

ANNEX 1: STATEMENT OF THE RESOURCES DIRECTOR

I declare that in accordance with the Commission's communication on clarification of the responsibilities of the key actors in the domain of internal audit and internal control in the Commission¹, I have reported my advice and recommendations to the Director-General on the overall state of internal control in the DG.

I hereby certify that the information provided in Part 2 and Point 3.1 of the present Annual Activity Report and in its annexes 2 to 5 is, to the best of my knowledge, accurate and exhaustive.

Brussels, 31 March 2011

signed
Walter Schwarzenbrunner
Resources Director

¹ SEC(2003)59 of 21.01.2003

ANNEX 2 : HUMAN AND FINANCIAL RESOURCES – 31/12/2010

ANNEX 2-A : Human resources – 31/12/2010

Code ABB activity	Activity	Establishment Plan posts	External personnel	Total
23.02	Humanitarian Aid	81	29	110
23.03	Civil Protection	28	13	41
23.02/23.03	Policy and Co-ordination	59	29	88
23.02/23.03	Administrative support	39	11	50
TOTAL		207	82	289

ANNEX 2-B : Implementation of decentralised administrative appropriations – 31/12/2010

Decentralised administrative appropriations managed by DG ECHO – Budget lines 23 01 02 11 01 to 23 01 02 11 06		
Activity Code	Activity	Commitment Appropriations - Used
23 01 02 11	Administrative appropriations managed by DG ECHO	1.890.186 €
TOTAL		1.890.186 €

Annex 3 Financial Reports - DG ECHO - Financial Year 2010**Table 1 : Commitments****Table 2 : Payments****Table 3 : Commitments to be settled****Table 4 : Balance Sheet****Table 5 : Economic Outturn Account****Table 6 : Average Payment Time Limits****Table 7 : Income****Table 8 : Recovery of undue Payments****Table 9 : Ageing Balance of Recovery Orders****Table 10 : Waivers of Recovery Orders****Table 11 : Negotiated Procedures (excluding Building Contracts)****Table 12 : Summary of Contracts (excluding Building Contracts)****Table 13 : Building Contracts****Table 14 : Contracts declared Secret**

Additional comments

Comments in respect of tables 1 to 14:

Tables 1 to 14 have been prepared by the Budget Directorate General based on the data obtained from module SAP R/3 (database for the management of appropriations, expenditure and revenue at central level), a system to which DG ECHO only has limited access. Where possible, the figures have been cross-checked.

To be noted that the figures of the commitment and payment appropriations on administrative management (Chapter 23 01) only include the decentralised administrative expenditure managed by DG ECHO. The tables provided by the Budget Directorate General do not include the administrative expenditures related to the policy area Humanitarian Aid which are managed by the central Commission services (mainly expenditures for staff in active employment and buildings).

By the end of March 2011, the data regarding the draft accounts are provisional and not yet audited by the European Court of Auditors.

Finally, it is important to note that DG ECHO draws funds from two different financial sources: the general EU budget and the European Development Fund (EDF).

The tables on the following pages include only appropriations financed through the EU budget, whereas in the AAR the figures mentioned also include the funds drawn from the EDF.

Furthermore some figures only relate to the operational expenditures, whereas some other also include support expenditures and in some cases the administrative expenditures managed by the DG.

The table on the next page provides reconciled figures, providing totals for administrative, support and operational expenditures, with and without EDF resources.

COMMITMENT APPROPRIATIONS 2010: Reconciliation between various figures

Description	Budget source	Amounts (in '000 €)	
		Commitments Authorised	Commitments Made
A Administrative expenditure managed by the DG			
- Humanitarian aid -		9.900,78	10.370,12
A.1. Other administrative expenditure	23 01 02 11	1.993,88	1.890,19
A.2.1 Support expenditure - Humanitarian aid	23 01 04 01	7.906,90	7.461,70
- Civil Protection -		469,34	189,48
A.2.2 Support expenditure - Civil Protection	07 01 04 02	461,34	181,48
A.2.3 Support expenditure - IPA (Civil Protection)	22 01 04 01	8,00	8,00
B. Operational expenditure			
- Humanitarian aid :Commission Budget -		1.039.843,70	1.126.390,72
B.1. Humanitarian aid	23 02 01	771.446,77	761.289,18
B.2. Food Aid	23 02 02	235.099,06	234.513,27
B.3. Disaster preparedness	23 02 03	33.297,87	33.296,07
- Humanitarian aid :European Development Fund -		50.050,00	50.050,00
B.4. Humanitarian aid	EDF	50.050,00	50.050,00
- Civil Protection : Commission Budget -		36.497,02	28.060,76
B.5. Civil Protection within the EU	07 04	26.431,99	21.252,97
B.6. Civil Protection in Third countries	19 06 05	10.065,03	6.807,79
Total DG Managed (budget & edf - admin exp + operational exp)	A+B	1.136.760,84	1.116.750,65
Total DG Managed (edf excluded)	A+B-B4	1.086.710,84	1.066.700,65
Total DG Managed (edf and IPA (ELARG) excluded)	A+B-A2.3-B4	1.086.702,84	1.066.692,65
Total Support and Operational Expenditure	A2+B	1.134.766,96	1.114.860,46

PAYMENT APPROPRIATIONS 2010: Reconciliation between various figures

Description	Budget source	Amounts (in '000 €)	
		Payments Authorised	Payments Made
A Administrative expenditure managed by the DG			
- Humanitarian aid -		14.675,50	15.144,84
A.1. Other administrative expenditure	23 01 02 11	1.993,88	1.303,11
		539,64	387,87
A.2.1 Support expenditure - Humanitarian aid	23 01 04 01	7.906,90	3.898,53
		4.235,08	4.232,11
- Civil Protection -		469,34	181,48
A.2.2 Support expenditure - Civil Protection	07 01 04 02	461,34	181,48
A.2.3 Support expenditure - IPA (Civil Protection)	22 01 04 01	8,00	0,00
B. Operational expenditure			
- Humanitarian aid :Commission Budget -		942.013,70	1.017.002,31
B.1. Humanitarian aid	23 02 01	629.947,18	629.882,28
B.2. Food Aid	23 02 02	276.593,57	276.588,76
B.3. Disaster preparedness	23 02 03	35.472,95	35.472,95
- Humanitarian aid :European Development Fund -		40.402,69	39.922,38
B.4. Humanitarian aid	EDF	40.402,69	39.922,38
- Civil Protection : Commission Budget -		34.585,92	20.100,02
B.5. Civil Protection within the EU	07 04	23.362,96	13.840,16
B.6. Civil Protection in Third countries	19 06 05	10.024,06	5.060,96
B.7. IPA program	22 02 07 01	1.198,90	1.198,90
Total DG Managed (budget & edf - admin exp + operational exp)	A+B	1.032.147,15	1.011.969,49
Total DG Managed (edf excluded)	A+B-B4	991.744,46	972.047,11
Total DG Managed (edf & IPA (ELARG) excluded)	A+B-B4-B7-A2.3	990.537,56	970.848,21
Total Support and Operational Expenditure	A2+B	1.025.378,55	1.010.278,51

