Internal Audit of the Lao People’s Democratic Republic Country Office

March 2013

Office of Internal Audit
and Investigations (OIAI)
Report 2013/04

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Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the Lao People's Democratic Republic (Lao PDR) Country Office. The audit team visited the office during the period 27 August to 14 September 2012. The audit covered governance, programme management, and operations support during the period from 1 January 2011 to 31 August 2012.

Lao PDR has a population of 6.1 million people, 45.9 percent of whom are under the age of 18. Eighty percent of the population lives in rural areas, with poor infrastructure and subsistence farming. Progress towards the millennium development goals (MDGs) is partially on track; the percentage of people living in poverty fell from 33 percent in 2002 and 2003 to an estimated 27 percent in 2007 and 2008 (Lao Expenditure and Consumption Survey, 2008). Despite this, the UNICEF *Child Well-being and Disparities Study* (2010) found that many Lao children continue to experience multiple and overlapping deprivations in sanitation, health, housing, water supply and nutrition. There has been almost no change in the rate of stunting of children since 2000, which remains at 44 percent of children under five years old (Lao Social Indicator Survey, 2011).

Progress on child mortality (Goal 4) is on track, with LSIS data showing a decline from 157 deaths per 1,000 live births in 1999 to 79 deaths per 1,000 live births in 2011. Lao PDR in fact shows the greatest percentage decline in child mortality over the past 20 years of any country in the world. However, maternal mortality (Goal 5) is off track, and the 2005 census showed maternal mortality as being 405 deaths per 100,000 live births — the highest in the region. The more recent maternal mortality data does not show a statistically significant decline from the 2005 level.

The year 2011 was the last year of the 2007-2011 country programme (CP) cycle. The 2012-2015 country programme focuses on six programmes: health and nutrition, education, water, sanitation and hygiene, child protection, social policy, communication and cross-sectoral costs. Overall, the country plan emphasises reaching the most disadvantaged populations, strengthening government capacity for decentralised planning, budgeting and monitoring to reach remote communities, and convergence of UNICEF-supported programmes to achieve greater synergy at the community level.

The Country Programme Document has highlighted the need for an increased focus for Communication for Development across all programmes as a key to the achievement of the country-programme objectives, particularly for health, nutrition and water, sanitation and hygiene. UNICEF has also been a major contributor of financial and technical assistance to the Ministry of Health's Measles/Rubella immunisation campaign.

The budget for the 2007-2011 country programme was US$ 39.2 million in total.

Action agreed following audit

As a result of the audit, and in discussion with the audit team, the country office has decided to take a number of measures. The report does not contain any high-priority issues. However, one medium-priority action is included in the governance area, four are included in the programme area and two in operations support. These are described in the report.

Conclusion

The audit concluded that overall, subject to implementation of the agreed actions described, the controls and processes over the country office were generally established and functioning during the period under audit. The measures to address the issues raised are presented with each observation in the body of this report. The Lao PDR country office has prepared action plans to address the issues raised. The country office, with support from the East Asia Regional Office and OIAI will work together to monitor implementation of these measures.

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Objectives

The objective of the country office audit is to provide assurance as to whether there are adequate and effective controls, risk-management and governance processes over a number of key areas in the office. In addition to this assurance service, the audit report identifies, as appropriate, noteworthy practices that merit sharing with other UNICEF offices.

The audit observations are reported upon under three headings: governance, programme management and operations support. The introductory paragraph that begins each of these sections explains what was covered in that particular area, and between them define the scope of the audit.

Audit Observations

1 Governance

In this area, the audit reviews the supervisory and regulatory processes that support the country programme. The scope of the audit in this area includes the following:

- **Supervisory** structures, including advisory teams and statutory committees.
- **Identification** of the country office's priorities and expected results and clear communication thereof to staff and the host country.
- **Staffing structure** and its alignment to the needs of the programme.
- **Performance measurement**, including establishment of standards and indicators to which management and staff are held accountable.
- **Delegation** of authorities and responsibilities to staff, including the provision of necessary guidance, holding staff accountable, and assessing their performance.
- **Risk management**: the office's approach to external and internal risks to achievement of its objectives.
- **Ethics**, including encouragement of ethical behaviour, staff awareness of UNICEF's ethical policies and zero tolerance of fraud, and procedures for reporting and investigating violations of those policies.

All the areas above were covered in this audit.

