Internal Audit of the Montenegro Country Office

May 2013

Office of Internal Audit
and Investigations (OIAI)
Report 2013/18

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Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the Montenegro Country Office. The audit was conducted during the period 18 March to 5 April 2013. The audit covered governance, programme management, and operations support during the period from 1 January 2012 to 17 March 2013.

Montenegro became an independent state in 2006. On 28 June of that year, it joined the United Nations as its 192nd member state. On 11 May 2007, it became the 47th member state of the Council of Europe and in 2010 became a candidate country for European Union (EU) membership. According to the 2012 World Bank Development Report, Montenegro is classified as an upper-middle income country with GNI per capita of US$ 7,060. It has a population of 632,261, of which 145,000 are children. Montenegro had achieved the millennium development goals (MDGs) for both under-5 mortality and infant mortality, which are 7.2 and 6.5 per thousand live births, respectively (source: childmortality.org). The national MDG goal for maternal mortality had also been achieved, with maternal mortality at eight per 100,000 (source: childinfo.org). HIV/AIDS prevalence, at 0.01 percent, also met the MDG target – which was 0.02 percent (source: Country Progress Report to UNAIDS, period 2010-2011).

However, the impact of the economic crisis has resulted in an increase of poverty from 6.6 percent in 2010 to 9.3 percent in 2011, with high concentrations of poverty in the north (17.5 percent), in rural areas (18.4 percent), and especially amongst families with three or more children (52.9 percent). Refugees and unregistered Roma remain among the most vulnerable people in Montenegro. According to the 2009 survey of UNICEF and the UN High Commissioner for Refugees, almost 40 percent of Roma, of whom two thirds are children, are without either birth or citizenship documentation. Their illiteracy rate is 42 percent, and 55 percent for women. A little over one third of primary-school-aged Roma children access a full cycle of primary education, and fewer than 14 percent have access to preschool.

The current UNICEF Board-approved country programme for Montenegro covers the period 2012-2016, with a total approved budget of US$ 11.75 million for the five-year period. The country programme focuses on three programmes: child protection and social inclusion; child rights policy and planning; and cross-sectoral costs. The overall goal of the country programme is to aid efforts by Montenegro to increase equity and ensure the inclusion of children and women who are in need of special protection, live in poverty or are socially marginalised.

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, the audit did identify a number of medium-priority issues. 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 Montenegro country office has prepared action plans to address the issues raised. The country office, with support from the Regional Office for Central and Eastern Europe and Commonwealth of Independent States (CEE/CIS) and OIAI, will work to monitor implementation of these measures.

Office of Internal Audit and Investigations (OIAI) May 2013

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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 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 for 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 organisational structure of the office was aligned to the approved country programme. In consultation with staff, the office had defined appropriate management indicators that were consistent with those established by the CEE/CIS regional office. The office regularly monitored performance against these indicators, and took corrective action as appropriate. The office had established an appropriate supervisory structure consisting of a country management team, programme coordination group, contract review committee and other advisory teams and committees.They functioned as planned, with clear terms of reference;

recommendations from their meetings were adequately documented, monitored and implemented.

The office had defined appropriate programme and management priorities in its annual management plan for 2012, and these had been clearly communicated to staff. Progress in achieving these priorities was systematically and regularly monitored by the country management team. The office had also conducted a risk and control self-assessment (RCSA) in 2010-2011 and had developed a risk profile and risk and control library, which contained action plans to manage the risks identified. The office systematically followed up on the implementation of the action plan. It reviewed and updated its risk and control library in 2012, taking into consideration the planned results for the new country programme, and adjusted the risk ratings in line with progress in implementing the RCSA action plans.

Adequate steps had been taken to promote ethical standards within the office. By March 2012, all staff had completed the on-line course on *Standards of Conduct for International Civil Service* and 10 out of 16 had completed the one on *Preventing harassment, sexual harassment and abuse of authority*. The office had reviewed the result of the global staff survey[1] and had taken action to address the issues raised.

Delegation of authority and segregation of duties

The head of office had issued a manual table of authority (ToA) delegating specific authorities for processing transactions in UNICEF's management system, VISION. The staff concerned were informed of their authorities and accountabilities and were required to acknowledge their understanding and acceptance of the authorities and accountabilities assigned to them.

