

Emergency Aid: The Kosovo Crisis



Report by the
Comptroller and Auditor General

Department for
International Development

Emergency Aid: The Kosovo Crisis

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Comptroller and Auditor General

National Audit Office
18 April 2000

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Executive summary

1 This report is about the humanitarian assistance provided by the Department for International Development (the Department) in response to the Kosovo emergency. The scale of the crisis has been such that the Department have budgeted to spend £110 million, of which by October 1999, £98 million had been allocated to specific elements of



their aid effort. To examine how this money has been spent, in late October/early November we visited Albania, Kosovo and Macedonia.

2 The Department were operating in an extraordinarily difficult and highly unpredictable context. The conflicts in the Balkans have led to large-scale displacements of populations in the 1990s. However, the speed of the refugee outflow from Kosovo into Macedonia and Albania was unprecedented; it was the largest and most sudden population movement witnessed in Europe since the Second World War. Immediate action was needed to provide care for the refugees. The Department took a leading role, both in the provision and co-ordination of assistance, while the wider international response was brought together. The Prime Minister said on 5 August 1999:

“I should begin by paying tribute to DFID’s enormously effective response to the humanitarian and rehabilitation challenges that faced us in Kosovo. I saw for myself the impact of DFID assistance to the refugee camps in Macedonia and Albania. I have been struck by how all those who have recently visited Pristina have singled out DFID’s role as absolutely crucial to the progress that has been made on rehabilitation. I saw this for myself last weekend. DFID has emerged from the conflict with its reputation further enhanced.”

3 Our report must also be seen in the context of the difficult and dangerous conditions in which the Department were operating on the ground, and the fast evolving political and policy situation. When we visited the region we saw how

difficult transport and communications were. There were just two narrow and overcrowded roads into Kosovo, with four hour traffic jams at the border a common occurrence. There was no banking or telephone system. There were frequent power cuts and water shortages. And there was still a strong undercurrent of violence – murder and mine-related death and injury were commonplace.

4 In the circumstances the Department had to act quickly – speed was of the essence, and at times may understandably have taken priority over administrative neatness. Also, the Department were working as part of the overall international response, and they had to vary the nature of their contribution – cash, stores, equipment, people – according to the circumstances. When the crisis broke out, the Department’s emergency response capacity was already heavily committed in Sierra Leone, Tanzania, the Caribbean and in support of the United Nations.

What have the Department achieved?

5 On announcing that they were making aid available for refugees from Kosovo, the Department got people into the region quickly. They established field offices in Albania and Macedonia in a matter of a few days, and the field office in Kosovo was established just four days after the NATO air campaign ended and two days after KFOR troops entered the province.

6 The Department made an almost immediate impact through rapid action at headquarters and in the field. For example, they were fully involved in the work to alleviate the refugee crisis – including arranging airlifts of humanitarian supplies. At one point, refugees were leaving Kosovo at rate of up to 30,000 a day. They also played an active role in establishing the international presence in Kosovo, including the provision of support to the United Nations-led interim civil administration.

7 The Department have also worked closely with a wide range of other organisations. The Ministry of Defence, for example, have carried out a range of projects – particularly the construction and supplies for refugee camps, and immediate reconstruction tasks after KFOR entered Kosovo. The Department have also provided funding - some £42 million as at 31 October 1999 – for international agencies involved in providing humanitarian aid to Kosovo and neighbouring countries. The agency representatives we spoke to consider that the Department’s response has been appropriate and that they have focused on areas in which other donors have been less active – for example mines, the health sector and electricity distribution.

8 We saw for ourselves how the Department have been at the forefront of major projects in Kosovo, including the restoration of power and water supplies, and the provision of health services. They have also played a leading role in mine survey and clearance operations – a crucial task, with the number of casualties from mines and unexploded munitions in Kosovo running at five a day at one point. The Department have contracted with organisations to carry out the mapping and clearance work, and those organisations were active in Kosovo within days of the suspension of the NATO air campaign.

9 Another major strand of the Department's contribution has been the £18 million in support that they have provided for some 130 non-governmental organisations delivering aid projects in the region, and those we spoke to commented favourably on the speed with which the Department responded. Using our rights of access we looked to see what was being achieved, and we found that while many projects were still underway there were clear signs of significant successes. To take just a few:

- a bakery provided 28,000 loaves of bread a day to feed refugees;
- schools have been rebuilt so that children can resume their education;
- water and power supplies have been restored in Pristina, the capital of Kosovo;
- Pristina hospital now has modern and well equipped emergency facilities.

