Internal Audit of the Mongolia Country Office

Office of Internal Audit
and Investigations (OIAI)
Report 2013/09

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Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the Mongolia Country Office. The audit sought to assess the governance, programme management and operations support over the office's activities. The audit team visited the office from 8 to 23 October 2012. The audit covered the period from January 2011 to 30 September 2012.

The economy of Mongolia has shown steady growth in the recent past, reaching a real GDP growth rate of 8.9 percent and GDP per capita of US$ 1,649 in 2008 (UNDP). With the expected launch of new large-scale mining projects, GDP is expected to double by 2015. However, more than 50 percent of the rural population have no access to safe water and nearly 70 percent have no access to adequate sanitation. While good progress has been made in reducing the maternal mortality ratio and child mortality rates, indicators are generally worse for rural and ethnic populations. In 2009, the maternal mortality ratio ranged from 23 deaths per 100,000 live births in the capital Ulaanbaatar to 165 per 100,000 in one of the rural provinces. More than 75 percent of these deaths were recorded among herdswomen, the unemployed and unregistered migrants.

The Millennium Development Goals (MDGs) are strongly embedded at the policy level. They were adopted by the parliament as the framework for the MDG-Based Comprehensive National Development Strategy (NDS) of 2008-2021. Mongolia is unique in having a ninth MDG to emphasize democratic governance and human rights as necessary conditions for the achievement of all the MDGs. The third national MDG progress report (2009) indicated that six of the nine MDGs were likely to be achieved by 2015. The three lagging behind were poverty reduction, gender equality and environmental sustainability.

The country office is based in the capital, Ulaanbaatar, and there is one zone office. The current approved country programme covers the period 2012-2016 and has a total budget of US$ 19 million. As of October 2012 there were 34 approved posts, of which four were international.

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, two 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 Mongolia country office has prepared action plans to address the issues raised. The Mongolia country office, with support from the East Asia Regional Office, will work together with OIAI to monitor implementation of the measures.

Office of Internal Audit and Investigations (OIAI) April 2013

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 paragraphs that begin each of these sections explain 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:

The office had strong coordination mechanisms, including weekly all-staff meetings, and regular meetings of the Country Management Team (CMT), the Programme group, the Programme sections and the Operations section. The CMT meetings were well documented, and the CMT action points systematically followed up. The main office management performance indicators were also kept under review. All staff were involved in drawing up the office management plans.

The office managed to sign all the multi-year workplans on or before the end of March 2012. This was despite challenging working conditions that included recruitment for nearly half of the office positions, the launch of a new country programme, the relocation of the zone office, and the launch in January 2012 of UNICEF's new management system, VISION. The recruitment process was in line with UNICEF guidance, and in cases where the staff members on abolished posts were not selected, reasons were given.

The office managed the Emergency Preparedness and Response Plan (EPRP) process well, with frequent updates and clear assignment of responsibilities to key staff; these responsibilities were in the office management plan and in the performance assessments of the respective staff members.

Office priorities

The annual management plan (AMP) helps Representatives ensure that financial and human resources are focused on the planned results. The AMP should therefore include the most significant programme results from those described in the workplans, as well as significant management results planned for the year, such as key aspects of coordination with partners, specific key partnerships, major evaluation activities, major advocacy themes, or improvements in finance, human resources, staff learning or supply management. It should link these with related staff responsibilities, and provide the basis for linking individual workplans and performance reviews to the broader plan.

The office had a rolling annual management plan (RAMP) for 2012-2013 that was prepared in accordance with the UNICEF format and guidance. However, there were areas that could be improved. For example:

- The 2012 workplan priorities of the Operations Section, which included 28 priorities covering all the operations areas, were presented in such a way as to appear that they were all among the 2012-2013 office management priorities.
- Out of the eight programme priorities, three priorities were related to the situation analysis, the monitoring of the programme and partnerships – which should be regarded as overall management priorities, not just for the programme section.
- Two key programme priorities related to different programme units were consolidated in one key programme priority.
- Seven programme priorities had performance indicators but without target values or timelines, and one result was set for 2016, three years beyond the end of the OMP.
- The key priorities were not always clearly linked to the individual workplans of the relevant staff.
- Although there were regular and well-minuted monthly CMT meetings, the agenda and minutes showed that the office did not monitor the status of implementation of the programme and management priorities as set out in the OMP. The office had instead reviewed the office priorities of the 2010-2011 OMP during the annual management review of March 2012 – however, this was too late for any corrective action to be taken.