The mapping of authorities assigned to staff in processing transactions in VISION showed violation of rules on segregation of duties for seven of 16 staff. As the office is small, the related functions could not be segregated, and the office had established mitigating controls by instructing the staff concerned not to act on conflicting roles pertaining to the same transaction. The office monitored compliance with this. However, there were discrepancies between authorities assigned in VISION and those delegated in the signed ToA. For example, the Child Protection Officer was assigned the function of paying officer and purchase order (PO) releasing officer in VISION, although this was not in the ToA. On the other hand, the Administrative Assistant was assigned the role of paying officer in the ToA but this was not recorded in VISION. The office indicated that it was in the process of correcting these discrepancies.

The Administrative Assistant was assigned the function of conducting the bank reconciliation and this was correctly recorded in VISION. However, while the Administrative Assistant recorded in VISION the transactions as reflected in the manual bank statement, the identification of the reconciling items was done by the Operations Finance/HR Assistant, who also signed the bank reconciliation statement as the preparer. As she was responsible for processing payments and was a paying officer, her bank-reconciliation role was contrary

[1] UNICEF's Global Staff Survey, launched in 2008, is an exercise to increase understanding between staff and management by gathering opinion on a range of staff-related issues, including internal relationships and communications, transparency and accountability, work/life balance and efficiency. All staff are invited to participate; the responses are confidential, and the results are anonymised.

to the rule on segregation of duties as it could lead to inappropriate transactions. The office agreed to segregate the function related to the bank reconciliation process and started to train the Administrative Assistant on the entire bank reconciliation process so that he can fully take over this function.

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

i. strengthen procedure in the delegation of authorities, ensuring consistency between the table of authority approved by the head of office and the authorities recorded in VISION; and,
ii. ensure that the Administrative Assistant assigned the bank reconciliation function conducts all the steps related to the bank reconciliation process, and signs the bank reconciliation statement as the preparer; and that the Operations Finance/HR Assistant who has responsibility for processing payments and acts as a paying officer is not assigned responsibility for conducting the bank reconciliation.

Staff responsible for taking action: Operations Officer.
Date by which action was reported as taken by the country office: April 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.

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 2012-2016 Board-approved country programme for Montenegro was aligned with a Delivering as One UN Integrated Programme (UNIP), with UNICEF leading the first of three UNIP pillars on social inclusion. The UNICEF programme was also aligned with those aspects of the EU accession agenda which drive the reform and policy agenda in Montenegro, most notably in the fields of child and social protection and justice for children.

According to the country office's 2012 annual report, a key focus for 2012-2013 was to strengthen the use of strategic evidence in addressing children's rights, through supporting the Government in quantifying targets and baselines for key reform priorities such as inclusion of children with disability in school and de-institutionalisation of children in state care. The office, in coordination with the CEE/CIS regional office and the relevant division in Headquarters, was supporting a Multiple Indicator Cluster Survey (MICS) in the country which was expected to fill data gaps on many aspects of social development.

The office had established adequate procedures for monitoring workplans. A review of implementation of the rolling workplans was a standing agenda in the programme coordination meetings. Monitoring trips were undertaken and recommendations from these trips were followed up. Overall, the office ensured that annual and donor reports were submitted on time and they met quality standards. The office had developed a rolling integrated monitoring and evaluation plan, and its implementation was adequately monitored.

Resource mobilisation strategy/plan

According to chapter 4 of UNICEF's programme policy and procedures manual (PPPM), country offices should develop a clear and comprehensive resource mobilisation strategy for securing approved other resources (OR)[2] in support of the country programme.

Sixty-eight percent of the approved country programme (CP) for 2012-2016 was subject to funding from other resources (US$ 8 million out of the US$ 11.75 million approved budget). By the second year of the approved CP cycle, 40 percent of the approved programme was funded, with some funds carried over from the previous programme cycle. The office actively pursued prospective donors by developing and submitting donor proposals, the status of which it regularly monitored. Eighteen proposals had been submitted to various donors since January 2012. However, the office explained that because Montenegro, as an upper middle income country, was not attractive to development donors, and because the office was small, it had decided not to have a specific resource mobilisation strategy/plan.

In discussion with the audit, the CEE/CIS regional office noted the difficulty in raising funds for middle income countries and the limited capacity of the countries within the region. It explained that a Regional Resource Mobilisation Strategy was being developed in order to have an integrated approach in raising funds for countries in the region.

Agreed action 2 (medium priority): The office agrees to develop a resource mobilisation strategy/plan for the country programme commensurate with the capacity of the office and in alignment with the regional resource mobilisation strategy/plan. The plan should set specific resource mobilisation targets for the programme period and outline how, where, when and with whom resource mobilisation activities will be undertaken.

Staff responsible for taking action: Representative.
Date by which action will be taken: May 2013 and then on-going.