What lessons are there for the Department?

10 In doing our work we identified several aspects of the Department's work in relation to the Kosovo emergency which offer lessons for the future.

Emergency response capability

Recommendation 1

When the Department rely on outside assistance to maintain their emergency response capability, they should ensure that there is no break in the supply chain for these services.

11 The Department have contracted the Crown Agents to provide an emergency response team. This team ran and staffed the Department's field offices and operations in the region. We noted that the Department did not re-tender their original contract with the Crown Agents until eight months after the original expiry date, and it was six months into the Crown Agent's involvement in the Kosovo crisis that they signed the new one. However, to ensure continuity of response to on-going emergencies the Department extended the original contract until the new one was signed. The Department agree with the principle of ensuring that re-tendering exercises are undertaken in good time, and told us that the eruption of the refugee crisis hindered the completion of the bidding process on the emergency response contract (paragraphs 2.21, 2.22 and 2.26).

Recommendation 2

The Department's responses to emergencies often involve reacting quickly to sudden adjustments in the demand for their services. The Department's arrangements must have the flexibility to enable them to respond accordingly and quickly.

12 We also noted that the Department arranged airlifts on the basis of arrangements which had expired in December 1997, and which had not been formally extended. The Department attributed this to the fact that the

arrangements had previously been little used, but confirmed that they expected to put in place a new air chartering contract by the end of May 2000 (paragraphs 2.28, 2.29 and 2.31).

13 We note that in extending their original contract with the Crown Agents, the Department agreed to a significantly revised cost structure to meet an increasing emergency workload, which had not been envisaged in the original contract. This involved an increase in staff. They agreed to pay a management fee for each additional staff member, at a rate agreed with Crown Agents in November 1998. The management fees for staff employed in the field to meet the exceptional requirements of the Kosovo emergency amounted to £154,000 by the end of October 1999 (paragraphs 2.23-2.26).

14 Neither the Department's original contract with the Crown Agents, nor the new one, is clear about what level of activity can be supported by the services specified under the core contract. The Department have now recognised this and are seeking to ensure that the core services to be provided reflect the level of service they require (paragraph 2.27).

Managing the supply chain

Recommendation 3

To achieve value for money it is important that there is proper management of the supply chain.

15 The Department awarded to the Crown Agents a new contract for emergency response support having received competing bids from prospective suppliers. But by the time this contract was signed, the structure and cost of the deal had changed significantly compared with the basis on which the Crown Agents became the preferred bidder. The Department accept that, technically, the contract should have been re-tendered, but consider that it would have been extremely difficult and impractical to have done this given the complex and uncertain nature of the interventions in the Kosovo region during this period (paragraphs 2.22 and 2.26).

16 As regards air charters, although they had identified two suitable companies to obtain quotes on their behalf, they obtained 54 of the 61 air charters through one broker between April and 1 July 1999. For these 54 air charters the total cost was £2.3 million. The Department consider that, since air brokers will, on the whole, be going out to the same pool of suppliers, equal value for money can be obtained through contracting one air broker to submit competitive quotes by air service suppliers. This will be the Department's future strategy. The Department told us they were taking steps to ensure that there are clear arrangements on commissions (the broker had previously received commission from the aircraft operators, not the Department), and that future invoices provide a proper breakdown of charges (paragraphs 2.30-2.32).

17 Where possible the Department's field offices sought to try to obtain goods and services by competition from local suppliers. However, £3.3 million of the procurement for the operation has been handled by the Crown Agents Procurement Services Group. For this service the Department pay a fee, which is charged on a sliding scale according to the value of the transaction. But, the staff who decide whether to use the Crown Agents are themselves employees of the Crown Agents. The new contract sets out rules for when Crown Agents Procurement Services Group should be used, based on the order value. The Department are considering what additional monitoring procedures are required to ensure that they have proper visibility of the procurement decisions taken on their behalf (paragraphs 4.7-4.10).

Funding cash requirements

Recommendation 4

The Department should review their method of funding the cash requirements of emergencies and ensure that the funds that they have made available are fully and promptly accounted for, and redeployed if not needed.