Satisfactory key controls

The audit found that controls were functioning well over a number of areas including (but not necessarily limited to) the following:

In 2012, the office introduced an internal quality assurance mechanism to review major documents, such as annual workplans and programme cooperation agreements, to ensure that key priorities and strategies of the new country programme are reflected in those documents. Audit noted that there were clear terms of reference for the quality review committees and that these documents reflected key priorities and strategies for the 2012-2015 country programme.

Management bodies such as the country management team, programme coordination committee, property survey board, contract review committee and joint consultative committee functioned effectively.

There were mechanisms to enhance communication between management and staff. These included regular section meetings and section retreats, coaching and performance-management skills training.

Delivering as One

Delivering as One (DaO) aims at a more unified and coherent UN structure at the country level, with one leader, one programme, one budget, and, where appropriate, one office. The aim is to reduce duplication, competition and transaction costs. Originally launched in 2007 in eight pilot countries, DaO has also been adopted voluntarily by UN agencies in a number of others – including Lao PDR, with solid government encouragement. In July 2012, the UN agencies in the country signed the United Nations Development Assistance Framework (UNDAF) Joint Action Plan. This set out the UN agencies goals for the period 2012 – 2015, and the means for their achievement.

The UNDAF Joint Action Plan replaced the Country Programme Action Plan (CPAP) signed between UNICEF and the Government. This is line with the UNICEF *Programme policy and procedure manual* and one of the aims of DaO, which is to simplify the UN's work with partners. However, the UNDAF Joint Action Plan does not fully replace the UNICEF CPAP. The latter was a formal agreement between UNICEF and the Government on the Programme of Cooperation that set out the expected results, programme structure, distribution of resources and the partners' respective commitments. These are not fully reflected in the UNDAF Joint Action Plan, which does not contain sufficient details on strategy to guide UNICEF's programming.

UNICEF's Country Representative took steps to address the gaps in the Joint Action Plan as part of annual review process in November 2012. This was done by requesting government counterpart ministries to review and agree to strategy notes by programme component results. The audit confirmed that the strategy notes did define government accountabilities and responsibilities that had not been included in the Joint Action Plan. The office had also consulted the Regional Office as to how to address these gaps, and had received support from it regarding the process. The office expects to have all the strategy notes signed by the government by February 2013. OIAI is satisfied with the actions taken by the CO.

Delegation of authority and segregation of duties

In 2011, the UNICEF Representative in Lao PDR issued a manual table of authorities (ToA) to delegate authorities and assign roles to the staff members. In 2012, the country office developed standard workflow processes to guide staff on processing transactions, and had updated the VISION[1] workflow processes as of August 2012. However, the audit noted inadequate segregation of duties and incorrect certification in six of 11 transactions sampled related to contracts and travel. These transactions included: certifying officers who also

[1] UNICEF's new management system, VISION (Virtual Integrated System of Information), was introduced in January 2012. As part of VISION implementation, offices were required to provide NHYQ with the table of authorities, which was then entered into VISION.

approved payments; an invoice for US$ 62,710 incorrectly certified by the Supply Officer instead of the relevant manager; and a payment of US $16,175 without an invoice (the audit however confirmed the contractor had completed the work for which the payment was made).

In August 2012, the office updated the roles for the third time (as required by updates in VISION); however, the audit found that some staff members still had responsibilities that should not have been combined for the same transactions. For example, the role mapping allowed the Operations Manager and Finance Officer to approve and pay transactions. The review of a sample of transactions processed in VISION showed inadequate segregation of duties in 12 out of 17 transactions. The office had not established mitigation controls to ensure that staff assigned conflicting roles did not exercise them on the same transactions.

Agreed action 1 (medium priority): The office should review the table of authorities and remove, where possible, conflicts in assigned roles; and, where these cannot be removed, establish and document mitigation measures that ensure that staff members assigned such conflicting roles do not exercise them on the same transactions.

Responsible staff: Operations Manager
Date by which action will be taken: June 2013

Governance area: Conclusion

Based on the audit work performed, OIAI concluded that, subject to implementation of the agreed action described, the controls and processes over the Governance area, as defined above, were generally established and functioning during the period under audit.