Monitoring of Board-approved budget

The Board-approved budget for the Montenegro country programme covering the period 2012-2016 was US$ 11.75 million, of which US$ 11.19 million was directly available to the programme. The budget was divided among the three programme components – *Child Protection and social inclusion* (US$ 5.964 million); *Child rights, policies and planning* (US$ 4.011 million); and *Cross-sectoral costs* (US$ 1.215 million). The Board-approved

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[2] Funds available to country offices are in two basic categories, Regular Resources (RR) and Other Resources (OR). RR are core resources that are not earmarked for a specific purpose, and can be used by UNICEF wherever they are needed. OR are contributions that have been made for a specific purpose such as a particular programme, strategic priority or emergency response, and may not be used for other purposes without the donor's agreement. The office will normally be expected to raise OR itself, up to a ceiling that is indicated in the country programme budget.

programme and budget was supposed to be recorded in VISION to assist monitoring and reporting on actual implementation against the approved programme and budget.

However, the office had not accurately recorded the Board-approved budget of the country programme in VISION. For example, the budget recorded in VISION for *Child Protection and social inclusion* was US$ 7,211,913, which is 21 percent higher than the board-approved level. This resulted in reduction of the budget for the other two programme components.

The office explained that it was not aware of the need to align VISION records with the Board-approved budget at the programme component level. It had therefore redistributed the approved budget among programmes in accordance with available and planned funds for the rolling workplan for 2012-2013. However, the Board-approved budgets are related to the planned results in the country programme. Not recording the correct budgets for each programme component in VISION could, in effect, have an impact on programme component results.

The office stated that, in consultation with the CEE/CIS regional office, it would align planned amounts in VISION as per the Board-approved budget and proceed to analyze the current funding situation and request an amended ceiling, if needed.

Agreed action 3 (medium priority): The office agrees to establish procedures and accountabilities to ensure that Board-approved budgets at the programme level are accurately recorded in VISION, and that the rationale for any shifts of budgets from one programme component to another, and their impact on planned programme component results, is agreed with the regional office, and adequately documented.

Staff responsible for taking action: Programme Specialist and Programme Assistant.
Date by which action will be taken: May 2013 and then on-going.

Indicators, baselines and targets

Clearly defined and aligned indicators, baselines and targets are critical to effective and efficient measurement of results.

The 2012-2016 approved country programme for Montenegro had three main programme component results (PCRs) and under each, intermediate results (IRs) were defined. The office defined the indicators, baselines and targets for each of the PCRs. However, baselines and targets were not complete for any of the four intermediate results under the programme component *Child protection and social inclusion.* Out of 15 indicators identified, five had no baselines, while seven had no targets. Similar weaknesses were noted in the other programme components.

Some indicators, baselines and targets were also not clearly aligned and defined, making it difficult to establish whether planned results were being achieved. For example, one of the indicators for the programme component *Child protection and social inclusion* was “percentage of Roma and children with disability accessing inclusive pre-school and primary education”. The baseline indicated was “2 percent of children attending pre-school education are children with special education needs (2009)” and the target was “30 percent increase”. The baseline and target would not allow measurement of the increase in the percentage of Roma and children with disability accessing inclusive pre-school and primary education. Thus, in reporting the status of achievement of planned results for this indicator as of December 2012, the office simply reported that "In 2011/2012 there have been 670 children with special education needs in kindergarten, 3,600 in primary school and 285 in secondary school." The office explained that an accurate figure for the number of children with disability was not yet available.

The office stated that it expected some of the missing indicators would be filled with the completion of the on-going Multiple Indicator Cluster Survey (MICS).

Agreed action 4 (medium priority): The office agrees to establish procedures and accountabilities to ensure that baselines and targets are clearly defined for each indicator and that the baseline and targets are clearly aligned to the indicator in order that progress against planned results can be effectively and efficiently measured.

Staff responsible for taking action: Programme Specialist and all programme staff.
Date by which action will be taken: End of 2013.

Implementation of the 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 the 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 activities accordingly.

The risk assessments include a macro-assessment of the country's financial management system, and micro-assessments of the individual implementing partners (both Government entities and NGOs). The assurance activities include spot checks of partner implementation, programmatic monitoring, annual audits of partners receiving a certain level of funds, and (where required) special audits. Where possible, the risk assessments and assurance activities should be carried out in cooperation with the three other UN agencies that have also adopted HACT.

