2012

Annual Activity Report

Service for Foreign Policy Instruments (FPI)
Table of Contents

PART 1. POLICY ACHIEVEMENTS .................................................................3

PART 2. MANAGEMENT AND INTERNAL CONTROL SYSTEMS ...............15

2.1 INTRODUCTION TO FPI ..............................................................................15
2.1.1 General context and organisation of the Service .................................15
2.1.2 Main characteristics of the management environment ..........................15

2.2 INTERNAL CONTROL SYSTEM .................................................................16
2.2.1 Effective implementation of the internal control standards ..................16
2.2.2 Conclusion on the effectiveness of the control system ..........................17

2.3 INFORMATION TO THE COMMISSIONER ...............................................17

PART 3. BUILDING BLOCKS TOWARDS THE DECLARATION OF ASSURANCE
(AND POSSIBLE RESERVATIONS TO IT) ................................................18

3.1 BUILDING BLOCKS TOWARDS REASONABLE ASSURANCE .......................18
3.1.1 Building block 1: Assessment by management ......................................18
3.1.1.1 Basic elements contributing to the assurance .............................................18
3.1.1.2 Key indicators, including error rates .........................................................19
3.1.2 Building block 2: Results from audits during the reporting year ................31
3.1.3 Building block 3: Follow-up of reservations and action plans for audits from previous years .................................................................32
3.1.4 Building block 4: Assurance received from other Authorising Officers in cases of crossed sub-delegation .................................................................33
3.1.5 Completeness and reliability of the information reported in the building blocks and conclusion on overall assurance .........................................................33

3.2 RESERVATIONS .........................................................................................34

3.3 OVERALL CONCLUSIONS ON THE COMBINED IMPACT OF THE RESERVATION ON THE DECLARATION AS A WHOLE .......................................................37

PART 4. DECLARATION OF ASSURANCE ..................................................38
PART 1. POLICY ACHIEVEMENTS

1.1. Message from the Head of Service

This report reviews the work of the Foreign Policy Instruments Service (FPI) in 2012. FPI works under the authority of the HR/VP in her capacity as Vice-President of the Commission and in close cooperation with European External Action Service (EEAS) and other Commission services, notably the Development Cooperation Office, DG Enlargement, DG Trade and ECHO. Its mission is to help the EU achieve the objectives of its foreign and security policy as well as to pursue its interests and project its image in the world. It does so by ensuring that the financial and operational implementation of a number of financial instruments described below, as well as by ensuring the responsibility of certain Foreign Policy Regulatory Instruments.

The achievements in 2012 of FPI are closely interrelated with the policy objectives of the EEAS. Both services have agreed to put in place work processes in each of the main areas of cooperation and are working together on a daily basis at all levels of their structures. At the same time FPI coordinates also closely with all concerned Commission services. FPI has been in charge of implementing in 2012 an overall budget of EUR 628 million and acts in its area of competence as a bridge between the EEAS and the rest of the Commission.

1.2. General objectives and indicators

The Service for Foreign Policy Instruments (FPI) is responsible for the operational and financial management of Common Foreign and Security Policy (CFSP) operations, Instrument for Stability (IfS) crisis response, Industrialised Countries Instrument (ICI), Election Observation Missions (EOMs) and press and public diplomacy (PPD). In addition, it is also responsible for the implementation of foreign policy regulatory instruments such as sanctions, the Kimberley Process on conflict diamonds, and Regulation (EC) No 1236/2005 of 27 June 2005 concerning trade in certain goods which could be used for capital punishment, torture or other cruel, inhuman or degrading treatment or punishment.

The operations managed by the FPI support the following general objectives:

1. Contribute to the implementation of the Treaty on European Union (Article 21 (2) (c) which seeks to preserve peace, prevent conflicts and strengthen international security, in accordance with the purposes and principles of the United Nations Charter, with the principles of the Helsinki Final Act and with the aims of the Charter of Paris.

2. To enhance the visibility of the EU as a whole, to promote a better understanding of EU’s actions and positions, and to exert a positive influence on how the EU is perceived in partner countries.

3. Consolidate and promote democracy, the rule of law, human rights and the principles of international law through support to democratic electoral processes.

The bulk of the operations relate to the first objective which represents 89% of the operational budget in 2012 under the CFSP and the Instrument for Stability (EUR 554 million out of EUR 623 million committed by FPI). Under CFSP operations, FPI implements the decisions adopted by the Council in response to particular political and security issues. Under the

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1 Commitments made in 2012
Instrument for Stability, FPI intervenes to help prevent conflict, respond to emerging or actual crises and build the capacity of a wide range of peace-building actors. In both cases, FPI works in close collaboration with the EEAS and other Commission services under the policy guidance of the HR/VP. The Political and Security Committee (PSC) of the Council gives strategic guidance and political direction for CFSP operations and is informed on the crisis measures under the Instrument for Stability.

The general indicator relating to this objective is the number of conflicts in the world and their intensity. According to the Conflict Barometer, there are 396 conflicts in 2012 (a slight rise compared to 387 in 2011) of which 43 are highly violent conflicts (39 in 2011) that is 18 wars (level 5) and 25 limited wars (level 4). The CFSP and IfS operations intervene in some of these most violent conflicts (Afghanistan, Syria, Congo, Nigeria, Chad, Sudan/South Sudan, Somalia, Central African Republic, Myanmar, Pakistan, Philippines, Thailand, Palestine/Israel, Libya, Yemen), but also in many medium-intensity conflicts (level 3 – 165 conflicts) following either a decrease in the intensity of the conflict or the stabilisation of the crisis, in particular through peace building efforts and peace processes (e.g. Kosovo/Balkans, Georgia/Caucasus, India, Guinea-Bissau, Nigeria, Zimbabwe, Kenya, and in Latin American countries).

These operations cannot be viewed in isolation: they have to be seen alongside the broader EU interventions to tackle the root causes of the conflicts under its geographical instruments (European Development Fund (EDF), Development Cooperation Instrument (DCI), European Neighbourhood and partnership Instrument (ENPI), Instrument for Pre-accession Assistance (IPA)) and alongside the efforts of the wider international community, in particular the United Nations, EU Member States, and civil society actors. The Election Observation Missions under the EIDHR contribute also to easing conflicts. Finally, these efforts are also complemented by the regulatory instruments managed by FPI, in particular restrictive measures (sanctions). The contributions to that overarching objective are detailed under the achievements of the respective operational activities.

1.3. Achievements by ABB activity (operational activities)

1.3.1. Instrument for Stability (IfS).

The measures adopted under the Instrument for Stability contribute to the general objective relating to the implementation of the Lisbon Treaty (Article 21(2)(c)) which seeks to preserve peace, prevent conflicts and strengthen international security, in accordance with the purposes and principles of the United Nations Charter, with the principles of the Helsinki Final Act and with the aims of the Charter of Paris. FPI works closely with the EEAS and other Commission services, both at headquarters and in EU Delegations, to prepare and implement EU interventions in line with this objective.

**Specific objective: More effective EU capability to prevent, manage and resolve conflicts and build peace.**

The result indicators to measure progress towards that specific objective are the following (under Article 3 of the IfS Regulation):

i) to prevent conflict and build peace;

ii) to respond to crises (either of a political nature or due to natural disasters); and (under Article 4.3 of the IfS Regulation);

iii) to enhance the involvement and capacities of non-state actors, international and regional organisations and Member State bodies engaged in peace-building activities in support of third countries while supporting wider EU policy work on conflict prevention, peace building, crisis preparedness and crisis response.

*fpi_aar_2012_final*
FPI committed a total budget of EUR 218 million to IfS projects: 40 actions were launched under 26 Financing Decisions for a total of EUR 196 million under the short-term crisis response (indicators i) and ii) above). These IfS crisis response actions provided timely EU responses to many high priorities on the EU's political agenda, including in the “Arab Spring” countries. FPI committed further EUR 22 million under the Peace-building Partnership (PbP), the long-term programmable arm of the IfS (indicator iii) above). This was adopted in the framework of the 2012-2013 Strategy Paper and Multi-Annual Indicative Programme prepared by the EEAS and adopted by the Commission. Under this strategic cover, FPI prepared the 2012 Annual Action Programme (AAP), adopted in March 2012, which comprises detailed actions. For the new actions launched in 2012, 71.5% of the funds were managed on a devolved basis by EU Delegations and 28.5% at Headquarters. In terms of on-going projects, the split is some 80% in Delegations and 20% at Headquarters.

**IfS crisis response actions** (EUR 196 million): these actions encompass a wide geographic and thematic scope and have been key contributors to the EU comprehensive approach in responding to various crises in 2012. These examples show the range of different interventions:

- **Building on first responses to the Arab Spring** in 2011, the Instrument for Stability was quick to put in place further interventions across the Middle East and North Africa (MENA) region. There was a significant package of assistance to respond to the conflict in Syria and to provide support to affected populations in the region: a support for peaceful solution (EUR 8.2 million) and a regional support programme for populations affected by the crisis in Syria (EUR 20 million) were adopted. In Libya, the support to the transition process continued by building on the 2011 post-conflict recovery package (EUR 20 million). Libya made significant progress on the path of democratic transition throughout 2012 as witnessed by the first free elections on 7 July 2012. Further IfS support was given in 2012 (EUR 13.4 million) to assist with developing national capacity to respond to crisis situations, to protect vulnerable groups and to help with the clearance of unexploded ordnance. Assistance was also provided to a needs assessment in integrated border management in Libya, paving the way for a subsequent Common Security and Defence Policy (CSDP) exploratory mission.

- **In sub-Saharan Africa**, the IfS provided support to stabilisation and pilot projects for early recovery in Somalia and supported the demobilisation of forces in the Central African Republic (EUR 4 million) and Chad (EUR 5 million) as well as peace building efforts in Nigeria (EUR 4.5 million) and Burundi. In Niger, a post conflict recovery package of EUR 10.9 million was adopted to support the security and stabilization in northern Niger and Mali, in line with the EU Strategy for Security and Development in the Sahel which also encompasses the civilian CSDP mission to Niger (EUCAP Sahel).

- **IfS election support** was essential in 2012 in conflict prone areas across various regions. Projects were launched in Guinea Bissau, Togo, Burkina Faso, Zimbabwe, Madagascar, Kenya, Pakistan and Haiti. The role played by these projects is essential to enable a very quick response to support the consolidation of democracy. Crucially, these measures provide assistance outside the realm of previously foreseen election cycles. Such measures also pave the way for complementarity with wider EU strategies and other instruments.

- **Another example of IfS measures on the ground in 2012 was peace-building support.** In Asia, the IfS has further accompanied the peace process in the Philippines (EUR 9 million) and has been present in the Myanmar/Burma transition, promoting reform, local peace processes, and also resettlement through support for demining actions (EUR 3.5 million). In Georgia, support to peace processes led to two financing decisions for a peaceful settlement of the conflict in Nagorno-Karabakh (EUR 6 million) and stabilisation in conflicts affected areas (EUR 8.1 million). In Latin
America, support to the peace process in Colombia is on-going with a new 2012 financing decision (EUR 7.4 million) for the effective implementation of Law 1448 on Victims' Rights and Land Restitution. Implementation of this Law could significantly enhance the chance of a peace agreement. In Bolivia, support is also provided to tackle socio-political conflict (EUR 4 million).

- FPI also launched IfS actions to build on its earlier assistance such as disaster preparedness in Haiti and the work of the Special Tribunal for Lebanon.

**IfS Peace-building Partnership (PbP)** (EUR 22 million): throughout 2012, FPI worked with a wide range of stakeholders, including the United Nations, other international bodies, EU Member State agencies, non-governmental organisations (NGOs) and other civil society actors. Working across core themes, the measures approved in 2012 were as follows:

- **Improving the capacity of Non-State Actors** - EUR 8.5 million was allocated towards conflict prevention and peace-building, with ensuing projects of the EU Delegations to Brazil, El Salvador, Nicaragua, Haiti, the Democratic Republic of Congo, India and Kyrgyzstan spanning the targeted themes of: women, peace and security; children, youth, peace and security; mediation, dialogue and transitional justice; and climate change, natural resources and conflict.

