

Aberdeen City Council

CareFirst: Budgetary control and Forecasting Final Report

Internal Audit Report
2014/2015 for Aberdeen
City Council

February 2015

	Target Dates per agreed Internal Audit Charter	Actual Dates	Red/Amber/Green and commentary where applicable
Terms of reference agreed 4 weeks prior to fieldwork	6 October 2014	15 October 2014	Amber
Planned fieldwork start date	3 November 2014	3 November 2014	Green
Fieldwork completion date	5 December 2014	5 December 2014	Green
Draft report issued for Management comment	5 January 2015	7 January 2015	Amber
Management Comments received	21 January 2015	22 January 2015 13 February 2015	Amber – initial comments received in timely manner but follow up required due to complex nature of the review
Report finalised	13 February 2015	13 February 2015	Green
Submitted to Audit and Risk Committee	26 February 2015	26 February 2015	Green

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This report has been prepared solely for Aberdeen City Council in accordance with the terms and conditions set out in our engagement letter [update with new date of EL]. We do not accept or assume any liability or duty of care for any other purpose or to any other party. This report should not be disclosed to any third party, quoted or referred to without our prior written consent.

Internal audit work will be performed in accordance with Public Sector Internal Audit Standards. As a result, our work and deliverables are not designed or intended to comply with the International Auditing and Assurance Standards Board (IAASB), International Framework for Assurance Engagements (IFAE) and International Standard on Assurance Engagements (ISAE) 3000.

1. Executive Summary

Report classification	Total number of findings				
Medium Risk	<div> <div></div> <div>Section 3</div> <div></div> </div>				
	Critical	High	Medium	Low	Advisory
	Control design	-	1	1	-
	Operating effectiveness	-	2	-	-
	Total	-	3	1	-

Summary of findings

- 1.01 CareFirst is the system used for recording care provision within Social Care and Wellbeing (SC&W), and is used by a number of other Local Authorities. CareFirst is used to generate the service agreement specification between Aberdeen City Council and the care provider, and this forms the contract for provision of a care package to the individual user. Recognising budgetary pressures, it is critical that budgets are set accurately and forecasting throughout the year, takes into account all known commitments to avoid an overspend at year end. At present the Council is having difficulties reconciling the financial position for the service and is keen to look at the forward planning arrangements but also the end to end approach of data appearing on CareFirst, the relationship with this to the budget and subsequent finance reports.
- 1.02 The scope of our review was to assess the design and operating effectiveness of the processes and controls in place over the CareFirst system. From this review we have identified three medium risk and one low risk findings.

Medium Risk Findings

- 1.03 **Data quality issues within CareFirst.** Improvements are needed to the quality of data within the CareFirst system to allow for the accurate monitoring and forecasting of budgets. During our review we noted three key areas impacting the quality of data:
- Inaccurate recording within CareFirst is user driven, whether this is through data entry errors or not updating or closing care packages. Although procedural guidance is available, through staff interviews (with 3 Care Managers and 23 Care Workers) we noted that user knowledge of the CareFirst system and its supporting procedures could be improved.

- Whilst the accuracy of the data is ultimately the responsibility of frontline Care Managers, it should be acknowledged that not all recording errors can be avoided and therefore there is a need for a secondary monitoring control to cleanse problematic data. The unmatched transaction report is produced on a monthly basis to allow review and action over incorrect transactions. Although produced, we found that this report is not used in practice.
- The growing volume of caseloads and challenges in recruiting Care Managers is increasing the difficulty of keeping CareFirst up to date and accurate. During interviews it was reflected to Internal Audit by Care Managers that they feel that their time is stretched between managing existing client needs, sourcing the appropriate care and updating the system. There is a need to formally consider whether a separation in roles between those performing assessment and managing client relationships and those recording the care packages on Carefirst is appropriate.

1.04 **Monitoring and forecasting.** Monthly budget reports are generated to allow budget holders to monitor their budget; however we have noted that these reports are not being utilised. In addition to this, commitment reports provide budget holders with the future expected cost of active care packages within CareFirst and should be used to reforecast and inform management whether budgets are likely to be met. Commitment reports have not been regularly distributed to budget holders during 2014/15 and as a result reforecasting has not been performed. It should also be noted that due to the data quality issues within CareFirst, the accuracy of commitment reporting is currently unreliable.

