BEDFORDSHIRE FIRE AUTHORITY, CAMBRIDGESHIRE AND PETERBOROUGH FIRE AUTHORITY AND ESSEX FIRE AUTHORITY

Risk Protection Pool

FINAL

Internal Audit Report: 4.16/17

4 January 2017

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1 EXECUTIVE SUMMARY

1.1 Background

We undertook an audit of the Risk Protection Pool arrangements at Bedfordshire Fire Authority (BFA), Cambridgeshire and Peterborough Fire Authority (CPFA) and Essex Fire Authority (EFA) as part of the approved internal audit plan for 2016/17, to provide assurance that a robust risk protection process is in place and manages this area effectively.

In November 2015 the three Authorities entered into a Risk Protection Pool arrangement with seven other fire authorities. The decision to enter this partnership was made due to the high insurance costs placed on Fire Authorities by commercial insurers as Fire Authorities are deemed high risk clients. The aim of the partnership is to have a lower annual contribution from the members than that of conventional insurance, whilst still providing the same service and support.

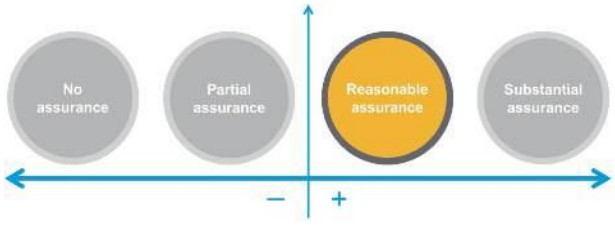
To oversee the function the Fire Risk Indemnity Company (FRIC) was established. FRIC is managed by a Board which is made up of five Directors from the member authorities who were nominated by their authority to run the arrangement. FRIC outsources the day to day operational duties to a third party, Regis Mutual Management Ltd (Regis), and they are responsible for managing claims fed in by the member authorities.

Each type of claim has a retention level agreed when the member joins FRIC and submits their annual application. Any claim up to this limit is payable by the respective authority. Claims over this amount and up to a limit, dependent on the type of claim, are paid by FRIC from the contribution pool obtained from the members' annual contributions. When claims are above the limit for FRIC payment they are escalated to one of two commercial insurance companies FRIC and the members have policies with. The insurance companies are ERS for motor claims and Builders Direct S.A for liability and property protection.

1.2 Conclusion

We have identified as a result of our testing at BFA, CPFA and EFA that the controls in place for the Risk Protection Pool were designed effectively. However, we have identified areas where the application of controls needs to be strengthened further, in particular relating to the documentation of EFA's lease vehicle retention amount.

Internal Audit Opinion:
Taking account of the issues identified, the Authorities can take reasonable assurance that the controls in place to manage this area are suitably designed and consistently applied. However, we have identified issues that need to be addressed in order to ensure that the control framework is effective in managing the identified area(s).



1.3 Key findings

The key findings from this review are as follows:

The FRIC of which EFA is a member are the body which provides the pooled protection. We confirmed the selection process for the Board of Directors of FRIC and noted that this was appropriate and resulted in EFA being represented on the Board. We obtained the signed Articles of Association for FRIC and confirmed these were detailed and clearly lay out the role and responsibilities of FRIC. We also obtained the Rules for FRIC and confirmed these clearly explain the rules for membership and the requirements for notifying FRIC of a claim.

FRIC has a contract to manage the relationship with the management company Regis. We obtained the contract between FRIC and Regis and confirmed this was up to date and covers Regis' responsibilities including payment and contract price. We also obtained and reviewed the Service Level Agreement for Regis. This provided sufficient detail regarding the role expected of Regis as well as laying out performance reporting requirements and the key performance indicators (KPIs) for Regis. FRIC also has an Appointed Representative Agreement, Data Sharing Agreement and Supplemental Management Agreement with Regis to manage the relationship. We obtained these agreements and confirmed they were current and detailed Regis' legal responsibilities with regard to FRIC and the members of FRIC.

The members of FRIC sign up for services on an annual basis. We obtained the annual application for 2016/17 completed by all parties including BFA, CPFA and EFA. We reviewed the applications and confirmed they were complete and had been signed off by the appropriate authorised signatory. We confirmed the application covered all relevant areas of insurance including motor insurance, employers' liability protection, public and products liability protection, and property protection. We also obtained the corresponding draft member pricing model for 2016/17. Through review we noted this included the other member authorities pricing for transparency, and the backing for all calculated costs was clearly included.

Variance analysis for year on year costs was included so member authorities could scrutinise charges and gain assurance that their contributions are reasonable. The invoice provided to EFA by FRIC for 2016/17 cover evidence EFA are being charged the calculated amount in the pricing model and that EFA will have continued adequate coverage in 2016/17. We also obtained meeting minutes from BFA and CPFA, evidencing that careful consideration had been given to the proposal of the insurance pooled fund and in November 2015, both Authorities had agreed to go forward with the proposal.