Not all the staff perceived the RAMP as a management tool, and the concept of key office priorities was not clear to some of them. With unclear key office priorities, the office may lose focus on those priorities which would contribute to the most significant results. Furthermore, in the absence of regular review and follow-up of office priorities at the appropriate level, there is a risk that these priorities may not be achieved.

Agreed action 1 (medium priority): The office agrees to:

i. use the annual review of the Rolling Annual Management Plan to redefine the priorities for 2013, reducing them to a maximum of 10 to 12 so to focus on the key issues to be followed up; and,
ii. reflect the office priorities in the performance appraisal system of responsible staff members.

Responsible staff: Representative, Deputy Representative and Operations Manager. Action completed by: 29 March 2013, as stated by the country office.

Governance area: Conclusion

Based on the audit work performed, OIAI concluded that the controls and processes over governance, as defined above, were generally established and functioning.

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.

Satisfactory key controls

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

As part of the preparation of the new country programme, the office had updated its situation analysis, and had led the preparation of the Country Analysis,[1] ensuring that women's and children's issues were given due attention. Moreover, the office had adapted its programme strategy to Mongolia's status as a middle-income country, by introducing a new programme component focusing on advocacy, social budgeting and support to national policy development. The office had also redesigned its staffing profile accordingly.

The Programme section had established a strong monitoring system, which included regular review of the budget by Intermediate Result and funding source. There was systematic planning of field-visit trips and follow-up of their recommendations. The office had a system for monitoring the status of donor reports at different stages of the review process, which resulted in timely submission of the reports.

[1] The Country Analysis (previously known as the Common Country Assessment) is prepared jointly by the UN agencies and aims to give a picture of the main development challenges.

Harmonized Approach to Cash Transfers (HACT)

Country offices are required to implement the Harmonized Approach to Cash Transfers (HACT) for cash transfers to implementing partners. HACT is also required for UNDP, UNFPA and WFP in all programme countries.

HACT exchanges a system of rigid controls for a risk-management approach to cash transfers to implementing partners. It aims to reduce transaction costs by simplifying rules and procedures, strengthening partners' capacities and helping to manage risks. HACT 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).

Besides risk assessments, HACT also requires assurance activities regarding appropriate use of cash transfers. These include spot checks of partner implementation, programmatic monitoring, annual audits of partners receiving a certain level of funds, and (where required) special audits. Unfavourable findings from assurance activities should result in a review of the procedures used with that partner. Where practicable, risk assessments and assurance activities should be carried out in cooperation with the other UN agencies that have also adopted HACT.

The signed 2012-2016 country programme action plan (CPAP)[2] states that UNICEF and the Government of Mongolia have agreed to implement HACT progressively, starting from 2012. A UNICEF Executive Office memorandum of October 2012 informed Representatives and Regional Offices that even given the challenges of inter-agency settings, there are many actions that offices should take to improve performance in the management of HACT – including being more rigorous and consistent regarding the core principles of risk-based financial management that underlie HACT.

However, UNICEF Mongolia had not taken action consistent with the CPAP and as required in the memorandum from the Executive Office. For example, the office had not carried out any training of partners on HACT and had not established a HACT assurance activities plan. Neither had it identified the implementing partners that would need to be micro-assessed and audited. Subsequent to the audit, the office informed the audit that it would ensure risk-based management of cash transfers by using the HACT checklist for Financial Management Capacity Assessment of implementing partners, and that it had started orientation of partners on the types of cash transfer.

The audit also made the following specific observations on HACT implementation.

Macro-assessments: The UN Resident Coordinator's Office had completed a macro-assessment of the public financial management system in 2006. The office indicated that a tender has been re-issued by UNDP to invite consulting companies to conduct a macro-assessment for the 2012-2016 UNDAF.

Micro-assessments: Micro-assessments of the Ministry of Health and Ministry of Social Welfare and Labour were conducted in March 2008 by KPMG Malaysia. However, there was no further progress towards full implementation of HACT at the time of the audit. The office indicated that a HACT Working Group was established in 2006 but had not functioned

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[2] The CPAP is a formal agreement between the government and UNICEF, and formally sets out their different responsibilities during the Country Programme period.

effectively.

Liquidation of cash transfers: The office continued requesting and reviewing all documents to support the liquidation of cash transfers, although implementing partners had used the FACE form[3] to request cash transfers since 2007; the form is intended to assist reductions in required documentation. The office also did not use the Simplified Government Certificate form, an older form that serves a similar purpose.