1.05 **Invoice variations and processing.** Due to the nature of social care provision, the care initially arranged / agreed is not always what is provided to the client. As a result, invoice amounts can differ to the value on the order. From our review we noted that invoices are being matched to care packages and processed for payment even if the amount on the invoice significantly differs from the amount recorded on CareFirst. In this situation, the difference between the amount on the invoice and the amount on CareFirst is recorded as a variance. There is no formal monitoring or secondary review to ensure variances are appropriate. In addition to this, financial limits for processing variations are not held within the system and there is limited review to ensure users are authorising within their limits.

Low Risk Finding

1.06 **Authorisation rights.** Authorisation rights to approve service agreements and create variances are devolved to team members at the discretion of Service or Team Managers. As a result, there is a lack of governance, oversight and clarity around who has authority to do what across the department.

Management Comments

1.07 The service proposed this audit in response to on-going challenges in monitoring and forecasting of budget spend, through recording of care packages on CareFirst. The findings of the audit in terms of use and development of systems and improvement of governance will address some risks but the capacity issue in relation to the growing volume of caseloads and recording will need to be resourced, with a review of “skill mix” as the first step to separation of assessment and care management and recording roles

2. Detailed findings and recommendations

2.01 Data quality issues within CareFirst– Operating effectiveness

Finding

Improvements are needed to the quality of data within the CareFirst system to allow for the accurate monitoring and forecasting of budgets. During our review we noted three key areas impacting data quality:

(1) Inadequate knowledge of CareFirst and its supporting procedures

Inaccurate recording within CareFirst is user driven, whether this is through data entry errors or not updating or closing care packages. Although procedural guidance is available, through interviews (with 3 Care Managers and 23 Care Workers) we noted that user knowledge of the CareFirst system and its supporting procedures could be improved. A number of individuals raised concerns that there is a lack of understanding of key functionality such as how to navigate the system and managing workloads using the clipboard.

(2) Unmatched transaction reports

Whilst the accuracy of the data is ultimately the responsibility of frontline Care Managers, it should be acknowledged that not all recording errors can be avoided and therefore there is a need for a secondary monitoring control to cleanse problematic data. The unmatched transaction report is the key monitoring control used to improve the accuracy of data on the CareFirst system. The reports are run monthly by the CareFirst Team and provide a list of transactions for review by the Finance team. Many of the transactions will be care packages for which no invoices have yet been received, but will be received after the typical billing period; these transactions require no follow up. Other transactions are 'illegitimate' and relate to the following:

- Care packages which should have been closed on CareFirst to reflect that the client no longer receives care ;
- Care packages which remained open when care was temporarily suspended. Amounts payable are still generated for periods when no care was provided; and
- Transactions for care packages which were not 'matched' appropriately to invoices, and hence not cleared during the processing of payments.

From discussions with members of SC&W and Finance we have noted that although the reports are run on a monthly basis, reports are not reviewed or actioned. We consider this to be caused by the following factors:

- Responsibility for reviewing and actioning the report has not been assigned;
- There are no agreed criteria for assessing whether a transaction is illegitimate and whether it requires further investigation. For example, a decision could be made to target transactions that are sitting unmatched for a period of over 90 days; and
- There is no oversight from senior management to ensure that the task is being performed on a monthly basis.

Please note that management have also highlighted the lack of available resource as a key factor in why this task is not being routinely performed.

(3) Roles, responsibilities and resourcing

The growing volume of caseloads and challenges in recruiting Care Managers is increasing the difficulty of keeping CareFirst up to date and accurate. During interviews it was reflected to Internal Audit by Care Managers that they feel that their time is stretched between managing existing client needs, sourcing the appropriate care and updating the system. There is a need to formally consider whether a separation in roles between those performing assessment and managing client relationships, and those recording the care packages on Carefirst is appropriate. This approach will allow staff to play to their strengths, develop specialisations and remove inconsistency in data input. Additionally, centralising the sourcing of care will remove the duplication that currently exists where workers are independently contacting suppliers.

Risks

Management information for budgetary and forecasting purposes is unreliable due to data quality issues within CareFirst.

