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EU ASSISTANCE IMPLEMENTED
THROUGH UNITED NATIONS
ORGANISATIONS: DECISION-
MAKING AND MONITORING



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EU ASSISTANCE IMPLEMENTED THROUGH UNITED NATIONS ORGANISATIONS: DECISION-MAKING AND MONITORING

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REPLY OF THE COMMISSION

LIST OF ABBREVIATIONS

- CIDA:** Canadian International Development Agency
- CRIS:** Common RELEX Information System
- DFID:** Department for International Development
- EAMR:** External assistance management report
- ECA:** European Court of Auditors
- ECHO:** Directorate-General for Humanitarian Aid
- EU:** European Union
- EuropeAid:** EuropeAid Cooperation Office
- FAFA:** Financial and administrative framework agreement
- FAO:** Food and Agriculture Organisation
- IFAD:** International Fund for Agricultural Development
- ILO:** International Labour Organisation
- NGO:** Non-governmental organisation
- ROM:** Results-oriented monitoring
- UN:** United Nations
- UNDP:** United Nations Development Programme
- UNFPA:** United Nations Population Fund
- UNHCR:** United Nations High Commissioner for Refugees
- UNICEF:** United Nations Children's Fund
- UNOPS:** United Nations Office for Project Services
- UNRWA:** United Nations Relief and Works Agency
- WFP:** World Food Programme
- WHO:** World Health Organisation

EXECUTIVE SUMMARY

I.

EU funds managed by EuropeAid and ECHO which were channelled through UN organisations increased from 500 million euro in 2002 to over 1 billion euro in 2008. The increase can be explained partly by streamlined procedures and partly by the Commission's response to major crises in Afghanistan, Iraq, the occupied Palestinian territory and Sudan which was largely channelled through the UN. The December 2005 European Consensus on Development and the March 2005 Paris Declaration on Aid Effectiveness commit the EU to coordinate and harmonise aid in close cooperation with international organisations such as the United Nations (see paragraphs 1 to 10).

II.

The audit addressed the following two questions (see paragraphs 11 to 13):

- (a) Does the process for deciding to implement aid through the UN demonstrate that this is the most efficient and effective option?
- (b) Do monitoring arrangements provide assurance on the robustness of financial procedures and on the achievement of objectives?

EXECUTIVE SUMMARY

III.

The strategic and legal requirements to select partners in an objective and transparent way are insufficiently translated into practical criteria to support decision-making. Despite being satisfied with its choice of partner, the Commission does not convincingly demonstrate, before deciding to work with a UN organisation, that it has assessed whether the advantages offset any disadvantages. The choice of a UN organisation is not based on sufficient evidence that this approach is more efficient and effective than other ways of delivering aid. Neither EuropeAid nor ECHO systematically carries out formal appraisals of alternative aid delivery mechanisms in order to compensate for the absence of competitive tendering (see paragraphs 14 to 28).

IV.

The Commission verifies the robustness of financial management systems through a prior assessment of the control systems of its UN partners (the four pillar analysis). The Commission seeks confirmation on the practical operation of financial systems and the achievement of results through UN reports, its own field monitoring and verification missions. However, the Commission has not yet succeeded in obtaining from UN reports adequate information on the efficiency of implementation and the achievement of objectives. The Commission's own field monitoring is not designed to compensate for the limitations of UN reports (see paragraphs 29 to 39).

V.

The UN Panel of External Auditors has continually questioned the Commission's right to carry out financial checks. It argues that its own audit arrangements are sufficient, but does not provide the Commission with satisfactory evidence that financial control procedures work in practice. The Court of Auditors has also encountered difficulties accessing information from UN organisations when carrying out its annual financial audit of the Commission's accounts (see paragraphs 40 to 46).

VI.

On the basis of these observations, the Court makes recommendations to improve decision-making procedures and to focus on the achievement of results which could help the Commission to provide more efficient and effective aid (see paragraphs 48 to 49).

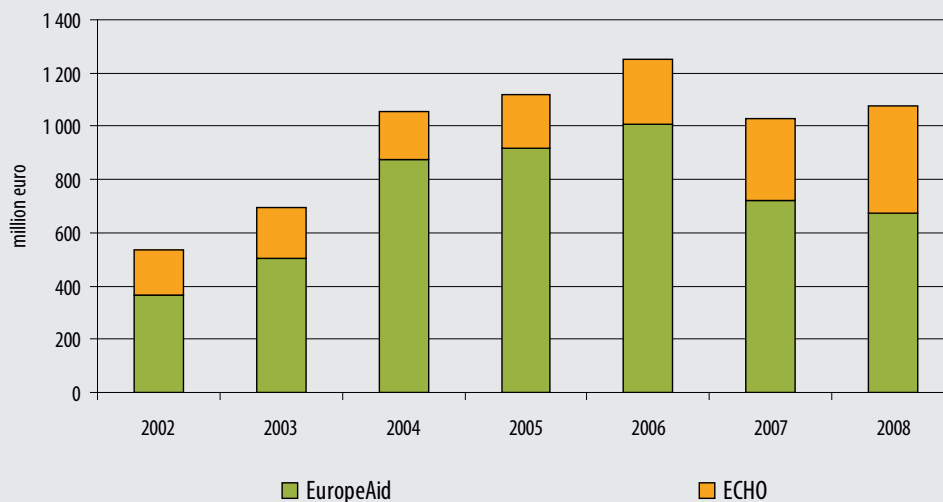
CHAPTER 1 INTRODUCTION

SECTION 1.1 CONTEXT OF THE AUDIT

1. In implementing overseas aid the Commission works through various partners including national governments, the private sector, NGOs and international organisations such as the United Nations (UN). Where aid is implemented through the UN, the Commission provides funding for activities to be implemented by a UN organisation. Commission decisions to channel aid through UN organisations from the EuropeAid Co-operation Office (EuropeAid) and from the Directorate-General for Humanitarian Aid (ECHO) increased assistance from 500 million euro in 2002 to over 1 billion euro in 2008 as shown in **Figure 1**. This increase reflects the Commission's strategic commitments (see paragraph 5), the response to major crises in Afghanistan, Iraq, the occupied Palestinian territory and Sudan (see paragraph 6) and streamlined procedures (see paragraphs 8 and 9).
2. EuropeAid is responsible for the Commission's development aid including longer-term rehabilitation. In 2008 it committed a total of 8 890 million euro of which 670 million euro (8 %) was channelled through UN organisations. Commission delegations in beneficiary countries play a key role in the process for deciding the mechanism for implementing aid.

FIGURE 1

COMMISSION OVERSEAS AID THROUGH THE UN 2002-08



Source: European Commission.

3. ECHO is responsible for the Commission's response to humanitarian crises. It funds activities designed to save and preserve life during emergencies and short-term rehabilitation work. It does not implement activities directly, but through partners consisting of international organisations and non-governmental organisations (NGOs). In 2008 ECHO committed a total of 937 million euros of which 404 million euros (43 %) was channelled through UN organisations. The Subdelegated Authorising Officer is responsible for the choice of aid implementation mechanism, acting on the advice of desk officers in Brussels and field officers located in beneficiary countries.

4. The UN is funded partly by mandatory contributions from UN member countries based on their gross national income, and partly by voluntary contributions to UN organisations. The Commission's funding takes the form of voluntary contributions and represents in the order of 6 % of UN resources. The Commission may contribute to multi-donor funds as one of several donors supporting the action, or it may be the only donor. It does not contribute to the general budget of UN organisations with the exception of a UN agency in the occupied Palestinian territory, to which it contributed 66 million euro in 2007.

5. The December 2005 European Consensus on Development and the March 2005 Paris Declaration on Aid Effectiveness commit the EU to coordinate and harmonise aid in close cooperation with international organisations such as the United Nations. In 2006 and 2007 the Commission made over 700 separate contributions to some 30 different UN organisations. The main partners and the amounts received are shown in **Figure 2**.

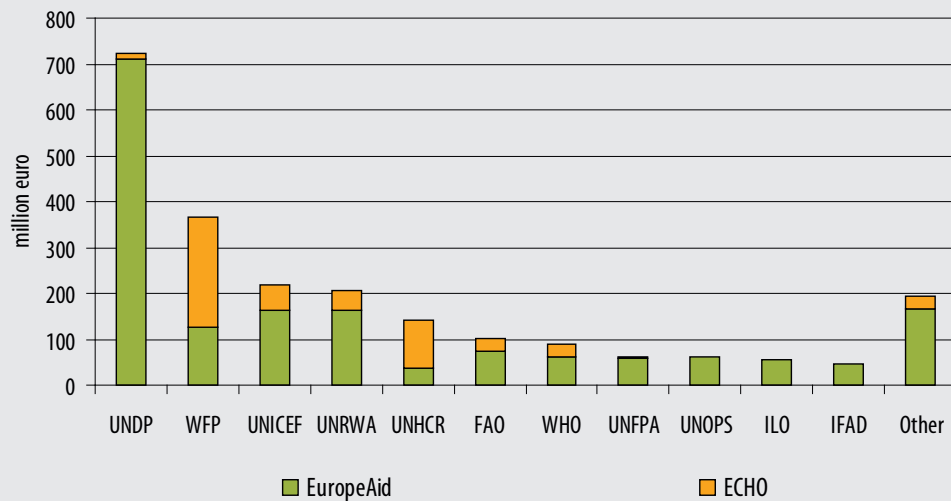
6. The activities financed were spread over more than 90 countries. The four countries which received most contributions were all conflict-affected (the occupied Palestinian territory, Iraq, Afghanistan and Sudan), as shown in **Figure 3**.