The members of FRIC undertake a monthly conference call to discuss the performance of Regis and the pooling arrangements. We obtained the July, August and October 2016 agendas and confirmed attendance by a representative of EFA at every meeting. No minutes are maintained for these meetings, but we reviewed the agendas to confirm standing items relating to Regis' performance, as well as FRIC development, are consistent. We obtained the accompanying reports and confirmed these were useful detailing claims to date and providing analysis on this for discussion. The Finance Director and Treasurer of EFA confirmed that to date there have not been any complaints regarding Regis' performance.

We undertook sample testing at BFA and CPFA, selecting ten insurance claims from each and confirming that they were detailed on the claims cloud (database) with supporting evidence included. We identified that FRIC had been involved with all third party insurance claims but the Authorities had managed their own claims, mainly due to the fact that they were below the excess amount of £5,000. As a result, no exceptions were noted.

We also confirmed that since the new functionality to the claims cloud had been added (around July 2016), there were no liability claims and therefore the process could not be evidenced and no further testing was undertaken.

The Service Level Agreement between FRIC and Regis states that performance review meetings will take place between FRIC and Regis quarterly or at other intervals as agreed by the parties. We confirmed through review of the performance review meeting minutes from the meeting held in April 2016 that it was agreed these meetings would occur twice a year. We obtained the April performance review meeting reports which was the first meeting help since the initiation of the relationship in November 205, and noted that to date no complaints or breaches have been made against Regis by any member, and that all of the relevant KPIs are being met by Regis. The reports also included an action log which includes action required, owner and target completion date evidencing actions being taken to improve the service. Through review of the minutes we confirmed all agenda items were discussed and that the FRIC representative provided challenge and scrutiny of the information reported by Regis.

Regis provides a quarterly claims pack to the members of FRIC providing them with management information regarding claims to date. We obtained the claims pack for quarter two and quarter three of the 2015/16 year. We reviewed the slides and supporting data spreadsheets and confirmed that management information was clear and in a useful format allowing comparisons to the other members for benchmarking and best practice. We confirmed dissemination of the reports by the Risk and Business Continuity Manager at EFA to relevant operational leads to allow analysis and learning from the collated data.

The Fire and Rescue Risk Group (FARRG) was established by FRIC to identify the main risks, causes and trends in claims that threaten FRIC's success and is made up of FRIC members. FARRG is open to other Fire and Rescue Authorities to enable shared learning and collaborative working. We obtained the meeting action minutes for the December 2015, February 2016 and June 2016 meetings. We confirmed the action minutes evidence discussion around claims and FRIC performance and put in place project plans and actions to improve performance and strengthen FRICs position. FARRG provides another oversight and management forum for the members of FRIC providing assurance that the insurance arrangement is functioning appropriately and any issues are being addressed.

We have agreed **one medium priority** actions with management relating to the following:

When a claim is submitted there are different retention limits EFA is responsible for covering, dependent on the claim type. These levels are documented in the policy and protection schedules and FRIC application form. We obtained the three schedules and wording documents EFA has with FRIC and reviewed these to confirm they were current and covered all agreed areas. Upon review we noted that the retention level listed for motor claims was £50,000, however, we confirmed through discussion with the Finance Director and Treasurer of FRIC and through review of claims data that this limit is not always relevant. When a motor claim relates to a lease vehicle the agreed limit is £250, and this is an amount agreed with FRIC.

Bedfordshire however, does not have leased cars like Essex FRA, Essex provide leased cars to operational officers. Whereas in Bedfordshire, operational officers lease their own cars and have their own insurance. Bedfordshire top up insurance on these leased cars is only where they are responding to incidents on emergency blue lights (to negate officers having the have this on their own insurance). This has resulted in a higher excess for Bedfordshire, on limited incidents (none in 2016/17 as you note), which keeps the premium lower. Bedfordshire are the only authority in the consortium with this position.

There is a risk that if limits are not documented in the agreements between FRIC and EFA correctly there is the risk that EFA could be forced to pay the higher retention amount for a lease vehicle claim as there is no official agreement in place.

1.4 Additional information to support our conclusion

Area	Control design*	Compliance with controls*	Agreed actions		
			Low	Medium	High
Risk Protection Pool	0 (10)	1 (10)	0	1	0

* Shows the number of controls not adequately designed or not complied with. The number in brackets represents the total number of controls reviewed in this area.

2 ACTION PLAN

Categorisation of internal audit findings	
Priority	**Definition**
Low	There is scope for enhancing control or improving efficiency and quality.
Medium	Timely management attention is necessary. This is an internal control risk management issue that could lead to: Financial losses which could affect the effective function of a department, loss of controls or process being audited or possible reputational damage, negative publicity in local or regional media.
High	Immediate management attention is necessary. This is a serious internal control or risk management issue that may lead to: Substantial losses, violation of corporate strategies, policies or values, reputational damage, negative publicity in national or international media or adverse regulatory impact, such as loss of operating licences or material fines.

The table below sets out the actions agreed by management to address the findings:

Ref	Findings summary	Priority	Actions for management	Implementation date	Responsible owner
Area: Risk Protection Pool					
1.1a	The agreed retention amount of £250 payable by EFA when there is a claim on a Lease Vehicle is not documented in the agreement between EFA and FRIC.	Medium	EFA will ensure the agreement with FRIC is updated so that it is clear that EFA are only liable for up to £250 in relation to lease vehicles.	Completed	Mike Clayton

3 DETAILED FINDINGS

This report has been prepared by exception. Therefore, we have included in this section, only those areas of weakness in control or examples of lapses in control identified from our testing and not the outcome of all internal audit testing undertaken.