In 2011, the office had disbursed a total amount of US$ 1.7 million in direct cash transfers to 65 implementing partners. Delayed implementation of HACT led to missed opportunities for risk-based management of cash transfers, which in turn would have permitted simplification of the liquidation process and a reduction in supporting documentation. The office acknowledged the need for additional effort within the UN country team to fully implement HACT.

Agreed action 2 (medium priority): The office should enhance compliance with the Harmonized Approach to Cash Transfers to implementing partners by assessing the implementing partners' capacities, assigning a risk rating for each partner and using the risk rating to:

i. Determine the cash-transfer procedure that would be used for each implementing partner, develop and implement a capacity-building plan and strengthen assurance activities with a combination of periodic on-site reviews, programmatic monitoring of activities and scheduled audits of partners where required. Where possible, the office should take these actions jointly with other UN agencies.
ii. Use the Simplified Government Certificate with the implementing partners that use the State Treasury as the depository bank for UNICEF cash transfers.

Responsible staff: Representative, Deputy Representative, Operations Manager, and Senior Finance Assistant. Actions to be completed by: 28 May 2013.

Integrated Monitoring and Evaluation Plan (IMEP)

The audit reviewed whether the office's research, monitoring and evaluation activities were realistically planned and timed. Monitoring and evaluation (M&E) activities are set out in advance in the Integrated Monitoring and Evaluation Plans, of which an office has two at any one time – a multi-year IMEP, covering the whole programme cycle, and a rolling IMEP covering one or more years, so that the office can update its M&E activities as the programme progresses.

The 2010-2011 IMEP included 23 planned studies, research and evaluations. As of end December 2010, out of nine studies and surveys planned in 2010, one was completed, two were ongoing, and six were carried over – a completion rate of 11 percent. As of end December 2011, four of the six IMEP activities carried over from previous years had been completed and two cancelled. In addition, out of the nine studies and surveys planned for 2011, only one was completed, four were cancelled, two had been carried over and two

[3] FACE stands for Funding Authorization and Certificate of Expenditures. UNICEF and its partners can use the FACE form to approve or request disbursement of funds and authorization to incur expenditures, to report on expenditures and to certify the accuracy of data and information provided by the partner. The FACE form is meant to be part of the HACT process, although it can be used independently of it.

were in progress at the end of 2011. There was no evidence that, at the end of 2010, the office had reviewed the IMEP for 2011 and adjusted it to ensure that the planned studies and surveys, both new and carried over, would be completed.

There were several reasons for the low IMEP completion rates. According to the office, they included planning challenges, difficulty in finding the required technical support, and limited capacity of the partners to manage the studies and surveys for which they were responsible. The audit also noted the absence of mechanisms to follow up on IMEP implementation and to adjust the activities if required. Further, the responsibility related to implementation of IMEP activities was not systematically recorded in the Performance Appraisal System (PAS) of the team leaders.

Agreed action 3 (medium priority): The office agrees to define criteria for the selection of Integrated Monitoring and Evaluation Plan activities that take into consideration the office's and the partners' capacity, as well as the rate of implementation of the previous year's IMEP.

Responsible staff: Deputy Representative and Evaluation Officer. Actions to be completed by: 4 April 2013.

Programme management: Conclusion

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 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 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 – except for inventory management, as the office did not maintain a warehouse.

Satisfactory key controls

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

Bank reconciliations (from the second quarter of 2012)[4] were completed on time with appropriate segregation of duties. Bank signatories were up-to-date. All payment vouchers were well-supported. Submissions made to the Contracts Review Committee (CRC) had sufficient details, and the CRC minutes sampled by the audit met minimum quorum requirements. Payroll verification was on time and the supporting documents were complete, and were filed properly.

The Property, Plant and Equipment (PP&E) records were well maintained, and items were tagged properly. The Property Survey Board minutes matched the action taken.

Supply and service contracts management

In 2011, the office had spent approximately US$ 1.2 million (or 28 percent of yearly programme expenditure) on programme supplies and US$ 700,000 (18 percent) on institutional and individual contracts. The office had used a single plan for managing supplies

[4] Due to the introduction of VISION in January 2012, offices were not expected to complete the bank reconciliations on time for the first quarter.

and service contracts. The audit noted the following issues on supply and service contracts management:

Finalization and implementation of the supply and services plan: While the multi-year workplans (MYWPs) were signed in late March 2012, the supply and services plan was not finalized until October of that year. According to that plan, in 2012 up to the time of the audit (in October), the office should have procured or contracted supplies and services to a total value of US$ 1.7 million. In fact, only approximately US$ 660,000 (or 39 percent by value) had been expended, and no action had been taken on the remaining supplies and services.