7. The European Parliament in its discharge decisions has questioned why the Commission channels funds through the UN, and encouraged more direct management by the Commission. It has expressed concern at the lack of transparency and visibility concerning Commission funding through the UN and has requested assurance on the adequacy of the management of these funds¹.

¹ European Parliament decisions on the discharge for implementation of the EU general budget for the financial years 2004, 2005, 2006 and 2007.

FIGURE 2

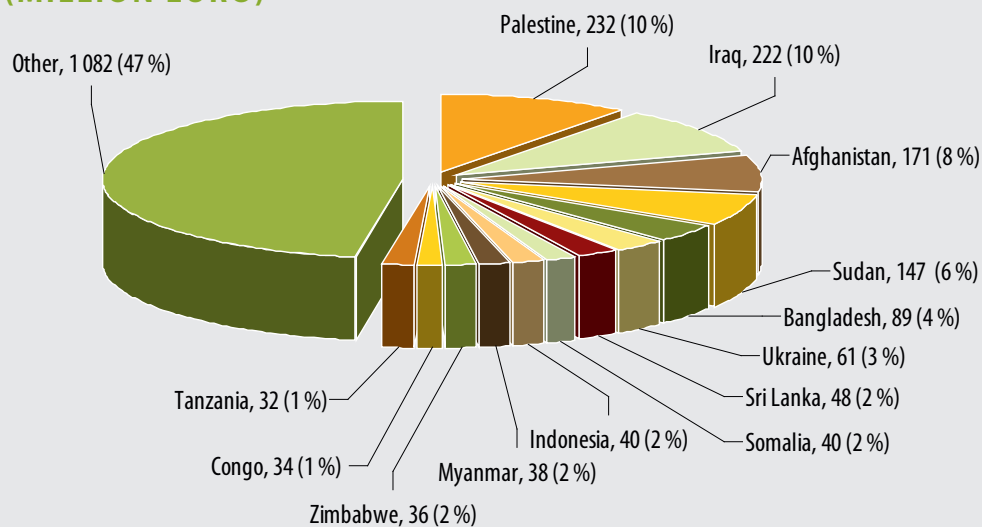
CONTRIBUTIONS TO UN ORGANISATIONS IN 2006 AND 2007



Source: European Commission.

FIGURE 3

CONTRIBUTIONS TO UN BY RECIPIENT COUNTRY IN 2006 AND 2007 (MILLION EURO)



Source: European Commission.

SECTION 1.2 REGULATORY FRAMEWORK

8. Article 53 of the Financial Regulation which came into force in 2003 and was revised in 2007 sets out the conditions for working with international organisations². This method of implementing the budget is called joint management. Despite its name, the tasks related to the implementation of these funds are not jointly managed, but are delegated to international organisations to be implemented in accordance with their own procedures³. Nevertheless, the Treaty and the Financial Regulation insist that the Commission retains overall responsibility for sound management of the budget⁴. Tasks can be directly delegated to organisations and Article 43 of the Implementing Rules on the Financial Regulation requires that the organisations and the actions to be financed shall be chosen in an objective and transparent manner⁵.
9. The 2003 Financial and Administrative Framework Agreement (FAFA) translates into contractual terms the requirements of the Financial Regulation and applies to all funding agreements between the Commission and the UN. It sets out a framework intended to enhance cooperation by allowing UN organisations to manage contributions in accordance with their own procedures. The procedures for joint management with UN organisations differ from those required for actions implemented through NGOs, which generally involve competition and the use of Commission procedures. Article 3.1 of the FAFA requires all actions to comply with the principles of sound financial management, in particular value for money and cost-effectiveness. The FAFA encourages multi-donor actions, requires UN organisations to publicise the role of EU funding, outlines the use of subcontractors and defines the financial framework and payment policy. It describes procedures for checking that funds are managed properly including the submission of reports by the UN and the right of the Commission to carry out checks.
10. A contribution agreement is signed for each UN action funded by the Commission, describing the amount of funding, the objectives of the action, the activities to be carried out and their timing. The contribution agreement incorporates the provisions of the FAFA regarding the use of the UN organisation's own procedures, visibility, use of subcontractors, financial framework and procedures for checking and reporting.
- ² Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities (OJ L 248, 16.9.2002, p. 1).
- ³ UN organisations may manage Commission funds in accordance with their own accounting, audit, internal control and procurement procedures, provided these conform to internationally accepted standards (Article 53d(1) of the Financial Regulation and the preamble to the FAFA).
- ⁴ Article 274 of the EC Treaty states that the Commission shall implement the budget on its own responsibility. Article 27 of the Financial Regulation states that budget appropriations shall be used in accordance with the principles of sound financial management. Article 165 of the Financial Regulation states that the implementation of actions by international organisations is subject to scrutiny by the Commission.
- ⁵ Commission Regulation (EC, Euratom) No 2342/2002 of 23 December 2002 laying down detailed rules for the implementation of Council Regulation (EC, Euratom) No 1605/2002 on the Financial Regulation applicable to the general budget of the European Communities (OJ L 357, 31.12.2002, p. 1).

CHAPTER 2

AUDIT SCOPE AND APPROACH

11. The present audit covered overseas aid of ECHO and EuropeAid funded through UN organisations and addressed the following two questions:

- (a) Does the process for deciding to implement aid through the UN demonstrate that this is the most efficient and effective option?
- (b) Do monitoring arrangements provide assurance on the robustness of financial procedures and on the achievement of objectives?

⁶ The sample of 52 contracts with a total value of 764 million euro represented 7 % of the total number of contracts (741) agreed with the UN in 2006 and 2007 comprising 33 % of their total value (2 286 million euro).

12. The consequence of weak procedures is a risk of a reduction in the efficiency and effectiveness of Commission spending. The second phase of the audit, to be reported on at a later date, will assess the extent to which this risk materialises.

13. The audit was based on:

- (a) an analysis of documentation, including the Commission's May 2008 evaluation of its cooperation with the UN and reports of the Commission's Internal Audit Service (IAS) on the implementation of the FAFA in 2006, 2007 and 2009;
- (b) interviews with Commission and UN staff at their headquarters in Brussels and New York;
- (c) on-the-spot visits to the occupied Palestinian territory and Sudan in order to corroborate the reliability of monitoring systems;
- (d) observation of the April 2008 fifth annual FAFA working group in Vienna and the April 2009 sixth annual FAFA working group in Brussels;
- (e) previous audits of the Court in which UN actions were included; and
- (f) the results of 52 questionnaires, addressed to delegations in the case of EuropeAid and desk officers in the case of ECHO, concerning the reasons for working with the UN and the systems for monitoring implementation⁶.

CHAPTER 3 OBSERVATIONS

SECTION 3.1 DECISIONS TO IMPLEMENT AID THROUGH THE UN

- 14.** Robust procedures for selecting the most appropriate aid delivery mechanism to achieve EC policy objectives are necessary in order to ensure that the choice is based on the organisation's capacity to carry out the task efficiently and effectively. The audit therefore examined whether the process for deciding to implement Commission aid through the UN was objective and transparent and whether it demonstrated that this was the most efficient and effective option. In particular the audit examined whether decisions to fund UN organisations were informed by:
- (a) **strategic policy guidelines requiring an assessment of the UN organisation's** suitability to carry out the proposed tasks;
 - (b) a **comparison with alternative** aid delivery mechanisms.

STRATEGIC REQUIREMENTS INSUFFICIENTLY TRANSLATED INTO PRACTICE

- 15.** In addition to the commitments of the European Consensus (see paragraph 5), the 2001 Commission communication on 'Building an effective partnership with the United Nations' set out the Commission's strategy for funding aid through UN organisations⁷ and contained the following two main messages which remain pre-conditions of working with the UN:
- (a) the decision to fund a UN organisation should be based on its capacity to carry out the proposed task efficiently and effectively; and
 - (b) through the provision of systematic rather than piecemeal funding, the Commission should focus on results, rather than inputs, and ensure that UN reporting adequately demonstrates the achievement of well-defined objectives.

⁷ COM(2001) 231 of 2.5.2001 'Building an effective partnership with the United Nations in the fields of Development and Humanitarian Affairs'. The subsequent Communication COM(2003) 526 of 10.9.2003 'The European Union and the United Nations: The choice of multilateralism' discussed how the EU Council, Member States and Commission could make the EU more effective in shaping UN policy, but did not revise the strategy concerning cooperation in the development and humanitarian fields. These two communications are complemented by strategic partnership agreements with a number of UN organisations.

16. The Commission's strategy with regard to EU assistance funded through UN organisations covered both development cooperation and humanitarian aid. It suggested that cooperation should focus on the six thematic areas identified as a priority for all development aid in the November 2000 statement by the Council and the Commission on 'The European Community's development policy'⁸. However, in 2007 over half the Commission funding through the UN related to dealing with crises (mainly post-crisis humanitarian aid, rehabilitation and recovery), rather than the six thematic areas identified in the Communication. Some 40 % of Commission aid through the UN was spent on these six areas⁹, considerably less than the proportion of global Commission aid, which amounted to almost 80 %¹⁰. It is not clear what added value the focus on thematic areas brings because it appears not to be followed in practice.

