

III ANCORAGE-NET MEETING

Protecting Aid Funds in Unstable Governance Environments Towards an Integrated Strategy

Organization:



**ICS-UL, Lisbon
18-19 May**

ECHO's APPROACH TO SAFEGUARDING THE CREDIBILITY TRANSPARENCY OF COMMUNITY HUMANITARIAN AID

Giorgio Pasqualucci

European Commission Humanitarian Aid & Civil Protection

1. The Operational framework of DG ECHO

DG ECHO is the Directorate General of the European Commission in charge of the Humanitarian aid and of civil protection. The Civil protection has been recently merged into DG ECHO and was previously within DG ENV, the Directorate General responsible for the Environment.

Through DG ECHO, the European Commission provides assistance to the victims of humanitarian crises. The European Commission has a mandate to save and preserve life in emergency and immediate post-emergency situations, whether these are natural or man-made. European humanitarian aid is based on the principles of humanity and solidarity therefore its implementation depends on the application of international law, and in particular international humanitarian law, and on the fundamental principles of impartiality, non-discrimination and neutrality.

The Commission's response to humanitarian crisis in 2009 was of 930 Million Euro and the interventions were spread in 70 countries. In 2009 DG ECHO assisted around 13 million Internally displaced people and refugees and provided food assistance to 28 million people.

The most important area for DG ECHO's intervention is Sub Saharian Africa followed by Pakistan, Afghanistan and Palestinian occupied territories.

The response of DG ECHO to crisis is varied and multi sector and includes the supply of food and non food items, such as protection shelters and water sanitation, reconstruction or medical and psychological support.

DG ECHO has a network of offices in more than 40 countries whose role is the monitoring of the projects and more broadly of the situation in the country. At present DG ECHO has 6 Regional Support Offices and 35 Local Offices.

Projects are not implemented directly by DG ECHO, but by DG ECHO 's partners that are United Nations agencies? International Organizations or NGO.

DG ECHO concludes standard partnership agreements with these organizations. These agreements enables our DG to rely on the structures and on the management systems of the partners. The Agreement subscribed with NGO is denominated FPA, whilst the agreement signed with UN Organizations is the FAFA;

In 2009 DG ECHO had 143, out of which 11 UN Agencies.

In order to reduce the risk of irregularities and frauds DG ECHO has several layers of controls:

2. The choice of partners

The first screening is made on the organisations who have to implement the projects, as mentioned before to be entitled to implement a project funded by DG ECHO an organisation has to be a recognised DG ECHO partner. **The instrument of partnership is the FPA an agreement concluded between DG ECHO and each partner establishing mutual rights and obligations.**

DG ECHO is very strict at the moment of partners' admission and makes a deep analysis of several elements in particular the administrative, financial technical and logistic capacity is assessed. For this purpose we check the governance rules of the organisation and the procurements rules together with the review of the last two balance sheets. The policy against fraud and irregularity is also checked.

On the basis of these controls DG ECHO decides whether an organization can sign the FPA and become a partner. According to the level of compliance of ECHO requirements and to their administrative capacity, partners are qualified A or P. P partners are normally a solid organization upon which DG ECHO can rely with a certain comfort and therefore they are allowed to use their own procedures and there is no limit for the financial size of projects. A partners are normally smaller NGO whose structures and control system are acceptable but not completely satisfactory, thus DG ECHO requires them to use a procurement procedure established by DG ECHO itself and monitor them more closely, during projects' life and at the liquidation stage. Moreover there is a limit for the financial size of the projects implemented by A partners.

3. Partners assessments

In order to confirm that FPA partners maintain their standard, DG ECHO's financial services carries out an annual assessment of the partners. The objectives of the yearly assessment are to update DG ECHO's information on the partner and to ascertain whether the partner still comply with FPA requirements.

The yearly assessment is divided in two phases.

All the partners are submitted to phase 1. In this phase DG ECHO verifies the administrative and legal capacities through a documental review.

Phase 2 consists of an in in-depth review of all suitability and eligibility criteria, the focus of this review is on the following elements:

- Check of the financial capacity,
- Check of the internal control procedures
- Check of procurement procedures

The results of phase 2 enable DG ECHO, amongst other, to decide which control mechanism can be applied to a partner.

Each partner is selected for phase 2 at least once every three years. Moreover a partner can be submitted to this review if the audit services or the operational units make a request in this sense.

4. A continuous monitoring of project

As projects are implemented by partners, DG ECHO monitors them during their whole lifetime, **each project has a dedicated desk officer in our headquarter** in Brussels who has the role of interface with the partner and checks that the project is implemented accordingly to the plans, from a financial and physical point of view.