Action plan		
Finding rating	Agreed action	Responsible person / title
Medium	<ul style="list-style-type: none"> The Senior Leadership Team should reinforce the importance of following processes and entering data correctly. Line Managers should be encouraged to identify team members who are having most difficulty using the system. Once targeted, these individuals should be provided with additional training and one to one support where necessary. Management should assign responsibility for reviewing and actioning the unmatched transactions report. Management may consider creating a dedicated role for this task as it would benefit from a technical understanding of CareFirst, knowledge of the Council's financial arrangements with suppliers and all client groups. Agreement will be reached on the criteria/ parameters to be used for deciding whether transactions should be investigated or not. The unmatched transaction report will be modified by the CareFirst Team to ensure it only includes the transactions for assessment before it is issued to the individual responsible for reviewing and actioning. Dummy invoices will be processed in CareFirst to remove illegitimate transactions. This will not impact actuals (which are reported through e-Financials) and will allow for accurate commitment reporting. The individual responsible for the unmatched transaction report should also be responsible for this task. To ensure temporarily suspended care packages do not accrue costs, the person responsible for reviewing and actioning the unmatched transactions report should enter variances to offset the amount. A list of users who are not closing care packages as per the guidelines should be issued to Service Managers for appropriate action. The completed unmatched transaction report should be reviewed and signed off by the responsible person's line manager on a monthly basis. Consideration will be given to separating the roles of those who assess and manage frontline client needs and those who are sourcing the supply of care and subsequently recording the care on the system. 	<p>SC&W Senior Leadership Team (it has been agreed that a short life working group will be established to action these points)</p> <hr/> <p>The Target date:</p> <p>30 June 2015 - please note that this date may be revised once the short life working group has met for the first time.</p>

2.02 **Monitoring and forecasting - operating effectiveness**

Finding
<p>Monthly budget reports are automatically generated via Business Objects to allow budget holders to monitor their budget. From discussions we have noted that these reports are not being used. From the three budget holders interviewed, one did not know their password/ how to access Business Objects, one didn't have an account and one admitted that they did not use the reports. We believe the following factors are impacting this:</p> <ul style="list-style-type: none">• Lack of understanding with regards to the software packages in use. There are two different software packages (business objects XI and collaborative planning) used for the budget process and budget holders are unaware how the systems are intended to complement each other;• Lack of capacity for budget holders to perform these duties as a result of increasing workloads; and• Lack of engagement from budget holders. <p>At the beginning of each financial year, forecasting is based on last year's spend. The Reporting and Monitoring Team produce the initial forecast and thereafter it is intended that budget holders update this. Commitment reports provide budget holders with the future expected cost of active care packages within CareFirst and should be used to reforecast and inform management whether budgets are likely to be met. Commitment reports have not been regularly distributed to budget holders during 2014/15 and as a result reforecasting has not been performed. It should also be noted that due to the data quality issues (as noted in Finding 3.01) the accuracy of commitment reports is currently unreliable. As a result, budget holders do not see value in using these to reforecast incorrectly.</p>
Risks
<p>As a result of budget reports not being utilised, actual costs are not being monitored against budgeted costs. As a result of infrequent and inaccurate commitment reporting, budget holders are not receiving the information to allow them to reforecast appropriately. Both situations may result in the overspending or under-spending of budgets.</p>

Action plan		
Finding rating	Agreed action	Responsible person / title
Medium	<p>1. Management will ensure that going forward the commitment reports are being appropriately distributed to the relevant budget holders on a monthly basis.</p> <p>2. Additional training to budget holders will be formally rolled out as part of the wider Finance Framework in March 2016. In the meantime, budget holders within SC&W will be encouraged to seek support from their named contact in Finance if required. Finance staff will be asked to add this to agenda for future 1 to 1 budget meetings.</p> <p>Please note that recommendations relating to data quality issues are included within Finding 3.01.</p>	Paul Dixon (Finance Partner)
		The Target date:
		<p>1) 31 May 2015</p> <p>2) 31 March 2015</p>

2.03 Invoice variations and processing – Control design

Finding

Due to the nature of social care provision, the care initially arranged / agreed is not always the care provided to the client. As a result, invoice amounts can differ to the value on the service agreement. From our review we noted that invoices are being matched to care packages and processed for payment even if the amount on the invoice significantly differs from the amount recorded on CareFirst. In this situation, the difference between the amount on the invoice and the amount on CareFirst is recorded as a variance. To investigate the impact of this we ran a report of all variances posted through CareFirst between 1 April 2014 and 1 December 2014. Our analysis and detailed breakdown is provided below:

- The total valuation of the invoice variations processed for extra cost was £583,737; and
- The total valuation of the invoice variations processed for less cost was £1,078,005

Detailed Breakdown:

Variations:	Extra Cost	Less Cost
Additional work required	£514,703.17	£381.69
Automatic Variation to Non Residential Charge	£1.13	£0.93
Client absent	£0.57	£0.00
Day Care Charge	£0.00	£14.64
Finance Administration Use Only	£266.83	£9,007.08
Less work required	£2,876.08	£1,019,208.45
Public Holidays (cost only)	£1,103.77	£145.19
Repayment	£1,281.96	£0.00
Service not provided	£27.56	£3,565.41
Small Rounding Difference	£63,476.57	£45,681.69
Sum:	£583,737.64	£1,078,005.08

There is no formal monitoring or secondary review to ensure variances are appropriate. In addition to this, financial limits for processing variations are not held within the system and there is limited review to ensure users are authorising within their limits.