⁸ The six priority areas were:
 (i) Trade and development;
 (ii) Regional integration and cooperation;
 (iii) Macroeconomic policies and social sector support;
 (iv) Transport;
 (v) Food security and sustainable rural development;
 (vi) Institutional capacity building.

⁹ United Nations: Improving lives — Results from the partnership of the United Nations and the European Commission in 2007.

¹⁰ EuropeAid Cooperation Office: Annual report 2008 on the EC's development and external assistance policies and their implementation in 2007.

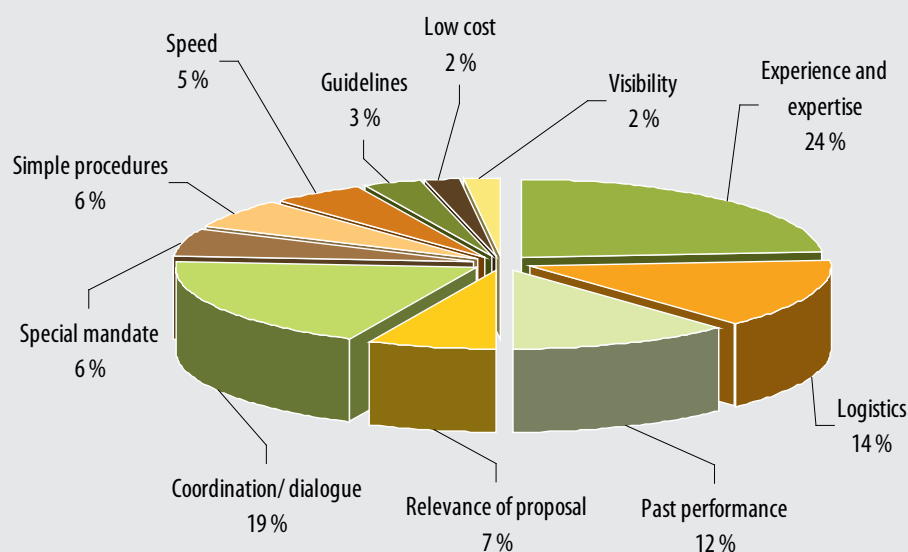
17. The strategic requirements are insufficiently translated into practical criteria for assessing the advantages and disadvantages of working with UN organisations. The Commission has carried out retrospective analysis which shows that there are good reasons for implementing aid through the UN (see paragraph 20) and that the Commission was satisfied with its choices (see paragraph 27). However, before deciding to work with a UN organisation, the Commission does not systematically document its assessment of whether the added value of the UN offsets any disadvantages.

18. Before contracting with a UN organisation, EuropeAid does not systematically carry out a documented assessment of its suitability to implement the proposed task. Information on past performance, including the findings of results-oriented monitoring, is available to delegations through the CRIS database, and, since 2008, the twice-yearly external assistance management reports (EAMRs) include a specific section on international organisations. However, the information is not currently analysed and communicated to delegations in a way which could more usefully inform such assessments. One of the purposes of the Commission's evaluation in 2008 was to establish whether there were clear reasons for implementing aid through the UN. EuropeAid has also carried out surveys to establish why UN organisations have been selected as partners.

19. Because of the urgent character of its interventions, ECHO enters into framework agreements with all its partners, having first assessed their suitability. In addition, before entering into an agreement for a specific intervention, it systematically carries out and documents an appraisal of the capacity of the partner for the specific action proposed. However, the useful information on past performance of UN partners, contained in ECHO's project monitoring system, is stored at the level of operational units rather than being made readily available to all desks to inform decisions on funding UN organisations. Consequently, ECHO's assessment process may be based on incomplete information and so the partner may not have the capacity to deliver the expected results, particularly where it diversifies outside its core activity.
20. The Court's questionnaires (see paragraph 13) aimed to identify, for each of the 52 contribution agreements, the three main reasons for choosing to work with the UN. The relative importance of the reasons for selecting the UN are summarised in **Figure 4**. The results of the questionnaires confirmed the findings of the Commission's evaluation and surveys that the Commission chooses to work with the UN primarily for attributes linked to its capacity to deliver, such as its experience, expertise, logistical capacity (including access to insecure zones) and past performance. Another reason why the Commission chooses the UN is its capacity for coordination and high-level dialogue.

FIGURE 4

RELATIVE IMPORTANCE OF REASONS FOR CHOOSING UN



Source: Replies by European Commission to ECA questionnaires.

- 21.** The Commission's strategy, the Financial Regulation and the FAFA require that the decision-making process is objective and transparent and aims for efficiency and effectiveness (see paragraphs 8, 9 and 15). Whilst elements such as cost (see paragraphs 22 and 23), speed (see paragraph 24) and visibility (see paragraph 25) were also considered, in the replies to the Court's questionnaires requesting the three main reasons for choosing the UN these criteria did not feature prominently.
- 22.** Concerning **cost**, the Commission has limited information on the cost efficiency of implementation. The Commission makes a contribution, not exceeding 7 % of direct costs, to the UN organisation's indirect costs¹¹. Article 5 of the FAFA states that subcontracting should not lead to increased costs over direct implementation by the UN itself. However, when activities are subcontracted, the total level of the contribution to indirect costs for all organisations involved is not reported as, for example, in the case of the Interim Disarmament, Demobilisation and Reintegration Programme in Sudan, where one UN organisation subcontracted half the activities to another UN organisation which further subcontracted activities to NGOs for implementation.
- 23.** In addition to its contribution to indirect costs, the Commission also funds the support costs of local offices, staff and transport directly related to activities financed. An analysis of projects in Sudan showed a range in the level of support costs of between 6 % and 60 % of the total project cost¹². The Commission does not assess the level of support costs with reference to a normal range or benchmark for the type of project to establish if it is reasonable.
- ¹¹ Article 4.1 of the FAFA states that a fixed percentage of direct eligible costs, not exceeding 7 %, shall be eligible to fund the indirect costs of UN organisations. The indirect costs funded by the Commission are not separately identified by its financial systems. However, based on annual funding of over 1 billion euro and allowing for some projects which do not receive the 7 % contribution to indirect costs, the Court estimates that the total annual contribution to indirect costs of UN organisations is in the order of 50 million euro per year.
- ¹² The instance of 60 % support costs related to a food assistance project, and the support costs included local transport, storage and handling. The Commission considered that these were extremely high due partly to conditions in Darfur, but also to the need to streamline operations to be more cost-effective.

24. Concerning **speed** of implementation, in some cases, for example the large quantities of food transported, the UN has demonstrated its capacity to deliver aid to beneficiaries rapidly. However, examples of slow delivery (see **Box 1**) should feed into the decision-making process.

25. Concerning **visibility**, the Commission's evaluation concluded that, whilst visibility was satisfactory at country level, EU taxpayers were generally not aware of the presence and role of the Commission in this type of intervention. In the case of the Interim Disarmament, Demobilisation and Reintegration Programme, for example, whilst the role of the EC was clear at the level of the national administration in Sudan, it was rarely mentioned in public and formal documents. The 2006 joint action plan on visibility recognises the risk of reduced visibility and emphasises the importance of addressing this issue.

BOX 1**EXAMPLES OF SLOW IMPLEMENTATION OF AID**

A November 2006 review of the Interim Disarmament, Demobilisation and Reintegration Programme in Sudan reported on the high level of frustration with delays and lack of implementation. In December 2007 the Sudanese government expressed disappointment at the slow implementation of the programme, which was confirmed by a subsequent Commission mission to Sudan.

In south Sudan, EuropeAid selected a UN organisation as a partner to supervise the emergency construction of legal offices. Beneficiaries agreed to a prefabricated construction which could be quickly delivered and assembled. However, they were frustrated by delays in implementation as foundations were initially dug in the wrong location, prefabricated panels were delivered late and the project manager departed.

The camp development project managed by a UN organisation in the occupied Palestinian territory was initially planned for a period of 12 months ending in June 2007 but after two extensions was still continuing at the end of 2008.

FORMAL COMPARISON WITH ALTERNATIVE AID DELIVERY MECHANISMS SHOULD BE SYSTEMATIC

- 26.** Neither EuropeAid nor ECHO systematically carries out formal appraisals of alternative aid delivery mechanisms. Comparative or standard cost information is not used to analyse the cost-effectiveness of project proposals in order to compensate for the absence of competitive tendering. The choice of using a UN organisation to deliver aid, is not, therefore, supported by conclusive evidence that this approach is more efficient and effective than other ways of delivering aid.
- 27.** The replies to the Court's questionnaires indicated that where comparisons with alternatives were carried out they were generally not documented. The Commission's evaluation similarly found that there was no formalised appraisal of alternative forms of aid and little information could be found on any analysis of possible alternatives prior to the decision. However, even where there was little record of the decision-making process that had taken place, the Commission was satisfied with its choices to deliver aid through UN organisations. Channelling aid through the UN was frequently considered to have been the only option, particularly in crisis situations. Where there had been other options the Commission generally considered that the UN had been the best choice, despite the absence of systematically documented justifications at the time when the decisions were taken.
- 28.** Implementation by the Commission itself is one of the other options for delivering aid. The lead role of the Commission in the implementation of the temporary international mechanism in the occupied Palestinian territory, through which over 600 million euro were channelled in 2006 and 2007, demonstrates the capacity of the Commission to implement and coordinate aid on a large scale in an unstable environment. Article 18(1) of the revised Financial Regulation explicitly states that Commission programmes can be financed by financial contributions from Member States and other donors, which provides an opportunity to explore the possibility of multi-donor funds managed and coordinated by the Commission.