2 Programme management

In this area, the audit reviews the management of the country programme – that is, the activities and interventions on behalf of children and women. The programme is owned primarily by the host Government. The scope of the audit in this area includes the following:

- **Resource mobilization and management**. This refers to all efforts to obtain resources for the implementation of the country programme, including fundraising and management of contributions.
- **Planning**. The use of adequate data in programme design, and clear definition of results to be achieved, which should be specific, measurable, achievable, realistic and timebound (SMART); planning resource needs; and forming and managing partnerships with Government, NGOs and other partners.
- **Support to implementation**. This covers provision of technical, material or financial inputs, whether to governments, implementing partners, communities or families. It includes activities such as supply and cash transfers to partners.
- **Monitoring of implementation**. This should include the extent to which inputs are provided, work schedules are kept to, and planned outputs achieved, so that any deficiencies can be detected and dealt with promptly.
- **Reporting.** Offices should report achievements and the use of resources against objectives or expected results. This covers annual and donor reporting, plus any specific reporting obligations an office might have.
- **Evaluation**. The office should assess the ultimate outcome and impact of programme interventions and identify lessons learned.

All the areas above were covered in this audit, except for annual and donor reporting. These were omitted in order to concentrate on other areas thought to have higher priority in this case.

Harmonized Approach to Cash Transfers

Offices are required to implement the Harmonized Approach to Cash Transfers (HACT) policy. With HACT, the office relies on implementing partners to manage and report on use of funds provided for agreed activities. This reduces the amount of documentation UNICEF demands from the partner, thus cutting bureaucracy and transaction costs.

HACT requires offices to systematically assess the level of risk before making cash transfers to a given partner, and to adjust their method of funding and assurance practices accordingly. HACT therefore includes risk assessments – a macro-assessment of the country's financial management system, and micro-assessments of the individual implementing partners (both Government entities and NGOs). There should also be audits of partners expected to receive more than US$ 500,000 during the current programme cycle. Offices should implement an assurance plan regarding proper use of cash transfers. Assurance activities should include spot checks, programme monitoring and scheduled audits. HACT is required for three other UN agencies, and country offices should coordinate with them to ensure best use of resources, typically through a UN HACT task force.

The Lao PDR country office's total direct cash transfers amounted to US$ 3.4 million in 2011 (or 40 percent of the total programme expenditures).

Macro-assessments: In June 2012, a macro-assessment report on the Government financial management system was completed, as required under the HACT Framework. The report was completed on behalf of UNICEF, UNDP and UNFPA. The macro-assessment report identified strengths and weaknesses in the country's public financial management system. However, it was too early to know how the office would use the results of the macro-assessment to inform the process of cash transfer to the government implementing partners.

Micro-assessments: The office collaborated with 107 partners in 2012, one of which received over US$ 100,000 (the HACT framework requires that partners that receive over US$ 100,000 should be micro-assessed). Micro-assessments were conducted jointly with UNFPA and UNDP for six implementing partners in 2006 and a further 19 in 2009. There were delays in issuing the reports in English and Lao; they were eventually distributed in 2011, and indicated significant risk levels. No micro-assessments were conducted in 2011 and 2012.

The results of the 2006 and 2009 micro-assessments included, among other things, risk ratings of the partners' financial management capacities, descriptions of internal control weaknesses, and recommendations for addressing these weaknesses. The findings were presented to implementing partners at a workshop in August 2011 organized by the UN HACT joint task force. At the end of the audit in September 2012, the final report of the micro-assessment feedback workshop had not been circulated, and the UN HACT joint task force had not met to discuss the recommendations from the workshop.

Assurance plan: The Lao PDR country office developed and implemented a plan for spot checks in 2011 and 2012. However, these spots checks did not in themselves constitute a complete assurance plan. A comprehensive assurance plan combines periodic on-site reviews (including spot checks and special audits), programmatic monitoring of activities, and scheduled audits of IPs that are expected to receive over $500,000 in a programme cycle.

The results of spot checks were discussed with relevant staff in the office as well as with the IPs that were assessed. However, discussion of spot check findings was not included in the agenda of the joint task force, which had met only twice since 2010. The terms of reference for the spot checks lacked an adequate definition of risk rating, reporting and follow-up mechanisms (i.e., responsibility and accountability of staff involved in spot checks was not clearly defined).

The office, through the Operations Manager and UNICEF HACT Team, has updated the spot-check tools for liquidation of cash transfers. The office has also reviewed the guidelines for spot checks of liquidations and the reporting process, and has updated the UNICEF HACT Team's role to include greater emphasis and accountability for monitoring the use of spot check tools.