(*) Carried over + re-assigned

TABLE 1: OUTTURN ON COMMITMENT APPROPRIATIONS IN 2010 (in Mio €)				
Chapter		Commitment appropriations	Commitments made	%
		1	2	3=2/1
Title 07 : Environment				
07 01	Administrative expenditure of 'Environment' policy area	0,46	0,18	39,34 %
07 04	Civil protection	26,43	21,25	80,41 %
Total Title 07		26,89	21,43	79,70 %
Title 19 : External relations				
19 06	Crisis response and global threats to security	10,07	6,81	67,64 %
Total Title 19		10,07	6,81	67,64 %
Title 23 : Humanitarian aid				
23 01	Administrative expenditure of 'Humanitarian aid' policy area	9,90	9,35	94,46 %
23 02	Humanitarian aid including aid to uprooted people, food aid and disaster preparedness	1.039,84	1.029,10	98,97 %
Total Title 23		1.049,74	1.038,45	98,92 %
Total DG ECHO		1.086,70	1.066,69	98,16 %

* Commitment appropriations authorised include, in addition to the budget voted by the legislative authority, appropriations carried over from the previous exercise, budget amendments as well as miscellaneous commitment appropriations for the period (e.g. internal and external assigned revenue).

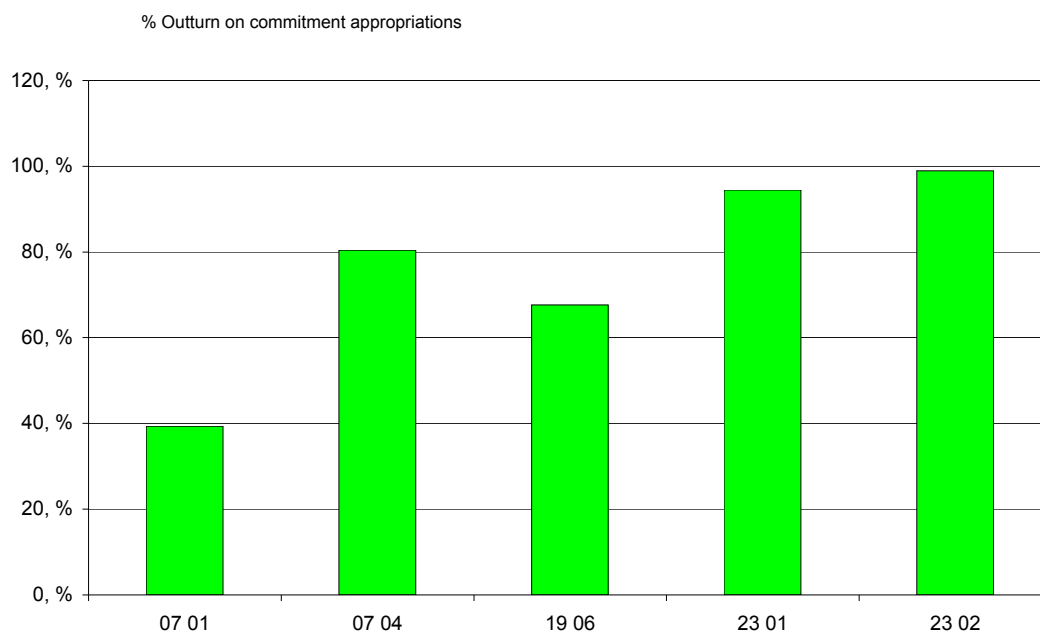


TABLE 2: OUTTURN ON PAYMENT APPROPRIATIONS IN 2010 (in Mio €)				
Chapter		Payment appropriations	Payments made	%
		1	2	3=2/1
Title 07 : Environment				
07 01	Administrative expenditure of `Environment¿ policy area	0,47	0,19	40,08 %
07 04	Civil protection	23,36	13,84	59,24 %
Total Title 07		23,83	14,03	58,86 %
Title 19 : External relations				
19 06	Crisis response and global threats to security	10,02	5,06	50,49 %
Total Title 19		10,02	5,06	50,49 %
Title 23 : Humanitarian aid				
23 01	Administrative expenditure of `Humanitarian aid¿ policy area	14,90	9,82	65,92 %
23 02	Humanitarian aid including aid to uprooted people, food aid and disaster preparedness	942,01	941,94	99,99 %
Total Title 23		956,91	951,77	99,46 %
Total DG ECHO		990,77	970,85	97,99 %

* Payment appropriations authorised include, in addition to the budget voted by the legislative authority, appropriations carried over from the previous exercise, budget amendments as well as miscellaneous payment appropriations for the period (e.g. internal and external assigned revenue).