SECTION 3.2 SYSTEMS FOR MONITORING AND AUDITING AID DELIVERED THROUGH THE UN

29. Robust financial management procedures are a legal and strategic requirement (see paragraphs 8 and 15). They are necessary in order to reduce the risk that Commission funding is used uneconomically or inappropriately. Reliable information on the efficiency of implementation and the achievement of results is necessary in order to ensure that the Commission's objectives have been met. The audit therefore examined whether monitoring and audit arrangements provide assurance on the robustness of financial procedures and on the achievement of results.
30. The Commission has responded to the requirement to ensure robust financial management procedures by developing monitoring and control mechanisms which combine prior approval and *ex post* checks¹³ (see **Figure 5**). The Commission first carries out an assessment of the financial control systems of its UN partners (the **four pillar analysis**) to ensure they meet international standards¹⁴. In order to ensure that these systems operate in practice, the Commission is provided with information by its UN partners through **reports**. The Commission also conducts **field monitoring** visits and carries out **verification missions**. Although not part of the Commission's monitoring procedures, the **Court of Auditors** also checks the eligibility of a sample of expenditure implemented through UN organisations as part of its annual financial audit of the Commission's accounts.

¹³ Article 165 of the Financial Regulation states that the implementation of actions by international organisations is subject to scrutiny by the Commission. Such scrutiny shall be exercised either by prior approval, by *ex post* checks or by a combined procedure.

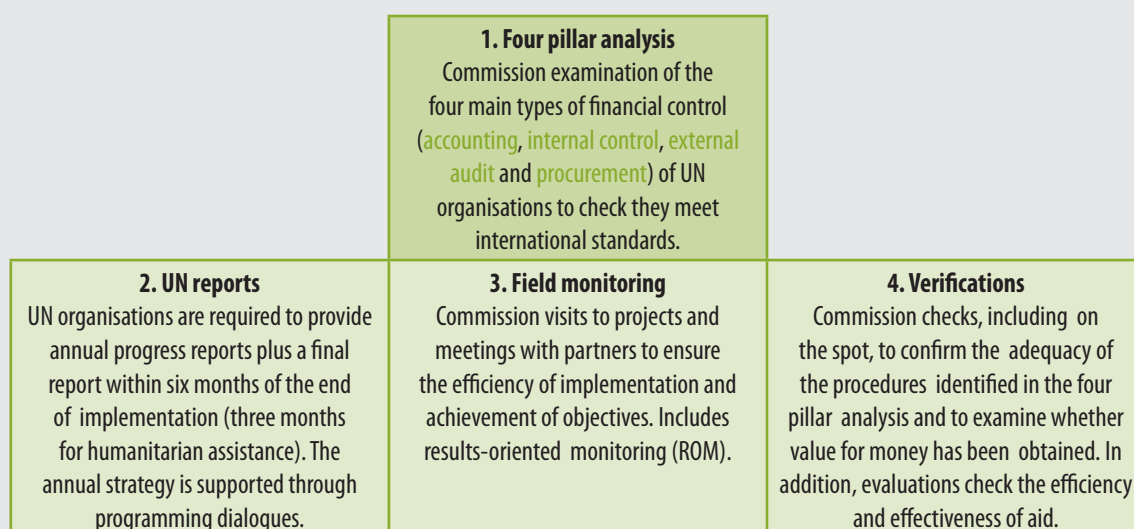
¹⁴ The Commission defined benchmarks relative to each procedure as the basis for this assessment.

THE FOUR PILLAR ANALYSIS DOES NOT COVER SYSTEMS RELATING TO SUBCONTRACTED ACTIVITIES

- 31.** The four pillar analysis assesses the adequacy of the accounting, internal control, external audit and procurement procedures of UN partners. By 2008 it had been completed for nearly all Commission funds managed through the UN. Whilst it was being carried out the Commission continued to work with UN organisations on the basis of a presumption of conformity.
- 32.** UN organisations frequently subcontract the implementation of activities to other organisations whose financial control systems have not been reviewed by the Commission. For example, in the context of the ECHO-financed emergency health care project in Sudan, the UN organisation subcontracted activities to NGOs which had not entered into a partnership agreement with ECHO. The Commission relies on the UN organisation's systems to control the activities of the subcontractors.

FIGURE 5

MONITORING AND CONTROL ARRANGEMENTS



- Prior approval
- *Ex post* checks

UN REPORTS PROVIDE INSUFFICIENT INFORMATION ON RESULTS

- 33.** The Commission is critical of UN reports which are excessively general, do not communicate problems encountered and are frequently late¹⁵. The Commission has not succeeded in obtaining adequate information on project achievements because clearly quantified output targets are not developed for all projects. When performance indicators are quantified they focus on the more easily measurable project output rather than project impact. The Commission's project cycle management guidelines (March 2004) distinguish between output indicators, on the one hand, and outcome and impact indicators, on the other. Output indicators measure the immediate and concrete consequences of measures taken whilst outcome and impact indicators measure the effect of the project on beneficiaries and the long-term consequences. In some cases impact indicators were included but were not measurable, particularly within the shorter reporting timescale of ECHO¹⁶ (see **Box 2**).

¹⁵ Over 70 % of the replies to the Court's questionnaires from ECHO indicated that UN reports were late.

¹⁶ Article 2.6 of the FAFA requires a final report within three months after the end of implementation for humanitarian aid and six months in other cases.

BOX 2

DIFFICULTIES IN MEASURING PERFORMANCE

Where projects included both output and outcome indicators, the UN organisation was not necessarily able to report on the outcome indicators within the reporting timescale. For example in the case of one UN project in Darfur, Sudan, an output target was for 25 000 households to receive seeds for crop production whilst the outcome target was for each beneficiary to cultivate an additional 1,2 hectares from the assistance provided. In the case of the UN health, nutrition and water project in Blue Nile and Khartoum states the output indicators related to the number of clinics supported whilst the outcome indicators concerned mortality and morbidity rates. Although for both these ECHO projects the UN organisations were able to report on the output indicators, they were unable, within the reporting timescale (three months after the end of the project), to report on the outcome indicators concerning the additional land cultivated or mortality and morbidity rates.

34. The quality of reporting is important in the context of the aid effectiveness agenda and the aim of the Commission and the UN to focus on results¹⁷. The 2005 Paris Declaration on Aid Effectiveness commits donors to implementing common arrangements at country level for planning and funding activities. The 2005 European Consensus on Development similarly emphasises the EU's commitment to working with partners in harmonising aid through more predictable aid mechanisms. The Good Humanitarian Donorship Principles agreed in Stockholm in 2003 commit donors to strive to ensure predictability and flexibility in funding to UN organisations and to explore the possibility of reducing earmarking and introducing longer-term funding arrangements. Earmarking aid for a large number of specific activities can be a means to target resources in order to achieve specific results, but it is not consistent with the common approach envisaged by the aid effectiveness agenda. However, partly due to inadequate reporting by the UN, the Commission has preferred to earmark funds, rather than funding longer-term cooperation¹⁸.

¹⁷ The preamble to the FAFA states 'All activities undertaken hereunder are directed towards the attainment of results: humanitarian, developmental or otherwise. The shift to a results orientation should be accompanied by a corresponding shift away from the exclusive examination of inputs and activities.' The April 2007 Joint Guidelines on reporting under the FAFA similarly emphasise the importance of focusing on results, in accordance with the UN's results-based management principles, to allow the Commission to assess whether the objectives of the action have been met.

35. Even where the Commission contributes to a multi-donor fund, instead of pooling its funding with the other donors it sometimes earmarks its funding for specific activities within that fund (see **Box 3**). Earmarking brings with it additional reporting requirements and associated costs. The Court's 1999 Annual Report criticised the devotion of scarce UN and Commission resources to the largely unproductive administrative task of reporting on earmarked expenditure¹⁹. The Commission replied that it was looking at new approaches which would take account of the Court's suggestion to reduce earmarking. The results of the Court's questionnaires showed that for 10 out of 29 multi-donor funds (34 %) the Commission had earmarked its funds for specific activities.

¹⁸ COM(2001) 231 of 2.5.2001 'Building an effective partnership with the United Nations in the fields of development and humanitarian affairs' states that several obstacles, including inadequate reporting, have hindered the development of programmatic, longer-term cooperation.

¹⁹ Court of Auditors' Annual Report concerning the financial year 1999.

BOX 3

EXAMPLE OF EARMARKING

The Commission contributed 1 million euro to a UN organisation's multi-donor fund of 14 million euro to support elections in Guyana in 2006. Other donors including Canada (CIDA) and the UK (DFID) did not earmark their contributions for specific activities, but the Commission did. For example, it allocated 146 000 euro for information technology, 418 000 euro for voter education, 143 000 euro for media monitoring and 115 000 for local observation. However, the UN organisation's accounting systems did not record expenditure according to these budget headings and it was unable to provide the Commission with a list of transactions in each category.

- 36.** The Commission has not funded the general budget of UN bodies with the exception of a UN agency in the occupied Palestinian territory²⁰. By contributing to the general budget of this agency the Commission was able to engage in a high-level dialogue to improve the system for measuring the organisation's performance and providing clear and reliable information on the achievement of results. The current pilot UN initiative to present a single UN interface for donors in a particular country may, in the future, present a further opportunity for the Commission to consider funding in a less fragmented way, ensuring greater harmonisation of aid. However, any move away from earmarking needs to be accompanied by a robust reporting system which provides donors with reliable information on the achievement of results.