Agreed action 2 (medium priority): The office should adhere to the requirements of the Harmonized Approach to Cash Transfers to implementing partners, acting jointly with other UN Agencies where possible. It agrees to:

i. continue conducting micro-assessments of implementing partners that receive cash transfers exceeding $100,000; and ensure the results of macro-assessments and micro-assessments are used to inform the cash-transfer process for each implementing partner and the necessary capacity building necessary for the partners based on the risk assessment (Responsible staff: Operations Manager; Action to be completed by April 2013).

ii. Strengthen the assurance and capacity building activities with a combination of periodic on-site reviews, programmatic monitoring of activities and scheduled audits of partners where required (Responsible staff: Operations Manager; Action to be completed by June 2013).

iii. ensure the terms of reference for assurance activities, such as spot-checks, include definition of risk ratings, reporting and follow up mechanisms (Responsible staff: Operations Manager; Action to be completed by June 2013).

Liquidation of cash transfers

The audit team visited three implementing partners (IPs) that received cash transfers and noted the following issues.

- a review of documents maintained by the first IP visited noted that documentation dated November 2011 was submitted to UNICEF to support a liquidation for an activity that was only implemented in February 2012. The office had accepted the documentation without confirming that it was adequate to support the liquidation.
- In the next IP, there were differences between the amounts approved and those reported; some of the differences were not explained or supported. For example, it was noted that the sub-total for daily subsistence allowances did not match the amount reported; attendance lists were missing for some participants; and payment for travel and fuel costs were signed off by recipients who were also participants. The partner could not explain the reasons for these discrepancies.
- The records maintained by the third IP showed that liquidation documents for a workshop were not supported by quotations for a vehicle rental and there was no agreement with the selected vendor to support the eventual payment. In addition, the 'paid' stamp was missing on the receipts of travel costs, and used air-tickets and boarding passes were not attached as supporting documents.

Agreed action 3 (medium priority): The office should:

i. establish mechanisms for cash transfer liquidations that are based on adequate supporting documentation and information (Responsible staff: Operations Manager and the Country Management Team; Action to start by June 2013); and**,**

ii. ensure there is adequate training of implementing partners on how to maintain appropriate records that support the use of cash transfers (Responsible staff: Programme Coordination Unit and HACT team: Action to start by April 2013).

Partnerships

Partnerships with NGOs should be implemented through Programme Cooperation Agreements (PCAs); these should be signed promptly. The office should also ensure prompt processing of cash transfers to support partners' activities.

Programme cooperation agreements (PCAs): The audit made the following observations with regard to the office's use, or non-use, of PCAs.

- The office lacked a comprehensive database of PCAs.
- In two instances the office released US$ 151,000 to two NGOs that it had not signed PCAs with. The funds were released against the workplans signed with the Government. There was therefore no legally-binding agreement to govern the transfer of financial or material resources to the NGOs and define what the financial or material inputs by each partner would be.
- In one instance, a PCA was signed in November 2011 and US$ 138,419 was released immediately to cover cash requirements for a nine-month period instead of the normal three months. The requirement to limit disbursements to three months' needs is meant to reduce exposure to loss in case of non-implementation of planned activities, and to assist the management of unliquidated balances. The audit noted that there were delays in starting the implementation of activities planned with this NGO, as it had been late in signing the required memorandum of understanding with government ministries.

Agreed action 4 (medium priority): The office should:

i. establish a comprehensive database of NGO implementing partners (Responsible staff: Operations Manager; Action to start by April 2013);
ii. ensure that cash transfers to NGOs implementing partners are based on signed programme cooperation agreements (Responsible staff: Section Chiefs and IR Managers; Action to start by April 2013); and,
iii. ensure cash transfers are released to implementing partners for not more than three months' requirements unless there is documented justification (Responsible staff: Section Chiefs and IR Managers; Action to start by April 2013).

Construction

The audit looked at whether the office achieved efficient use of resources in construction activities; whether contracted construction activities complied with the relevant procedures and administrative instructions; and whether programme objectives were achieved.

In 2012, the UNICEF country office undertook construction activities amounting to US$ 160,051 as part of the water, sanitation and hygiene (WASH), and for the education programmes amounting to US$ 62,710. It had organised these activities using three different methods: by treating the construction works as programme supplies; by placing contracts for services (often through the government procurement process); and through cash transfers.

