



Item: 4

Monitoring and Audit Committee: 13 February 2025.

Internal Audit – Insurance.

Report by Chief Internal Auditor.

1. Overview

- 1.1. The internal audit plan 2024/25 includes a review of processes and controls relating to insurance. This audit has been completed and the internal audit report is attached as Appendix 1 to this report.
- 1.2. The Council must ensure that it has appropriate insurance in place to cover key risks associated with its activities and responsibilities. Insurance is one of the main methods of transferring risk and therefore plays an important role in the Council's risk mitigation strategies.
- 1.3. The objective of this audit was to review whether the Council had effective and robust insurance procedures that ensure appropriate cover is in place and processes are well defined and adhered to.
- 1.4. The audit provides Substantial assurance that the processes and procedures relating to Insurance are well controlled and managed.
- 1.5. The internal audit report, attached as Appendix 1 to this report, includes 3 low priority recommendations regarding procedural notes, asset guidance and a review of the procurement process. There are no medium or high priority recommendations made as a result of this audit.

2. Recommendations

- 2.1. It is recommended that members of the Committee:
 - i. Scrutinise the findings contained in the internal audit report, attached as Appendix 1 to this report, relating to the controls and procedures around insurance, in order to obtain assurance that action has been taken or agreed where necessary.

For Further Information please contact:

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Implications of Report

1. **Financial:** None directly related to the recommendations in this report.
2. **Legal:** None directly related to the recommendations in this report.
3. **Corporate Governance:** In terms of the Scheme of Administration, consideration of Internal Audit findings and recommendations, and review of actions taken on recommendations made, are referred functions of the Monitoring and Audit Committee.
4. **Human Resources:** None directly related to the recommendations in this report.
5. **Equalities:** An Equality Impact Assessment is not required in respect of Internal Audit Reporting.
6. **Island Communities Impact:** An Island Communities Impact report is not required in respect of Internal Audit Reporting.
7. **Links to Council Plan:** The proposals in this report support and contribute to improved outcomes for communities as outlined in the following Council Plan strategic priorities:
 - Growing our economy.
 - Strengthening our Communities.
 - Developing our Infrastructure.
 - Transforming our Council.
8. **Links to Local Outcomes Improvement Plan:** The proposals in this report support and contribute to improved outcomes for communities as outlined in the following Local Outcomes Improvement Plan priorities:
 - Cost of Living.
 - Sustainable Development.
 - Local Equality.
9. **Environmental and Climate Risk:** None directly related to the recommendations in this report.
10. **Risk:** Internal Audit evaluates the effectiveness and contributes to the improvement of the risk management processes.
11. **Procurement:** None directly related to the recommendations in this report.
12. **Health and Safety:** None directly related to the recommendations in this report.
13. **Property and Assets:** None directly related to the recommendations in this report.
14. **Information Technology:** None directly related to the recommendations in this report.
15. **Cost of Living:** None directly related to the recommendations in this report.

List of Background Papers

Internal Audit Plan 2024/25.

Appendix

Appendix 1: Internal Audit Report – Insurance.



Internal Audit

Audit Report

Insurance

Draft issue date: 29 November 2024

Final issue date: 19 December 2024

Distribution list:	Corporate Director for Enterprise and Sustainable Regeneration Corporate Director for Strategy, Performance and Business Solutions Head of Finance Head of Service Legal and Governance Head of Service Improvement and Performance Service Manager Corporate Finance Service Manager Procurement Service Manager Customer Services and Corporate Administration Team Manager Corporate Finance Insurance Officer
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Audit Opinion

Based on our findings in this review we have given the following audit opinion.

Substantial

The framework of governance, risk management and control were found to be comprehensive and effective.

A key to our audit opinions and level of recommendations is shown at the end of this report.

Executive Summary

This review was carried out to provide assurance that the Council has effective and robust insurance procedures, to ensure that appropriate cover is in place and that processes are well defined and adhered to.

Our audit opinion is based on the findings of this review.

Several areas of good practice related to insurance were identified during the audit.

- An up-to-date insurance register is maintained and securely held which details current policies in place including relevant dates.
- Policies run concurrently ensuring no gaps in insurance.
- Detailed recording and regular monitoring of claims being processed takes place, including investigation procedures followed by relevant services where required.
- Trends identified within claims reported are communicated with the relevant service.
- Detailed internal recharges are carried out consistently, accurately and completely.
- The valuations of assets are carried out by an independent assessor every 5 years and between these, assets are valued yearly by the accountancy team using index-linking.
- The Insurance Officer is a member of 'ALARM', a risk management membership association and has access to support and advice if required from them as well as from the Insurance Brokers.

The report includes 3 recommendations which have arisen from the audit. The number and priority of the recommendations are set out in the table below. The priority headings assist management in assessing the significance of the issues raised.