²⁰ The 2001 communication COM(2001) 231 of 2.5.2001 'Building an effective partnership with the United Nations' stated that the Commission was not, at that stage, recommending core contributions to the general budget of UN organisations as there would be no added value for the EC simply to pass on the resources entrusted to it by Member States to UN agencies as core contributions.

COMMISSION FIELD MONITORING DOES NOT COMPENSATE FOR LACK OF INFORMATION IN UN REPORTS

- 37.** EuropeAid field monitoring by delegation staff includes meetings with UN staff, field visits to projects and beneficiaries and attendance at steering committees. UN organisations, beneficiaries and other donors generally perceive EuropeAid as a relatively involved donor. In addition, results-oriented monitoring (ROM) visits, carried out for EuropeAid by consultants, assess a project's relevance, efficiency, effectiveness, impact and potential sustainability.
- 38.** However, monitoring carried out by delegations and the ROM is not designed to compensate for the limitations of UN reporting on the efficiency of implementation and achievement of results (see **Box 4**). The ROM methodology is based on sampling, and security issues are also a consideration. The results of the Court's questionnaires showed that only seven out of 37 EuropeAid projects (19 %) had been monitored through the ROM.

- 39.** In contrast, ECHO's field officers systematically carry out monitoring visits to projects once every six months (except when it is not possible, for example, for security reasons) and document the findings. These monitoring reports are a useful tool for initiating any necessary remedial action, though their effectiveness could be enhanced by sharing the written report with partners instead of providing only verbal feedback. The monitoring by ECHO field officers, together with visits of evaluators, missions by desk officers and annual strategic programming dialogues with UN organisations, helps to compensate for the limitations of UN reports.

BOX 4**LIMITATIONS OF EUROPEAID FIELD MONITORING**

In Sudan, Commission aid was distributed evenly between the north and the south of the country. However, the delegation was based in Khartoum in the north and there was only one programme manager working in the south, in particularly difficult conditions. The planned opening of the south office in Juba in 2009 will provide an opportunity to address this imbalance in the distribution of monitoring resources.

Where projects encountered problems, as in the case of the emergency construction of legal offices in south Sudan, delegation monitoring had not compensated for ineffective UN supervision.

In Sri Lanka, adequate monitoring and supervision procedures had not been established for the community roads project implemented by a UN organisation²¹.

²¹ European Court of Auditors' Special Report No 6/2008: European Commission rehabilitation aid following the tsunami and Hurricane Mitch (<http://eca.europa.eu>). The Commission later reinforced independent quality control before the acceptance of finished works.

COMMISSION VERIFICATIONS QUESTIONED BY UN PANEL OF AUDITORS

40. The FAFA states that the European Communities may undertake, including on the spot, checks related to the operations financed by the European Communities. The purpose of these checks is not only to review financial management systems, but also to examine whether value for money has been obtained in the implementation of projects. With some exceptions²², verification missions focus on the adequacy of procedures whereas examination of the efficiency of implementation or the effectiveness of results are issues addressed by UN reports and Commission field monitoring. Typical terms of reference of a verification mission are:

- (a) to evaluate the local systems for accounting for Commission funding and confirm that they operate in practice; and
- (b) to check the eligibility of expenditure on the specific activities financed.

41. At the same time as the level of Commission funds channelled through the UN has increased (see paragraph 1), the Commission has increasingly exercised its right to carry out verifications. Between 2004 and 2006 EuropeAid and ECHO carried out a combined total of 22 verification missions, or roughly seven per year. In 2007 the number significantly increased as EuropeAid carried out 38 verification missions and ECHO a further nine. In 2008 EuropeAid carried out 25 verification missions and ECHO nine. To put the number of verification missions into context, EuropeAid and ECHO each enter annually into approximately 180 contracts with UN organisations (see paragraph 5).

²² For example, the ECHO 2008 verification of projects implemented by a UN organisation for the support and protection of internally displaced persons in Uganda included a review of progress against indicators.

42. Attitudes towards verifications vary within the UN, but the UN Panel of Auditors has continually questioned the Commission's right to check expenditure, arguing that its own audit arrangements are sufficient (see **Box 5**). The UN Board of Auditors carries out the external audit of the financial statements of UN bodies²³. The various UN agencies also have their own internal audit function. For example, one UN organisation has an Office of Audit and Performance Review which is required to audit each activity at least once in its lifetime.

²³ The UN Board of Auditors consists of three Auditors-General of UN Member States and carries out the external audit of the financial statements of UN bodies. The role of the Panel of External Auditors, which includes the members of the Board of Auditors, is to coordinate audits and exchange information on methods and findings.

BOX 5

LONG-STANDING CONTROVERSY OVER COMMISSION VERIFICATIONS

In 1993 the UN Panel of External Auditors wrote to the Secretary General of the UN insisting that donors should rely on normal UN audit arrangements. This view was endorsed by the UN General Assembly.

In 1994, the verification clause was agreed, providing the basis for EC access to all relevant UN information and the right to carry out checks, though stating that transactions and financial statements were subject to UN internal and external auditing procedures.

The UN Panel of External Auditors continued to voice its concerns over independent audits by donors and in 2001 a supplementary agreement was signed on the application of the verification clause.

In 2005 the UN High Level Committee on Management claimed the exclusive right of audit of UN auditors, despite what it described as pressure from some donors, including the Commission, to break the single audit principle.

In early 2008 the UN Controller requested all verification missions to be put on hold until the verification clause, considered contrary to the independence of the UN, was renegotiated or removed. The Commission refused the request.

In April 2008 the question of verifications was the main subject discussed at the fifth annual FAFA working group. The UN and the Commission agreed to draft common terms of reference for verification missions, which were adopted at the sixth annual working group in April 2009.

- 43.** The Commission relies on the work of the UN auditors when it is available for review and scrutiny²⁴. The audited financial statements of the UN organisation as a whole are publicly available. However, the financial statements of actions funded by the Commission are not separately audited.
- 44.** The Commission and UN have worked to overcome their differences regarding verifications but the Commission has encountered restricted access to UN systems and documents (see **Box 6**).

²⁴ International Standard on Auditing 600 on Using the Work of Another Auditor; International Standard on Auditing 402 on Audit Considerations Relating to an Entity Using a Third Party Service Organisation; Opinion No 2/2004 of the Court of Auditors on the 'single audit' model (OJ C 107, 30.4.2004, p. 1).

BOX 6

EXAMPLES OF RESTRICTED COMMISSION ACCESS

EuropeAid's 2007 verification of a UN organisation's support to elections in Guyana could not access the UN organisation's accounting system.

EuropeAid's 2007 verification of a UN organisation's polio eradication programme was not allowed to take copies of documents.

Due to limitations imposed by the HQ of one UN organisation, ECHO's 2008 verification of projects in Uganda was not able to select a reasonable number of transactions for testing in order to arrive at a general conclusion on the eligibility of costs.

COURT OF AUDITORS ENCOUNTERS OBSTACLES CARRYING OUT FINANCIAL CHECKS

45. In order to carry out its annual financial audit of the Commission's accounts, the Court of Auditors checks the eligibility of a random sample of payments²⁵. For those transactions relating to the UN, the Court checks that expenditure has been incurred in accordance with the terms of the agreement with the Commission.

²⁵ The Court is required by Article 248 of the EC Treaty to provide the Parliament and the Council with a statement of assurance as to the reliability of the accounts and the legality and regularity of the underlying transactions.

46. The Commission ensured that the verification clause of the FAFA provided the Court of Auditors with the necessary access to information in order to perform these checks²⁶. The verification clause of the FAFA states that the European Communities, and therefore the Court, even though not specifically mentioned, may undertake on-the-spot financial checks, and that the UN shall provide all relevant financial information. Nevertheless, the Court has experienced some difficulties accessing UN information (see **Box 7**).

²⁶ Article 43.4(h) of the Implementing Rules on the Financial Regulation states that agreements concluded with international organisations shall contain provisions granting the Court of Auditors access to the information required to perform its duties.

BOX 7

COURT OF AUDITORS HAS DIFFICULTIES ACCESSING INFORMATION

The Court's annual reports for 2001 and 2004 describe the difficulties of the Court in accessing data from UN organisations.

The Court's 2007 audit of the European Development Funds reported that out of 11 payments to UN organisations, two payments could not be fully audited because the Court could not obtain the underlying documentation. The audit of other UN payments was hampered by inadequate cooperation by UN organisations and was eventually made possible only by the intervention of the Commission.

The Court's 2007 annual report on the general budget reported that for three payments to UN organisations some of the documents needed could not be provided in good time by the organisations concerned.

CHAPTER 4 CONCLUSIONS AND RECOMMENDATIONS

- 47.** The European Consensus on Development commits the EU to coordinate and harmonise aid in close cooperation with UN organisations. The 2003 Financial Regulation and the FAFA provide the framework enabling the Commission to contract directly with UN organisations. The Commission remains accountable for tasks delegated to UN organisations. On the basis of the Financial Regulation and the arrangements in the FAFA, it therefore checks that UN financial procedures meet international standards and seeks confirmation on the practical operation of these systems and on the achievement of results through UN reports and its own verifications and field monitoring.