A sample review of six transactions in 2011 and 2012 related to construction activities noted the following.

- Five of the six contracts reviewed by the audit lacked a clause for a retention fee after the completion of the construction. The office therefore had no mechanism to ensure remedial work in the case of defects.
- In the one case where there had been such a clause in the contract, the terms had not been followed and the total amount had been paid upon the completion of the work.

The audit visited a health centre in one province where UNICEF's WASH programme supported the development of water systems and sanitation facilities. It was noted that an incinerator built under this programme had suffered considerable damage. The audit was informed that this was due to poor design and incorrect specification of materials used by the contractor. The office confirmed that all six incinerators covered by this programme had the same construction defects. Without the retention fees, it was unclear whether the contractors would rectify the defects noted.

In mid-2012, UNICEF's Supply Division reviewed the system of UNICEF placing contracts for construction activities through the government procurement process. Supply Division noted some good practices, including oversight and support to capacity building of the partner's procurement process; however, it also recommended some improvements. The office has informed the audit that, through the Supply Officer, it has taken steps to strengthen its construction contracting procedure, including: developing a standard operating procedure and workflow for construction; providing training to implementing partners; and establishing mechanisms to ensure that all bidding documents and contracts clearly specify retention of security of five percent for the defect liability period.

Agreed action 5 (medium priority): The office should continue to strengthen the construction process by requiring the withholding of retentions fees over agreed defect liability periods, through technical inspection of constructions and monitoring of the use of constructed facilities, and by ensuring corrective action and follow-up as needed.

Responsible staff: Operations Chief, Supply Officer, Water and Environmental Sanitation Officer, and Supply Assistant.
Date by which action will start: March 2013

Programme management: Conclusion

Based on the audit work performed, OIAI concluded that, subject to implementation of the agreed actions described, the controls and processes over programme management, as defined above, were generally established and functioning during the period under audit.

3 Operations support

In this area the audit reviews the country office's support processes and whether they are in accordance with UNICEF Rules and Regulations and with policies and procedures. The scope of the audit in this area includes the following*:*

- **Financial management**. This covers budgeting, accounting, bank reconciliations and financial reporting.
- **Procurement and contracting.** This includes the full procurement and supply cycle, including bidding and selection processes, contracting, transport and delivery, warehousing, consultants, contractors and payment.
- **Asset management**. This area covers maintenance, recording and use of property, plant and equipment (PPE). This includes large items such as premises and cars, but also smaller but desirable items such as laptops; and covers identification, security, control, maintenance and disposal.
- **Human-resources management.** This includes recruitment, training and staff entitlements and performance evaluation (but not the the actual staffing structure, which is considered under the Governance area).
- **Inventory management.** This includes consumables, including programme supplies, and the way they are warehoused and distributed.
- **Information and communication technology (ICT)**. This includes provision of facilities and support, appropriate access and use, security of data and physical equipment, continued availability of systems, and cost-effective delivery of services.

All the areas above were covered in this audit.

Satisfactory key controls

The audit found that controls were functioning well in the following areas.

The office's business continuity plan was up-to-date and tested. Property, plant and equipment (PPE) were well managed; the office had conducted a physical inventory count of its PPE as of 21 November 2011 and most of the items were adequately identified and recorded in VISION.

All bank reconciliations reviewed were completed as per DFAM guidance.

Recognition of programme supplies

The office should report all programme supplies that it controls. Inventory controlled but not physically received by UNICEF is to be accounted for as goods-in-transit and recorded as inventory when delivered to the consignee.

The office does not have a warehouse, and delivery was directly to the different government warehouses. A review of a sample of transactions recorded under the goods-in-transit account showed that the corresponding items were received at the government warehouse, and the proof of delivery correctly recorded. The accumulated balance as of 31 August 2012 of the goods-in-transit was US$ 320,241. The error had arisen through limited knowledge of changes made with the introduction of the VISION system, and a lack of corporate guidance on how to record programme supplies as expenditures. In September 2012, Supply Division provided guidance to country offices regarding correction of errors made in recording supplies as goods-in-transit.

Agreed action 6 (medium priority): The office should correct the errors in the accounting entries and establish a process for periodic review of the goods-in-transit account to ensure recording of programme supplies as expenses.