- **Promoting early warning capabilities** – FPI prepared a call for proposals for early warning with non-state actors (EUR 5 million) in close cooperation with the EEAS. A call for proposals targeting civil society actors was launched and evaluated with a view to contracting in early 2013. A capacity-building action for regional / sub-regional partner organisations in the field of crisis response and early-warning was adopted (EUR 3 million). Following an EU scoping mission in June 2012, an action promoting crisis response within ASEAN and its member states was defined, with a view to being implemented in 2013. In addition, an ancillary support action for the African Union was foreseen.

- **Climate change, natural resources and international security** - A EUR 1.5 million action on climate change and security in Eastern Europe and Central Asia was contracted, while a Memorandum of Understanding was signed with USAID, paving the way for the contracting of a EUR 1 million action for the promotion of artisanal diamond mining (Property Rights and Artisanal Diamond Development – PRADD).

- **Reinforced EU cooperation on building expert capacities** for international crisis response - FPI supported ‘Europe's New Training Initiative for Civilian Crisis Management’ (ENTRi). This is a unique capacity-building programme focusing on the preparation and training of civilians who will either embark upon, or are already working in, crisis management missions worldwide. Such missions include those of the EU, the United Nations (UN), the Organisation for Security and Cooperation in Europe (OSCE) and the African Union (AU). ENTRi-trained civilian experts were deployed to key locations such as the Horn of Africa, South Sudan, the Sahel region and Afghanistan. A proposal for a follow-on programme (ENTRi II) was appraised in 2012, with a foreseen start-up in April 2013.

FPI prepares also the Commission’s Annual Report on the Instrument for Stability, accompanied by a Commission staff working document, which reports on each of the IfS measures. The 2011 Annual Report was adopted by the Commission on 24.7.2012 (COM/2012/405)

### 1.3.2. Foreign policy regulatory instruments

Within FPI.2 a dedicated team is responsible for foreign policy regulatory instruments which contribute also to the first general objective (but do not involve operational budgets). Namely, FPI prepares joint proposals for Council Regulations on **restrictive measures (sanctions)** pursuant to Article 215 of the Treaty on the Functioning of the EU (TFEU) and monitors implementation of such measures. FPI also represents the Commission in the Kimberley
Process (KP) on behalf of the EU and implements the KP certification scheme on conflict diamonds which seeks to prevent revenue from illegal diamond trade fuelling armed conflicts. Finally, FPI is completing the review of the anti-torture regulation to make it a better tool to help prevent torture and ill-treatment in fragile countries.

FPI’s responsibilities for sanctions, anti-torture and Kimberley Process concern files that are technically complex and politically sensitive. The shortage of human resources to respond to the growing number of responsibilities and challenges in these fields poses a political, reputational and legal risk for the Commission. Reinforcement of the Human Resources was requested in APB 2013 but not granted.

**Kimberley Process:** FPI, on behalf of the Commission, continued to represent the EU in the Kimberley Process (KP). With the EU having taken an initiative in 2011 on resolving the impasse regarding the trade in Zimbabwe’s Marange diamonds, 2012 saw the implementation of the Kinshasa Declaration. Furthermore, the EU, represented by the Commission, continued to chair the KP's Working Group on Monitoring (WGM, which is one of the most important as it deals with country compliance issues) and to play an active role in the other KP working groups including the Committee on KP Reform. The WGM organised 5 teleconferences in May-October 2012 along with 3 review missions (to Canada, Switzerland and USA) in line with requirements to ensure compliance with the KP administrative processes.

FPI participated in the inter-sessional (June) and plenary meetings (November) organised by the US KP Chair. Both were successful in promoting KP reform, thus maintaining the effectiveness of the certification scheme and keeping the whole process relevant to the challenges of a complex external environment with multiple actors. FPI also hosted the Ad-hoc Committee on KP reform in Brussels in April, with participants from Angola, Botswana, Canada, the Democratic Republic of Congo, the EU, Ghana, India, Israel, Namibia, South Africa, Switzerland and US, as well as observers from civil society and the diamond industry.

**CFSP Restrictive Measures/Sanctions:** In 2012 the Commission/FPI prepared and negotiated 27 Proposals for Council Regulations and 31 draft Commission Regulations on CFSP restrictive measures. This involved participating in the Council's Foreign Relations Counsellors working party (RELEX) (typically meeting twice a week), as well as special RELEX/Sanctions meetings with officials and experts throughout each semester.

The Commission Inter-Service Group (ISG) for Restrictive Measures was established in July 2012 to strengthen internal co-ordination on sanctions issues, especially on a range of technical aspects where the expertise of line Directorates General (DGs) is essential. It is composed of 15 DGs. The ISG was instrumental in preparing the proposal on sanctions against Iran at the end of the year (amending Council Regulation (EU) No 267/2012) and also proved useful in discussions on the Syria flight ban issue.

The FPI manages a database to assist the financial sector in identifying persons and organisations who are the object of EU sanctions. An essential upgrading was carried out in 2012. The project defined new technology requirements, information flows and user needs of the various stakeholders so that the database can remain an effective tool for implementing financial sanctions. Further updating is required to ensure compliance with the new EU Data Protection Regulation. The database needs however to be replaced as it is reaching the end of its useful life. There are reputational and other risks for the Commission due to the unreliability of the system and the potential for interruptions in service. Preparatory works for such replacement have started and will continue in 2013.
**Anti-Torture Regulation:** The Commission took the initiative, in 2011, to amend the lists of prohibited and controlled goods annexed to Regulation (EC) No 1236/2005 concerning trade in certain goods which could be used for capital punishment, torture or other cruel, inhuman or degrading treatment or punishment. This was done by way of response to requests for urgent measures controlling exports of certain medicines that can be used for executions. In 2012, a group of experts was established to assist the Commission with its review. Technical and other information has been collected on equipment that could be used for the above-mentioned purposes and will be taken into account in formulating a proposal or, where applicable, a Commission Regulation amending the list of goods annexed to Regulation 1236/2005.

1.3.3. **Common Foreign and Security Policy (CFSP)**

The CFSP operations contribute to the general objective relating to safeguarding the common values of the Union, to strengthen its security in all ways, to preserve peace and strengthen international security, to promote international cooperation and to develop democracy and the rule of law, respect for human rights and fundamental freedoms.

FPI is responsible for the financial management of the CFSP budget, ensuring the implementation of CFSP actions decided by the Council under the Treaty on European Union (TEU) and providing the necessary financing for EU Special Representatives (EUSRs). These actions pursue two specific objectives.

<table>
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<tr>
<th>Specific objective 1: Support to preservation of stability in Kosovo, Southern Caucasus, Afghanistan, Middle East and Africa through substantial CSDP missions</th>
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<tr>
<td>FPI committed a total budget of EUR 290.6 million for CFSP missions and EUR 27.9 million for EU Special representatives (altogether EUR 318.5 million) under that specific objective.</td>
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The bulk of the budget was committed to finance the main CSDP missions: EULEX Kosovo (EUR 111 million), EUPOL Afghanistan (EUR 56.9 million), EUMM Georgia (EUR 20.9 million), EUJUST Lex Iraq (EUR 27.2 million). Three new missions were launched with a total budget of EUR 42.4 million: EUCAP Nestor (EUR 21.2 million), EUAVSEC South-Sudan (EUR 12.5 million), and EUCAP Niger (EUR 8.7 million). The rest of the budget was used to finance other missions in Democratic Republic of Congo, Palestine, and the preparatory measures.

The EU Rule of Law mission (EULEX KOSOVO) is the biggest CSDP mission and has been one of the key elements ensuring stability in Kosovo, including through executive operations. The objective is to maintain Civil law and order in Kosovo, to improve the rule of law and to support the government for administering the territory. According to the Conflict Barometer, the conflict is now at level 3 (violent crisis), down from level 5 (war) when the conflict started in 1989. Talks between the prime ministers of Kosovo and Serbia have resumed in 2012 under the mediation of the HR/VP. EULEX has a total of around 2,250 international and local staff and its mandate has been extended until June 2014. This is in line with the staff target necessary to fulfil its mandate. On results, according to the latest EULEX programme report 2012, progress of Kosovo’s rule of law in the areas where EULEX is fostering organizational change (Police, Justice, Customs) has slowed compared to previous year. The mission has been reconfigured to tackle the challenges ahead and to give a new momentum to the progress achieved since the launch of the mission in 2008. EULEX operates in full cooperation with the European Commission Assistance Programmes and the EU Special representative to strengthen stability in the region in line with its European perspective and in implementing a settlement defining Kosovo's future status.
The EU Police Mission in Afghanistan is set in the context of the international community's efforts to support the Afghans in taking responsibility for law and order. According to the Conflict Barometer, the conflict is still at level 5 (war) in spite of the international effort to reconstruction and stabilisation where the EU is making a major contribution. EUPOL operates within a coordinated EU approach that includes local political guidance provided by the EU Special Representative and a reconstruction effort managed through the European Union delegation in Kabul. EUPOL has a high value as the only multilateral actor able to provide highly qualified civilian policing expertise as well as Rule of Law expertise. In spite of the volatile political and security situation, EUPOL Afghanistan has achieved success in increasing its personnel level and has started planning new activities, in line with the decision for the Mission to remain in place until the end of 2014. The Mission has approximately 350 international and 200 local staff and has therefore met its target deployment capacity.

The EUMM Georgia has been set up in 2008 following the Russia-Georgia war in August 2008. The Mission monitors compliance by all sides with the EU brokered Six-Point Agreement of 12 August, signed by both Georgia and Russia, and the Agreement on Implementing Measures of 8 September 2008. The Mission’s mandate consists of stabilisation, normalisation and confidence building, as well as reporting to the EU in order to inform European policy-making and thus contribute to the future EU engagement in the region. First and foremost, the Mission is working to prevent the renewal of an armed conflict. For that purpose, over 200 civilian monitors conduct routine inspections within the stipulated zone of the mission that includes Georgia, South Ossetia and Abkhazia. According to the Conflict Barometer, the conflict is now at level 3 (violent crisis): although the conflict is far from finding its solution, the fears of resumption of hostilities are no more there. The sense of security among parties to the conflict and the population on the ground has increased and the process of stabilisation has consolidated. EUMM is perceived by the Georgian Government as an indispensable element to ensure security and stability in the areas adjacent to the regions of Abkhazia and South Ossetia. The EU efforts to stabilize the region in the CFSP field include also the European Union Special Representative (EUSR) for the South Caucasus and the crisis in Georgia.

EUJUST LEX-Iraq was established to strengthen the rule of law and to promote a culture of respect for human rights in Iraq by providing professional development opportunities for high and mid-level Iraqi officials from the criminal justice system. Although there has been a slight decrease in the intensity of the conflict, it is still categorized at level 5 (war) by the Conflict Barometer. The core aim is to contribute to a consolidation of security by underpinning the system of rule of law. After having been based in Brussels for security reasons since its inception in 2005, EUJUST LEX-Iraq is now successfully deployed in Iraq since the spring of 2011. Despite a challenging security environment, delivery can be considered satisfactory with projects involving all branches of the Iraqi criminal justice system ongoing.

In the Middle East, CFSP activities have contributed to the wider efforts of the European Union in support of Palestinian state building in the context of working towards a comprehensive peace based on a two-State solution through the EU Police Mission (EUPOL COPPS), the EUBAM Rafah, and the EU Special Representative for the Middle East Peace Process. Both missions were established in 2005. EUPOL COPPS continued its activities to strengthen the rule of law institutions within Palestine throughout 2012. The Mission has 71 international staff and 41 local staff. However, the Border Assistance Mission to the Rafah crossing point between Egypt and Gaza could not implement its mandate because of restrictions by the Israeli government and the war between Israel and Hamas in December 2008 - January 2009.
In the Democratic Republic of Congo (DRC), the two Missions on Security Sector Reform continued their action. In the police area, EUPOL DRC contributes to the set-up of a viable police service, including its link to a justice system that corresponds to the needs of the Congolese society. In the military sector, EUSEC DRC contributes to different aspects of army-related reform. Both missions have around 50 international staff each. EUPOL and EUSEC cooperate closely with the Delegation of the EU in DRC, coordinate its work with the activities financed by the European Commission and the Member States, and work together with the UN and other relevant national and international actors.