Monitoring the timeliness of supply deliveries: Of the eight examples sampled from 2012, five did not have expected delivery dates in the partner's supply request forms and the office did not monitor the timeliness of deliveries in any of the eight cases sampled.

***Signing of individual contracts**:* A number of contracts were signed late due to technical restrictions in generating contracts in the country office during early 2012, due to the challenges of implementing VISION. The audit reviewed all the other 15 individual contracts drawn up in 2012 up to the audit date to find that six of these had also been signed after the contract effective date.

The office indicated that timely planning and implementation of both supply and services contracts were affected by VISION migration and by national elections that had changed the school schedule. The supply and services plan had been ambitious and had not fully reflected those factors. Furthermore, the VISION system required identification of the vendors when drafting the supplies and contract documents; however, the market survey was still in progress, and the office required additional time to search for vendor information. The audit was informed that the cases of non-compliance in signing the contracts were due to oversight. Ultimately, there were no strong mechanisms established to monitor the timely delivery of supplies and services.

A delayed plan, and processing of the supplies and service contracts without specific timelines agreed with the partners, could make it harder to implement activities on time. Also, ambitious planning could lead to a heavy workload at year end, which could lead in turn to rushed or incomplete work. For example, in 2012 there were two cases of single-source contracts that were not publicly advertised due to the urgent need for the consultants.

Agreed action 4 (medium priority): The country office agrees to:

i. Take steps to make supply and services plans realistic, with adequate and correct specifications, and prioritized for implementation based on funding availability and target delivery dates. To this end, the office agrees to revise the format for the 2012-2013 Supply & Services Plan to include this information.
ii. Ensure periodic updating and monitoring of the completion of the supply plan.
iii. Complete a market survey.
iv. Develop a monitoring matrix to log key steps and dates for contracts from drafting to closure (including drafting, finalization, approval of Terms of Reference, creation of purchase requisitions and contract signing). Discrepancies are to be monitored and reported in programme coordination meetings.

Responsible staff: Operations Manager, Admin & HR Officer, and Supply & Logistics Assistant. Actions to be completed by: 15 April 2013.

Financial transaction processing

The audit checked whether the office had a system to ensure that payments, receipts and deposits were appropriately processed, accurately supported and recorded, that processing was completed in a timely manner, and that financial activities were accurately reported. The audit also reviewed whether there was appropriate segregation of duties in the processing of financial transactions.

The audit tested a sample of 79 transactions, consisting of cash transfer payments and liquidations, supplies, contracts and cash contingency payments, deposits and receipts and journal vouchers. The audit noted the following:

General Ledger (GL) codes and/or funding commitment (FC) types: The audit found four transactions with incorrect GL codes and/or funding commitment codes. For example, cash transfer payments were recorded under the GL code for cash contingency or contracts. Also, cash transfer and supplies payments were recorded under the funding commitment of direct charge (formerly called cash contingency). Use of inappropriate funding commitment types and/or GL codes may lead to inaccurate financial reporting. According to the office, the incorrect use of GL codes and funding commitment types was due to human error while learning VISION, which introduced changes in the charter of accounts.

Use of Funding Authorization and Certificate of Expenditure (FACE) forms: The FACE forms found in the cash transfer vouchers were processed without complete information. Missing information included the type of direct cash transfer (DCT), date signed and activity period for the request or liquidation. Lack of such information may delay the transfer of the funds and the implementation of planned activities. The omissions were due to partners not being fully informed of UNICEF requirements when submitting the forms. The office also informed the audit that there had been training sessions for new partners.

Recommendation 5 (medium priority): The country office agrees to do the following:

i. Conduct a series of learning sessions for staff covering the following topics: UNICEF Financial and Administrative Policies on Internal Controls and Cash Transfers; office internal Financial Guidelines on Cash and Supply; work processes for direct cash transfers, contract and supply; and the new general ledger codes.
ii. With reference to the FACE forms, the office develop a checklist for the review of invoices and payments to ensure accuracy and completeness of information in the FACE. The results of the review will be consolidated to identify types of errors made and their frequency to identify the learning gaps and the teams that are most in need of assistance. Furthermore, orientation will be provided to the implementing partners, and emphasis is to be put on the correct completion of FACE forms when submitting cash transfer requests and liquidations.

Responsible staff: Operations Manager, Admin & HR Assistant, Senior Finance Assistant, and Supply & Logistics Assistant. Actions to be completed by: 30 April 2013.

Operations support: Conclusion

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 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.