SC&W have a dedicated Process and Control Team who receive invoices and process the payment. From discussions with staff it was brought to our attention that if suppliers send invoices to the SC&W Process and Control Team as well as the Council's central Accounts Payable Team, there is a risk of the invoice being processed twice. Service Managers should not approve invoices for the central Accounts Payable Team to process but on occasion this does appear to happen. The Key Financial Controls internal audit was performed in conjunction with this review and we noted that a £140,000 invoice for social care was paid twice in December 2014. The duplicate payment was identified via the Council's dual payments report, and we understand that a credit is currently being discussed with the supplier.

Risks

Due to insufficient monitoring of invoice variations and limited assurance that users are adhering to financial authorisation limits, there is a risk that there is a risk of incorrect invoices being paid.

Due to invoice being sent to two processing teams, invoices may be approved and paid twice.

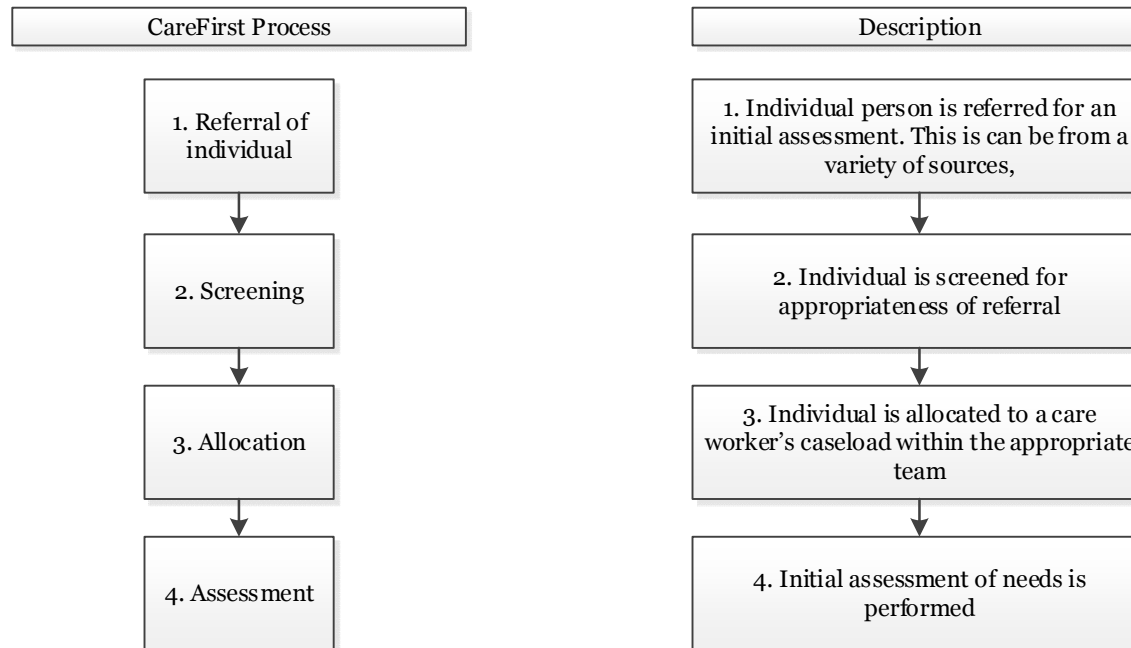
Action plan

Finding rating	Agreed action	Responsible person / title
Medium	<ol style="list-style-type: none"> 1) A monthly report should be run by the Processing and Control Team to identify users who are processing variations above their approved value and to ensure variations are appropriate. Exceptions should be highlighted to line management for appropriate action. A sample of variations should be tested to ensure classified correctly. Exceptions should be highlighted to line management for appropriate action. 2) Service Managers should be reminded that invoices for care provision should not be approved via the Council's central Accounts Payable team. 	Paul Dixon (Finance Partner)
		The Target date: <ol style="list-style-type: none"> 1) Imminently 2) 28 February 2015