DECISIONS TO IMPLEMENT AID THROUGH THE UN

- 48.** The process for deciding to implement aid through the UN does not demonstrate that this is the most efficient and effective option. In order to compensate for the absence of competition, the Commission has recognised the need for robust decision-making procedures in choosing its implementing partner. However, the strategic and legal requirements are insufficiently translated into practical criteria to support decision-making. Before deciding to work with a UN organisation, the Commission does not convincingly demonstrate that the advantages offset any disadvantages. Nor is the choice of using a UN organisation to deliver aid supported by sufficient evidence to show that this approach is more efficient and effective than other ways of delivering aid.

RECOMMENDATION 1

The Commission should issue and ensure the implementation of practical guidelines in order to improve the decision-making process for selecting the implementing channel for the proposed task. The guidelines should lead to a transparent, objective and systematic demonstration that the choice is more efficient and effective than other aid delivery mechanisms.

SYSTEMS FOR MONITORING AND AUDITING AID DELIVERED THROUGH THE UN

- 49.** Monitoring arrangements do not provide adequate information on the robustness of financial procedures and on the achievement of objectives. UN reports do not systematically provide adequate information on project achievements and whilst monitoring by the Commission provides complementary information, it is insufficient to fully compensate for these limitations. The UN Panel of External Auditors has continually questioned the Commission's right to check expenditure and the Court of Auditors has also encountered difficulties accessing information.

RECOMMENDATION 2

The Commission should continue to explore opportunities to rely on audit work carried out by UN bodies and continue to ensure that the FAFA is applied so that any issues of access to information are rapidly resolved.

RECOMMENDATION 3

In order to respond to the aid effectiveness agenda, the Commission should ensure that UN reports provide adequate information on project performance and the achievement of results including the achievement of longer-term impact not measurable within the existing reporting time-frame.

RECOMMENDATION 4

EuropeAid should ensure that its field monitoring provides adequate coverage of projects implemented through UN organisations to supplement and confirm the information on results obtained from UN reports.

RECOMMENDATION 5

The Commission should consider whether it can build on its experience with one UN agency by contributing in a less fragmented way, for example at country level, to other UN organisations with a view to engaging in a similar high-level dialogue enhancing the focus on their performance in achieving objectives.

This report was adopted by the Court of Auditors in Luxembourg at its meeting of 22 October 2009.

For the Court of Auditors



Vitor Manuel da Silva Caldeira
President

REPLY OF THE COMMISSION

EXECUTIVE SUMMARY

I.

Between 2001 and 2003 the European Union adopted a new policy approach to partnership with the United Nations. This was reinforced in the 2003 Financial Regulation, which introduced the concept of joint management, specifically to enable the European Commission (EC) to channel funds through international organisations using the own procedures of those organisations. An agreement was reached with the UN in 2003 — the Financial and Administrative Framework Agreement (FAFA) — which clarifies the responsibilities of the Commission and the UN in the management of EU funds. These developments have enabled the EU to join with other donors in supporting the UN in major rehabilitation programmes.

III.

The Commission decides to channel funds through UN organisations for various reasons. In some cases there is no alternative, e.g. the UN has a clear mandate to act on behalf of the international community, or it has specific expertise not found elsewhere. In other cases the UN has been identified as the only alternative with the required logistical or management capacity for the operation in question. The UN has also frequently been selected as a partner because of its experience and ability to work in a post-crisis environment and its in-country presence in such situations.

REPLY OF THE COMMISSION

Over the last four years EuropeAid has carried out surveys of its delegations to improve information on their reasons for channelling funds through the UN, and they are therefore well known — there must be doubts that other solutions, where they existed, would have been more effective. Moreover, as a result of the recent evaluation, all EuropeAid services and delegations have been instructed to document more carefully their reasons for proposing to channel funds through the UN.

Each proposal submitted by an ECHO partner is assessed not only on its own merits but also in comparison to other proposals to ensure the complementarity of actions in the design and delivery of aid. Furthermore, ECHO does impose competitive tendering requirements on partners when they procure goods and services needed for the delivery of humanitarian aid.

IV.

In 2007 the UN and the Commission agreed on joint reporting guidelines which are significantly improving the quality of UN reporting, particularly on financial aspects. On the achievement of objectives, a joint monitoring system is being developed. However the Commission's own field monitoring system is designed to complement the reporting of others.

The UN continues to provide reports on implementation of humanitarian aid which allows the Commission to assess the efficiency and achievement of humanitarian objectives. The Commission has comprehensive monitoring systems based on a network of over 100 technical assistants operating in the field. Each project is monitored in the field.

V.

Verification is one of the means at the disposal of the Commission to obtain assurance on the use of EC funds by international organisations. It is foreseen in the Financial Regulation and the respective framework agreements. In general, most UN agencies cooperate very well in the verification process and this cooperation continues to improve. In fact in 2009 the EC and the UN agreed on common terms of reference for verification missions. These missions allow the EC to obtain evidence on UN financial control procedures. The Commission therefore disagrees with the Court's view.

The Commission fully supports the Court's requests for information from the UN agencies in the framework of the Financial and Administrative Framework Agreement (FAFA).

REPLY OF THE COMMISSION

INTRODUCTION

1.

The increase in contributions from the Commission to the UN is not a constantly rising trend. While the EC is an important partner for the UN, the importance of EC funding to the UN is often exaggerated. In fact EC funding to the UN varies by agency, and, according to the UN, it represents, on average, between 3 % and 8 % of UN resources.

The importance of the partnership resides more in the nature and variety of the work that the EC and the UN do together on programmes that range from important policy and normative to major rehabilitation and post-crisis interventions and less in the annual fluctuations in contributions.

4.

With regard to the UN agency in the occupied Palestinian territory, the Commission's main contribution is to the agency's general fund to support the agency's crucial core programme services in the areas of health, education and social services. The Commission's contribution is essentially used to pay salaries for teachers, doctors and social workers active in the refugee camps. The Commission provides additional support through ad hoc projects and through ECHO.

It should be noted that the Commission is a member of one UN organisation. As such it pays an annual membership fee, which in 2009 amounted to 264 002,50 euro.

7.

The European Parliament, during the 2007 discharge discussions, repeating earlier statements, called on the Commission to establish a European instrument to manage multi-donor trust funds itself, particularly for the implementation of crisis management. The Commission has stated that it is in favour of this, provided that the Financial Regulation is modified to allow it, which is not the case at present.

The Commission disagrees that there is a lack of transparency and visibility concerning its funding through the UN and considers that the actions it has undertaken contribute to enhancing transparency further.

9.

The Commission procedures on joint management are based on a full appraisal of the UN organisations in the areas of accounting, audit, internal control and procurement, as required by Article 53d of the Financial Regulation.

NGOs, on the other hand, given the heterogeneity of their systems, do not uniformly offer similar strengths. Consequently they are subjected to provisions related to the direct management mode foreseen by the Financial Regulation.

10.

In addition to the FAFA, the Standard Contribution Agreement also incorporates all the requirements emanating from the Financial Regulation.

REPLY OF THE COMMISSION

OBSERVATIONS

16.

The six thematic areas mentioned in the Council's November 2000 statement and in the European Community's development policy were proposed for development interventions by the Commission, co-ordinated with Member States. It is not expected that the Commission should channel funds through international organisations in these areas only. The added value of the UN lies in areas identified separately, namely reconstruction (large multi-donor trust funds), areas covered by a specific mandate (such as UNRWA or WFP) and specific expertise (such as WHO on health policies and pandemics).

The 2001 Commission communication on 'Building an effective partnership with the United Nations' takes the cooperation with the UN beyond these six areas. It should also be noted that the adoption of the European Consensus in 2005, which sets out the EU vision of development, no longer refers to the thematic areas mentioned in the earlier 2000 document.

17.

As a result of the evaluation of Commission's external cooperation with partner countries through the organisations of the UN family¹, and since the time of the audit, instructions were issued to staff in EuropeAid and in delegations on 17 June 2009. These instructions require them to record their assessment, when identifying proposals for financing through the UN, of the added value of this approach. The assessment process will therefore be more systematically and clearly documented.

¹ http://ec.europa.eu/europeaid/how/evaluation_reports/2008/1252_docs_en.htm

The annual action programmes, as revised in 2008, require information on the implementing partners selected to be included, including the reasons for choosing the organisation and, if known and where appropriate, the name of the partners that the organisation will use to implement the action and the reasons for this arrangement.

In the implementation of humanitarian aid the Commission does not favour either the UN agencies or its other partners (NGOs or other international organisations). The Commission selects the partners on the basis of suitability and completeness of the proposals for a specific intervention presented in relation to the needs of victims of man-made and natural disasters.

The evaluation found that 'decisions to channel funds were, in the majority of cases examined, based on documented studies. For the others, little documented evidence could be retrieved on the rationale of the decisions, but Commission staff generally consider that the decisions were justified.'

REPLY OF THE COMMISSION

18.

The instructions issued by EuropeAid to delegation staff ensure that any proposal to channel funds through an international organisation is backed up with a clear written justification (see instruction note of 17 June 2009). In addition, the analyses of the section on international organisations included in the twice yearly external assistance management reports (EAMRs) have been communicated to operational staff and delegations.

Other initiatives have also been taken including, for example, the production of various methodological guidelines, the most recent of which covers technical cooperation, selected assessments of our UN partners, the production of a set of frequently asked question on international organisations and training courses of relevance to staff working with international organisations.