Responsible officers will be required to update progress on the agreed actions via Ideagen Risk Management.

Total	High	Medium	Low
3	0	0	3

The assistance provided by officers contacted during this audit is gratefully acknowledged.

Introduction

The Council must ensure that it has appropriate insurance in place to cover key risks associated with its activities and responsibilities. Insurance is one of the main methods of transferring risk and therefore plays an important role in the Council's risk mitigation strategies.

This review was conducted in conformance with the Public Sector Internal Audit Standards.

Audit Scope

The scope of this audit included:

- that there is an up-to-date effective insurance strategy, policy and procedural arrangement for ensuring suitable value for money insurance coverage for the Council,
- that insurance renewals take place on time, are competitively awarded and that cover is appropriate to the Council's circumstances,
- that there are claims handling arrangements to ensure that the liability for the claim, responsibility for the claim and value of the claim are correct,
- that there are suitable arrangements to ensure the appropriate assessment of contractor liability for claims where applicable,
- that there are arrangements to ensure the reduction of claims where appropriate, and
- that Services are charged correctly towards their own insurance cover.

Audit Findings

1.0 Insurance Strategy, Policy and Procedural Arrangements.

- 1.1 The Financial Regulations (2024) detail Insurance and Risk requirements in Section 19 with powers delegated to the Head of Finance as stated in the Scheme of Delegation. Rather than having an Insurance Policy for the Council, Insurance requirements are included within other policies such as the Risk Management Strategy and Contract Standing Orders.
- 1.2 There are detailed Insurance procedural notes held by the Insurance Officer. These notes were created by the previous postholder. Current procedures are well known to the Insurance Officer however some of the details within the procedural notes are out of date.
- 1.3 To support business continuity in the event of the Insurance Officer not being available, insurance procedure notes should be reviewed annually and updated as required to reflect current procedures and policies in place. These procedures could be linked to the insurance register which is already kept up to date to save duplication of efforts.

Recommendation 1

2.0 Inventories and Asset Addition and Disposal

- 2.1 Section 20 of the Financial Regulations cover Assets including the Duty to Maintain Inventories and Asset Records. At 20.1.5 it states that inventory evidence should be 'recorded by dated photo which should include office equipment, furnishings, plant and machinery and any other valuable property'. At 20.2.1 of the Financial Regulations, it states-

'Inventories evidence and asset records should be checked and updated annually or when significant changes have occurred.'

- 2.2 In 2019, an inventory management procedure was established for Services and a quick reference sheet was released with guidance on inventory management. To accompany the Financial Regulations (2024), a guide on the disposal of assets was included and this also details the correct form to be used for addition of assets worth over £5000 when communicating such a change with the Insurance Officer.
- 2.3 From the list of specified assets owned by the Council that are insured worth over £5000, a random sample was selected, and the relevant service was asked for evidence that the items are checked annually or in regular use.
- 2.4 All seven assets in the sample were confirmed as still being in existence and six are either in regular use or on display. One asset is not in regular use however annual checking is being set up as part of inventory procedures this year for that service.
- 2.5 A sample of purchases of assets worth over £5000 made during financial years 2023/24 and 2024/25 (to date) were checked against records held by the Insurance Officer. Five assets worth over £5000 (combined total value of £34,539.53) were checked. Asset addition forms had not been completed for these items as required and the Insurance Officer has now contacted the relevant services to request that these be done without delay so that records can be updated accordingly.
- 2.6 The Insurance Officer reported that no asset addition or disposal forms had been submitted during the period covered by the audit however emails were received from Services with notifications of new assets or disposals. There were four examples provided of additions as well as evidence of insuring these new items accordingly. There was one disposal, and the property was accordingly removed from the Insurance schedule.
- 2.7 A sample of services were selected, and each Service Manager was asked to provide information about their procedures for keeping an inventory.
- 2.8 Due to a difference in the reported approaches to inventory management between some services, the testing was expanded, and it was established that there is inconsistency across the Council. Some services have up to date photographs held on file as evidence of inventory worth under £5000 as per the Financial Regulations and some are using spreadsheets to record this rather than photos. Some services need to update photo records.
- 2.9 Services should use the appropriate forms for the addition or disposal of assets as is set out within the guidance that accompanies the Financial Regulations. Guidance on duties related to insurance and inventory management should be emailed out to Services. The quick reference guide to inventory management should be reviewed and shared alongside this. Consideration should be made to including the quick reference guide to inventory management within the guidance on asset disposal on the website, so that it is accessible to all new staff joining the council.

Recommendation 2

3.0 Risk Assessment

- 3.1 Within Section 19.1.1 of the Financial Regulations, the 'Duty to Assess Risk' is detailed. 'The Chief Executive and Corporate Directors will ensure that appropriate Risk Management measures are taken within their Service'.

