

memorandum

Finance and Customer Services



Contact
Dave Todd

Extension
54507

Date
31st March 2017

To: Strategic Director Regeneration & Environment

FAO: Assistant Director Community Safety & Street Scene

cc Alan Pogorzelec – Business Regulation Manager

cc Diane Douglas - R & E Liaison Manager

Bereavement Service: Contract Monitoring Arrangements

I attach for your consideration a report prepared by my Internal Audit Division following the recent audit of the Council's contract monitoring arrangements for the bereavement service provided by Dignity Funeral Services. The principal findings and recommendations have already been discussed and agreed with the Assistant Director Community Safety & Street Scene.

The audit concludes that we can place 'No Assurance' on this area of contract administration. Consequently, we have made a number of recommendations to address this, which are contained in the agreed Action Plan (Appendix B of the Report).

Please note that officer 'responsibility' has not yet been allocated to each action, owing to the service currently undergoing a restructure and the various roles and responsibilities not having yet been fully determined. We have therefore provisionally agreed a six-month timescale for agreed actions 1 to 5 (agreed action 6 has already been implemented).

Audit Reports: Agreed Actions

Internal Audit is required to report to the Audit Committee any agreed actions that are not implemented within the agreed timescale within the Action Plan.

Financial Regulations (Page 38 of Intranet version), Regulation B – Risk Management and Systems of Control – Audit Requirements (para.143), states; it is the responsibility of Strategic Directors "To ensure that any agreed actions arising from audit recommendations are carried out in a timely and efficient manner".

Signature _____

David Webster
Head of Internal Audit

**Internal Audit Report
Bereavement Service: Contract Monitoring Arrangements**

Executive Summary

1. Background

- 1.1 This audit summarises the findings from a review of contract monitoring arrangements with respect to Rotherham’s Cemeteries and Crematorium Service which was undertaken in accordance with the 2016/17 Audit Plan.
- 1.2 In order to deliver a value for money and high quality bereavement service to the people of Rotherham, the Council sought to enter into a partnership agreement whereby another organisation would deliver the service in future. Following a procurement process Dignity Funeral Services (Dignity) was chosen to run the service on behalf of the Council. The Partnership agreement with Dignity began in August 2008 for a 35 year period.
- 1.3 The contract agreement allocates Dignity with responsibility for delivering an agreed programme of capital works and the ongoing maintenance of the Council’s East Herringthorpe Cemetery and Crematorium and eight other Cemeteries within the Borough.
- 1.4 Revenue generated from the Service is retained by Dignity who pays the Council an annual fee over and above the income surplus generated by the Service when it was provided in-house. At the commencement of the agreement in 2008 the fee was £375k. The annual fee is indexed linked and for the operating period April 2015 to March 2016 totalled £475k.

2. Scope and Objectives

- 2.1 To provide assurance to Regeneration and Environment senior management that there are adequate contract monitoring arrangements in place with respect to the partnering agreement with Dignity. The objective of any contractor is to maximise profits, there is an obvious incentive for the contractor to exploit any perceived weaknesses in an organisation’s control procedures and deliver the service below that specified in the contract.
- 2.2 The audit supports the Council s.151 officer (Strategic Director Finance & Customer Services) in the discharge of her responsibility to ensure the proper administration of the Council’s financial affairs.

3. Overall Audit Opinion

The overall opinion is: **No Assurance.**

Position	Rating	Definition
	Substantial Assurance	Substantial assurance that the system of internal control is designed to achieve the service’s objectives and this minimises risk. The controls tested are being consistently and effectively applied. Recommendations, if any, are of an advisory

**Internal Audit Report
Bereavement Service: Contract Monitoring Arrangements**

Position	Rating	Definition
		nature (1 star) to further strengthen control arrangements.
	Reasonable Assurance	Reasonable assurance that the system of internal control is designed to achieve the service's objectives and minimise risk. However, some weaknesses in the design or inconsistent application of controls put the achievement of some objectives at risk. There are some areas where controls are not consistently and effectively applied and / or are not sufficiently developed. Recommendations are no greater than medium (2 star) priority.
	Partial Assurance	Partial assurance as weaknesses in the design or application of controls put the achievement of the service's objectives at risk in a significant proportion of the areas reviewed. There are significant numbers of areas where controls are not consistently and effectively applied and / or are not sufficiently developed. Recommendations may include high priority (3 star) and medium priority (2 star) matters.
	No Assurance	Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and this exposes service objectives to an unacceptable level of risk. There is significant non-compliance with basic controls which leaves the system open to error and / or abuse. Recommendations will include high priority (3 star) matters and may also include medium priority (2 star) matters.

This opinion contributes to Internal Audit's annual assessment of the Council's overall control environment, which in turn contributes to the production of the Council's Annual Governance Statement.