% Outturn on payment appropriations

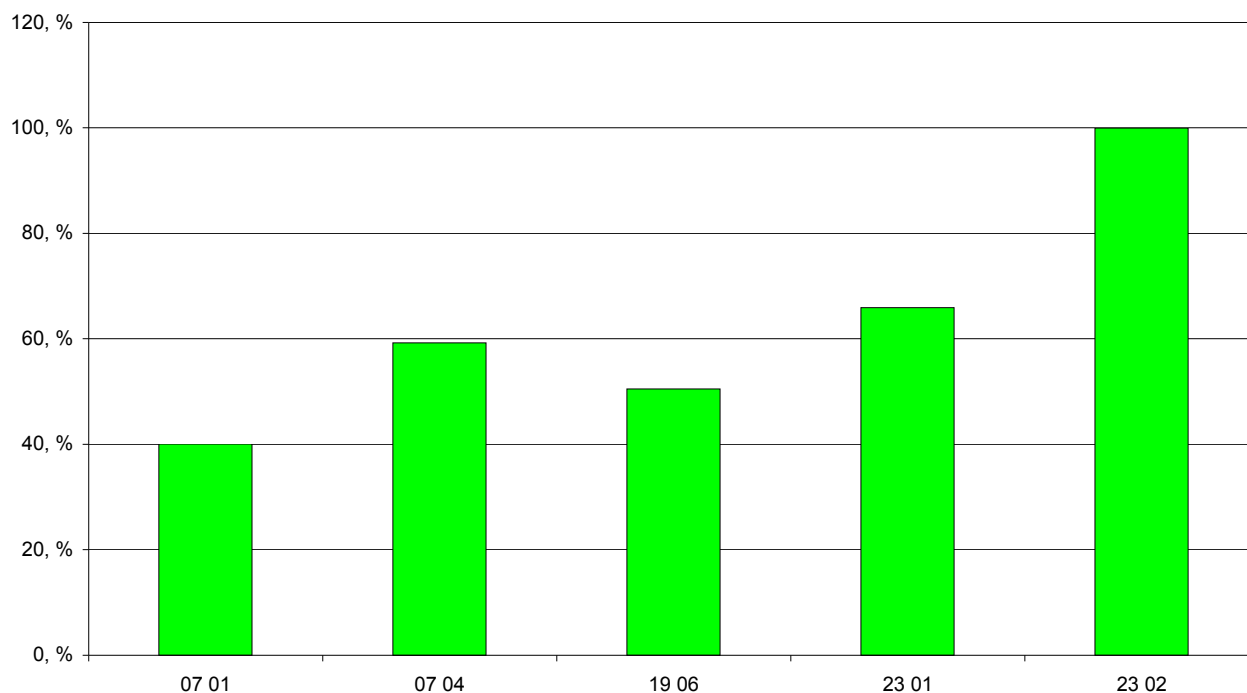


TABLE 3 : BREAKDOWN OF COMMITMENTS TO BE SETTLED AT 31/12/2010 (in Mio€)

Chapter	2010 Commitments to be settled				Commitments to be settled from financial years previous to 2010	Total of Commitments to be settled at end of financial year 2010 (incl.corrections)	Total of Commitments to be settled at end of financial year 2009 (incl.corrections)	
	Commitments 2010	Payments 2010	RAL 2010	% to be settled				
	1	2	3=1-2	4=1-2/1				
Title 07 : Environment								
07 01	Administrative expenditure of 'Environment' policy area	0,18	0,18	0,00	0,00 %	0,00	0,00	0,01
07 04	Civil protection	21,25	4,25	17,00	79,99 %	21,70	38,70	31,46
Total Title 07		21,43	4,43	17,00	79,31 %	21,70	38,70	31,47
Title 19 : External relations								
19 06	Crisis response and global threats to security	6,81	5,02	1,79	26,28 %	0,07	1,86	0,11
Total Title 19		6,81	5,02	1,79	26,28 %	0,07	1,86	0,11
Title 23 : Humanitarian aid								
23 01	Administrative expenditure of 'Humanitarian aid' policy area	9,23	5,20	4,03	43,67 %	0,00	4,03	5,00
23 02	Humanitarian aid including aid to uprooted people, food aid and disaster preparedness	1.029,10	613,65	415,45	40,37 %	160,21	575,66	506,81
Total Title 23		1.038,33	618,85	419,48	40,40 %	160,21	579,69	511,81
Total DG ECHO		1.066,57	628,30	438,27	41,09 %	181,98	620,25	543,39

Breakdown of Commitments remaining to be settled (in Mio EUR)