- 3.2 Corporate and Directorate Risk Registers were reviewed, all had been presented to committee within the last year advising members of the risks which may affect the achievement of the Council's strategic objectives.
- 3.3 Several insurance policies provide some coverage of the risks detailed within the risk registers for example, those involving health and safety such as risk of harm to the public or staff, and climate change risks such as damage to property. Insurance is used as a way of transferring risk.
- 3.4 The Island Games 2025 is listed within the risks to consider for the Council and the Insurance Officer advised that insurance requirements in light of the additional activities undertaken are being considered and appropriate cover will be put in place where some risk can be transferred in this way.
- 3.5 Where insurance is in place as a means of transferring unacceptable risk, consideration should be given to including this within the mitigating action section of risk registers. This would highlight the comprehensive strategy already in place that leverages both prevention and financial safeguards as well as ensuring that risks are appropriately covered without duplication or gaps.

4.0 Insurance Renewals

- 4.1 Orkney Islands Council works with Insurance Brokers who manage the tender process for sourcing insurance to meet the Council's needs and to meet legal requirements. For all insurance other than that which covers marine risks, a tender evaluation report is issued to the Council based on substantial information provided by the Insurance Officer. The report details the bids placed for tender and also scores these. The scoring is used to make recommendations for the best options that provide appropriate levels of insurance for the Council. The insurance brokers responsible for this process undergo a full procurement process and are appointed following a tendering exercise.
- 4.2 Communications between the brokers and the Insurance Officer show that competitive bids are sought from a range of providers and arrangements are made in a timely fashion to ensure policies are in place when required.
- 4.3 For Marine risks, the insurance broker who works with the Council offers a specialised service and works with the relevant service to ensure that cover in place is appropriate, given the range of marine services provided by Orkney Islands Council. The same procurement process is not in place for this specialist broker.
- 4.4 A review of the procurement process should be undertaken in respect of the specialist insurance broker who provides access to insurance to cover marine risks.

Recommendation 3

- 4.5 In all cases, insurance cover is arranged so that there are no gaps in insurance and there is a diversity of providers in place, covering various policies.

Action Plan

Recommendation	Priority	Management Comments	Responsible Officer	Agreed Completion Date
<p>1 To support business continuity in the event of the Insurance Officer not being available, insurance procedure notes should be reviewed annually and updated as required to reflect current procedures and policies in place.</p> <p>These procedures could be linked to the insurance register which is already kept up to date to save duplication of efforts.</p>	Low	The insurance procedure notes will be updated and reviewed annually thereafter. The procedure notes will be linked to the insurance register going forward.	Insurance Officer	30 September 2025
<p>2. Services should use the appropriate forms for the addition or disposal of assets as is set out within the guidance that accompanies the Financial Regulations.</p> <p>Guidance on duties related to insurance and inventory management should be emailed out to Services. The 'Quick Reference Guide to Inventory Management' sheet should be reviewed and shared alongside this.</p> <p>Consideration should be made to including the quick reference guide to inventory management within the guidance on asset disposal located on the website so it is accessible to all new staff joining the council.</p>	Low	<p>The quick reference guide will be expanded to include more guidance on additions.</p> <p>Thereafter, guidance and a reminder to complete the appropriate forms for the addition or disposal of assets will be issued by the Head of Finance to all Services.</p>	Team Manager – Corporate Finance	30 September 2025
<p>3. A review of the procurement process should be undertaken in respect of the specialist insurance broker who provides access to insurance to cover marine risks.</p>	Low	A review of the current marine insurance cover will take place in consultation with Marine Services. Following that	Team Manager – Corporate Finance	30 September 2025

Recommendation	Priority	Management Comments	Responsible Officer	Agreed Completion Date
		<p>review a decision will be made by the Corporate Director for Enterprise and Sustainable Regeneration on whether the contract is opened up for competitive tender, or if a Non-Competitive Action is a more suitable route for this specialised area of insurance.</p>		

Key to Opinion and Priorities

Audit Opinion

Opinion	Definition
Substantial	The framework of governance, risk management and control were found to be comprehensive and effective.
Adequate	Some improvements are required to enhance the effectiveness of the framework of governance, risk management and control.
Limited	There are significant weaknesses in the framework of governance, risk management and control such that it could be or become inadequate and ineffective.
Unsatisfactory	There are fundamental weaknesses in the framework of governance, risk management and control such that it is inadequate and ineffective or is likely to fail.

Recommendations

Priority	Definition	Action Required
High	Significant weakness in governance, risk management and control that if unresolved exposes the organisation to an unacceptable level of residual risk.	Remedial action must be taken urgently and within an agreed timescale.
Medium	Weakness in governance, risk management and control that if unresolved exposes the organisation to a significant level of residual risk.	Remedial action should be taken at the earliest opportunity and within an agreed timescale.
Low	Scope for improvement in governance, risk management and control.	Remedial action should be prioritised and undertaken within an agreed timescale.