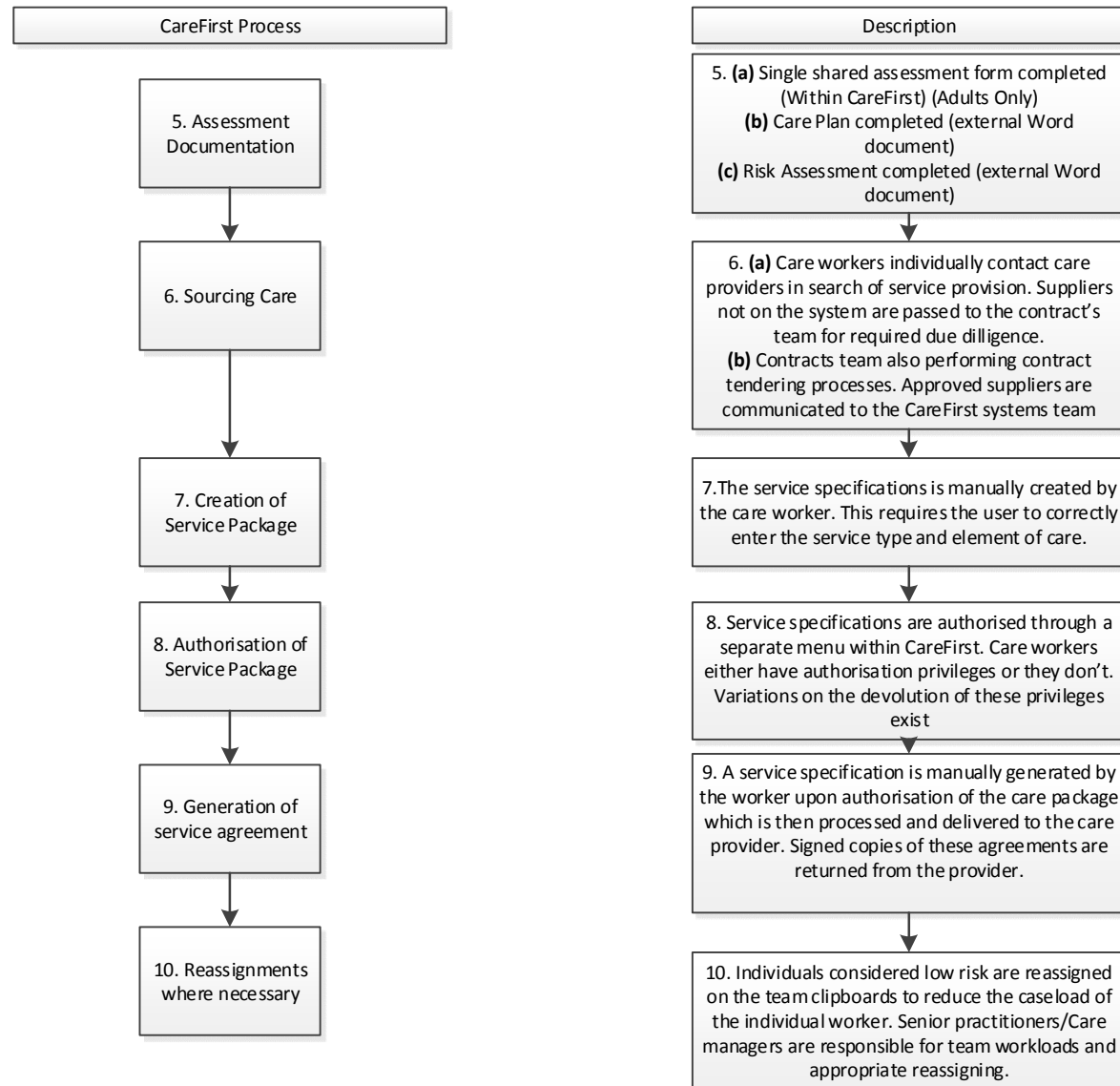
2.04 Authorisation rights– Control design

Finding		
Authorisation rights to approve service agreements and create variances are devolved to team members at the discretion of Service or Team Managers. As a result, there is a lack of governance, oversight and clarity around who has authority to do what across the department.		
Risks		
As authorisation rights are not approved and issued centrally there is a risk that service agreements are being created by Care Manager without appropriate oversight from management.		
Action plan		
Finding rating	Agreed action	Responsible person / title
Low	1. Authorisation rights across the department should be reviewed and assessed for appropriateness. A central register should be maintained to ensure there is on-going clarity over authorisation rights.	Trevor Gillespie (Team Manager – Performance Management) Service Managers
	2. The Council should discuss with other Local Authorities the appetite for setting financial authorisation limits within the system. If popular this should be raised at the next OLM Systems meeting.	
		The Target date:
		31 March 2015

