority wide.	2	Management Board -
Management Response				Deadline - 31/03/2011

5.0 Conclusion & Advisory Statement

Audit review of Risk Management and Insurance showed the systems and controls currently in place satisfactory in ensuring the process runs well and are compliant with Council Policy. There has been improvement from the previous Audits findings with the processes now efficient and management of risk at both Directorate and corporate level is excellent.

It is clear to see Risk Management is well embedded into the corporate structure and at a management level, the importance of this is clearly understood. There is value in evaluating, communicating and educating risk awareness more widely, within the Authority, to ensure all staff are aware of the importance of risk management and the role everyone can play.

Cost savings have been identified within the Insurance function due mainly to the increase in excess decision taken at Committee level in 2005. The insurance policies are consistently monitored and claims are dealt with effectively.

This high level of working practice needs to be maintained and it is important that risk awareness remains high on the priorities of management, to protect against the pitfalls that could potentially have negative impact on the Authority and its objectives.

6.0 Value derived from this audit

The audit has reviewed the systems, controls and policy in relation the Risk Management and Insurance processes. Recommendations have been made to ensure best practice is attained and systems are fully utilised.

EFDC - Definition of Levels of Assurance

Assurance levels:

The level of assurance to be applied will be based on the auditor's assessment of the extent to which system objectives are met, with the agreement of the Chief Internal Auditor. As a guide, the following triggers will be used, taking into account the level of risk of error, loss, fraud or damage to reputation.

Level	Evaluation opinion	Priority Triggers
Full assurance	There is a sound system of control designed to achieve system objectives, and the controls are being consistently applied.	Priority 3s or no audit recommendations.
Substantial assurance	There is a sound system of control designed to achieve system objectives, and the controls are generally being consistently applied. However, there are some minor weaknesses in control, and/or evidence of non-compliance, which are placing some system objectives at risk.	Priority 2s and one Priority 1 (if assessed as a low risk).
Limited assurance	There is a system of control in place designed to achieve system objectives. However, there are significant weaknesses in the application of control in a number of areas, and / or evidence of significant non-compliance, which are placing some system objectives at risk.	Between 1 and four 1s and (usually) several Priority 2s.
No assurance	The system of control is weak, and / or there is evidence of significant non-compliance, which exposes the system to the risk of significant error or unauthorised activity.	Five or more Priority 1s.

Priority Ratings

Each audit finding will generate an audit recommendation. These recommendations will be prioritised in accordance with the following criteria:

Priority 1 – Observations refer to issues that are fundamental to the system of internal control. We believe that these issues have caused or will cause a system objective not to be met and therefore require management action as a matter of urgency to avoid risk of major error, loss, fraud or damage to reputation. Failure to apply a Financial Regulation or Contract standing Order will normally be in this category.

Priority 2 – Observations refer mainly to issues that have an important effect on the system of internal control but do not require immediate management action. System objectives are unlikely to be breached as a consequence of these issues, although Internal audit suggested improvement to system design and / or more effective operation of controls would minimise the risk of system failure in this area.

Priority 3 – Observations refer to issues that would if corrected, improve internal control in general and ensure good practice, but are not vital to the overall system of internal control.

Reference Materials

M3 system data
ESS Enforcement Policy

Persons Interviewed

Edward Higgins	Senior Finance Officer (I&I)
Jyoti Kanji	Finance Officer