Three new missions were established in Africa: EUCAP Nestor (Horn of Africa), EUAVSEC South-Sudan, EUCAP Niger.

EUCAP NESTOR is a civilian mission complementary with the European Union Naval Force (EUNAVFOR – Operation Atalanta) and the EU Training Mission (EUTM) in Somalia. It is an important element in the EU's comprehensive approach to fighting piracy, maximising synergies between military and civilian capabilities. The EU has formed strategic partnerships with the International Maritime Organisation (IMO), the United Nations Office on Drugs and Crime (UNODC) and the United Nations Development Programme (UNDP) to execute and deliver this mission. The complementarity with the other EU-funded projects related to maritime security (Instrument for Stability on critical maritime routes programme and EDF regional strategy) will also be crucial.

EUAVSEC South Sudan aims to assist and advise South Sudan to establish the aviation security organisation at the Ministry of Transport and to strengthen aviation security at Juba International Airport. The Mission addresses specifically aviation security, which aims to prevent deliberate acts of unlawful interference against airports, aircraft, crew and passengers. EUCAP SAHEL Niger has been set-up to improve the capacities of Nigerien Security Forces (Gendarmerie, Police nationale, Garde nationale) to fight terrorism and organised crime in an effective and coordinated manner, with a view to contribute to enhancing of political stability, security, governance and social cohesion in Niger and in the Sahel region. This mission is part of the EU comprehensive approach strategy to the region. All three missions have been launched.

In 2012 there were 10 EU Special Representatives active in the following countries or regions: Afghanistan, the African Union, Bosnia and Herzegovina, Central Asia, Horn of Africa, Kosovo, Middle East Peace Process, the South Caucasus and the crisis in Georgia, the Southern Mediterranean region, and Sudan. One new EU Special Representative (EUSR) for Human Rights was appointed in July 2012. This was the first EUSR dealing with a horizontal thematic issue. Each EUSR has a specific mandate to promote the EU's policies and interests in troubled regions and countries and to play an active role in efforts to consolidate peace, stability and the rule of law.

Specific objective 2: Support to the implementation of the Pillar 2 strategy on:
- non-proliferation of weapons of mass destruction in order to increase security in this area (WMD);
- combating illicit accumulation and trafficking of Small Arms and Light Weapons (SALW).

FPI committed a total budget of EUR 17.2 million under that specific objective. A number of Council decisions were adopted establishing new actions. These actions, implemented by international organisations and other partners, provided a tangible contribution to the universalisation and implementation of major arms control and disarmament treaties and instruments and have strengthened the efforts of the international community to counter the
illicit trafficking of small arms and light weapons (SALW) and the proliferation of weapons of mass-destruction (WMD) and their means of delivery, as well as to enhance meaningfully nuclear security worldwide.

In 2012, there were 13 running projects related to nuclear, biological, chemical and missiles activities, mainly implemented by international organizations (International Atomic Energy Agency IAEA, Commission of the Comprehensive Test-Ban Treaty Organization CTBTO, Organization for the prohibition of Chemical Weapons OPCW, World Health Organization WHO). The results achieved were:

Strengthened nuclear security in selected countries, promoted universality of the Chemical Weapons Convention;

Promotion of the HCoC (Hague Code of Conduct) related to missiles testing;

Support of a process leading to the establishment of a zone free of nuclear weapons and all other weapons of mass destruction in the Middle East;

Promotion of the EU proposal for an International Code of Conduct on Outer Space activities.

In addition, 7 new projects have been launched in 2012 in the non-proliferation and disarmament field. The results achieved were:

Enhanced contribution to national, regional and international initiatives and universalization of multilateral instruments to fight the proliferation, illicit trade and excessive accumulation of SALW and their ammunition.


Altogether, CFSP operations have contributed to increased stability and security in the world and have given the EU visibility as a relevant security actor, particularly in the civilian sphere. FPI has successfully contributed to this objective by providing timely and effective support in the implementation of the CFSP operations so that they can fulfil their respective mandates.

Finally, FPI contributes to the annual report of the High Representative to the European Parliament on the main aspects and basic choices of the CFSP in accordance with point G, paragraph 43 of the Interinstitutional Agreement of 17 May 2006.

1.3.4. EU Election Observation Missions (EOMs)

The instrument for human rights and democracy (EIDHR) provides for the organisation of election observation missions (EOMs). These missions contribute to the attainment of the general objective relating to the consolidation and promotion of democracy, the rule of law, human rights and the principles of international law. They also help to reduce the possibility of fraud, manipulation, intimidation, and other disruptions of genuine elections which could undermine the electoral process by the way of an improvement of the legal framework and conduct of future elections, as well as public confidence in the democratic institutions. The programme provides also for reporting on the conduct of elections in selected third countries. Since the first election observation mission in 1993, the EU has deployed more than 150 Observation Missions and hundreds of electoral expert activities.
Specific Objective: To build confidence in and to enhance the reliability and transparency of democratic electoral processes through deployment of European Union Election Observation Missions (EOMs)

FPI committed EUR 38 million in 2012 under that specific objective. The main risks associated with the programming of these missions are changes in political conditions leading to changes in the election timing and in EU priorities for election observation. The number of post-conflict countries, in the 2012 electoral calendar, added a serious risk in terms of security (particularly Libya, Algeria). In 2012, in line with strategic priorities, 5 Electoral Observation Missions, one EU Election Assessment Team (EAT) mission and 9 Election Expert missions (EEM) were organised. The EU deployed election observation missions to Senegal, Algeria, East Timor, Sierra Leone and Jordan. Some 326 observers were successfully deployed on the ground for these 5 missions (between 40 and 80 per mission). A 6th mission in Kenya was launched in 2012 but is deployed early 2013 and encompasses 34 observers. These 6 missions amounted to EUR 20 million, with the security cost an important component. Alongside these full-fledged EOMs, the EU also sent an Electoral Assessment Team to Libya (deploying some 20 experts), and Electoral Expert Missions to Indonesia/Aceh, Yemen, El Salvador, Guinea Bissau, Egypt, Mexico, Senegal (legislative elections), Angola and Ghana.

Additionally, FPI carried out the following related activities in 2012: training for new observers; capacity building of local observers (for example in Egypt and Tunisia); enhanced inter-institutional cooperation with the EEAS and the European Parliament; and structured dialogue with Member States through regular meetings with the national Focal Points for election observation. An amount of EUR 4 million was committed for the project on Election Observation and Democracy Support (EODS) on methodology and training for the next 3 years. The methodology and the working tools of EU EOMs were consolidated and strengthened.

One of the outcomes of EOMs and EEMs is a set of recommendations to the authorities of the country, on how to improve the conduct of future elections. Post-election Experts Missions may be organised to take stock of the way these recommendations have been dealt with, to help develop a political dialogue with the country on democracy and human rights, and to help donors, in the context of the Paris Declaration, to support these improvements.

As a result, in 2012, the EU continued to play a key role in supporting countries in transition to democracy. The missions contributed to the active promotion of democracy, the respect for human rights and fundamental freedoms, the rule of law which are all embedded in the EU’s values. Indeed, the very presence of international observers on the ground helped to reduce intimidation and election-related violence, contributed to more balanced media behaviour, and more generally, to a better adherence to international standards, and acceptance of final results both by the opposition as well as the wider population of a given country. EOMs were confirmed as an important operational tool of EU foreign policy.

1.3.5. Strengthening the relations with our key industrialized partners (ICI)

The Industrialised Countries Instrument (ICI) promotes cooperation with 17 industrialised and other high-income countries and territories in North America, the Asia-Pacific region and the Gulf region2. The ICI contributes to fostering the EU’s relations with countries and territories

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2 Australia, Bahrain, Brunei, Canada, Chinese Taipei, Hong-Kong, Japan, Republic of Korea, Kuwait, Macao, New Zealand, Oman, Qatar, Saudi Arabia, Singapore, United Arab Emirates, United States

fpi_aar_2012_final
which often share similar values, are major political and trading partners, and play an active role in multilateral fora and in global governance.

Specific actions are organised around three main priority areas: (a) Business Cooperation (b) People-to-people Links and (c) Public Diplomacy. In addition, a limited portion of the budget is kept available for small-scale cooperation activities and evaluation of certain programmes.

The Annual Action Programme 2012 was adopted with a budget of EUR 24 million on the basis of the priority areas identified in the multiannual programme 2011-13.

**Specific objective 1: To strengthen the presence of European companies in key markets which are difficult to penetrate.**

An amount of EUR 10.4 million was allocated to that objective for Economic partnership and business cooperation: planned initiatives in areas of mutual interest contributed to the strategic objective of improving the competitiveness of European companies and strengthening their presence in key markets. In particular, they eased market access for European companies including Small and Medium-sized Enterprises. These major ICI business programmes (Gateway & Executive Training Programme) programmes reached a much wider pool of potential beneficiaries than national programmes available in only a few Member States:

- 248 European companies attended the Gateway programme to Japan and Korea in 2012. According to our survey carried out in 2012, the business mission results stated by EU Gateway participants shows that i) more that 50% of participating companies have established new business collaborations; ii) more than 70% of participating companies signal revenue growth; iii) 75% of participating companies express strong/very strong increase in market understanding.

- To date, over 1,000 European managers for more than 800 companies and more than 20 sectors have benefited from the ETP. 100% of the participants remain involved in EU-Japan/Korea business after 2 years of having graduated; 83.3% 10 years after doing the Executive Training Programme. The new ETP cycle restarted in 2012 with the selection of 53 EU executives.

**Specific objective 2: To enhance mutual understanding between cultures and to facilitate the exchange of knowledge.**

An amount of EUR 6.1 million was allocated to that objective for People-to-people links including cooperation in the field of education. The main goals were to enhance mutual understanding between cultures and to facilitate the exchange of knowledge. To this end, cooperation in the field of education and civil society dialogues was encouraged. Initiatives at EU level were in line with the globalisation of higher education, and based on well-established programmes, such as Erasmus Mundus:

- 8 Bilateral higher education projects were selected in 2011/12 and a call for proposals for regional Erasmus Mundus partnerships, aimed at higher education exchanges (master/doctoral candidates and faculty). Projects cover student mobility, joint curriculum development and mutual recognition of credits at bachelor’s and master’s level.

**Specific objective 3: To enhance the visibility of the EU as a whole, to promote a better understanding of EU’s actions and positions, and to exert a positive influence on how the EU is perceived in partner countries.**

An amount of EUR 7 million was allocated to that objective for public diplomacy and outreach: the key objectives were to enhance the visibility of the EU as a whole, to promote better understanding of the European Union’s actions and positions, and to influence positively perceptions about the EU in partner countries. This was and still is necessary to complement national initiatives which typically focus on the bilateral relationship with individual Member States:
• Three EU Centers were selected in Japan, two in Korea, one in Chinese Taipei, one in Singapore and three in Canada. Moreover, two EU-USA civil society dialogues were launched on the following themes: "Development and humanitarian dialogue with a special focus on the security nexus in development" and "Transatlantic environmental dialogue focusing on energy issues in the context of climate change".

• The EU Delegation to the U.S. administered the Getting to Know Europe (GTKE) grant call for proposals in 2012: 14 projects were awarded a grant for activities during 1 January 2013 and 30 June 2014. GTKE beneficiaries in 13 states will organize a broad array of activities aimed at explaining the EU, its international role, and the value and significance of the transatlantic partnership to U.S. audiences. Supported activities include transatlantic conferences, business forums, training programs and study visits, cultural events, exchange programs, and the development of information products.

• The EU Centres’ World Meeting was held in Brussels from 22nd-24th October to take a fresh look at the objectives of public diplomacy and the new tools that were available.