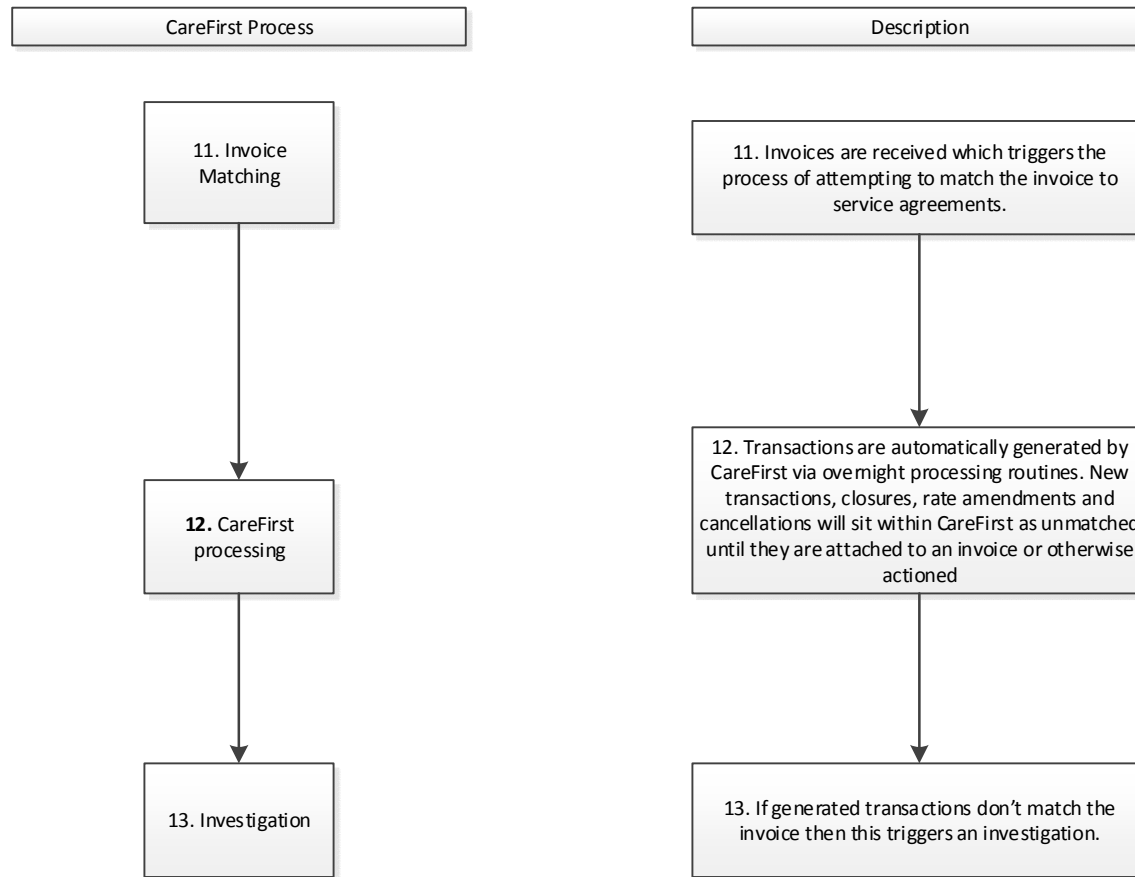
Appendix 1 – Initial procedures process diagram



Appendix 2 – Creation of care package process diagram



Appendix 3 – Finance processing diagram



Appendix 4 – Background and Scope

Background

- 2.01 CareFirst is an information management system used by Aberdeen City Council within Social Care and Wellbeing (SC&W). The software is used to record the care provision provided, and is operated by a number of other Local Authorities. CareFirst is also used to generate the service specification between Aberdeen City Council and the third party care provider which forms the contract for provision of a care package to the individual user. It should be noted that the Council developed this functionality; it is not standard within CareFirst.