18 The Department transferred funds totalling some £14 million between 1 April and 30 September 1999 to bank accounts held in their name with Crown Agents Financial Services Limited to provide cash for field operations in the region. As a result of changing circumstances in the region, the funds transferred exceeded the amount needed - and each £1 million transferred in advance of need costs £5,000 a month in Exchequer interest. The Department transferred funds where they considered that the scale of expenditure was greater than Crown

Agents could be expected to carry, and were influenced by the anticipated speed of expenditure and the requirement for cash in an area with a fragile or non-existent banking system. There was a delay, ranging between four and seven months, between the establishment of the field offices and the production of formal monthly accounts of their expenditure. The Department had not exercised their right to examine the Crown Agents' books and records, but intended to do so before the end of the financial year (paragraphs 4.3 to 4.5).

Project monitoring

Recommendation 5

The Department should ensure that they put in place a clear and structured regime of monitoring for projects they fund. They need to be more consistent in their approaches to obtaining reports from grant recipients and visiting projects.

19 Both directly and through their field offices the Department have committed some £18 million to projects carried out by non-governmental organisations. However, the Department's field offices have not consistently asked grant recipients to report back to them on how the money has been used. At the time of our visits, the Department did not have in place a clear programme of visits to projects and the results of those visits had not been recorded in a systematic way. The importance of a fully effective monitoring regime was underlined by the corrective action taken as a result of those visits undertaken by field offices, and by our own visits to projects, when we found that not all had been implemented according to plan. The Department acknowledge that it would have been desirable for project visits to have been more systematic, but told us that it took time to develop their arrangements because of the sheer pace of events and the large numbers of projects approved in a very short period of time (paragraphs 3.10-3.26 and Figure 6).

Controlling cash and assets

Recommendation 6

The Department need to ensure that they maintain fully reliable accounting records.

20 Our test checks indicated that field office controls over payments were adequate, but we noted that the accounting records at field offices were maintained in a way which leaves them vulnerable to alteration and does not provide a reliable audit trail. We sought to track assets and stores sent to the region, and our test checks confirmed the location of Departmental equipment held in the region. But we were unable to confirm that a selection of 11 consignments of humanitarian supplies (including tents, food and medical supplies worth £350,000) sent to the region from the UK during the refugee crisis had been received by the distributing organisation because there was an incomplete audit trail – the Department themselves had not obtained documentary evidence of delivery. The Department are now putting in place procedures to obtain documentary evidence of delivery in future (paragraphs 4.2, 4.11-4.16).

Demonstrating value for money

Recommendation 7

To satisfy accountability requirements and to be able to demonstrate the achievement of value for money, it is essential that the Department maintain sufficient documentation supporting their decisions and transactions.

21 While we recognise that administrative neatness was not the priority at a time when the Department were dealing with a major humanitarian crisis, there were important areas where the Department had insufficient documentation to show how decisions were made and whether value for money was achieved. For example the basis for grants to non-governmental organisations was not always fully documented, although we found that the grants had been properly

authorised. And the Department did not obtain sufficient documentation from the company organising air charters to satisfy themselves that they were getting the best deal and paying the correct fee. The Department's future arrangements on air chartering will require the contracted broker to submit three written and fully costed quotes by air services suppliers for each charter, supported by evaluations of suitability (paragraphs 2.31, 3.3-3.8).

Standardising business processes

Recommendation 8

Bearing in mind that the staff running field offices are usually on short-term contract, the Department should ensure that work now underway to standardise basic business processes and controls (for this and future operations) is completed quickly.

22 We noted that for the field offices in Albania, Kosovo and Macedonia oral briefings of staff were not supported by detailed written guidance on matters such as financial controls, procurement practices and personnel matters. The absence of standardisation meant that the overall administrative effort was increased at a time when staff needed to give as much attention as possible to the emergency in hand, and it raised the risk of inappropriate systems being put in place. The Department agree on the need for standardised procedures for field offices and action to develop comprehensive Standard Operating Procedures is now in hand. Their absence arose, in part, from the Department's policy prior to the Kosovo crisis, that they would not be involved at such an operational level – hence there was no expectation that the Department would have emergency field offices (paragraphs 2.7-2.9 and 4.7).

Our overall conclusions

23 The Department have made a major contribution to easing the humanitarian crisis arising from the problems in Kosovo. They have worked quickly with a wide range of other organisations to deliver aid on the ground in difficult and dangerous conditions. This was achieved by the dedication of the staff involved in the Department and Crown Agents who worked long hours for several consecutive months. Looking back there are, as the Department recognise, things they could have done better. A number of our comments relate to the way the Department have managed their relationship with key suppliers, how that might be improved, and how it should be reflected in the contractual arrangements. In a number of areas the Department are already revising their procedures to address points we have identified as requiring attention.