**Three studies/evaluations have been launched in 2012.** They concern: evaluation of the Pilot Project 'Transatlantic Methods for Handling Global Challenges in the European Union and the United States', a study on Gateway to make an overall independent assessment of the past performance of the programme and to identify key lessons and propose recommendations to future policy strategies in the area of business cooperation as well as a study on ETP, addressing inter alia the EU CEOs needs and the scope of the ETP in terms of EU financial support, geographical coverage, duration and design/components (language, business culture, business plan). The finding of all these three studies/evaluations will be extremely valuable in the context of the future Partnership Instrument.

**Small-scale cooperation activities** (EUR 0.5 million) were also organized to underpin the broader political, economic, social and people-to-people cooperation and the dialogue between the EU and partner countries, for example: conference on death penalty (Japan) or conference on EU-US cooperation on the Common Security and Defence Policy (USA)

In 2012, inter-institutional negotiations with both Council and European Parliament bodies on the Partnership Instrument proposal have been very intense contributing to the Commission's goal within the Multi Annual Financing Framework external action package for 2014-2020. The Partnership Instrument will replace the ICI programme with a broader scope and ambition to promote EU interests.

1.3.6. **Information and communication**

In 2012, the Information and Communication sector continued its downsizing of activities and staff in line with the new institutional set-up, the division of labour between the Strategic Communication Unit in the EEAS and the FPI information and communication sector, In particular, no press visits took place and the production of audio-visual material was limited to the finalisation of a web-documentary on EU-Russia relations and the filming of b-roll material from the Election Observation Mission in Timor-Leste.

An amount of EUR 12.3 million was committed. The sector focused mainly on a few core activities whose discontinuation would have created reputational risks, such as the continuation of the management of updates, helpdesk, and developments of the central EEAS websites and the websites of EU Delegations, the production of information material for Summits with third countries and the organisation of a limited number of photo exhibitions and group visits of external visitors to the EU institutions including EEAS. Finally, an amount of EUR 5.3 million was allocated to the running of the Euronews programme in Farsi language.
PART 2. MANAGEMENT
AND INTERNAL CONTROL SYSTEMS

2.1 Introduction to FPI

2.1.1 General context and organisation of the Service

Following the entry into force of the Lisbon Treaty, the European External Action Service (EEAS) was established on January 1, 2011 to assist the EU’s High Representative for Foreign Affairs and Security Policy. In parallel, a new Commission service, the Service for Foreign Policy Instruments (FPI) was set up with responsibility for the operational expenditure of certain foreign policy instruments placed under the authority of High Representative Ashton in her capacity as Vice-President of the Commission (hence: HR/VP).

In 2012, FPI continued to carry out tasks related to crisis response operations, where it is responsible for financial management of the common foreign and security policy (CFSP) and the crisis management part of the Instrument for Stability (IfS). It also managed the Instrument for cooperation with industrialised countries (ICI), EU Election Observation Missions (EOMs) under the human rights instrument and the budget for information policy/press and public diplomacy in EU external relations.

FPI continued to be closely involved in the preparation and negotiation of the external action instruments for the period 2014-2020 and is in the lead for the new Instrument for Stability and a new Partnership Instrument which will carry on from ICI but with broader scope.

FPI works closely with other Directorates-General (DGs) of the “external relations family” and with the European External Action Service (EEAS), and shares the office building of the EEAS. The Service is organised into four units, one financial and three operational, and led by its Director – Head of Service. The internal audit function for the Head of Service is provided by the internal audit capacity (IAC) of DG Devco.

2.1.2 Main characteristics of the management environment

The management environment in which the Service operates was largely determined by:

- The evolution of world events including unforeseen events / crises: the Service’s activities were shaped largely by external events and the evolution of the world political situation. This often required capacity for rapid and flexible response.

- The global scale and complexity of the EU’s relations with the rest of the world: FPI’s responsibilities required intensive coordination with the EEAS, the ‘relex’ family of services and other Commission services. Maintaining business continuity and effective operations pose a constant challenge in the face of complex and sensitive operations and high expectations on the part of stakeholders.

- Increasing financial challenges: the budgets the Service managed have been increasing in importance: EUR 646 million operational expenditure in 2012 in commitment appropriations authorised (628 million in commitments made). Operations in crisis situations by definition carry higher risks.
2.2 Internal Control system

2.2.1 Effective implementation of the internal control standards

FPI considers it was compliant with all Internal Control Standards in 2012, subject to the remarks in this section. Partly as a legacy of the way FPI was established as a stand-alone service, full compliance with some ICS is still difficult, requires constant management attention and further improvements are considered necessary. For example, the lack of a human resources function within the service complicates ICS 2 (Ethical and Organisational Values) and ICS 3 (Staff allocation, planning, priorities, workload assessment, job descriptions). The standard Organisational structures particularly in delegations (ICS 7) has required repeated intervention by management.

FPI performed a general assessment of effectiveness of internal control standards for the purposes of this report, involving the staff concerned in a relevant sample. Based on experience and available information, it assessed whether systems provide a reasonable assurance that the ICS are achieving their goals and working as intended. Results indicate an effectiveness rate of 85%, which constitutes a slight improvement compared to 2011 (an effectiveness rate of 84%).

The results of the general assessment performed for the previous Annual Activity Report (2011) indicated remaining weaknesses in four Internal Control Standards. Due to the measures taken throughout the year, the results for the effectiveness of these four ICS have shown marked improvement for 2012. These measures include: for ICS 7 (Operational Structure) guidelines issued to the Delegations throughout the year and strengthened cooperation with the EEAS; for ICS 8 (Processes and Procedures) the speeding up of the closure of old projects, improvements in the recording of exceptions and clearer working processes with the EEAS; for ICS 10 (Business Continuity) improvements in the recruitment procedures and staff turnover rates; and for ICS 12 (Information and Communication) the preparation of an FPI website, improvements in the presentation of the FPI Intranet and the drafting of an internal User Guide.

At the same time, the effectiveness rates of ICS 11 (Document Management) and ICS 14 (Evaluation of Activities) have worsened slightly compared to 2011. FPI will address these weaknesses in 2013, with a particular focus on ICS 11, which has already been prioritised in the 2013 Management Plan (with the aim of improving archiving procedures). For ICS 14, FPI aims to improve evaluation activities where possible, in the broader context of defining indicators for the next Multiannual Financial Framework, while taking into account the specificities of its instruments.

The exceptions and overrides (summarised below) reported at headquarters and by delegations in accordance with existing guidance have no impact for the assurance. No derogations were granted to the mandatory staff mobility requirement for sensitive functions (ICS 7).

3 This Standard had also been prioritised in the 2012 Management Plan.
<table>
<thead>
<tr>
<th>Exceptions</th>
<th>Comments</th>
<th>Overrides</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>CFSP</td>
<td>28</td>
<td>These relate to the Commission pre-signature of contracts, riders and annexes</td>
<td>0</td>
</tr>
<tr>
<td>Instrument for Stability (IfS)</td>
<td>9</td>
<td>Modifications to the payment schedule</td>
<td>1</td>
</tr>
<tr>
<td>Election Observation Missions (EOMs)</td>
<td>0</td>
<td>N/A</td>
<td>2</td>
</tr>
<tr>
<td>Instrument for Cooperation with Industrialised Countries (ICI)</td>
<td>1</td>
<td>Possibility to amend financing decision</td>
<td>0</td>
</tr>
<tr>
<td>Press and Info</td>
<td>0</td>
<td>N/A</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>38</strong></td>
<td></td>
<td><strong>4</strong></td>
</tr>
</tbody>
</table>

For the prioritised standard indicated in the 2012 Management Plan (ICS 8 *Processes and Procedures*), measures have been taken in 2012. These measures include the speeding up of the closure of old projects, the updating of information regarding financial procedures and improvements in the recording of exceptions. The result is that the implementation of this standard is now considered to be more effective.

### 2.2.2 Conclusion on the effectiveness of the control system

In light of the results of its self-assessment of internal control carried out and for the purposes of this report (ICS 15 – Assessment of internal control systems); in light of the implementation of action plans relative to the recommendations of the different audit bodies; the results of controls; the risk analysis performed in the context of the Management Plan; and the management knowledge gained from daily operations, effectiveness of the control standards and the documentation thereof was maintained in 2012. The functioning of the ICS, and in particular key standards for financial management, contributed to a mitigation of the risks and weaknesses identified, having regard to the specificities and objectives of external relations and the instruments managed by FPI. Measures will be taken in 2013 to remedy remaining weaknesses.

### 2.3 Information to the Commissioner

The Head of Service kept the HR/VP Ashton informed, mainly through her cabinet, through specific information several times in 2012 on FPI issues and relations with the Court of Auditors and OLAF. The main elements of this report and assurance declaration were also brought to her attention in the same way.
PART 3. BUILDING BLOCKS TOWARDS THE DECLARATION OF ASSURANCE (AND POSSIBLE RESERVATIONS TO IT)

3.1 Building blocks towards reasonable assurance

3.1.1 Building block 1: Assessment by management

3.1.1.1. Basic elements contributing to the assurance

The operational budget implemented by HQ continued to use the financial circuit “partially decentralised with counterweight” meaning that all transactions were subject to prior verification by a financial control unit (FPI.1.) which did not report to, or take instructions from, the subdelegated authorising officer (AOSD) in the operational units, but reported instead to the Head of Service. This means that no transaction could be validated by the AOSD without the agreement of the financial control unit, and in the case of disagreement the matter was referred to ultimately to the Head of Service for decision.

The financial control unit performed an additional operational verification in which it can raise wider issues to do with the principle of sound financial management (economy, efficiency and effectiveness) rather than a limited control only on financial correctness and legality and regularity. Such intervention at the beginning of the project cycle is important for ensuring good project design and the correct choice of implementation method.

The value of this ex ante control is shown by the fact that overall some 6.5% of all transactions were sent back to the operational service for correction. Compared to previous years there was a decrease in the number of files sent back, suggesting that the presentation of files by the operational units has been improving. This strong element of ex ante control on all transactions at HQ continues to be a main pillar for the assurance, based on the results of the control work which are set out below.

Another pillar for the assurance was continual management review of the functioning of financial procedures and their correct documentation. Particular attention was needed to ensure that the correct financial circuits and subdelegations were in place and documented. Instructions recalling the procedures were issued and documented. The proper checklists to be used by the initiators and verifiers of transactions were in place and applied correctly. Procedures for recording exceptions to the rules were documented. Subdelegated authorising officers have reported on their financial management and relevant observations are taken into account in this report.

In accordance with the Financial Regulation, the authorising officer must put in place the management and control structures and procedures suited to the performance of his duties, including where appropriate ex post controls. Ex post controls are defined as controls which are conducted after project implementation has begun and after a significant transaction has been completed. They are designed to allow the authorising officer an additional assurance that the control system is working, and that the initial ex ante controls are effective. FPI has recognised notably in response to various audits that ex post controls are now more relevant for achieving a reasonable assurance than in the past. This because of two specific features of the management environment which have become more important in recent years: First is
the fact that over 80% of funds under the Stability Instrument are now subdelegated to be managed by EU delegations. **Second** is the CFSP budget and the fact that the near-totality of funds is managed under indirect centralised management by CFSP missions, under the authority of the Heads of Mission. The capacity for the performance of ex post controls were further strengthened throughout 2012, both through improvements to the reporting on these controls and through additional resources (participation of FPI.1 in ex post control missions).

This means that the **ex ante verification exercised at headquarters cannot give a complete assurance** since it covers only those transactions effected by headquarters services: for the Stability Instrument, this usually covers the financing decision and budgetary commitment, whereas the subsequent individual contracting (legal commitments) and resulting payments are managed in delegations. There, FPI relies largely on Commission staff who became attached at the beginning of 2011 to DG Devco. IfS management on behalf of FPI follows strictly the same circuits and procedures as DG Devco and apply the same rules (Practical Guide etc). A guidance note is provided by FPI to the Delegations implementing IfS projects to explain the specificities of the instrument.