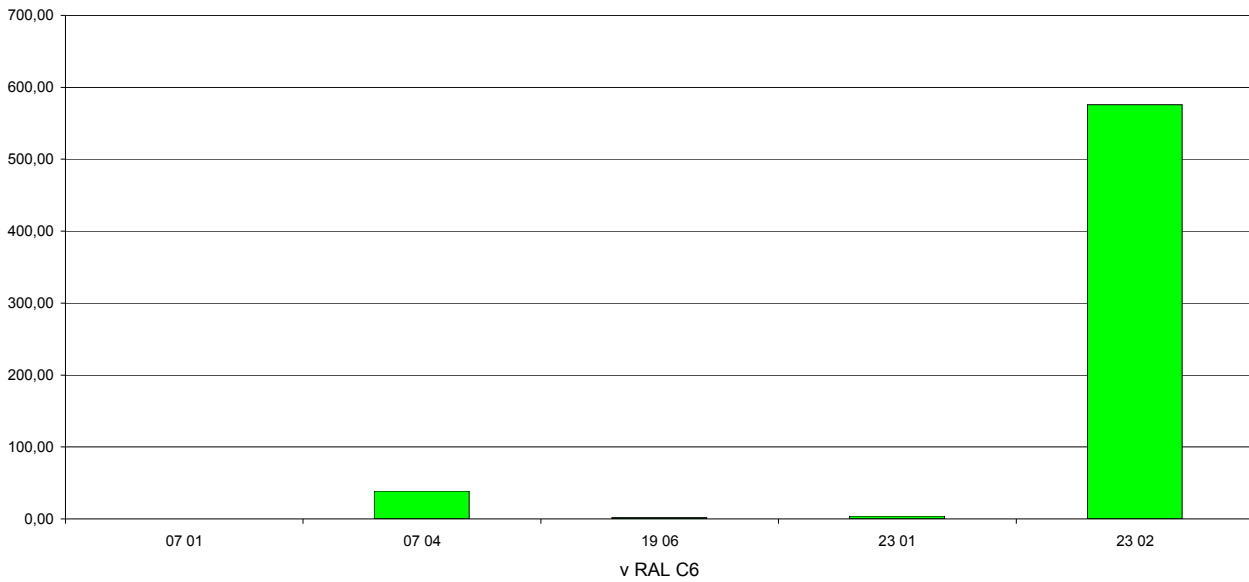


TABLE 4 : BALANCE SHEET ECHO

BALANCE SHEET	2010	2009
A.I. NON CURRENT ASSETS	1.376.940,79	
A.I.5. LT Pre-Financing	1.376.940,79	
A.II. CURRENT ASSETS	241.717.404,58	152.356.494,16
A.II.2. Short-term Pre-Financing	232.599.649,21	143.858.833,89
A.II.3. Short-term Receivables	6.376.463,11	5.523.495,23
A.II.5. Cash and Cash Equivalents	2.741.292,26	2.974.165,04
ASSETS	243.094.345,37	152.356.494,16
P.III. CURRENT LIABILITIES	-297.657.862,08	-221.148.959,10
P.III.2. Short-term provisions	-2.795.775,29	
P.III.4. Accounts Payable	-294.862.086,79	-221.148.959,10
LIABILITIES	-297.657.862,08	-221.148.959,10
NET ASSETS (ASSETS less LIABILITIES)	-54.563.516,71	-68.792.464,94
P.I.2. Accumulated Surplus / Deficit	0,00	0,00
Non-allocated central (surplus)/deficit*	55.940.457,50	68.792.464,94
TOTAL	0,00	0,00

* This figure is a balancing amount presented here so as to reflect the fact that the accumulated result of the Commission is not attributed to each DG

It should be noted that the balance sheet and economic outturn account presented in Annex 3 to this Annual Activity Report, represent only the (contingent) assets, (contingent) liabilities, expenses and revenues that are under the control of this Directorate General. Significant amounts such as own resource revenues and cash held in Commission bank accounts are not included in this Directorate General's accounts since they are managed centrally by DG Budget, on whose balance sheet and economic outturn account they appear. Furthermore, since the accumulated result of the Commission is not split amongst the various Directorates General, it can be seen that the balance sheet presented here is not in equilibrium.

Additionally, the figures included in tables 4 and 5 are provisional since they are, at this date, still subject to audit by the Court of Auditors. It is thus possible that amounts included in these tables may have to be adjusted following this audit.

TABLE 5 : ECONOMIC OUTTURN ACCOUNT ECHO

ECONOMIC OUTTURN ACCOUNT	2010	2009
II.1 SURPLUS/ DEF. FROM OPERATING ACTIVIT	950.786.795,22	857.662.168,06
II.1.1. OPERATING REVENUES	-1.658.932,61	-2.143.343,59
II.1.1.1. Other operating revenue	-1.658.932,61	-2.143.343,59
II.1.2. OPERATING EXPENSES	952.445.727,83	859.805.511,65
II.1.2.1. Administrative Expenses	7.454.301,30	7.994.524,46
II.1.2.2. Operating Expenses	944.991.426,53	851.810.987,19
II.2. SURPLUS/DEF. NON OPERATING ACTIVIT	69.064,45	51.693,75
II.2. FINANCIAL OPERATIONS	69.064,45	51.693,75
II.2.1. Financial revenue	-73.181,93	-48.471,81
II.2.2. Financial expenses	142.246,38	100.165,56
ECONOMIC OUTTURN ACCOUNT	950.855.859,67	857.713.861,81

It should be noted that the balance sheet and economic outturn account presented in Annex 3 to this Annual Activity Report, represent only the (contingent) assets, (contingent) liabilities, expenses and revenues that are under the control of this Directorate General. Significant amounts such as own resource revenues and cash held in Commission bank accounts are not included in this Directorate General's accounts since they are managed centrally by DG Budget, on whose balance sheet and economic outturn account they appear. Furthermore, since the accumulated result of the Commission is not split amongst the various Directorates General, it can be seen that the balance sheet presented here is not in equilibrium.

Additionally, the figures included in tables 4 and 5 are provisional since they are, at this date, still subject to audit by the Court of Auditors. It is thus possible that amounts included in these tables may have to be adjusted following this audit.

TABLE 6: AVERAGE PAYMENT TIME LIMITS FOR 2010 - DG ECHO

Legal Times							
Maximum Payment Time	Total Number of Payments	Nbr of Payments within Time Limit	Percentage	Average Payment Times (Days)	Nbr of Late Payments	Percentage	Average Payment Times (Days)
30	1367	1149	84,05 %	17,79	218	15,95 %	47,92
45	2651	1801	67,94 %	16,88	850	32,06 %	92,60
60	1	1	100,00 %	32,00			
90	1				1	100,00 %	265,00
105	3	1	33,33 %	82,00	2	66,67 %	110,00

Total Number of Payments	4023	2952	73,38 %		1071	26,62 %	
Average Payment Time	34,95			17,26			83,70

Target Times							
Target Payment Time (Days)	Total Number of Payments	Nbr of Payments within Target	Percentage	Average Payment Times (Days)	Nbr of Late Payments	Percentage	Average Payment Times (Days)
20	881	781	88,65 %	10,87	100	11,35 %	28,92
30	3138	1834	58,44 %	16,74	1304	41,56 %	75,12
75	1				1	100,00 %	265,00
90	3	1	33,33 %	82,00	2	66,67 %	110,00

Total Number of Payments	4023	2616	65,03 %		1407	34,97 %	
Average Payment Time	34,95			15,01			72,02

Suspensions							
Average Report Approval	Average Payment	Number of Suspended	% of Total Number	Total Number of Payments	Amount of Suspended	% of Total Amount	Total Paid Amount
25	50	983	24,43 %	4023	116.584.519,60	12,57 %	927.802.101,12

Late Interest paid in 2010			
DG	GL Account	Description	Amount (Eur)
DG ECHO	65010100	Interest on late payment of charges New FR	142 246,38
			142 246,38