24 Our recommendations are designed to help the Department in the remaining stages of their work in the region, and in responding to future emergencies. They are about helping to ensure that the Department are able to respond to future emergencies in ways that maximise the value for the taxpayer's money and satisfy the requirements of public accountability, whilst still enabling them to maintain their focus on saving lives and relieving suffering.

Part 1: Introduction

1.1 This report is one of two we are producing about the United Kingdom's contribution to the crisis in Kosovo. This one is about the humanitarian assistance provided by the Department for International Development (the Department) in response to the Kosovo emergency.

1.2 The scale of the crisis has been such that the Department have budgeted £110 million (5 per cent of the annual overseas aid budget) for humanitarian aid to Kosovo and the surrounding countries. This is more than the Department have allocated to any other single country in 1999-2000. To examine how this money has been spent, in late October/early November we visited Albania, Kosovo and Macedonia.

1.3 Our report needs to be seen in the context of the difficult and dangerous conditions which the Department were operating in those countries. The number of refugees and the scale of the work needed put the infrastructure of some of the poorest countries in Europe under severe strain. When we visited the region we saw for ourselves how difficult transport and communications were. There were just two narrow and overcrowded roads into Kosovo, with four hour traffic jams at the border a common occurrence. There was no banking or telephone system. There were frequent power cuts and water shortages. There was still a strong undercurrent of violence, with murders and mine-related death and injury commonplace. The Department had to act quickly – speed was of the essence, and at times this may understandably have taken priority over administrative neatness. Further, when the crisis broke out the Department's emergency response capacity was already heavily committed in Sierra Leone, Tanzania, the Caribbean and in support of the United Nations.