19.

Monitoring information on all the past and current projects is now readily accessible to all desk officers.

The Commission is fully aware of the implementation capacity and strengths of individual UN agencies implementing humanitarian aid. The information on their past and planned activities in relation to ongoing and recurrent humanitarian crises is annually and individually revised in the 'strategic programming dialogue' meetings.

20.

The Commission decides to channel funds through UN organisations for various reasons. In some cases there is no alternative, e.g. the UN has a clear mandate to act on behalf of the international community, or it has specific expertise not found elsewhere. In other cases the UN has been identified as the only alternative with the required logistical or management capacity for the operation in question. The UN has also frequently been selected as a partner because of its experience and ability to work in a post-crisis environment and its in-country presence in such situations. These reasons are reflected in the answers to the Court's questionnaire.

21.

With regard to the decision making process and the replies to the Court's questionnaire on this matter, the fact that an element is not indicated as one of the main three factors for decision does not mean that it is being disregarded or neglected. These factors have been taken into consideration as additional reasons but were not always considered among the three most relevant depending on the situation.

Funding for humanitarian aid is primarily directed to the areas of highest need and the capacity to deliver. Considerations of cost and speed of delivery are also of great importance and for all large projects special attention is paid to the visibility component. The decision-making process is finalised by the Authorising Officer.

REPLY OF THE COMMISSION

22.

Under Article 5 of the FAFA, the UN is obliged to provide the Commission with details of contracting arrangements and is asked to ensure that this should not lead to increased costs over direct implementation. The Commission considers that the case mentioned is not substantiated as leading to increased cost over direct implementation. However, the Commission will ensure that it receives this information from the UN organisation for the case mentioned when the final report in respect of the action is presented and, if not satisfied that Article 5 has been complied with, will consider appropriate corrective measures, possibly including a recovery order against the UN organisation.

In the case of humanitarian aid, the Commission only supports direct costs of the intermediary. These may include payments to other organisations. The payments made by the UN must be in line with its normal procedures, for activities directly related to the project and be in the time-frame given by the project objectives.

23.

The context in which aid is delivered in Sudan is particularly complex and difficult. Without adequate transport, storage and handling, there is a risk that the food would be damaged or not arrive at the final beneficiaries. Southern Sudan and Darfur are two regions where infrastructure is very poor, the private sector inexistent and qualified staff very difficult to find and very expensive. All this results in support costs being higher than what might be considered usual in other places. This implies that enhanced supervision is needed. Such costs are direct costs according to the first indent of Article 3.2 of the FAFA.

The Commission funds the support costs in so far as they are costs incurred directly related to the provision of humanitarian aid.

24.

In addition to the example of food transported, cited by the Court, the Commission channels aid through the UN in other areas where the capacity of the UN to deliver quickly is well known, in particular post crisis and rehabilitation. The *Evaluation of the Commission's external cooperation with partner countries through the organisations of the UN family* cites positive examples of funds channelled through the UN in crisis or post-crisis situations, where the attributes of the UN (e.g. neutrality, expertise, field presence) were instrumental in ensuring that EC assistance reached beneficiaries.

The EAMRs have been adapted to highlight those programmes where delays occur so as initiate remedial action. Thus, such experiences feed into the decision-making process.

REPLY OF THE COMMISSION

Box 1 — Examples of slow implementation of aid

It is true that implementation of the Interim Disarmament, Demobilisation and Reintegration Programme (IDDRP) managed by a UN organisation in Sudan was delayed. However, until June 2008 this was largely due to the lack of political will on the part of the signatories to the CPA (Comprehensive Peace Agreement). This was a factor beyond the UN organisation's control, and is also why the delegation and the Government of Sudan agreed to an extension of the project until June 2009 without additional costs. However, although the disarmament, demobilisation and reintegration process kicked off after June 2008, there were still some additional delays.

The second extension focused on concrete and clearly visible activities. The remaining original activities which, for political reasons, could not be implemented by the end of June 2009 are being financed by other donors.

The slowness of implementation of the IDDRP has been regularly raised with the UN organisation.

The challenging context of south Sudan must be factored in. With regard to the construction of the legal offices, while it is true that the partner underperformed, it would be incorrect to lay the blame entirely on them but also on partly obstructive beneficiaries. The delegation has followed up this project closely and when it became apparent that implementation was not only progressing slowly but that the options submitted by the partner for an extension would lead to a substantial reduction in the scope of works, the decision was taken not to endorse the request.

The camp development project had two components: a socioeconomic survey of Palestinian refugees in all fields and the camp development component. Both components were interrelated. The first task was highly complex and took longer to complete than anticipated. Reconstruction is a sensitive issue as it can be seen as compromising the right to return and considerable time was spent by the UN organisation to explain the approach to refugees and to get them on board.

The UN organisation was granted the flexibility to fulfil the objectives of the programme due to the importance of the outputs of the initiative and to enable it to institutionalise this fundamental approach within its camp development programme and department serving millions of refugees in the occupied Palestinian territory, Syria, Jordan and Lebanon.

25.

The Commission has made huge efforts in recent years to ensure that contributions through the UN receive appropriate visibility and that the results of Community interventions are communicated widely. The UN is aware of its obligations under the FAFA and has committed itself at the highest level to ensure that the letter and spirit of these provisions are respected. Joint visibility guidelines were adopted and included in the Communication and Visibility Manual for EU External Actions in April 2008. These initiatives and commitments combine to ensure that the EC receives appropriate visibility when partnering with the UN.

REPLY OF THE COMMISSION

Feedback from delegations through their regular reporting shows that this issue is being addressed at field level and efforts are also made to ensure that information from the field is communicated to an EU audience. In general, the conclusions of verification missions are also positive in relation to visibility.

In addition the UN itself has, since 2006, prepared an annual partnership report, which presents the results of the UN–EU partnership in development and humanitarian cooperation to a wide audience.

26.

The instructions issued by EuropeAid to delegation staff ensure that any proposal to channel funds through an international organisation is backed up with a clear written justification. These instructions require them to record their assessment, when identifying proposals for financing through the UN, of the added value of this approach and to take account of alternatives and cost-effectiveness issues.

Furthermore, the Commission carries out an evaluation of both partners and projects where the efficiency and effectiveness of aid delivery is examined. These evaluations are publicly available.

Regarding humanitarian aid, please see reply to paragraph 48.

27.

For humanitarian aid, the Commission will ensure a better documentation of the alternatives and complementarities considered.

28.

The Financial Regulation foresees the possibility of Member States providing contributions directly to the Commission's budget when allowed by the legal base.

32.

In June 2009, the terms of reference in use to conduct the compliance assessment exercise were modified and now provide for an assessment of how the entity controls the systems of other entities where it uses procedures other than its own (e.g. local systems of the beneficiary country or of the implementing body) to implement projects/programmes.

When conferring a task to a UN agency, the Commission, in accordance with the Financial Regulation, uses joint management as the mode of operation. This results in the UN agency using its procedures for the implementation of humanitarian aid. The UN agency may confine some implementation tasks to other parties acting under the UN's responsibility. In the case cited, the output achieved was the added value in terms of the UN organisation coordinating the emergency response which involved many other actors.

33.

The Commission recognises that the quality and timing of UN reporting is not optimal. This matter continually receives Commission attention and reporting is also addressed in the instruction issued by EuropeAid to delegations already mentioned.

REPLY OF THE COMMISSION

Reporting guidelines adopted in 2007 clarify the responsibilities of the UN and have resulted in improvements. Reporting is also regularly discussed with the UN. As a result, further clarifications were provided in the frequently asked questions, which were posted on the EuropeAid website in January 2009.

The Commission appreciates the need for outcome and impact indicators and, in common with other donors, has been working to establish such indicators. Nevertheless, the development of such measures is difficult and there is no consensus among donors on how best to measure results in a satisfactory way. EuropeAid has, on the basis of *ex post* monitoring reports, recently completed a study of those factors which determine good or poor performance. The Commission has also initiated the development of joint monitoring methods which could be carried out with UN agencies, should the UN decide to participate in this endeavour.

Box 2 — Difficulties in measuring performance

To overcome the difficulties associated with short reporting timescales, the Commission carries out evaluations of humanitarian activities which also includes the impact of humanitarian aid.

34.

The Commission is exploring ways to reduce earmarking in accordance with its international commitments. However, it must be borne in mind that for operational, technical or legal reasons earmarking may be necessary. This is the case, for example for EDF programmes, where legal constraints apply, in that the money allocated can only be spent in ACP countries.

In the area of humanitarian aid most multi donor grants are earmarked to comply with the humanitarian aid regulation in terms, for example, of project duration limits.

The Commission also strives to ensure that, in the absence of earmarking, programmes have clearly identified objectives where results can be demonstrated and monitored.

35.

Earmarking only occurs for reasons mentioned in paragraph 34 and the associated costs are necessary and cannot be considered as an unproductive use of resources.

Box 3 — Example of earmarking

Commission support to the elections in Guyana was decided before it was known that other donors would be involved and before it was known that a UN organisation would coordinate. The Commission negotiated initially with the Elections Commission and decided to finance a number of activities it wanted to support and, so as to avoid further changes and delays, it maintained this earmarked approach. In the end, UK and CIDA opted for non-earmarked funding through the UN organisation, and USAID granted its funding directly to the Elections Commission. As regards the recording of expenditure in the UN accounting system, the UN is moving to activity-based budgeting, making reconciliation according to contribution agreement budget headings an onerous task. The Commission does not insist on a particular budget format for the UN and formulating the budget from the outset in accordance with the UN's accounting system would facilitate understanding and subsequent reporting.