TABLE 7 : SITUATION ON REVENUE AND INCOME IN 2010

Chapter	Revenue and income recognized			Revenue and income cashed from			Outstanding balance	
	Current year RO	Carried over RO	Total	Current Year RO	Carried over RO	Total		
	1	2	3=1+2	4	5	6=4+5		
Title 5: REVENUE ACCRUING FROM THE ADMINISTRATIVE OPERATION OF THE INSTITUTION								
52	REVENUE FROM INVESTMENTS OR LOANS GRANTED, BANK AND OTHER INTEREST	62.399,04	0,00	62.399,04	62.399,04	0,00	62.399,04	0,00
57	OTHER CONTRIBUTIONS AND REFUNDS IN CONNECTION WITH THE ADMINISTRATIVE OPERATION OF THE INSTITUTION	23.663,43	0,00	23.663,43	23.663,43	0,00	23.663,43	0,00
	Total Title 5	86.062,47	0,00	86.062,47	86.062,47	0,00	86.062,47	0,00
Title 6: CONTRIBUTIONS AND REFUNDS IN CONNECTION WITH COMMUNITY/EU AGREEMENTS AND PROGRAMMES								
60	CONTRIBUTIONS TO COMMUNITY/EU PROGRAMMES	147.184,66	0,00	147.184,66	147.184,66	0,00	147.184,66	0,00
66	OTHER CONTRIBUTIONS AND REFUNDS	6.938.090,16	2.739.734,63	9.677.824,79	3.984.383,22	1.275.217,77	5.259.600,99	4.418.223,80
	Total Title 6	7.085.274,82	2.739.734,63	9.825.009,45	4.131.567,88	1.275.217,77	5.406.785,65	4.418.223,80
	Total DG ECHO	7.171.337,29	2.739.734,63	9.911.071,92	4.217.630,35	1.275.217,77	5.492.848,12	4.418.223,80

TABLE 8 : RECOVERY OF UNDUE PAYMENTS
(Number of Recovery Contexts and corresponding Transaction Amount)

RECOVERY ORDERS ISSUED IN 2010 Year of Origin (commitment)	Error		Follow Up		Irregularity		OLAF Notified		No error / irregularity		TOTALS	
	Nbr	RO Amount	Nbr	RO Amount	Nbr	RO Amount	Nbr	RO Amount	Nbr	RO Amount	Nbr	RO Amount
2004	12	69.506,64									12	69.506,64
2005	13	144.974,75							1	1.157,56	14	146.132,31
2006	25	400.052,74							3	107.462,89	28	507.515,63
2007	22	238.379,51			1	208,87			25	364.900,90	48	603.489,28
2008	10	1.139.130,77							31	694.149,83	41	1.833.280,60
2009	4	338.037,64							24	144.430,16	28	482.467,80
2010			1	96.230,20					26	2.801.474,17	27	2.897.704,37
No Link	39	654.149,70					1	13.368,30	1	112.108,45	41	779.626,45
	125	2.984.231,75	1	96.230,20	1	208,87	1	13.368,30	111	4.225.683,96	239	7.319.723,08

EXPENSES

	Nbr	Amount
INCOME LINES IN INVOICES	0	

	Error		Irregularity		No error / irregularity	
	Nbr	Non-Eligible Amount	Nbr	Non-Eligible Amount	Nbr	Non-Eligible Amount
NON ELIGIBLE AMOUNT IN COST CLAIMS	47	508.226,01	4	40.495,27	100	456.031,99

	Error		No error / irregularity	
	Nbr	Credit Note Amount	Nbr	Credit Note Amount
CREDIT NOTES	4	-6.055,30	32	-123.280,65

TABLE 9: AGEING BALANCE OF RECOVERY ORDERS AT 31/12/2010 FOR ECHO

Year of Origin	Number at 01/01/2010	Number at 31/12/2010	Evolution	Open Amount (Eur) at 01/01/2010	Open Amount (Eur) at 31/12/2010	Evolution
1997	1	1	0,00 %	25.000,00	25.000,00	0,00 %
1998	2	1	-50,00 %	1.199.302,63	659.302,63	-45,03 %
1999	1	1	0,00 %	577.993,50	577.993,50	0,00 %
2002	1		-100,00 %	4.047,81		-100,00 %
2008	1	1	0,00 %	7.034,80	7.034,80	0,00 %
2009	23	3	-86,96 %	926.355,89	195.185,93	-78,93 %
2010		31			2.953.706,94	
Totals	29	38	31,03 %	2.739.734,63	4.418.223,80	61,26 %

TABLE 10 : RECOVERY ORDER WAIVERS IN 2010 >= EUR 100.000

	Waiver Central Key	Linked RO Central Key	RO Accepted Amount (Eur)	LE Account Group	Commission Decision	Comments
1	3233100250	3240015255	-540.000,00	Private Companies		

Total DG ECHO	-540.000,00
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Number of RO waivers	1
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Justifications:

In accordance with Article 87 of the Implementing Rules of the General Budget, a waiver of the claim on ISIBRIS sarl, previously named PERRYLUX sarl, has been established based on the facts that the company ISIBRIS sarl has been declared bankrupt in 1999. The legal service of the Commission recommended to proceed with the waiver as the possibility to recover these funds had become very unlikely after 10 years.

TABLE 11 : CENSUS OF NEGOTIATED PROCEDURES - DG ECHO - YEAR 2010

Negotiated Procedure Legal base	Number of Procedures	Amount (€)
Total		

No data to be reported

TABLE 12 : SUMMARY OF PROCEDURES OF DG ECHO EXCLUDING BUILDING CONTRACTS

Internal procedures > €60,000	2009		2010	
Contract Class	Count	Amount (€)	Count	Amount (€)
Service	11	1.210.790,00	22	16.615.672,79
TOTAL	11	1.210.790,00	22	16.615.672,79
Procedure Type	Count	Amount (€)	Count	Amount (€)
Negotiated Procedure with at least one candidate (Art 129.3 IR)	2	390.000,00	0	0,00
Open Procedure (Art. 122.2 IR)	1	8.500.000,00	14	15.745.778,79
Restricted Procedure involving a call for expressions of interest (AMI) (Art. 128 IR)	0	0,00	8	869.894,00
Restricted Procedure without a contract notice or call for expressions of interest (Art. 129.1 ME)	9	820.790,00		0,00
TOTAL	11	1.210.790,00	22	16.615.672,79

External procedures > €10,000	2009		2010	
Contract Class	Count	Amount (€)	Count	Amount (€)
Service	0	0,00	3	3.996.320,00
TOTAL	0	0,00	3	3.996.320,00

Procedure Type	Count	Amount (€)	Count	Amount (€)
Service-International Restricted Procedure with four to eight tenderers after prior pub. (Art. 241.1&2 IR)	0	0,00	3	3.996.320,00
Service - Procedure with a single offer (Art. 241.1 IR)	0	0,00	0	0,00
Supply - Procedure with a single offer (Art. 243.1 IR)	0	0,00	0	0,00
Negotiated Procedure with at least five candidates (Art. 129.1 IR)	0	0,00	0	0,00
Restricted Procedure involving a call for expressions of interest (AMI) (Art. 128 IR)	0	0,00	0	0,00
TOTAL	0	0,00	3	3.996.320,00