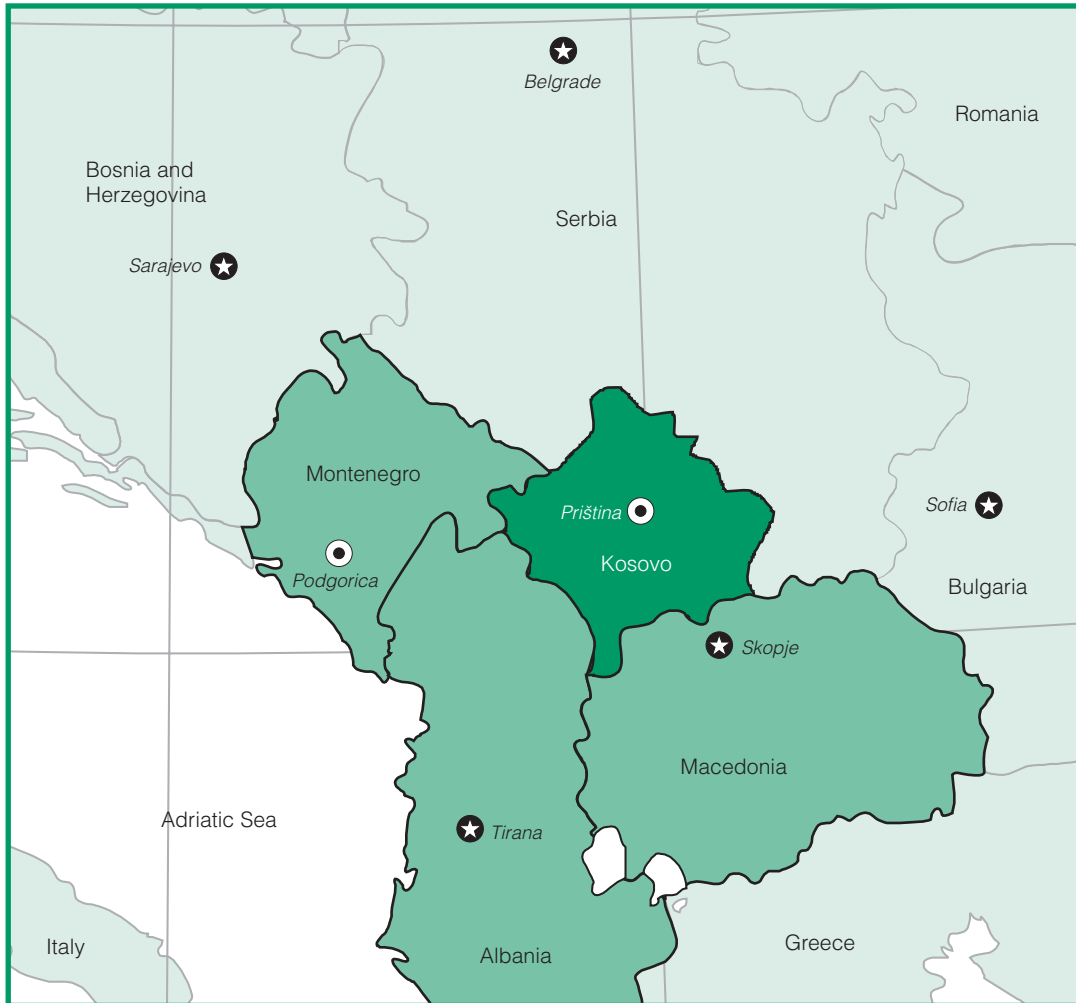
The background to the crisis

1.4 Kosovo is a province of Serbia, within the Federal Republic of Yugoslavia (Figure 1). A large majority of the province's two million inhabitants are ethnic Albanians (Kosovar Albanians). In 1998 tension between the Kosovar Albanian community and the Serbian administration developed into violent conflict. Further details of the main events are given in Appendix 1.

Figure 1

Kosovo

Kosovo is a province of Serbia, which remains one of the two constituent parts of the Federal Republic of Yugoslavia. It is bordered by Montenegro (the other constituent part of the Federal Republic of Yugoslavia), Albania and Macedonia.



Source: National Audit Office

1.5 The United Nations estimated that as a result of the tension and violence between the two communities in Kosovo, 300,000 people had been displaced from their homes by September 1998. Reacting to this humanitarian crisis and the violence in the area, the United Nations Security Council adopted resolution 1199 on 23 September, demanding that all parties adhere to an immediate cease-fire. The resolution further demanded that the Federal Republic of Yugoslavia implement measures towards achieving a political solution to the situation in Kosovo.

1.6 Following a cease-fire agreement signed by Yugoslav President Slobodan Milosevic in October 1998, many refugees and internally displaced people returned home before the end of the year. However, renewed fighting between the security forces and Kosovar Albanian rebels broke out in late December 1998, and continued into the new year, causing further displacement and destruction.

1.7 The international diplomatic community continued to search for a political settlement, and in February 1999 Federal Republic of Yugoslavia and Kosovo Albanian leaderships attended talks at Rambouillet in France. Both sides expressed broad agreement to the principle of substantial autonomy for Kosovo. However, the second round of talks in March ended in disagreement, against the background of an intensifying campaign by Yugoslav and Serb security forces. On 23 March, NATO Secretary General Solana delegated authority to the Alliance's Supreme Commander to begin air strikes against the Federal Republic of Yugoslavia. The air campaign started on 24 March and lasted for another 78 days.

1.8 On 10 June 1999, as Yugoslav regular forces and paramilitary police began their withdrawal from Kosovo, NATO suspended the air campaign. The same day the United Nations Security Council adopted resolution 1244, setting up the UN Mission in Kosovo which was charged with forming an interim administration for the province of Kosovo. On 12 June the NATO peace implementation force, KFOR, entered Kosovo unopposed.

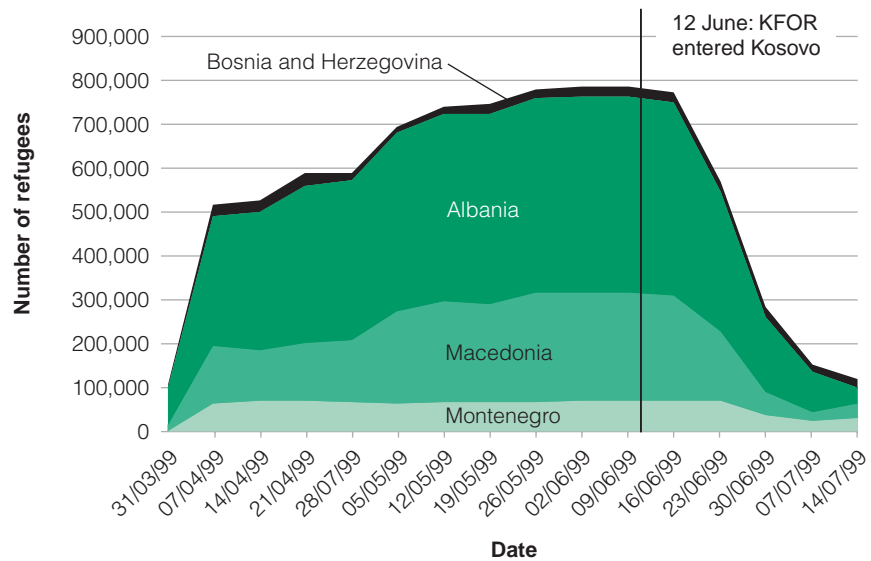
The changing nature of the aid effort and the Department's role