For CFSP, verification by the **ex ante control unit at headquarters covers all transactions up to and including the payment of funds over to the CFSP missions, but does not cover the transactions effected by the missions themselves (contracting and payments) and only indirectly covers the requirements necessary for indirect centralised management (Article 56 Financial Regulation). The consequences of this in terms of the **ex post controls** carried out and the other mitigating measures taken in order to fill these gaps are described below.

### 3.1.1.2. Key indicators, including error rates

A) **Ex ante financial verification**

In 2012, the number of transactions subject to an ex ante visa was 816, summarised below.

#### Table 1 – Financial transaction by Activity

| Activity | Commitment | | | | Payment | | | | Recovery | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Count | Amount | Average | Count | Amount | Average | Count | Amount | Average | Count | Amount | Average | Total Count |
| CFSP | 110 | 350,247,757 | 3,184,071 | 71 | 265,461,999 | 3,738,901 | 104 | 16,005,464 | 153,899 | 285 |
| IFS | 84 | 185,310,782 | 2,206,081 | 90 | 35,721,894 | 396,910 | 8 | 4,209,278 | 526,160 | 182 |
| EOM | 40 | 38,183,288 | 954,582 | 88 | 26,366,724 | 299,622 | 2 | 670,938 | 335,469 | 130 |
| ICI | 77 | 31,583,976 | 410,182 | 68 | 11,426,667 | 168,039 | 2 | 9,044 | 4,522 | 147 |
| P&I | 28 | 2,100,954 | 75,034 | 42 | 1,363,926 | 32,474 | 2 | 50,951 | 25,476 | 72 |
| | 339 | 607,426,758 | 1,791,819 | 359 | 340,341,211 | 948,026 | 118 | 20,945,674 | 177,506 | 816 |
The number of transactions being subject to an unfavourable opinion of the ex ante financial verifiers represented 6.5% which was well below the rate of unfavourable opinions in 2010 and 2011 (15% and 10% respectively).

<table>
<thead>
<tr>
<th>Type</th>
<th>Number of transactions</th>
<th>Unfavorable opinion</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Number</td>
</tr>
<tr>
<td>Commitment</td>
<td>339</td>
<td>20</td>
</tr>
<tr>
<td>Payment</td>
<td>359</td>
<td>29</td>
</tr>
<tr>
<td>Recovery</td>
<td>118</td>
<td>4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>816</strong></td>
<td><strong>53</strong></td>
</tr>
</tbody>
</table>

Table 4 – Unfavorable opinion by type of transaction

The unfavourable opinions were linked mainly to the validation process and the quality of information. (Note: a transaction may contain more than one type of error).

<table>
<thead>
<tr>
<th>Type of transaction</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commitment</td>
<td>41</td>
</tr>
<tr>
<td>Payment</td>
<td>29</td>
</tr>
<tr>
<td>Recovery</td>
<td>4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>53</strong></td>
</tr>
</tbody>
</table>

Table 5 – Unfavorable opinion by type of visa

<table>
<thead>
<tr>
<th>Type of error</th>
<th>Commitment</th>
<th>Payment</th>
<th>Recovery</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal framework</td>
<td>4</td>
<td>0</td>
<td>0</td>
<td>4</td>
</tr>
<tr>
<td>Validation Process</td>
<td>11</td>
<td>5</td>
<td>0</td>
<td>16</td>
</tr>
<tr>
<td>Supporting Document</td>
<td>1</td>
<td>6</td>
<td>0</td>
<td>7</td>
</tr>
<tr>
<td>Validity of the transaction</td>
<td>5</td>
<td>8</td>
<td>0</td>
<td>13</td>
</tr>
<tr>
<td>Payment process</td>
<td>0</td>
<td>4</td>
<td>0</td>
<td>4</td>
</tr>
<tr>
<td>Quality of the information</td>
<td>1</td>
<td>10</td>
<td>3</td>
<td>14</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>22</strong></td>
<td><strong>33</strong></td>
<td><strong>3</strong></td>
<td><strong>58</strong></td>
</tr>
</tbody>
</table>

Table 6 – Unfavorable opinion by type of error
In 2012, the verifiers dealt also with 621 dossiers with no budgetary impact (drafting of financing decisions, modification of bank accounts, reallocation of budget, interservice consultations). The number of these transactions being subject to an unfavourable opinion of the ex ante financial verifiers represented 5%, which is a very low rate compared to 2011 (20%). The most important errors were linked to the quality of the information presented.

**B) Ex post and other controls - assessment by instrument**

As each of the instruments managed by FPI possess their own specificities in terms of layers and characteristics of controls, the results are presented separately for each instrument. Ex post controls in FPI are part of a control strategy which focuses on the specificities of each instrument and which is implemented through annual planning agreed with, and monitored by, the financial unit FPI.1 and the Director. The control strategy aims to both provide reasonable assurance and detect errors, therefore the controls to be carried out are selected based on an initial risk assessment, followed by the selection of a representative sample. In addition, for each of its instruments, FPI relates its minimum coverage used (10%) to the payments made during the year.

Following observations from the Court of Auditors in their 2011 Annual Report, the risk assessment for ex post controls has been improved in 2012 and further refined for the 2013 planning. FPI.1 has an overall coordination role for ex post control risk-based sampling and planning, methodology, procedures and quality control of external audits and although FPI.1 staff where possible participate in ex post control missions, responsibility for ex post controls is maintained in the operational (authorising officer) units. For the presentation of its error rates, FPI takes into account the external audits and ex post controls carried out by either FPI staff or external audit companies specifically for these purpose (i.e. obligatory final audits are considered a separate ex ante element of the control strategy and special purpose follow up audits are excluded). The total cost for these controls in 2012 was € 0.6 million.

The results of controls carried out in 2012, as well as the related amounts at risk are presented in the table below:

<table>
<thead>
<tr>
<th>ABB activity</th>
<th>Payment appropriations authorised (€m)</th>
<th>Payments made in 2012 (€m)</th>
<th>Number of controls</th>
<th>Amount verified (includes previous years) (€m)</th>
<th>Amount verified compared to payments made in 2012</th>
<th>Ineligible amount (includes previous years) (€m)</th>
<th>Corrections made</th>
<th>Detected error rate</th>
<th>Residual error rate</th>
<th>Amount at risk (€m)</th>
<th>Materiality (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>19.01</td>
<td>Administrative expenditure of the External relations policy area</td>
<td>7.40</td>
<td>4.81</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>19.03</td>
<td>Common foreign and security policy (CFSP)</td>
<td>275.64</td>
<td>265.47</td>
<td>7</td>
<td>210.97</td>
<td>79.47%</td>
<td>0.45</td>
<td>0.00</td>
<td>0.21%</td>
<td>0.21%</td>
<td>0.57</td>
</tr>
<tr>
<td>19.04</td>
<td>European Instrument for Democracy and Human Rights (EIDHR) - EOMs</td>
<td>26.16</td>
<td>25.91</td>
<td>7</td>
<td>30.63</td>
<td>118.22%</td>
<td>0.27</td>
<td>0.00</td>
<td>0.88%</td>
<td>0.88%</td>
<td>0.23</td>
</tr>
<tr>
<td>19.05</td>
<td>Relations and cooperation with industrialised third countries (ICI)</td>
<td>16.52</td>
<td>16.31</td>
<td>8</td>
<td>1.87</td>
<td>11.47%</td>
<td>0.00</td>
<td>0.00</td>
<td>0.03%</td>
<td>0.03%</td>
<td>0.00</td>
</tr>
<tr>
<td>19.06</td>
<td>Crisis response and global threats to security (RS)</td>
<td>157.91</td>
<td>157.56</td>
<td>25</td>
<td>131.44</td>
<td>83.42%</td>
<td>0.21</td>
<td>0.01</td>
<td>0.16%</td>
<td>0.15%</td>
<td>0.25</td>
</tr>
<tr>
<td>19.11</td>
<td>Policy strategy and coordination (Press and Information)</td>
<td>12.53</td>
<td>11.91</td>
<td>1</td>
<td>0.12</td>
<td>1.01%</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>496.16</strong></td>
<td><strong>481.97</strong></td>
<td><strong>47</strong></td>
<td><strong>375.03</strong></td>
<td><strong>77.81%</strong></td>
<td><strong>0.93</strong></td>
<td><strong>0.01</strong></td>
<td><strong>0.25%</strong></td>
<td><strong>0.25%</strong></td>
<td><strong>1.05</strong></td>
</tr>
</tbody>
</table>

In 2012, FPI made total payments to the amount of € 482 million (1% for administrative expenditure, 55% under its CFSP budget, 5% for its Electoral Observation Mission activities, 4% under the ICI instrument, 33% under the Instrument for Stability and 2% for press and information activities). The control strategy of FPI focuses on its operational budget and...
excludes the administrative expenditure. The amounts verified includes all the controls carried out in 2012, which can also include payments from previous years. As can be seen in the table, the detected error rates for each instrument are very low. Corrections have been made for a small part of the ineligible amount (which totals € 0.51 million) and are being considered for the remaining part. Given that the detected error rate is already low, once the corrections are applied, the residual error rate will be even lower (therefore it will not surpass the materiality threshold of 2%). The specificities of each instrument, as well as the related controls are further detailed in the paragraphs below.

1) Common Foreign and Security Policy (CFSP)

**Background**

FPI recalls the reduced margin of manoeuvre of the Commission under CFSP. The Commission does not play a programming role nor does it have a final say in decisions. Due in particular to its expertise in project management and its budgetary role, the Commission plays a full role in discussions leading up to Council decisions. Arguments on sound financial management risk being overruled and the Council often may make decisions on political grounds, with political objectives being considered to be of overriding importance. FPI is therefore only in a position to assume responsibility for ensuring that the necessary control and support mechanisms are in place and observed in the second part of the project cycle, i.e. the budgetary implementation phase, and less at the project design phase.

The total available budget was almost fully committed successfully. Of the total budget implemented of EUR 336 million (commitment appropriations), EUR 314 million or over 93% was managed under indirect centralised management by CFSP missions; EUR 9 million (2.5%) by international organisations under joint management; and the remainder EUR 13 million under direct centralised management. The small amount of the latter was subject to the headquarters ex ante control system which as described above provides a sufficient assurance. For joint management FPI usually dealt with organisations of the UN family. As regards the “four-pillar” assessment of the compliance of these organisations with the requirements of joint management laid down in the Financial Regulation (Article 53d), for most of the organisations results are available from DG Devco on which FPI can rely. In addition the organisations are subject to the EC/UN Financial and Administrative Framework Agreement (FAFA) and its verification provisions under which checks and audits are performed.

In the area of CFSP, all financial transactions are linked to the implementation of operations and projects decided by the Council. Actions financed can either be CSDP civilian crisis management missions, European Union Special Representatives or actions in the field of non-proliferation of Weapons of Mass Destruction (WMD) and small arms and light weapons (SALW). These actions are contracted through Special Adviser Contracts, contribution agreements or grant contracts.

**Challenges for CFSP management**

In 2012 the Commission adopted a Communication (C(2012) 4052 of 26 June) (drafted by FPI in agreement with the EEAS and HR/VP Ashton) in which it recommended to Council that CSDP mission staff should from 1 July 2013 be subject under the EU Staff Regulations to the Conditions of Employment of Other Servants (CEOS). It further decided that from that date, EUSRs and heads of CSDP mission would no longer be employed as special advisers by the Commission. The Commission would in future sign financing agreements with the missions,
so that the heads of mission no longer would carry the entire financial responsibilities on a personal basis. To facilitate these changes, the Commission recommended that CSDP missions should have legal personality and be in a position to employ their own staff. The reason for the Commission proposals were the legal, financial and reputational risks in the current arrangements for employing CSDP mission staff and EUSRs. The Commission has been trying to improve arrangements and tackle these risks for a number of years.