REPLY OF THE COMMISSION

36.

The Commission agrees with the Court that by contributing to the general budget of a UN agency it was able to engage in a high-level dialogue to improve the system for measuring the organisation's performance and providing clear and reliable information on the achievement of results.

38.

ROM is a comprehensive and result-oriented monitoring system which can complement insufficient self-monitoring carried out by the implementing agencies as it provides a good overview of the implementation of the projects with clearly defined criteria. ROM is based on sampling, with the coverage varying depending on factors such as project size and accessibility to the project at field level (due to security and other considerations). The coverage of projects may also vary by region and is not necessarily different for UN-implemented projects.

The Commission has initiated the development of joint monitoring methods which could be carried out with UN agencies, should the UN decide to participate in this endeavour.

Box 4 — Limitations of EuropeAid field monitoring

The opening of an office in Juba was delayed for staffing and security reasons. A limited but permanent presence was ensured since early 2006 by the Commission and an EU compound was opened in August 2009.

The project run by a UN organisation in south Sudan for the construction of legal offices progressed well for the first year with regular updates and steering committee meetings. When it became clear that delays were affecting implementation the delegation reinforced monitoring and kept very regular contact with the UN organisation leading to the decision not to endorse a requested extension.

In Sri Lanka, the Commission has since reinforced its independent quality control before the acceptance of finished works.

40.

The Commission avails itself of a number of tools to provide assurance on the use of Community funds. In addition to the verification missions, other areas of control include the compliance analysis process, which checks that the accounting, internal control, external audit and procurement procedures of UN agencies comply with international standards. The Commission also places reliance on reporting by the organisations themselves, insisting that reports focus on results and reviewing, as necessary, the frequency and content of reports. Internal monitoring, including field monitoring and management reporting, complement these tools. Together these various tools provide the Commission with assurance that funds are being managed properly and in line with the highest international standards.

REPLY OF THE COMMISSION

41.

The number of verification missions to the UN has indeed increased over the years to reach a peak in the 2007 annual plan. However, the verification missions are one amongst other tools at the disposal of the Commission to obtain assurance on the proper use of its funds.

42.

Attitudes towards verification vary but are progressing positively. Verification missions are performed on a regular basis, contacts are intense with the UN representatives in Brussels to clarify any misunderstanding, common ToRs for verification mission, have been agreed upon between the EC and the UN and common EC-UN trainings are being held presenting, inter alia, the verification clause and missions. Approximately 150 UN staff have followed the trainings so far.

Box 5 — Long-standing controversy over Commission verifications

The Commission continues to recognise and respect the right of audit of UN auditors. It also subscribes to the single audit principle. For its part the UN recognises the Commission's right to obtain assurance on the use of its funds. These principles are retained in the verification clause of the FAFA.

In response to the request of the UN controller to put the verification missions on hold, the Commission refused and took the view that verification missions are not audits as there are significant differences, for example, in objectives, scope and levels of testing.

43.

The Commission does indeed rely on the work of the UN auditors to obtain assurance on the use of EC funds since it offers guarantees equivalent to internationally accepted standards, as appraised by the compliance assessments. As additional means to obtain assurance for actions funded by it, the Commission also relies on the verification clause.

The Commission is bound by its Financial Regulation (Article 53d) and its Implementing Rules (Article 35(4)), which states that where the Commission implements the budget by joint management, the verification agreements shall apply. The Commission has consistently defended its right to carry out verification missions, and through the adoption of the common terms of reference for verification missions has sought to improve the way in which these missions are carried out.

The Commission will continue to explore further means of obtaining assurance on the actions it funds through the UN system of audit and control.

44.

The increasing number of verification missions over recent years has indeed generated discussions on the implementation of the missions. However, most of the problems were addressed with the UN representations in Brussels and the Commission believes that significant progress has been made that allows smooth conduct of the overall verification missions' process.

REPLY OF THE COMMISSION

Box 6 — Examples of restricted Commission access

With regard to the Commission's support to the election in Guyana, the security protocols of the UN organisation restricted the access to the accounting system. However, as stated in the verification mission report, the mission was provided with a detailed transaction listing of each donor's funds and access to supporting documentation.

The Court notes that documents were not allowed to be copied by the team verifying the polio eradication programme. According to the terms of the FAFA, provision of copies of documents is not an obligation and can even be subject to the agreement of the UN Board of Auditors. However, in the case of most verification missions, no difficulties have been experienced in this regard.

The difficulties encountered in 2008 in the verification process were addressed in the FAFA working group which defined common Terms of Reference for verification. These were since satisfactorily tested by ECHO in a recent verification mission in June 2009 in Burundi.

45.

The Court was present as observer at both the fifth and sixth annual FAFA working groups. The minutes of the fifth working group record that 'The European Court of Auditors and the UN Panel of External Auditors are strongly encouraged to discuss urgently the application of the single audit principle to provide assurance to the EC.'

46.

In addition to the provisions of the FAFA, the right of access of the Court to information is specifically mentioned in Article 16.4 of the general conditions of the standard contribution agreement with an international organisation.

The Commission has fully supported the Court's requests for obtaining from UN organisations necessary supporting evidence, and this principle is clearly stipulated in the FAFA. Where the Commission is informed by the Court of difficulties encountered in this respect, it can approach its counterparts at the UN in order to find a solution and to ensure that the Court receives the information required.

REPLY OF THE COMMISSION

CONCLUSIONS AND RECOMMENDATIONS

48.

Following consideration of the evaluation of channelling of funds through the UN, instructions were issued to staff in EuropeAid and in delegations on 17 June 2009. These instructions require them to record their assessment, when identifying proposals for financing through the UN, of the added value of this approach, and to take account of alternatives and cost effectiveness issues.

ECHO provides funding on a needs-based approach. It receives funding proposals from both NGOs as from international organisations. Each of these proposals is scrutinised and assessed on its own merits on the basis of a detailed logical framework. It is also compared to other proposals to ensure complementarity and best value for money. In many cases, the UN is often the only possible means to ensure that goods are delivered to the beneficiaries.

Recommendation 1

Instructions on working with international organisations were issued to staff in EuropeAid and in delegations on 17 June 2009.

49.

Robustness of financial procedure is assessed *ex ante* by the four pillar review for each organisation. Quality of implementation of financial procedures is assessed at field level during verification missions. Therefore the Commission considers that monitoring arrangements do provide adequate information on the robustness of financial procedures.

The Commission is bound by its Financial Regulation (Article 53d) and its implementing rules (Article 35(4)) which states that where the Commission implements the budget by joint management, the verification agreement shall apply. The Commission has consistently defended its right to carry out verification missions, and through the adoption of the common terms of reference for verification missions has sought to improve the way in which these missions are carried out.

In 2007 the UN and the Commission agreed on joint reporting guidelines which are significantly improving the quality of UN reporting, particularly on financial aspects.

The ROM is a comprehensive and result-oriented system which can complement self-monitoring carried out by the implementing agencies. Additionally the Commission has initiated the development of joint monitoring methods which could be carried out with UN agencies, should UN decide to engage in this endeavour.

The Commission has fully supported the Court's requests for obtaining from UN organisations necessary supporting evidence, and this principle is clearly stipulated in the FAFA. Where the Commission is informed by the Court of difficulties encountered in this respect, it can approach its counterparts at the UN in order to find a solution and to ensure that the Court receives the information required.

REPLY OF THE COMMISSION

Recommendation 2

The Commission is already relying on audit work of the UN and will continue to explore further means of obtaining assurance on the actions it funds through the UN system of audit and control.

It already considers that it constantly ensures that the FAFA is applied as regards the verification clause.

Recommendation 3

In 2007 the UN and the Commission agreed on joint reporting guidelines which are significantly improving the quality of UN reporting, particularly on financial aspects. The reporting guidelines stress the need to focus on results (see also reply to paragraph 33).

Recommendation 4

The Commission is monitoring UN-implemented projects according to its criteria. ROM is based on sampling, with the coverage varying depending on factors such as project size and accessibility to the project at field level (due to security and other considerations). The coverage of projects may also vary by region and is not necessarily different for UN-implemented projects.

The Commission has already initiated the development of joint monitoring methods which could be carried out with UN agencies.

Recommendation 5

The experience with one UN agency is very useful, and the Commission will explore ways of enhancing the focus on UN performance to better achieve objectives, using existing possibilities offered under the Financial Regulation.

European Court of Auditors

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COMMISSION AID IMPLEMENTED THROUGH UNITED NATIONS ORGANISATIONS AMOUNTS TO OVER 1 BILLION EURO PER YEAR. IN THIS REPORT THE COURT EXAMINES WHETHER DECISIONS TO CHANNEL AID THROUGH THE UNITED NATIONS ARE THE RESULT OF A TRANSPARENT AND OBJECTIVE SELECTION PROCESS. IT ALSO EXAMINES WHETHER MONITORING AND AUDIT ARRANGEMENTS PROVIDE ADEQUATE INFORMATION ON THE ROBUSTNESS OF FINANCIAL PROCEDURES AND ON WHETHER FUNDS HAVE BEEN USED FOR THEIR INTENDED PURPOSE.



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