The office had started implementing HACT in 2008, and the required HACT provisions were in the previous and current country programme action plans.[3] The office had developed an assurance plan comprising of micro-assessments, programmatic monitoring and spot-checks, and its implementation was followed up. A macro-assessment was conducted jointly with other UN agencies in Montenegro in 2007; at the time of audit, a new one was underway for the new country programme cycle. During 2012, the office conducted micro-assessments of two partners that were expected to receive more than US$ 100,000. The office also planned to assess, by April 2013, those partners that were expected to receive less than US$ 100,000.

The value of the office's cash transfers in 2012 was US$ 181,149, or 10 percent of total expenses for the year. Direct cash transfers in the total amount of US$ 134,590 were outstanding by the end of 2012. None of the outstanding transfers were over six months old.

[3] The country programme action plan (CPAP) is agreed with the Government partner, and sets out the division of responsibilities between it and UNICEF in the implementation of the country programme.

However, instead of applying a risk-based approach in conducting spot-checks, the office conducted spot-checks on all partners as a prerequisite for liquidation of cash transfers. According to the office, so far these spot checks had not disclosed any internal control weaknesses or significant errors in reporting on the use of the cash transfers.

The office's practice of conducting 100 percent spot-checks was not consistent with the principle of HACT, which promotes a risk-based approach in conducting assurance activities. Not applying a risk-based approach in conducting spot checks could lead to inefficient use of limited resources, including staff time that could be spent on other priority activities of the office.

Agreed action 5 (medium priority): The office agrees to review its current practice of conducting spot checks as a prerequisite for cash-transfer liquidation, and consider aligning the frequency and intensity of spot checks to the risks in each case, in line with the basic principle of the Harmonized Approach to Cash Transfers.

Staff responsible for taking action: Programme Specialist and Operations Officer.
Date by which action will be taken: May 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 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 over a number of areas including (but not necessarily limited to) the following:

Staff recruitment was timely and complied with prescribed procedures. The office conducted five recruitments in 2012 and had no vacant posts as at the time of audit. The Local Staff Development Committee played an active role in defining the key priorities for training, development of the learning and development plan and periodic monitoring of its implementation. All staff had completed their performance assessment on time.

There were adequate procedures for managing plant, property and equipment (PP&E), and a physical count of PP&E and attractive items had been performed in 2012. The office had a Property Survey Board (PSB) responsible for reporting to the Representative on the causes of any shortages, overages or damages to UNICEF property.

The office adequately managed the information and communications technology (ICT) function in coordination with the CEE/CIS regional office and neighbouring countries. Support for business processes was provided by the Regional Office, while the support for hardware issues was delegated to a locally contracted company. The IT Assistant from the Albania country office provided on-site support in upgrading the Server Operating System of the office.

Contracting and transaction processing

In 2012 the office spent US$ 411,873.99, or 23 percent of its expenses, on professional and other services. The office ensured that consultants and contractors were selected following a competitive selection process, and that performance evaluations were completed before final payments were made.

Insurance coverage for consultants: The office had issued 29 contracts with total value of US$ 221,357 to international consultants for whom it did not take out insurance coverage. This exposed the organisation to liability in case of any accident/incident. UNICEF requires compensation of consultants and individual contractors in cases of service-incurred injury, illness or death and the organisation's policy is to secure coverage from a third-party provider.

Contract review committee (CRC): The office's standard procedures required that proposed contracts worth more than US$ 20,000 be reviewed by the CRC. This is an advisory body in country offices that provides the Representative with an independent and unbiased review of proposed contracts for goods and/or services. A review of a sample of contracts showed that in eight out of 10 sampled contracts for services involving CRC review, some CRC members were also the authorising officer for the proposed service, or had participated in the selection process – which could affect the objectivity of the CRC.

Transaction processing: The audit reviewed a sample of transactions and found that they were adequately documented and appropriately authorised/approved, except that in two of the 10 sampled payments for cash transfers amounting to a total of 25,343.51 Euros (about US$ 32,367), the supporting funding authorisation and certificate of expenditure did not have approval by the programme officer concerned.

Agreed action 6 (medium priority): The office agrees to strengthen procedures for contracting and payment processing, ensuring that:

i. individual consultants and contractors that are required to travel at UNICEF expense are covered by insurance;
ii. staff involved in the authorisation and selection of the consultants/contractors/ vendors are not selected as voting members of the Contract Review Committee, in order to maintain the committee's objectivity; and,
iii. funding authorisations and certificates of expenditure are approved prior to processing the related cash transfer payment.

Staff responsible for taking action: Operations Officer, OA, programme Assistants and CRC members.
Date by which action is reported to have been taken: Immediately.

Operations support: 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, definition of 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.