Projects are also monitored on the spot. **DG ECHO has got a network of local offices in more than 40 countries.** DG ECHO's experts have a continuous contact with the partners implementing the projects and ensure that projects are implemented smoothly. DG ECHO's expert visit the project site regularly during the lifetime of the projects and communicate to the headquarter any concern or anomaly.

5. The external audits

Description of activity

As a part of its internal control procedures DG ECHO audits partners and performs audit visits and verifications on the spot. **The objective of these audits is to assess whether grants awarded by DG ECHO have been spent in accordance with laid down rules and to provide recommendations to improve the financial management of partners.**

The external audit sector carries out four types of audits:

1. **Head Quarter Audits**, in the premises of the partners, with the aim of reviewing the internal control system of the partner and of auditing a certain number of projects.
2. **Interim Field Audits**, in the countries where the operations are carried out with the aim of reviewing the internal control system of the partner, auditing a certain number of projects and verifying in situ the achievements of the projects.
3. **ECHO Offices Audits** in the ECHO Regional Offices and in the Field Offices with the aim of reviewing the correctness of the management of these Offices.
4. **Humanitarian Procurement Centres' examinations.**

Audit coverage

Head Quarter Audits:

According to the audit strategy and to the Annual Work Plans of the external audit sector **all partners should be visited at head quarter in a three to four year cycle.** The analysis of the periodical reports of the external audit sector and of the has shown that for the last 3 years, out of 128 active partners an average of 60 is submitted to a review every year.

Field Audits

The external audit sector carries out 8 to 9 field mission per year, in the course of a mission the auditors visit projects implemented by five or six beneficiaries. The partners and the projects to be audited are selected by using the following criteria:

- DG activities coverage : tries to ensure that the activities of all the geographical Units of DG ECHO are submitted to review every year
- Geographical coverage: tries to ensure that all the main beneficiaries are visited on the spot in a four to five year period.
- Partners operating in the country that have not been recently submitted to a review.
- Projects that have not been recently submitted to a review.
- High risk projects.

DG Echo's Office visits:

The external audit sector visits all the 40 Field Offices every five years and all the 6 Regional Support Offices every two years.

Audit procedures

In the course of both, field and headquarter audits, DG ECHO auditors verify the following elements

- a. Organisation
- b. Accounting System and IT
- c. Cash and bank
- d. Personnel
- e. Fixed assets
- f. Procurement
- g. Stocks
- h. Fraud and corruption
- i. Field Operational practices
- j. Visibility.

1. *Audit Procedure*

➤ **Field Visits and Head Quarters audits**

When visiting a partner the auditors carry out an interview for each chapter of the questionnaire with the staff of the partner. **For each answer documental evidences are asked to check the existence of a legal base (contract or legal decision)**, the respect of procurement rules where applicable, the reality of the expenditures by checking the existence of the payment order, and assess the eligibility of the expenditures.

➤ **Substantive tests**

Substantive tests are carried out **on a significant sample (35 up to 70% in case of risky projects)**. The sample is stratified in the sense that items to be reviewed are taken from all the budget lines of the project audited. The sample can be extended based on the results of testing.

➤ **Report**

The results of the audit are submitted to the financial and operational sections of DG ECHO, if expenditure is considered ineligible a recovery order is issued.

6. **The Internal Audit Capability.**

Each Direction General of the Commission has got an internal auditor, the mission of the Internal Auditor of DG ECHO is to provide independent, objective assurance and consulting services designed to add value and to improve the operations of the DG. The IAC helps the DG to accomplish its objectives by bringing a systematic, disciplined approach in order to evaluate and make recommendations for improving the effectiveness of risk management, control, and governance process. Consulting services are advisory and management-requested activities, the nature and scope of which are agreed with the Director General/Head of Service and which are intended to add value and improve the DG's governance, risk management, and control process.

DG ECHO Internal Audit carries out several type of audit such as:

- Compliance audit
- Operational Audit

- IT Audit
- Management Audit
- Financial Audit
- Special Audits

In 2009 DG ECHO published six reports and made 15 recommendations, all these recommendations have been accepted by the management.

Other Controls:

The control activities described earlier are internal procedures of DG ECHO with the aim of ensuring the smooth functioning of the activity and of preventing the occurrence of fraud and irregularities. Beside these activities one has to mention the activity of the IAS the Internal Audit Service of the Commission, the OLAF: the Office for the fight against fraud and the Court of Auditors, the external auditor of the European Union.