Responsible staff: Supply Officer and the Operations Manager
Date by which action will start: April 2013

Access security

The office should ensure that adequate security mechanisms are in place to prevent unauthorized access to programs and data.

The office lacked an adequate monitoring and follow-up mechanism for provision, renewal, termination and monitoring of access to the office systems and data. The audit sampled 12 cases of staff separations from the office due to contract termination during 2010 and 2011. In 10 of these cases there was no evidence that the office had asked ITSS to withdraw the staff members' system access; in the remaining two cases there was evidence it had been done, but with a delay (two years in one case).

Agreed action 7 (medium priority): The office agrees that the ICT Officer and Human Resources Officer will strengthen ICT controls over unauthorized access to systems and data. It intends to establish a procedure for the provision, renewal, termination and monitoring of access to office systems and data by February 2013.

Operations management: Conclusion

Based on the audit work performed, OIAI concluded that, subject to implementation of the agreed actions described, the controls and processes over Operations Support, as defined above, were generally established and functioning during the period under audit.

Annex A: Methodology, priorities and conclusions

The audit team used a combination of methods, including interviews, document reviews, testing samples of transactions. It also visited UNICEF locations and supported programme activities. The audit compared actual controls, governance and risk management practices found in the office against UNICEF policies, procedures and contractual arrangements.

OIAI is firmly committed to working with auditees and helping them to strengthen their internal controls, governance and risk management practices in the way that is most practical for them. With support from the relevant regional office, the country office reviews and comments upon a draft report before the departure of the audit team. The Representative and their staff then work with the audit team on agreed action plans to address the observations. These plans are presented in the report together with the observations they address. OIAI follows up on these actions, and reports quarterly to management on the extent to which they have been implemented. When appropriate, OIAI may agree an action with, or address a recommendation to, an office other than the auditee's (for example, a regional office or HQ division).

The audit looks for areas where internal controls can be strengthened to reduce exposure to fraud or irregularities. It is not looking for fraud itself. This is consistent with normal practices. However, UNICEF's auditors will consider any suspected fraud or mismanagement reported before or during an audit, and will ensure that the relevant bodies are informed. This may include asking the Investigations section to take action if appropriate.

The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors. OIAI also followed the reporting standards of International Organization of Supreme Audit Institutions.

Priorities attached to agreed actions

High: Action is considered imperative to ensure that the audited entity is not exposed to high risks. Failure to take action could result in major consequences and issues.

Medium: Action is considered necessary to avoid exposure to significant risks. Failure to take action could result in significant consequences.

Low: Action is considered desirable and should result in enhanced control or better value for money. Low-priority actions, if any, are agreed with the country-office management but are not included in the final report.

Conclusions

The conclusions presented at the end of each audit area fall into four categories:

[Unqualified (satisfactory) conclusion]
Based on the audit work performed, OIAI concluded at the end of the audit that the control

processes over the country office *[or audit area]* were generally established and functioning during the period under audit.

[Qualified conclusion, moderate]
Based on the audit work performed, OIAI concluded at the end of the audit that, subject to implementation of the agreed actions described, the controls and processes over [audit area], as defined above, were generally established and functioning during the period under audit.

[Qualified conclusion, strong]
Based on the audit work performed, OIA concluded that the controls and processes over [audit area], as defined above, needed improvement to be adequately established and functioning.

[Adverse conclusion]
Based on the audit work performed, OIA concluded that the controls and processes over [audit area], as defined above, needed **significant** improvement to be adequately established and functioning.

[Note: the wording for a strongly qualified conclusion is the same as for an adverse conclusion but omits the word "significant".]

The audit team would normally issue an ***unqualified*** conclusion for an office/audit area only where none of the agreed actions have been accorded high priority. The auditor may, in exceptional circumstances, issue an unqualified conclusion despite a high-priority action. This might occur if, for example, a control was weakened during a natural disaster or other emergency, and where the office was aware the issue and was addressing it. Normally, however, where one or more high-priority actions had been agreed, a ***qualified*** conclusion will be issued for the audit area.

An ***adverse*** conclusion would be issued where high priority had been accorded to a significant number of the actions agreed. What constitutes "significant" is for the auditor to judge. It may be that there are a large number of high priorities, but that they are concentrated in a particular type of activity, and that controls over other activities in the audit area were generally satisfactory. In that case, the auditor may feel that an adverse conclusion is not justified.