**The risks identified in the Communication clearly impact on FPI responsibilities**, and have been known for a number of years. FPI considers that, by issuing the recommendations in the Communication and by providing for the above changes from 2013, the Commission has mitigated these risks as much as it can within its powers under the treaties. Against this background FPI continued in 2012 to ensure continuity and effectiveness of CSFP operations.

As had been concluded in audit different findings, FPI recognised, together with Council and the EEAS, that more needed to be done to facilitate the rapid and effective establishment of CFSP missions once decided by Council. To this end FPI in 2012, working closely with the EEAS, successfully obtained Council agreement on the setting up of a *warehouse* to stock certain necessary equipment including vehicles ready for immediate deployment to new missions. FPI completed the necessary tender and concluded the service contract.

In addition, working closely with the EEAS, FPI pursued the idea of a *“shared services centre”* i.e. a structure available in Brussels to assist missions especially in the set-up phase and to provide for more professional support, and which was agreed by HR/VP Ashton. It defined with the services concerned the terms of reference which will allow for the necessary feasibility study of different options to be launched in early 2013.

**Indirect centralised management by CFSP missions**

This constitutes the main challenge for the internal control system and the assurance and the largest area of risk in the operational budget. To delegate management of funds under the indirect centralised method the Commission must ensure that the body receiving the funds meets the requirements set down in Article 56 of the Financial Regulation. The pertinent requirements for financial management which the CFSP missions have to fulfil are transparent procurement procedures; an effective internal control system including segregation of the duties; an adequate accounting system; an independent external audit.

The particular feature of the CFSP operating environment is that CFSP missions are each time created from scratch and in order for them to be operational from day one, the Commission has to entrust them with funds necessary for their functioning, including procurement of equipment, **without being able to have a prior assurance** that they fulfil the requirements of Article 56. This situation pertains in every case where a new body or agency is created from scratch under the EU budget, the difference being that CFSP missions operate outside the EU and often in uncertain security environments. In order nevertheless to provide a reasonable assurance, FPI relies on the following mitigating measures:

- **a) financial reporting** (delegated management reports) by the missions, is fixed in the agreements concluded between the Commission and each CFSP mission;

- **b) in view of the inability to ensure compliance with Article 56 from the first day, the agreements subject all procurement by the CFSP missions of more than EUR 10 000 to mandatory prior approval** by the Commission (FPI-HQ);

- **c) obligatory external audits before final payments**, also specified in the agreements;
d) obligations regarding the main elements - procurement, segregation of duties, accounts and external audits are specified in the agreements concluded between the Commission and each CFSP mission. **Progressive implementation of the Article 56 criteria** by the missions, subject to verification by the Commission.

**e) ex post / on-the-spot controls** by the Commission on missions’ systems and transactions.

**A) Financial reporting:** CFSP missions and EUSRs have to provide a monthly administrative report; an interim report / financial statement together with requests for a 2nd and subsequent prefinancing payments; final report / financial statement upon conclusion of a joint action; an external audit report following the end date of the implementation of the contract. In view of the evident risks represented by the largest mission, which absorbs around 50% of the CFSP budget, this mission has in addition to submit a quarterly external audit report on its accounts.

Despite these obligations the belated submission of final reports and accompanying supporting documents by CSDP missions and EUSR offices is a recurring problem which complicates and delays closure of contracts. Greater efforts have been made to follow up and effectively close old projects. FPI established an action plan for this purpose. Compared to the 36 contracts closed in 2011, FPI was able to close 60 in 2012.

**B) Prior approval of procurement:** this applies both to launching of procurement procedures and awarding of contracts with a value exceeding EUR 10 000. The purpose is to verify whether procurement rules and procedures are respected, whether the contracted amounts correspond to the mission’s budget, and whether the purchases of the services or supplies are justified. In practice, it also means that FPI provides substantial support to the missions by carefully screening contract notices, tender files, evaluation and negotiation reports, proposed contracts and suggesting modifications and improvements to all submitted files.

Few files are rejected outright, but some are returned for correction: 468 procurement files were treated by the Service in 2012. Out of these, only 4 were rejected while 67 were approved with corrections. This low number of rejections and corrected files indicate the quality of the submitted procurement files, which is to a certain extent due to effort FPI has been making in recent years to follow up procurement files from the missions and to provide support to the procurement teams in the missions. Rejections were mainly for resorting to inappropriate procurement procedures and poor quality and/or incomplete terms of reference or technical specifications. Files were sent for correction for the following reasons: errors in the contract notices and tender files; incomplete documentation; terms of reference or technical specifications inadequate/unclear; incorrect selection and evaluation criteria.

**C) Obligatory external audits:** All CFSP missions and EUSR offices are required to have the final report and financial statement for each contract concluded with the Commission audited by an external audit company. The use of the services of external audit companies selected and contracted by the Commission is mandatory. The Commission concluded a financial audit framework contract (FWC) with three audit companies in cascade for this purpose. The mandatory use of this FWC has led to a substantial improvement of the quality and consistency of the audit reports submitted with the final payment requests.

18 of these audit reports submitted in 2012 have been analysed. The total amount paid by FPI was EUR 371 million of which EUR 340 million was actually spent by the missions and EUSRs. 3 audit reports listed financial findings for a total amount of EUR 188,947.50 which equals 0.06% of the actual expenditure reported.
11 out 18 reports contain management/compliance findings. In total 53 findings were formulated of which 36 were categorised. These 36 findings can be broken down in 18 priority level 1 (= “critical”), 9 priority level 2 and 17 priority level 3 findings. Most of the findings concern missing or incomplete supporting documents and other documentation; incorrect segregation of duties; lack of written procedures and policies; reporting problems (no monthly reports, delay in submitting final report); and accounting system weaknesses.

While the results of 18 external audits indicate a negligible percentage affected by financial findings, the other findings required on-going follow up. Management use a follow-up table to measure progress and follow-up also through monitoring missions and further ex post controls. The system is still being developed and needs further improvement.

D) Verification of Article 56 compliance: implementation of Article 56 has been put in place for two missions: EULEX Kosovo and EUMM Georgia. For EULEX Kosovo this took place in 2011 whilst delegation of powers to the Head of Mission of EUMM Georgia took effect on 15 September 2012. These missions represented a total of EUR 131.9 million in commitments in 2012 or 39.3% of the total CFSP budget. The outsourced six-pillar assessment of EUPOL Afghanistan was completed in 2012 and there was a follow-up visit by the project manager. The outcome of the assessment for EUPOL Afghanistan was fairly positive and a roadmap for the full implementation of all the conditions necessary for the delegation of powers will be agreed with the mission in the first half of 2013. Compliance with the Article 56 criteria is expected by the summer of 2013 to be immediately followed by the delegation of powers to the Head of Mission.

The experience gathered in encouraging and assisting CFSP missions progressively to move towards Article 56 compliance has revealed the labour-intensive and time-consuming nature of this process both for FPI and for mission staff. It also confirms the necessity for FPI to maintain in the meantime the mitigating controls set out in this section.

E) Ex post / on-the-spot controls:

Five ex post controls by external auditors were commissioned for contracts/agreements concluded and financed in the period 2009 to 2011. The total value of the audited contracts amounted to EUR 146.1 million and the expenditure audited amounted to EUR 90.8 million. The cost of the 5 audits was EUR 144,440 or 0.12% of the total value of the contracts audited. The value of the financial findings amounted to EUR 0.17 million, representing 0.18% of the expenditure audited. Corrections linked to these audits are still to be made.

In addition one 2011 ex-post control by external auditors was finalised in 2012. The total expenditure amounted to EUR 147.1 million of which EUR 119.6 million or 81.3 % was checked and the financial findings amounted to EUR 0.283 million or 0.24% of the amount verified.

Therefore the overall financial findings from these ex post control audits (EUR 0.45 million) correspond to an overall error rate of \(0.21\%\) (as presented on page 17 table).

In addition one 2012 ex post control mission was conducted by the ex post control team of the operational unit FPIL3. The preliminary audit findings revealed errors however the draft report is still in the contradictory phase with the auditee, and so it cannot be relied on for the assurance as it has not yet been finalised and errors are likely to be clarified.
2) Instrument for Stability

Background

In 2012, the successful management of a EUR 217.8 million budget (commitment appropriations) saw 40 actions launched for a total of EUR 195.8 million under the short-term crisis response programme of the IfS. A further EUR 22 million was committed under the Peace-building Partnership (PbP), the long-term, programmable arm of the IfS.

Elements of the control system providing a basis for the assurance

a) the control systems in place in delegations;

b) financial reporting to and monitoring by headquarters;

c) ex post controls on delegations’ financial management and systems;

d) ex post / on-the-spot controls on beneficiaries by the Commission;

e) obligatory expenditure verifications before all final payments, as specified in the relevant contracts or agreements.

A) Control systems in delegations

Funds attributed to be managed in EU delegations are subject to the same standards as funds managed at headquarters. So even if the ex ante control exercised by the headquarters financial unit no longer intervenes, transactions are subject to the normal Commission financial circuits including ex ante verification by the relevant staff in the delegations, in accordance with the “four-eyes” principle. Delegations apply to IfS projects the same rules and procedures as they use for other external assistance programmes delegated to them (mainly DG DEVCO).

The heads of the delegations concerned submitted an AOSD report covering their subdelegated responsibilities for IfS funds. A table containing the declarations of assurance from the heads of delegation, including a description of self-declared internal control weaknesses – if any - in their delegation is included in the AOSD report 2012 from FPI.2.

Delegation reports that provided an assurance subject to any noted reservations were cross-referenced with the EAMR submitted to DEVCO, with no discrepancies found between what was reported. As was already the case in previous years, staffing issues continued to be very apparent in 2012.

B) Financial reporting and monitoring:

Headquarters retains responsibility for budget management and planning, which requires central monitoring of project implementation and budget execution. Contracting and payments (both HQ and delegations) are monitored via the IfS budget database covering all IfS measures since the start of the instrument in 2007. In addition, in response to audit findings, from January 2009 the responsible unit used the standard external assistance system CRIS for all IfS projects (following a pilot phase in 2008 and after staff received the necessary training), which allows a better overview of ongoing projects and contracts.
**Ex post controls - overview**

In 2012, 25 ex-post verifications were conducted:

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Delegations checked by FPI staff</td>
<td>4</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>Ex-post controls of IfS beneficiaries by FPI staff</td>
<td>11</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td>External audits of IfS beneficiaries</td>
<td>0</td>
<td>16</td>
<td>12</td>
</tr>
<tr>
<td><strong>TOTAL:</strong></td>
<td><strong>15</strong></td>
<td><strong>25</strong></td>
<td><strong>25</strong></td>
</tr>
</tbody>
</table>

The *ex post* controls in 2012 did not reveal a material error rate (the combined overall error rate for all IfS controls is **0.16%**, as presented in the table on page 17).

**C) Ex post controls on delegations**

As in previous years, FPI.2 opted in 2012 to conduct ex-post controls of the IfS systems and transactions of devolved Delegations managing IfS funds. The assessment of the internal control system in Delegations is based on a questionnaire established by DEVCO.

In 2012, 7 Delegations were visited by FPI compared to 5 Delegations in 2011. The provisional error rate resulting from the ex-post controls of devolved Delegations was **0%**. Payments for a total amount of EUR 96 million (corresponding to **61.3%** of total 2012 payments) were checked.

Based on their findings, the mission teams were of the opinion that the level of financial management of IfS expenditure is **satisfactory in all the delegations inspected**, but some administrative weaknesses have been identified. None of the administrative errors identified had financial consequence.

**D-1) External audits of IfS beneficiaries in 2012**

FPI.2 commissioned **10** external audits of IfS beneficiaries in 5 different countries using the DEVCO Framework Contract for Audits. The Terms of Reference were based on standard DEVCO methodology for financial audits. The selection of contracts to be subject to an external audit was made with a view to constitute a representative sample of IfS beneficiaries. Total expenditure audited was EUR 33.2 million or **14.5%** of the total value of contracts signed in 2012. Total expenditure identified as ineligible by the auditors was EUR 0.2 million\(^4\) resulting in an error rate for IfS beneficiaries of **0.68%** which falls below the materiality threshold.