Departmental structure

- 2.02 Social Care and Wellbeing (SC&W) is currently split between Adult services (including Older People) and Children's services. Below this level, the structure is divided into a number of service lines before being split further up into teams who work in specialist care areas or geographical areas. It is currently intended that each of these service lines record and utilise the CareFirst system in the same way. All of Adult Services care provision is recorded through CareFirst. For Children's Services however, it is only provision related to children's disability, specialist residences and foster care which is recorded in CareFirst. This is due to the other care within Children's services being provided by in-house resources that does not require requisition from external third parties.
- 2.03 There are four other teams within SC&W and Corporate Governance that are involved in using the CareFirst system. Please note that the latter three teams sit within Finance (Corporate Governance) and are physically separated from the operational staff in SC&W:
- CareFirst Team which includes the System Development Officers responsible for managing the operations of the software;
 - Process and Control Team who receive invoices and process the payment through the CareFirst system;
 - Reporting and Monitoring team who are responsible for providing information to budget holders amongst other financial reporting duties; and
 - Social Work Financial Assessments Team who are responsible for assessing the level of client contributions and invoicing social work clients.

CareFirst processes and procedures

2.04 *Initial Assessment*

Upon initial assessment of a referral, Care Managers either complete a single shared assessment form (Adults) or GIRFEV (Children), which is inbuilt into CareFirst. Two external documents to the system are also completed: a care plan (to be used by the service provider) and a further risk assessment. These are stored on the relevant services shared drive.

2.05 *Creation of a Care Package*

Upon assessment of a user's needs, Care Managers will contact relevant suppliers in search of care provision. It should be noted that there is a framework list of suppliers and the number of suppliers is limited within Aberdeen. Subsequently, the Care Manager must create the package on the CareFirst system. This requires

them to select the correct service type and element of care for the client on the drop down menus within the CareFirst system. This ensures that the commitments are recorded against the appropriate cost centres.

2.06 *Authorisation and Service Agreements*

Once the care package is set up for the client, a subsequent authorisation is required. On the CareFirst system, users either have access to authorise or they do not. Financial limits are in place but these sit out with the system. Devolution of these authorisation rights differ across service areas and teams, with the level of devolution decided at the Service Manager level. Regardless of the level of devolution, the package needs to be authorised through a separate menu for it to become live. When authorised, the worker generates a service specification and cover letter which is printed and sent to the third party service provider.

2.07 *Updating, suspending and closing care packages*

Once authorised, care packages cannot be updated or temporarily suspended; Care Managers are only capable of revising the end date of the care package. A change in service for example requires the care package to be closed down and a new one to be created. Guidance currently states that if the planned service is to stop / change for a period of two weeks or less, the agreement should be left open and the appropriate variations entered. If the planned service is to stop / change for a period of longer than two weeks, the existing agreement should be closed and a new service agreement created where appropriate. Care Packages are closed on the system after a review has taken place or due to particular circumstances of the client. Care packages which are due to be closed follow the same authorisation procedures which are in place for the creation of new care packages.

Budgeting and Forecasting

2.08 *Accuracy of data within CareFirst*

Recognising budgetary pressures, it is critical that budgets are set accurately and forecasting throughout the year takes into account all known commitments to avoid an overspend at year end. At present, the Council is having difficulties reconciling the financial position for the service. In the past, CareFirst has been subject to a detailed cleansing exercise to maintain the data; however as this exercise has not been continuous, issues have arisen again. To help with the on-going task of ensuring accuracy the 'unmatched transactions' report was introduced for review. 'Unmatched' refers to committed service agreements which have not yet had invoices processed against them and 'transactions' refers to the overall care package broken down into costs for each week. Therefore, one transaction is the cost of a service agreement for a single week. The overall report therefore contains a combination of:

- Legitimate transactions: service agreements for which no invoices have yet been received but will be received in the future after the typical billing period has past; and
- Illegitimate transactions, including service agreements which:
 - a. Should have been closed down on CareFirst;
 - b. Remained open when care was temporarily suspended; and
 - c. Transactions were not 'matched' appropriately to invoices, and hence not cleared during the processing of payments.

In (a) and (b), amounts payable are still being generated on CareFirst despite the care package not being provided. Please note that although payables are generated, these would not be paid unless processed.

2.09 *Budget Setting and Monitoring*

Budgets are prepared with the assistance of a software package called ‘Simul8’ which forecasts demographics relevant to the services provided. These demographics form the basis of the assumptions which underpin the budgets. It should be noted that Simul8 was last used c. 5 years ago as part of the Priority Based Budget process and this data still remains the basis for annual budget updates. It is expected that this will be refreshed in 2015/16 in line with the move to the Integration Joint Board.