Additional comments

Due to a fine tuning of the DG ECHO analysis in 2010, the 2009 figures presented in this table differ with the one published in the AAR 2009

TABLE 13 : BUILDING CONTRACTS

Total number of contracts :	0
Total amount :	

Legal base	Contract Number	Contractor Name	Description	Amount (€)
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No data to be reported

TABLE 14 : CONTRACTS DECLARED SECRET

Total Number of Contracts :	0
Total amount :	

Legal base	Contract Number	Contractor Name	Type of contract	Description	Amount (€)
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No data to be reported

ANNEX 4: MATERIALITY CRITERIA USED

In order to identify material deficiencies that need to be disclosed in the declaration of the Authorising Officer by Delegation (AOD), DG ECHO has taken into account the following qualitative and quantitative criteria, assessing whether the deficiency is significant and should lead to reporting as a reservation.

Qualitative criteria for defining significant weaknesses

In order to identify significant weaknesses that could have an impact on the statement of assurance on the use of resources and the legality and regularity of operations provided by its AOD, DG ECHO considers if (i) significant errors, taking into account their frequency of occurrence, or (ii) significant weaknesses in the Internal Control have been identified. Furthermore, all elements that would damage its reputation are also considered.

The identification of significant weaknesses in the Internal Control system is derived from various sources, such as the annual IC self-assessment performed by DG ECHO's management, the conclusions from reports issued by the various control bodies (ECA, IAC, IAS, etc.) and direct reporting to the Director General by DG ECHO's staff.

DG ECHO also took into account all major issues that have been outlined by the various controlling bodies or situations where a significant reputational risk may occur.

Quantitative criteria for defining reservations

In order to define the quantitative criteria, DG ECHO follows the proposed Commission's standard, which is consistent with the European Court of Auditor's threshold for materiality, i.e. considers that a weakness is significant when the value of the transactions affected by this weakness represents more than 2% of the annual budget of the ABB activity.

General conditions for making a reservation

Not applicable.

Annexe 5: Internal Control Template for Budget Implementation

As most of the controls and procedures put in place by DG ECHO are the same for projects implemented under direct centralised and under joint management, only one Internal Control Template is included, in which the specificities and figures for each management mode are clearly indicated.

Characteristics of DG ECHO's policy environment

Summary: General information on DG ECHO's policy environment can be found under section 2.1.

Key inherent risks in this environment:

- Humanitarian aid operates in difficult environments characterised by unpredictability, volatility, insecurity and problematic access to affected people;
- Implementation of Humanitarian aid is done through 'implementing partners';
- Commission' financial rules concerning actual eligible costs are relatively complex and errors may occur;
- Reputational risk even with errors of negligible financial impact.

Management modes

A. Direct centralised management for humanitarian aid

The budget under direct centralised management is implemented through funding decisions, which are translated into one or more Agreements awarded to NGOs who have signed the Framework Partnership Agreement (FPA) and Specialised Agencies of Member States.

Agreement period:

Most of the agreements have a short contract period (3-12 months) enabling DG ECHO to respond to quickly changing circumstances.

Total amount of funds implemented through direct centralised management for humanitarian operations: €650,533,070.

Number of contracts in 2010 signed under this management mode: 650.

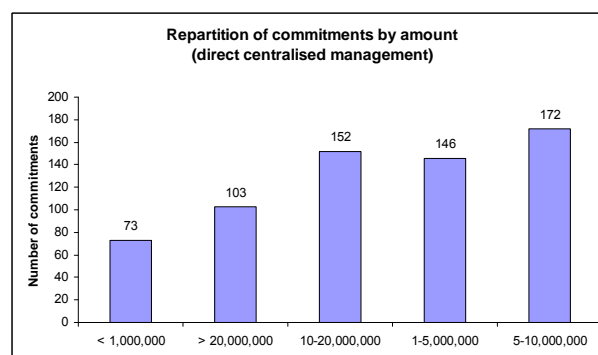
Number of NGO partners who received funds in 2010: 130.

Average value per contract: €820,108.

Agreement basis:

A pre-financing (50-80% of contract amount) is paid upon signature of the agreement.

Final payments of the actual eligible costs are made on the basis of the final report submitted by the partner (direct costs + indirect costs up to 7% of direct costs).



B. Joint management for humanitarian aid

Joint management concerns external aid projects in third countries implemented with/through international organisations where the action:

- involves the pooling of resources of a number of donors and it is not reasonably possible or appropriate to assign the share contributed by each donor to each type of expenditure ("multi-donor actions"), or
- is implemented with an organisation with which the European Commission has concluded long-term framework agreement, or

- is jointly elaborated between the European Commission and the international organisation.

In DG ECHO, the budget under joint management is implemented through funding decisions, which are translated into one or more contribution agreements awarded to UN organisations and International Organisations (IO) who have signed the FAFA (UN) or the FPA (IO).

Agreement period:

Most of the agreements have a short contract period (3-12 months) enabling DG ECHO to respond to quickly changing circumstances.

Total amount of funds implemented through joint management for humanitarian operations: €529,551,973¹

Number of contracts in 2010 signed under this management mode: 262.

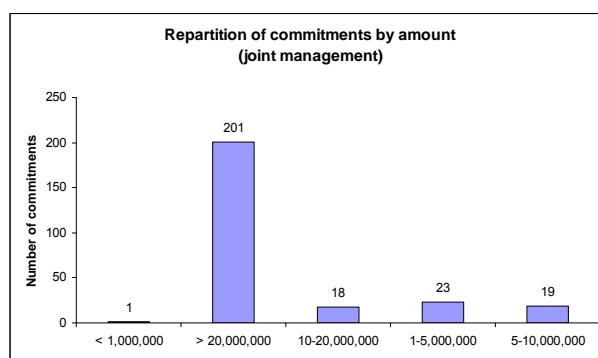
Number of partners who received funds in 2010: 14 UN entities and 3 IO.