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\(^4\) Provisional as not all the audit reports are final at the time of publication of the AAR, see Annex 5

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D-2) Ex-post controls of IfS beneficiaries in 2012

In addition to external audits, FPI.2 staff conducted 6 ex-post controls of IfS beneficiaries. Three of the 6 ex-post controls were governed by the “verification guidelines” applicable to verification missions of UN agencies under the Financial and Administrative Framework Agreement (FAFA) of 29 April 2003. The total value of operations covered by the control corresponds to 9.3% of all contracts signed in 2012. Ineligible expenditure totals EUR 5,789. The error rate resulting from the ex-post controls by FPI.2 staff is 0.11%.

The total combined error rate from external audits (section D-1) and ex-post controls (section D-2) of IfS beneficiaries is 0.60%.

D-3) Risk-based audits of IfS beneficiaries

In addition to the representative sample of 10 IfS contracts subject to an external audit, FPI.2 conducted 2 special purpose audits of an IfS beneficiary implementing 2 projects for an amount of EUR 500,000, after fraud allegations raised by an informant were passed on to OLAF. For the ongoing management of the grants and while the matter is still under investigation, the audits were intended by more forensic methods to obtain a better assurance on the use of the funds. The amount audited (EUR 0.5 million) represents 0.2% of the total value of contracts signed in 2012. The provisional error rate resulting from this “problem case” (before contradictory procedure) is 27.5%. Ineligible expenditure for a total amount of EUR 108,693 was identified, although the contradictory procedure with the beneficiary is still ongoing. Some of the findings may be considered to meet the EU’s fraud definition. The procedure will be concluded and decisions taken on possible recovery of funds in early 2013.

The total cost of the 12 external audits conducted in 2012 (10 under section D-1 below) and 2 under section D-3) was EUR 0.2 million.

E) Expenditure verifications before all final payments

Like DG Devco, and in application of the same standard procedures and contracts, all IfS grants under centralised management (i.e. by HQ or by EU delegations) include a requirement for expenditure verification by registered external auditors, engaged by the beneficiary, to provide certified expenditure verification prior to final payment. The final invoice has therefore normally been adjusted by the beneficiary following the verification audit findings and ineligible expenditure deducted or not claimed. FPI additionally carries out an assessment of the professional qualification of the auditing firms contracted.

3) Election Observation Missions (EOMs)

An amount of EUR 38 million (commitment appropriations) was allocated on this budget line to support democratic elections through Election Observation Missions (EOMs). This amount was committed in full. Individual EOMs are usually run under centralised direct management (by FPI HQ) using a new framework contract established in 2012. A service provider is selected under the FWC to provide all the logistical and support functions required for each.

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5 Provisional as not all the audit reports are final at the time of publication of the AAR, see Annex 5
EOM. Upon completion of the EOM a final expenditure verification report established by an independent auditor together with the final report is always required from the contractor. The Commission therefore has the opportunity to correct any ineligible expenditure in all cases.

In addition, FPI undertook 6 *ex post* controls using external auditors (two of these audits had been included in the 2011 *ex post* control plan but not finished in time for the 2011 assurance). As can be seen in the table on page 17, the audit coverage for EOM activities was unusually high, as this is a sector which was taken over from DG Devco and had not been audited previously by FPI. The financial findings arising from the 6 controls (EUR 646,190) represent 2.1% of the total amount verified (EUR 30,631,292). The larger part of this amount (EUR 514,115) related to one issue (supporting documents for travel). Upon further analysis FPI has decided to confirm part of this amount (EUR 375,229) as eligible. For the findings relating to the remainder of the amount (EUR 132,075), corrective action at the level of the transaction (recovery) is under consideration. This means that the residual error rate is below 2% and is estimated at 0.88%. This error rate might be further reduced upon final completion of the analysis relating to the supporting documents. At the level of systems, corrective steps were taken in the contract with the service provider and in the instructions given to election observers to clarify their obligations regarding supporting documents. Given these corrections, the error is not considered significant for the assurance.

Expenditure verification reports received for the EU EOMs paid during 2012 conclude that there are no significant issues found in the analysis of the fees and the incidental expenditure and that the financial statements submitted with the final invoices represents the real expenses of the missions in accordance with the contractual obligations of the service provider. In certain cases there have been findings related to missing adequate supporting documents, wrong application of exchange rate or excess use of internal vouchers. However, those findings represent a minor part of the expenditure not material for the assurance.

The 2 audits from the 2011 EPC plan had compliance (regularity) findings. The weaknesses identified relating to the volunteer status of the observers is one of the two issues reflected in part 3.2 (reservations) of this report, both of which concern the Election Observation Missions.

This sector was also subject to an IAC audit (see section 3.1.2) on which the IAC based its reasonable assurance.

### 4) Industrialised Countries Instrument (ICI)

In 2012, the instrument had a budget of just over EUR 19 million and was committed in full. The majority of cooperation activities are managed centrally and directly by FPI HQ, including through subdelegation to other services (*see section 3.4 below*) and through devolution of management responsibilities to two delegations in the main partner countries. Delegations implemented activities covering a total of EUR 6.1 million.

Activities in the field of education cooperation under the ICI “people-to-people” action is implemented in the form of centralised indirect management by cross delegation to the DG EAC Education, Audiovisual and Culture Executive Agency (EACEA) (*see 3.4 below*).

Activities managed directly by HQ are subject to the *ex ante* control system described under point 3.1.2 (above) and in addition the assurance relies on the final reports required from beneficiaries/contractors. As regard to *ex post* checks of ICI beneficiaries in partner countries, on-the-spot checks by the delegations did not reveal significant findings for the assurance, nor did the AOSD reports of the relevant delegations to which management is devolved. The
external audits (7 reports) launched by FPI revealed an ineligible amount of €471, which is considered to be of minor consequence for the assurance.

FPI HQ carried out an *ex post* control mission to one of the 2 main delegations implementing ICI funds. The total value of the contracts under management by the delegation in the period 2008-2011 was EUR 5.3 million, while the relevant 2012 commitment appropriations for this delegation amounted to 0.9 million. The mission concluded that ICI financial management was satisfactory. The error rate is below 2% and is therefore not significant for the assurance. However, there were a number of administrative/systems findings including a very important finding concerning the supporting documents required when processing payments and the underlying assumptions on which the control strategy is based (confirming a similar previous finding in the other delegation managing ICI funds). The contradictory procedure regarding these findings is still ongoing, however given the amounts, the relatively risk-free environment in the countries concerned and the nature of the beneficiaries/partner institutions involved, the weakness is not considered significant for the 2012 assurance. It will however need to be addressed jointly by HQ and the delegations in 2013 by designing appropriate requirements for supporting documents on the basis of a risk assessment and a documented control strategy. It will become more important to have addressed this issue when the new Partnership Instrument, with a larger budget, begins to be implemented in 2014.

### 5) Press and Information (P&I)

The majority of cooperation activities are managed centrally and directly by FPI HQ, including through subdelegation to other services (*see section 3.4 below*) and through devolution of management responsibilities to EU delegations for press and outreach activities. In 2012 delegations implemented actions covering an amount of EUR 5.6 million out of a total of EUR 12.3 million allocated to this programme. The *ex post* controls carried out on the two main delegations for ICI also at the same time covered verification of P&I transactions. For 2012, this instrument represents the only exception to the FPI rule on 10% coverage of each instrument (related to the payments of the reporting year), as transactions on this budget line consist of a large amount of small individual payments. For cost effectiveness reasons, separate controls on this budget lines have not been launched (therefore the coverage for 2012 is 1%). Starting 2013, the control of this budget line will be carried out through desk reviews and will aim to reach a 5% coverage.

The total value of the contracts managed in 2011 under this budget line by the delegation visited was EUR 0.5 million. The error rate found in the analysis of the supporting documents when making payments is below 2%. AOSD reports have been received from all delegations and those with significant budget allocations analysed but no particular problems were highlighted.

In terms of the overall assurance this sector of activity is of minor significance. However, management is aware of the practical problems experienced in delegations caused, since the creation of the EEAS, by a shortage of Commission staff available to assume financial management functions for this budget, meaning that delegations have difficulty in putting in place a financial circuit or that inexperienced staff have to take responsibility. Due to these and other difficulties, this small budget (EUR 5.6 million) is the principal source of late payments in FPI and has a significant backlog of inactive commitments. Since the operational staff formerly responsible for this budget (press officers in delegations) are now in the EEAS, it could appear more logical for this expenditure to be managed by the EEAS. Management by FPI of the EEAS websites and websites of EU delegations raise similar concerns. As reported in Part One, while FPI is downsizing where it can, it is not possible to discontinue these
activities without providing for business continuity. Therefore FPI has brought these issues to the attention of the EEAS and the Commission central services and is actively pursuing solutions with them which would allow alternative management arrangements to be put in place.

**Indicators of sound financial management**

a) Fraud prevention and detection

For CFSP, in 2012 there were five ongoing cases which had been reported to OLAF and which at year end were at different stages of investigation. Follow up to these cases will be given in 2013. For IfS, there were two new cases introduced in 2012, both of which were still pending at the end of the year. In addition, the outcomes of four old cases are still outstanding, with one of the cases expected to be closed in the first half of 2013. In 2012, FPI has prepared an anti-fraud strategy which will be implemented in 2013.

b) Time-to pay

In 2012, the average number of days to make a payment was 30, which represents a slight decrease compared to 2011 (32 days). The percentage of invoices paid on time has slightly increased compared to 2011 (70% compared to 68%). These figures need to be interpreted in light of the fact that the majority delays occur at the level of Delegations on one budget line, which represent 81% of the number of payments made by FPI and are the cause of 90% of delays. Progress on this indicator is constantly monitored and Delegations are encouraged to improve on their performance.

c) Amounts to disburse (RAL)

The amount to be disbursed at the end of the year has decreased considerably (by 49.4%) in 2012, mainly due to payments made on CFSP and IfS, which represent more than 80% of the amounts left to pay.

3.1.2 Building block 2: Results from audits during the reporting year

**Court of Auditors**

The only new audits carried out during the reporting year were transaction tests performed by the Court of Audits within the framework of the DAS exercise. The final results of this work will be published by the Court in November 2013. No findings have been issued yet by the Court regarding FPI transactions sampled.

Following a review of systems in FPI conducted in February 2012 in the Framework of the DAS 2011, the Court of Auditors criticised the absence of an effective Internal Audit Capability (IAC) in FPI. The Court acknowledged that this was due to the reorganisation of DEVCO/FPI/EEAS in 2011 which was outside the influence of FPI. This has now been rectified and the IAC function provided to FPI by DEVCO is fully operational.

In general, the Court assessed monitoring/supervision and ex-post controls as "effective" for IfS. According to the Court, "FPI has introduced significant improvements in the establishment of the Annual Audit Ex-post controls Plan, with a strong increase in the number of external audits". The overall assessment by the Court regarding the supervisory and control systems of FPI concluded that these are partially effective, which is in line with the results of
the similar examination for other external relations DGs operating in some difficult countries. FPI has already taken measures to address the recommendations included in the 2011 Annual Report of the Court, namely strong efforts on the closure of old contracts (as described on page 20), assessments of CFSP missions and improving the risk assessments linked to ex post controls. Observations regarding the calculation of a residual error rate have also been followed up on, as all available corrections are now taken into account for the presentation of the error rate in the Annual Activity Report of the Service.

In 2011, the Court of Auditors conducted a performance audit on EU assistance to Kosovo related to the rule of law. The final audit report was published at the end of 2012. While one IfS project was included in the scope of the audit, no specific recommendations were made linked to the IfS and findings on CFSP concerned mainly operational issues. FPI followed up one observation by the Court by clarifying instructions issued to CSDP missions on the use of negotiated procedures in crisis situations which should better meet their operational needs.