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Actions for management
Area: Risk Protection Pool						
1.1	FRIC has three insurance policies set up to aid in claims where necessary and when they are above the agreed limits. For motor claims this is through Equity Red Star and for employee and public liability and property this is through Builders Direct SA. These insurance policies were agreed by FRICs Board. All potential claims are entered onto the Claims Cloud and from here they are dealt with either by the Authority or FRIC dependent on the content and cost. Entry of all claims and potential claims onto the Cloud enables FRIC to compile complete management information to the members.	Yes	No	We obtained the Equity Red Star and Builders Direct SA insurance policy documents along with the FRIC policy and protection schedules. We noted the policy and protection schedules for motor, liability and property were dated 1 November 2015 and expire on 31 October 2016. This evidences they were current (at the time of the audit) and had not lapsed, they also reconciled to the annual term the members agreed. The policy schedules clearly list EFA as the member and FRIC and the insurance provider are referred to making their responsibilities known. We obtained the supporting protection wordings / policy documents and reviewed confirming these are detailed covering the responsibilities of FRIC and the insurer and the excesses and payment limits. Through review of the application for protection to FRIC we confirmed that the retention amounts payable by EFA for each of the areas are: • £50,000 for motor • £25,000 for liability protections • £5,000 for property protections. After discussion with the Finance Director & Treasurer of EFA we confirmed that the retention amount payable for lease cars is £250 and not £50,000 and that this is agreed with FRIC. We confirmed this when we reviewed	Medium Medium	EFA will ensure the agreement between FRIC and EFA is updated so that it is clear that EFA are only liable for up to £250 in relation to lease vehicles. BFA will review the insurance arrangements relating to lease vehicles to ensure that their excess is in line with other Fire Authorities if possible.

Ref	Control	Adequate control design (yes/no)	Controls complied with (yes/no)	Audit findings and implications	Priority	Actions for management
				a sample of claims and noted the retention of £250 was referred to in relation to the lease cars. If this retention amount is not documented in the agreement with FRIC, EFA are liable to cover costs for all motor vehicles up to £50,000 and could suffer financially as a result. We selected a sample of 10 claims made by EFA since November 2015. Five of these were related to third party claims and five to Fire Authority only claims. We viewed the claims on the Claims Cloud and confirmed all claims were appropriately added and supporting documentation attached. We confirmed via review of the claim type and amount that Regis was involved where necessary. We noted all closed claims had been paid if necessary, and that where a third party was involved or the amount was above the retention of £250 for a lease vehicle or £50,000 for a fire vehicle that Regis was the handler.		

APPENDIX A: SCOPE

Scope of the review

To evaluate the adequacy of risk management and control within the system and the extent to which controls have been applied, with a view to providing an opinion. The scope was planned to provide assurance on the controls and mitigations in place relating to the following areas:

Objective of the area under review
To ensure that appropriate arrangements have been put in place to administer the Risk Protection Pool

When planning the audit, the following areas for consideration and limitations were agreed:

Areas for consideration:

A Risk Protection Pool has been established across nine Services which is administered through a contract between the Fire and Rescue Indemnity Company Ltd and Regis Mutual Management Ltd. All nine Authorities are members of the Fire and Rescue Indemnity Company Ltd. We are undertaking a joint review with sample testing from Bedfordshire, Cambridgeshire and Essex Fire Authorities.

In particular, we will confirm that:

- Clear and documented governance arrangements have been established for the operation of the Risk Protection arrangements. These include roles and responsibilities, delegation, authorisation, reporting lines, performance indicators.
- The governance arrangements have been agreed and approved at an appropriate level.
- Review of the governance structure of the Fire and Rescue Indemnity Company Ltd overseeing the risk protection arrangements.
- Adequate procedures have been developed for members of the Fire and Rescue Indemnity Company. The procedures are available for all required staff.
- Samples testing (from Bedfordshire, Cambridgeshire and Essex) on compliance against policies and procedures in place.
- Review of reporting for the risk protection arrangements and monitoring of performance.

Limitations to the scope of the audit assignment:

- We have not commented on adequacy or appropriateness of the risk protection arrangements or cover in place.
- We have not confirmed if the arrangements in place are the most efficient, effective or appropriate for the organisations, or provided an opinion on the overall or apportioned costs.
- Testing has been completed on a sample basis from Bedfordshire, Cambridgeshire and Essex Fire Authorities only.
- We have only reviewed pooled insurance documentation available at Essex Fire Authority.

Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

APPENDIX B: FURTHER INFORMATION

Persons interviewed during the audit:

- Mike Clayton, Finance Director and Treasurer
- Mark Ludlow, Fleet Workshops
- Jane Watts, Information and Democratic Support Assistant
- Joshua Muir, Business Support & Finance Officer

FOR FURTHER INFORMATION CONTACT

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