4. Summary of Conclusions

Risk Assurance Objective	Assurance Level			
	Substantial	Reasonable	Partial	No
Adequate contract monitoring arrangements in place with respect to the partnering agreement with Dignity Funeral Services.				✓

Internal Audit Report

Bereavement Service: Contract Monitoring Arrangements

- 4.1 The audit has confirmed that that there are no contract monitoring arrangements in place with respect to the partnering agreement with Dignity Funeral Services.
- 4.2 However, the lack of contract monitoring arrangements does not indicate that the Council is not benefiting from the agreement with Dignity. The agreement has benefited the Council by:
- Providing considerable capital investment since the start of the partnership including the upgrading of the existing cremators, improvements to the chapel and surrounding area, a new administration centre with reception, provision of additional car parking and the development and landscaping of the crematorium grounds.
 - Realising the Council a guaranteed annual income (index linked) currently in excess of £470k.
 - Reducing the Council's risks with providing a bereavement service. Responsibility for implementing the capital works and maintaining the East Herringthorpe Cemetery and crematorium along with eight other Rotherham cemeteries rests with Dignity. The Council's responsibilities in this area re: investment and maintenance have been reduced to cemetery chapels, associated buildings and boundary walls on some cemetery sites.

5. Limitations relating to the Internal Auditor's Work

- 5.1 The matters raised in this report are limited to those that came to our attention, from the relevant samples selected, during the course of our audit and to the extent that every system is subject to inherent weaknesses such as human error or the deliberate circumvention of controls. Our assessment of the controls, which are developed and maintained by management, is also limited to the time of the audit and cannot take account of future changes in the control environment.

6. Acknowledgements

- 6.1 Internal Audit would like to thank all involved for their assistance during this review.

7. Appendices

Appendix A - Assurance Objectives, Overall Conclusions, Key Findings and Recommendations

Appendix B – Agreed Actions

Assurance Objectives, Overall Conclusions, Key Findings and Recommendations

1. Assurance Objective

There are adequate contract monitoring arrangements in place with respect to the partnering agreement with Dignity Funeral Services (Dignity).

- 1.1 Although responsibility for the role of 'contract monitoring officer' has been assigned to the Business Regulation Manager there has been little contract monitoring undertaken since the commencement of the partnership agreement. To date this has consisted of ad-hoc meetings with Dignity supported by telephone and email correspondence with Dignity throughout the year.

Overall Conclusion

There are no contract monitoring arrangements in place with respect to the partnering agreement with Dignity Funeral Services.

2. Key Findings –Areas of Good Practice

The current arrangement with Dignity and the operation of the service by Dignity includes some areas of good practice, including:

- 2.1 There is a signed contract in place between the Council and Dignity for the redevelopment and maintenance of the Crematorium Facility and Cemetery Sites within the Borough of Rotherham. The contract adequately describes, in legal terms, the agreement between the Council and Dignity as to how the service is to be delivered and payments made, including:

- Details of the service to be provided and the appropriate standards to be achieved,
- Explanations of the obligations and responsibilities of both Dignity and the Council,
- Requirements in respect of such aspects as payments and variations to service delivery.

- 2.2 Both Dignity and the Council have a process for dealing with comments and complaints regarding the quality of the service. A comments and complaints handling system is a key element of performance management as this provides a continuous indication of service standards from those using the service.

3. Key Findings –Areas for Improvement

- 3.1 In order to provide management with assurance that the partnership agreement with Dignity is providing the people of Rotherham with a quality bereavement service delivered to a high standard whilst providing value for money, the Council needs to ensure that there are robust contract monitoring arrangements in place. As a bare minimum this should include:

- The monitoring of progress against the capital investment obligations of Dignity as stated in the contract document.

A recent report to the Improving Places Select Commission (14th September 2016) confirmed that most of the investment was now completed.

It is important that the contractor has in place a Programme for the completion of its capital investment, based on the requirements of the contract, and progress against the programme is regularly monitored by the Contract Monitoring Officer (CMO).

- The introduction of a formal reporting mechanism to show all comments and complaints received by Dignity and how these have been addressed. This should include regular reports to the CMO and a final 'sign-off' by the CMO. Customer comments and complaints should be regularly monitored by the CMO to determine whether they have been adequately addressed by the contractor.

It is understood that to a large extent the standard and quality of the service provided is 'self-monitored' by the users of the service. The services provided by Dignity are high profile and used by a large number of people during emotional periods of their life, therefore there is likely to be a high chance that substandard service provided by Dignity would be brought to the attention of the contractor or the Council quickly and possibly to the attention of the local media.

There have been no major issues raised with respect to comment and complaint handling of the contractor, and Dignity has not suffered from any adverse publicity that could impact on the Council's reputation.

- The implementation of a performance monitoring framework to monitor contractor performance against key performance indicators (KPI's) contained within the contract (contract reference: Schedule 4 – Payment Mechanism – Appendix 3).

The monitoring of KPI's is essential in determining whether the service is being delivered exactly as described in the contract specification.

- Holding regular scheduled meetings between the contractor and the CMO to discuss all aspects of the contractor's performance against the contract.
- The regular scheduled meetings between the contractor and the CMO should be minuted and these should be distributed to all in attendance.
- The CMO should provide regular updates to Members on the contractor's performance against KPIs and progress against the capital investment obligations of Dignity as stated in the contract document.