**Internal Audit Capability (IAC)**

As a relatively small Commission service, FPI has a service level agreement with DG Devco which covers the provision of a number of services, including the IAC function. As mentioned above, this function was operational in 2012 and FPI activities were included in the Devco IAC work plan for 2012 and agreed with the FPI Director. As a result, one audit on Election Observation Missions was carried out at the end of 2012. Based on the conclusions of this audit, the IAC considered that the internal control system in place in FPI provides reasonable assurance.

**3.1.3 Building block 3: Follow-up of reservations and action plans for audits from previous years**

**Risk management**

This formed part of a 2009 general audit on risk management within the Commission. DG RELEX was one of the DGs included. Although the IAS issued an opinion at Commission level, a number of recommendations were addressed to DG RELEX. An action plan was prepared for the accepted recommendations. Follow-up of the recommendations were subsequently split between the two newly established services, EEAS and FPI. Due to additional workload regarding the AAR 2009 reservation and the preparatory work for the establishment of the EEAS and FPI, not all actions envisaged were carried out in the foreseen time (2010). The recommendations have been taken into account by FPI in a new risk management framework adapted to its new management environment. All recommendations were fully implemented by the end of 2012. The IAS is carrying out a follow-up audit.

**Common Foreign and Security Policy**

In 2011, the IAS carried out a follow-up audit on the IAS/IAC audit carried out in 2009 on the financial management of the Common Foreign and Security Policy budget. As a result of this follow-up audit, the IAS closed 7 recommendations and left 4 open. One 'Very Important' observation was downgraded to 'Important'. The 4 remaining observations relate to the development of guidance and support for the setup of CFSP missions, project monitoring for ESDP missions and EUSRs, closure of contracts and filing at headquarters. At the end of 2012, the first 3 recommendations were considered closed by FPI. The only open recommendation is on the filing system at HQ (expected completion date: June 2013). FPI has notably taken other steps to help improve the set-up of CSDP missions (see 3.1.1.2 above).
3.1.4 Building block 4: Assurance received from other Authorising Officers in cases of crossed sub-delegation

Subdelegation was given to DG COMM in relation to a contract with Euronews (for broadcasting news to Iran in the Farsi language). A specific report has been provided by DG COMM and it contained no reservations linked to this expenditure.

Subdelegation was given to DG EAC on budget line 19 05 01 (cooperation with industrialised and countries - ICI) and the related line for administrative support expenditure (19 01 04 08) the implementation of the educational part of this instrument. DG EAC provided FPI with an authorising officer’s report in which it made no major observations and identified no weaknesses for the systems and transactions under these budget lines.

3.1.5 Completeness and reliability of the information reported in the building blocks and conclusion on overall assurance

To the best of the knowledge of the Head of Service, based on the information, assessments, observations and opinions provided by subdelegated authorising officers and those responsible for internal control and by the internal and external auditors, the elements of appreciation and considerations emerging from the building blocks are complete and reliable and give a true picture of the state of the internal control system in 2012.

As a result of continued improvement in the performance of both ex ante and ex post controls (which now extend to all spending instruments of FPI and all management modes); and as regard measures taken regarding the detection and follow-up of fraud and the follow up given to audit recommendations (as presented above), FPI considers that a reasonable assurance has been achieved for 2012 regarding a true and fair presentation of the control system, the resources used, sound financial management, and the legality and regularity of transactions.
### 3.2 Reservations

<table>
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<tr>
<th>DG/service</th>
<th>Service for Foreign Policy Instrument (FPI)</th>
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</thead>
<tbody>
<tr>
<td><strong>Title of the reservation, including its scope</strong></td>
<td>Reservation concerning potential legality / regularity issues and risks arising from election observation missions (EOMs).</td>
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<tr>
<td><strong>Domain</strong></td>
<td>Direct centralised management – procurement of services (European Instrument for Human Rights and Democracy EIDHR – election observation missions)</td>
</tr>
<tr>
<td><strong>ABB activity and amount affected (=&quot;scope&quot;)</strong></td>
<td>TITLE 19 — EXTERNAL RELATIONS CHAPTER 19 04 — EUROPEAN INSTRUMENT FOR DEMOCRACY AND HUMAN RIGHTS (EIDHR) 19 04 03 Electoral observation Total authorised budget: EUR 38 million commitment appropriations; EUR 29,4 million payment appropriations.</td>
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<tr>
<td><strong>Reason for the reservation</strong></td>
<td>The two issues below derive from practices that have been established and followed over a number of years without being questioned and yet which deliver results. FPI took over responsibility for this sector only in 2011. Since then, the two weaknesses were identified by FPI when considering the renewal of the main contractual arrangements in place until recently and by external auditors during recent ex post controls (finalised in March 2013). Management has been made aware of all issues, has analysed them and has taken corrective measures so far as possible while still ensuring business continuity and effective operations. First, <em>the procurement / recruitment of Core Team (CT) experts</em>: the 2004 Commission Decision on election observation laid down that the, usually, 8-10 Core Team experts, who are specialised in different aspects of election observation (electoral, political, media and other issues) and work at the EOM’s headquarters, in the partner country, under the direct supervision of the Chief Observer (Member of the EP) and his/her Deputy, should be engaged on the basis of service contracts by the Commission, i.e. subject to a procurement procedure. However, currently FPI publishes a call for expression of interest using arrangements set up and designed for the nomination of volunteer election Observers from the Member States. FPI selects the CT experts and forwards their names to the selected Service Provider, who provides logistics for the EOMs under the Framework Contract (FWC). The Service Provider then signs with the experts a contract (which varies from one Service Provider to the other), which foresees payment of the experts’ “fees”. However, this would be in breach of financial/procurement rules and the Staff Regulation. <strong>Quantifiable weakness: occurrence of possible errors in the underlying transactions (legality and regularity issues).</strong> Second issue, <em>the respect of the Observers’ “volunteer” status</em>: Council conclusions from 2000 foresee that Long- and Short-term election Observers (LTOs and STOs, respectively), who are deployed on partner country’s territory to observe the electoral process, should be volunteers, and the 2004 Commission Decision foresees that they will be paid travel expenses, per diems and allowances. LTOs and STOs are pre-selected by the Member States and confirmed by the FPI. Their names are communicated to the...</td>
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Service Provider with whom they sign a “letter of assignment” which underlines their volunteer status and sets out their rights and obligations. However, the assignment process of Observers departs from the volunteers’ scheme originally conceived since LTOs receive an allowance. Moreover, the legal framework for this volunteer scheme is not clear (except a reference in Council conclusions and a 2004 Commission decision). **Qualitative weakness: control system weakness with reputational risks.**

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<tr>
<th><strong>Materiality criterion/criteria</strong></th>
<th>If the potential legality and regularity issues are to be confirmed, this would mean that the related criterion of 2 % of the ABB activity is breached (materiality criterion).</th>
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<tr>
<td><strong>Quantification of the impact (= actual &quot;exposure&quot;)</strong></td>
<td>The first issue can be quantified because it concerns a likely lack of valid procedures having been followed. The value of the potential irregularity has been estimated at EUR 2,2 million (total amount at risk), which out of total payments for this ABB activity of EUR 26 million represents an error rate of 8,5 %. The other issue cannot be quantified although it could have a financial impact on the EU budget due to the related risks of possible legal action.</td>
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<tr>
<td><strong>Impact on the assurance</strong></td>
<td>The assurance could be affected because the quantifiable weaknesses may put at stake the legality and regularity of financial transactions and could be considered as a material error. The likely error is not the fault of a third party and therefore cannot be corrected by normal measures such as recovery. The other weakness leads to risks which could be political, institutional and reputational for EU, Commission and/or the HR/VP and for the reputation of the Commission and HR/VP among stakeholders in this policy (including Member States) in the event of court cases leading to financial charges on the EU budget. Court cases could arise because of the insufficiently clear legal framework. As outlined further below, corrective actions have been taken within FPI’s authorising officer powers to address the second weakness (non-quantifiable) mentioned under the reasons for reservation. However, to remedy completely all the weaknesses immediately would have meant suspending EOM operations while new contractual arrangements or alternative implementation methods were put in place, which would take several months. The principle of sound financial management includes the principle that expenditure operations should be effective in achieving the objectives of EU policy. Suspending EOM operations would prevent the EU achieving its objective under the EIDHR to support democratic elections in partner countries. In addition, such an interruption caused by the Commission would not be welcome to stakeholders in this policy (including the EP and Member States) and would have a negative impact on the reputation of the Commission and /or the HR/VP.</td>
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In considering what action to take the authorising officer had to
weigh up the risks involved in different options. FPI considers that the risk of interrupting business continuity and preventing effective operations (sound financial management) outweighed the other possible risks. The action taken so far has significantly reduced the risk involved in the second weakness by clarifying the key aspects of the contractual arrangements. Action is being taken to tackle the first identified weakness, as set out below, which will regularise the issue of legality / compliance.

<table>
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<tr>
<th><strong>Responsibility for the weaknesses</strong></th>
<th>FPI is responsible for the weaknesses even if they derive from long-standing management practices from a time before FPI took over responsibility for the activity.</th>
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<td><strong>Responsibility for the corrective action</strong></td>
<td>Within its authorising officer powers, FPI has taken the following action to mitigate the risks and rectify some of the underlying weaknesses in the system: When the opportunity arose to review existing contracts and their implementation, and to renew them, contractual arrangements and documents were changed along the following lines:</td>
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<td>• To clarify respective responsibilities of the Commission and the service provider for observation missions, as well as their relations with the EOM experts and the observers.</td>
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<td>• To clarify the status of volunteer election observers and their fiscal obligations and to put in place a non-contractual “letter of assignment” setting out their tasks and the EU’s undertakings towards them.</td>
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<td></td>
<td>• To clarify certain aspects of the insurance cover and liability for the EOM team members.</td>
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<td>This allowed the corrections of several weaknesses while allowing for business continuity for the period 2013-14.</td>
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<td>In addition, at the same time, and without interrupting operations, FPI took action or is taking action in consultation with the central Commission services (BUDG, LS, HR):</td>
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<td>• To clarify possible future options for providing the necessary specialist external expertise to EOMs, including possible new opportunities opened up by the latest amendment of the Financial Regulation just entered into force.</td>
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<td>• To clarify where possible the framework and the basis for volunteer election observers.</td>
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<td>In the meantime the FPI ensures that experts are still made available for EOMs on the basis of procedures which are as fair, inclusive and transparent as possible. As a result of the ongoing consultation process, it cannot be excluded that the current arrangements may have to be revised, possibly in a wider inter-institutional context.</td>
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</table>
3.3 Overall conclusions on the combined impact of the reservation on the declaration as a whole

On the basis of the actions described in the above reservation to mitigate the identified possible errors, FPI considers that the interests of sound financial management (effectiveness of operations and business continuity) outweigh concerns about remaining legality issues which are in the process of being examined with the help of the central services with the objective of resolving them and that therefore, it is possible to give a positive assurance. My assessment is further reinforced by the fact that the impact of the quantifiable weakness (recruitment of the core team experts) in the wider FPI context is negligible. While EOM payments make up about 5% of our overall payments of all FPI instruments, the remuneration of core team experts is 8.5% of that, namely 0.4% of the total FPI payments.
PART 4. DECLARATION OF ASSURANCE

I, the undersigned,

Head of Service of the Service for Foreign Policy Instruments,

In my capacity as authorising officer by Declare that the information contained in this report gives a true and fair view6.

State that I have reasonable assurance that the resources assigned to the activities described in this report have been used for their intended purpose and in accordance with the principles of sound financial management, and that the control procedures put in place give the necessary guarantees concerning the legality and regularity of the underlying transactions.

This reasonable assurance is based on my own judgement and on the information at my disposal, such as the results of the self-assessment, ex ante controls, ex-post controls and the lessons learnt from the reports of the Court of Auditors.

Confirm that I am not aware of anything not reported here which could harm the interests of the institution.

However a reservation should be noted concerning potential legality / regularity issues and risks arising from election observation missions (EOMs) as set out in section 3.2 of the report.

[signed] Brussels, 4 April 2012

Tung-Lai MARGUE

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6 True and fair in this context means a reliable, complete and correct view on the state of affairs in the service