Average value per contract: €2,021,191

Agreement basis:

Pre-financing (mostly 80% of agreement amount) is paid upon signature of the contract.

Final payments of the actual eligible costs are made on the basis of the final report submitted by the partner (direct costs + indirect costs up to 7% of direct costs).



C. Civil Protection activities

In case of disasters, Civil Protection provides financing of transport facilities for bringing experts or equipment on the spot or for repatriation of non country nationals, through a framework contract with a broker.

Support activities for civil protection activities are mostly implemented through calls for proposals and call for tenders. After their publication, a selection process takes place and is translated into grant agreements and contracts.

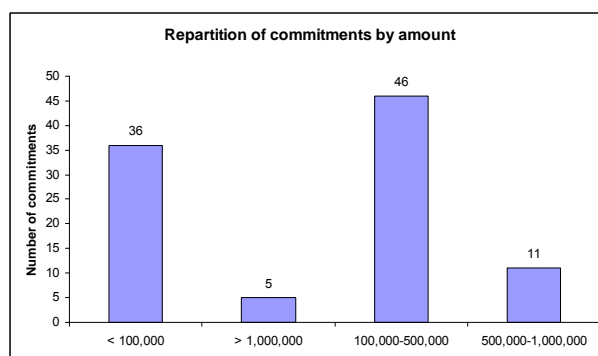
Agreement period:

Civil protection grant agreements have a longer duration than for humanitarian aid (up to 24 months) or up to 48 months in case of contracts (if a renewal is agreed between the DG and a contractor).

Total amount of funds implemented for civil protection activities:

Total amount of funds implemented for civil protection operations: €32.057.087

Number of contracts in 2010 signed: 95
Average value per contract: €337,443



Volume of transactions executed by DG ECHO in 2010:

- Commitments/grant agreements

Signature of 1,248 commitments² related to humanitarian aid and civil protection activities, amounting to €1,140 million, of which

¹ These figures include all contracts signed with UN agencies and IO in 2010.

² Including support expenditures, technical assistance, etc. Excluding complementary commitments.

- 912 FPA/FAFA contracts (€1,063 million),
- 336 contracts (€77.2 million), being for technical assistance, audits, evaluations, civil protection, etc.

- Payments

Execution of 6.543 payments related to humanitarian aid and civil protection activities, for a total of €1,010 million, of which

- 2.565 payments related to FPA and FAFA contracts (1,029 pre-financings and 1,536 final and supplementary payments);
- 81 payments for administrative expenditure
- 196 payments for support expenditure.
- 3,258 payments for technical assistance (including regularisation and HB payments);
- 443 payments for civil protection.

Elements of the Internal control systems and actors, through programme life cycle.

Selection process of partners, including preventive measures

The objectives of these controls are to ensure good quality of selected projects, good performance and sound financial management.

Selection of partners

The selection of FPA partners (NGO's) is carried out on the basis of precise eligibility and suitability criteria. These have been established taking into account the existing legal and financial requirements, including those newly introduced by the recast Financial Regulation applicable to the general budget of the European Communities and the quality standards resulting from the debate developed over the years between ECHO and its partners on achieving quality partnership.

The eligibility criteria include:

- the recognition of the organisation as a non profit organisation under the laws of a Member State;
- the submission of annual certified accounts covering the two last financial years showing that the organisation spends at least 10% of its annual budget to humanitarian aid;
- the submission of a statement according to which the organisation is not in any of the so-called exclusion situations (bankruptcy, grave professional misconduct, and the like).

To determine an organisation's suitability to ECHO partnership, account shall be taken of the following factors:

- its administrative and financial management capacities;
- its technical and logistical capacities;
- its experience in the field of humanitarian aid;
- the results of previous operations carried out by the organisation concerned, and in particular those financed by the Community;
- its readiness to take part in co-ordination system set up for humanitarian operations;
- its ability and readiness to work with humanitarian actors and communities in third countries;
- its impartiality in the implementation of humanitarian aid and;
- its previous experience in third countries.

The fulfilment of these criteria are verified by ECHO through the assessment of all relevant supporting documents provided by the applicant organisation and if necessary through controls carried out by ECHO staff on the organisation's premises.

As regard to joint management, and next to the signature of the UN/EC Financial and Administrative Framework (FAFA) with, inter alia, a number of UN agencies and the FPA with IO, the Commission performs a '4 pillar' review of the organisation's conformity with internationally accepted standards in the field of accounting, audit, internal control and procurement (article 53d FR).

Programming, identification and formulation

DG ECHO decides on its aid on the basis of an assessment of the humanitarian needs of the population affected by a crisis, whether it be natural or man-made. In order to identify the population with high priority humanitarian needs, a methodology "GNA"³ (Global Needs Assessment) has been developed by DG ECHO for the classification of third countries.

On the one hand, an evaluation of needs is done by experts in the field and DG ECHO's services at headquarters.

On the other hand, a global evaluation of countries is launched, based on national indicators aimed at testing the vulnerability of the countries (vulnerability index - VI) and whether they are undergoing a humanitarian crisis (crisis index - CI). The VI takes into account the different indices which identify these countries more likely to suffer than others on the humanitarian front in the case of a natural disaster or of a conflict. The CI shows these countries which are indeed undergoing a humanitarian crisis following a natural disaster, a conflict or the presence of refugees or displaced people on their territory and covers the situation for either the current year or for the two previous years.

The juxtaposition of the two indices and the assessment done by DG ECHO's experts in the field and services at headquarters therefore enables to identify these countries potentially most in need of humanitarian assistance.

In 2010, DG ECHO has identified 39 countries or territories that are experiencing at least one crisis. Of these, 16 are very vulnerable, and 13 of those are in sub-Saharan Africa, the others being Chechnya, Afghanistan and Yemen.

In response to humanitarian emergencies, all partner NGOs and international organisations can submit project proposals to ECHO. Proposals are judged on their operational merits, in accordance with the strategy planned by ECHO in response to any given emergency and on the basis of the needs that have been identified. If ECHO staff at headquarters favourably assesses a proposal, in consultation with field experts, an agreement for the proposed humanitarian operation can be concluded between ECHO and the humanitarian organisation that made the proposal.