- The project account maintained by the contractor should be regularly monitored by the CMO in conjunction with support from Finance & Customer Services in order to provide assurance that the figures recorded in the accounts by the contractor are correct. Finance & Customer Services should be invited to the regular scheduled meetings between the contractor and the CMO to discuss any issues raised from this monitoring.
- The partnering agreement with Dignity should be included in the appropriate Council risk registers. The Council's risk management arrangements changed in recent years, moving from a corporately monitored stand-alone system to an intranet based spreadsheet document maintained by each Council directorate.

There used to be two risks contained within the register that related to this agreement:

Risk Title: Performance Management

Description: Inadequate monitoring of performance criteria, statistics, income and profit sharing. Negative impact of service delivery if terms of performance criteria not being met. Failure to release full potential of service. Lack of verification of income and profit sharing arrangements.

Risk Title: Business Continuity/Sustainability

Description: Withdrawal of Dignity owing to insolvency or lack of profitability. Lack of expertise on RMBC side in event of loss of key personnel. Service transferred back to RMBC. Negative impact on service delivery. Reputational damage.

4. Recommendations

Recommendation 1

The CMO should ensure the standard of service delivery and requirements of the contract are fully met by Dignity.

Recommendation 2

A performance management framework should be drawn up based on contract KPI's, approved by senior management and implemented by the Contract Monitoring Officer. The framework should be RAG rated red, amber or green to indicate a high, moderate or little likelihood of impact on service or reputation, and allocated a monitoring frequency to each i.e. once a year, quarterly or monthly.

Recommendation 3

To ensure that the CMO or his representative has a clear understanding of their roles and responsibilities with regards to the Council's agreement with Dignity, staff instructions for routine inspection and performance monitoring need to be documented.

Recommendation 4

The Contract Monitoring Officer should hold regular meetings with the contractor throughout the year to discuss all aspects of contractor performance and service delivery. The meetings should be minuted to provide a permanent record of the items discussed. Any actions arising from the meetings should be noted on an action plan along with the officer responsible for their implementation. The actions should be monitored at subsequent meetings to completion.

Recommendation 5

Council Members should be provided with regular updates on the Council's agreement with Dignity. Any key performance issues that relate to service delivery and the progress against the contractors contractual capital obligations should be reported to the Improving Places Select Commission.

Recommendation 6

The appropriate Council risk registers should be updated to include the risks associated with the Council's agreement with Dignity and maintained in line with the Council's Risk Management Policy and Guide 2015

http://rmbcintranet/Directorates/ACE/_layouts/15/WopiFrame.aspx?sourcedoc=/Directorates/ACE/Risk%20Documents/Risk%20Management%20Policy%20and%20Guide%202015.pdf&action=default&DefaultItemOpen=1

Bereavement Service: Contract Monitoring Arrangements – Agreed Action Plan

Priority	***	Fundamental	(Action considered necessary to avoid exposure to high risk)
	**	Significant	(Action considered necessary to avoid exposure to a significant risk)
	*	Merits Attention	(Action desirable to enhance control or value for money)

Rec.	Recommendation.	Priority.	Responsibility	Agreed.	Comments.	Date.
1	The CMO should ensure the standard of service delivery and requirements of the contract are fully met by Dignity.	***	TBD	Yes	This will be determined following the re-structure of the service the identification of a lead role in connection to these recommendations.	01.10.17
2	A performance management framework should be drawn up, approved by senior management and implemented by the Contract Monitoring Officer. The framework should be RAG rated red, amber or green to indicate a high, moderate or little likelihood of impact on service or reputation, and allocated a monitoring frequency to each i.e. once a year, quarterly or monthly.	**	TBD	Yes		01.10.17
3	To ensure that the CMO or his representative has a clear understanding of their roles and responsibilities with regards to the Council's agreement with Dignity, staff instructions for routine inspection and performance monitoring need to be documented.	*	TBD	Yes		01.10.17
4	The Contract Monitoring Officer should hold regular meetings with the contractor throughout the year to discuss all aspects of	*	TBD	Yes		01.10.17

Bereavement Service: Contract Monitoring Arrangements – Agreed Action Plan

Rec.	Recommendation.	Priority.	Responsibility	Agreed.	Comments.	Date.
	contractor performance and service delivery. The meetings should be minuted to provide a permanent record of the items discussed. Any actions arising from the meetings should be noted on an action plan along with the officer responsible for their implementation. The actions should be monitored at subsequent meetings to completion.					
5	Council Members should be provided with regular updates on the Council's agreement with Dignity. Any key performance issues that relate to service delivery and the progress against the contractors contractual capital obligations should be reported to the Improving Places Select Commission.	*	TBD	Yes		01.10.17
6	The Council risk register should be updated to include the risks associated with the Council's agreement with Dignity and maintained in line with the Council's Risk Management Policy and Guide 2015. http://rmbcintranet/Directorates/ACE/ layout s/15/WopiFrame.aspx?sourcedoc=/Directorates/ACE/Risk%20Documents/Risk%20Management%20Policy%20and%20Guide%202015.pdf&action=default&DefaultItemOpen=1	**	TBD	Yes	Added to the Community Safety and StreetScene Risk Register	30.03.17