It is intended that budgets are currently monitored in two ways by budget holders: monthly reports generated via business objects software and quarterly meetings with the Reporting and Monitoring Team within Finance”. Budget holder meetings can be held more frequently at the request of the budget holder and all budget holders have access to a named primary contact within Finance if they require additional support. Monthly management reports “CMT Highlights” are also prepared for the Senior Management Team within SC&W.

The Reporting and Monitoring Team also produce commitment reports which detail all live care packages for the year, allowing for a comparison with budgeted spend. It is currently intended that these are produced and distributed to budget holders on a monthly basis.

2.10 *Forecasting*

At the beginning of each financial year, forecasting is based on last year’s spend, amended for items such as increased demographics, price inflations and growth/saving proposals. The Reporting and Monitoring Team produce the initial forecast and thereafter it is intended that budget holders update this to reflect current spend alongside future commitments. Management have highlighted that commitment reporting is the preferred method of forecasting; however inaccuracies within the CareFirst system prevent this from being used.

CareFirst provider

- 2.11 The Council currently pays an annual service fee to OLM Systems for the maintenance of the CareFirst system. OLM Systems hold quarterly meetings with the Council and other Local Authorities to discuss the development of the software. The quarterly meetings are split into two sessions. In the morning, the Local Authorities meet without OLM Systems to discuss and agree upon matters which should be presented. In the afternoon, OLM Systems are involved in the discussions where changes or developments to the software are approved through voting. The ability of Aberdeen City Council to effect change on the software is therefore restricted by the wishes of other Local Authorities.

Scope and limitations of scope

The detailed scope of this review is set out in Appendix 5. We have undertaken a review of the design and operating effectiveness of the Council’s controls regarding the CareFirst system.

Appendix 5 – Agreed Terms of reference

Background

This review is being undertaken as part of the 2014/15 internal audit plan approved by the Audit and Risk Committee in April 2014.

Scope

PwC have reviewed the design and operating effectiveness of the processes and controls in place over the CareFirst system. Within the scope of this review PwC have considered both residential and non-residential care packages for Children, Adults and Older People. The sub-processes included in this review are:

Sub-process	Control objectives
Recording of care packages	<ul style="list-style-type: none">Procedures are in place and consistently followed for assessing, approving, recording, updating, suspending and closing care packages and their associated financial commitments on CareFirst on a timely basis; andProcedures are fit for purpose and user friendly. <p>Please note: Internal Audit are unable to access client sensitive information on CareFirst and as a result will test this control objective by way of a systems walkthrough, review of documentation and interview with staff.</p>
Budgetary control and forecasting	<ul style="list-style-type: none">Budgets are set on an annual basis and are underpinned by well-defined assumptions and projections. Budgets are reviewed and formally approved by senior management;Budgets are monitored by budget holders on a regular basis and variances investigated or actioned. Significant variances are reported to senior management on a timely basis and appropriate actions to rectify issues are taken; andForecasting is performed on a regular basis to identify potential future areas of overspend. Senior management are consulted and an action plan is put in place if overspend is identified.
Accuracy of Data	<ul style="list-style-type: none">The responsibility for assessing the accuracy of financial data on CareFirst is clearly defined and the exercise is performed on a regular basis;Unmatched transactions (e.g. care commissioned but cancelled, no carers available to provide service) are reviewed and resolved on a timely basis; and

	<ul style="list-style-type: none"> Financial commitment reports are reconciled to data recorded on Care First on a regular basis. Ownership for investigating variances is assigned.
CareFirst	<ul style="list-style-type: none"> Management have considered alternative systems for use within Social Care and Wellbeing and have a clear business case for the use of CareFirst.

Limitations of scope

The scope of our review is outlined above. This will be undertaken on a sample basis.

Internal control, no matter how well designed and operated, can provide only reasonable and not absolute assurance regarding achievement of an organisation's objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Audit approach

Our audit approach is as follows:

- ☐ Obtain an understanding of the procedures in place through discussion with key personnel, review of documentation and walkthrough tests where appropriate.
- ☐ Identify the key risks in respect of Care First.
- ☐ Evaluate the design of the controls in place to address the key risks.
- ☐ Test the operating effectiveness of the key controls on a sample basis.

Appendix 6 - Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken a review of the CareFirst system, subject to the limitations outlined below.

Internal control

Internal control, no matter how well designed and operated, can provide only reasonable and not absolute assurance regarding achievement of an organisation's objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future periods

Our assessment of controls relating to the CareFirst system is as at December 2014. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- The degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.

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