Civil protection actions are covered by an annual work programme adopted as a Commission Decision. The main role of the Community Mechanism for Civil Protection is to facilitate co-operation in civil protection assistance interventions in the event of major emergencies which may require urgent response actions. This applies also to situations where there may be an imminent threat of such major emergencies. It is therefore a tool that enhances community co-operation in civil protection matters

³ The methodology used and the results for 2010 are available at the following internet address http://ec.europa.eu/echo/policies/strategy_en.htm

<p>Preventive and directive measures to improve the quality of financial management and provision of data by partners</p>	<p>Description of the DG communication strategy towards beneficiaries, internal proceedings</p> <ul style="list-style-type: none"> • Communication and exchange of information with partners is ensured via regular meetings with the representation of the NGO's through their umbrella organisation VOICE, regular meetings with the task force of the FPA Watch Group and the annual partners' conference; • Furthermore, DG ECHO organises annual meetings with its major partners to coordinate the strategies (Strategic Programming Dialogue (SPD) meetings); • Detailed guidance (such as DG ECHOs "fact sheets") and regular trainings are provided to the partners, in order to ensure that they fully understand the contract requirements and to reduce the number of errors/omissions in their claim made to the Commission; • All decisions are published on DG ECHO's internet site. Based on this information, all FPA partners can submit proposals for funding, which are analysed by the operational desk in charge of the region. A standard contract is signed with the partner who submitted the best proposal. • A work programme on civil protection activities is adopted for the year ahead and available on internet. • Communication on civil protection activities during crises is ensured via regular sending of situation report
<p>Detective and corrective controls: Verification of commitments, pre-financing, interim, payments and key milestones.</p> <p>Monitoring of the project</p>	<p>Controls before and during the implementation period of the projects <i>(Premise: description of the ex ante control methodology in terms of scope).</i></p> <p>Controls before signature of contract</p> <ul style="list-style-type: none"> • All project proposals are analysed by the field experts and the operational desks. Particular attention is paid to the definition of the specific objectives, expected results and indicators for each project; • Draft contracts are double-checked (four eyes principle) by operational desk officers and by financial desk officers. These checks are formalised through the use of operational and financial checklists to ensure that the contracts comply with the financial rules, with DG ECHO contractual rules and are recorded correctly in the accounting system. <p>Checks and monitoring during the initial phases of the project</p> <p>The main checks and monitoring performed by DG ECHO can be described as follows:</p> <ul style="list-style-type: none"> • DG ECHO carries out a day-to-day control of progress of projects. Throughout the whole project cycle, each project/contract is monitored by the desk and field expert via a project appraisal worksheet ("fichop"); • Project monitoring through a network of DG ECHO field experts (technical assistants) worldwide. These specialists are based in the field in order to facilitate and maximise the impact of the operations funded by the European Commission, regardless of the country or regions where the project is implemented. They monitor closely the projects and establish regular reports; • Regular field visits of projects by geographical desks, auditors and DG ECHO Management. <p>Checks and monitoring during the final/closure phases of the</p>

	<p>project</p> <p>As already mentioned above, DG ECHO's partners have the obligation to produce intermediate and final reports and to justify their expenses. These reports are analysed thoroughly by both operational and financial desk officers of DG ECHO, in order to ensure that the project has achieved the expected results and to control the eligibility of expenditures. Various procedures, such as the use of check-lists and double checking, have been set up to ensure that final payments are in conformity with the financial rules, comply with sound financial management and are recorded correctly in the accounting system.</p>
<p>Corrective controls and audits: Either on the system or on individual projects. At the end of the project (before or after the final payment)</p>	<p>DG ECHO-funded activities implemented by external parties (partners and contractors) are as part of the control activity subject to financial audits. Further information on the audit methodology and its implementation is provided under section 3.1.1.1</p> <p>DG ECHO undertakes approximately ten evaluations each year on average, focusing on major country operations (i.e. operations funded for a total of about €50 million and which have not been evaluated in the past three years), partners and thematic issues. Further information on evaluations is in section 3.1.1.1</p>
<p>Internal and external supervisory and audit controls</p>	
<p>Verification that processes are working as designed</p>	<p>In order to verify that processes are working as designed, DG ECHO takes into account several sources of information, which are mainly gathered through (a) the discussions during the weekly management meetings, (b) the information included in the reports issued by controlling bodies, (c) the discussion held at year end by DG ECHO's management on the Risk Management and Internal Control System and (d) the annual assessment cycle of the partners based on relevant input from geographic desks and experts, auditors, financial desks and the partners themselves.</p>
<p>Monitoring of performance of 3rd party auditors, externally contracted auditors</p>	<p>DG ECHO is managing and monitoring the performance of its external auditors by review and analysis of the audit reports, monthly meetings with the contractor, file reviews of closed audits to verify adherence to the agreed methodology, joint audits/verifications as well as working with agreed audit methodologies and templates.</p>
<p>IAC, IAS, ECA, EP Feedback on adequacy of the system</p>	<p>Feedback is provided by the Internal Audit Capacity (IAC), the Commission's Internal Audit Service (IAS) and the European Court of Auditors and in the discharge procedure before the European Parliament. Recommendations made by these bodies are followed up systematically. Detailed information can be found under section 3.1.2</p>
<p>High level management reporting and its role in identifying problem issues</p>	<p>DG ECHO's decision process is supported by regular Management meetings at various levels: weekly meetings with all management, weekly operational coordination meetings, and regular coordination meetings at the Directorate "Support to Operations".</p> <p>The following financial reporting and indicators are provided to DG ECHO's management: regular (monthly reports on budget implementation, annual reports on DG ECHO's activities and on indicators), as well as ad-hoc (Reste A Liquidier, payment delays, etc) financial reports are being compiled and followed-up.</p>

According to its Regulation, DG ECHO also prepares an operational strategy for the year ahead and an annual report, in parallel to the Annual Management Plan and the Annual Activity Report respectively, being part of the ABM cycle. In this context, the state of achievement and the quality of implementation of the AMP objectives also undergoes a mid term review, which is a review of both DG ECHO's AMP and operational strategy. This step is established through meetings with all levels of the hierarchy.

DG ECHO Management and senior staff members conducted a **risk assessment** exercise in 2009. Results confirm that DG ECHO contends with 2 main risks listed under section 2.1.4 and for which mitigating measures are put in place to reduce the residual risk.