1.9 Figure 2 shows the rapid build-up and return of Kosovo refugees, indicating the scale of the humanitarian crisis. The United Nations estimated that refugees were leaving Kosovo at a rate of up to 30,000 a day in the first 10 days of the NATO bombing campaign, most crossing the border into Albania or Macedonia. By 11 June they estimated that there were 780,200 refugees from Kosovo in the surrounding countries – some 21,700 were in Bosnia and Herzegovina, 69,800 in Montenegro, 244,500 in Macedonia and 444,200 in Albania. Refugees entering Macedonia and Albania were accommodated in camps run by the international community or with host families and relatives. In Montenegro, Bosnia and Herzegovina, and elsewhere, they stayed with host families, relatives, or found other accommodation. In addition, the international community had arranged air evacuations of some 82,500 people from the region to 28 other countries.

The build up of refugees from Kosovo

Figure 2

The number of refugees built up quickly, and dispersed quickly after KFOR entered Kosovo on 12 June. Most refugees were accommodated in Albania and the Former Yugoslav Republic of Macedonia.



Source: National Audit Office analysis of United Nations High Commissioner for Refugees data.

Note: Excludes refugees who left the region. By 9 June the Yugoslav government reported 60,000 refugees in Serbia, although this was not confirmed by the United Nations. Figures for displace within Kosovo are not available.

1.10 A month after KFOR entered Kosovo the United Nations estimated that through spontaneous and organised repatriation, a total of 650,000 Kosovo refugees had returned to the province. The rate of return – more than 250,000 people in the first nine days – was similar to the rate at which refugees had left Kosovo. Estimates vary, but figures from the United Nations High Commissioner for Refugees indicate that around 200,000 Serb and Roma refugees may have left Kosovo since the suspension of the NATO air campaign.

1.11 In April and May 1999, as people left Kosovo in large numbers, the immediate priority was to provide shelter for refugees, relieve suffering and save lives. The international community constructed and organised refugee camps – generally speaking, in Macedonia KFOR constructed these camps and the United Nations High Commissioner for Refugees organised their management, while in Albania the major donor countries constructed and ran their own camps. Because substantial numbers of refugees lived with host families in Albania and Macedonia, part of the international aid effort involved support, such as food and health services, for those communities.

1.12 Figure 3 sets out the Department's overarching objectives for the crisis.

**The Department's
objectives for the Kosovo
crisis in June 1999**

Figure 3

- provide speedy assistance to refugees to relieve suffering and save lives;
- promote the protection of the dignity and rights of refugees including the provision of reliable information to them, and the reunification of families;
- encourage a climate of opinion in refugee hosting communities in the region that is tolerant towards refugees, and supportive of the international presence that seeks to assist them;
- prepare adequately for new contingencies such as further refugee exodus, or significant movements between refugee hosting countries and for the provision of assistance within Kosovo as soon as access is possible;
- plan for the return of refugees from Kosovo and the transition for emergency humanitarian relief to rehabilitation and reconstruction.

Source: The Department's Humanitarian Assistance Briefing

1.13 Figure 4 shows how the Department contributed to the aid effort during the refugee crisis, focusing on provision of immediate humanitarian aid. By 10 June the Department had allocated £40 million for these operations, of which £25 million had been spent.

1.14 When hostilities ended the United Nations High Commissioner for Refugees initially hoped that refugees would remain in Albania and Macedonia while the military forces and aid organisations made their home areas in Kosovo safe and carried out immediate reconstruction work. Following the unexpectedly swift return of refugees, the aid effort changed character. It then moved from refugee support to efforts within Kosovo to assist the refugees who returned, concentrating initially on work which could be done quickly to provide shelter, restore water and electricity and to encourage economic activity.

**The Department's
aid effort during the
refugee crisis**

Figure 4

- assisting in the establishment of refugee camps for 40,000 people in Macedonia, the construction and management of a camp in Albania for 5,000 refugees, and the identification and initial preparation of two additional refugee camps in Albania;
- providing humanitarian supplies of food (about 4 million person-days), tents, blankets (about 200 tons) and health kits (for 210,000 people for 3 months);
- providing logistic support in the form of a truck convoy team based in Albania, operating 21 trucks at its peak, and air handling teams at Tirana and Skopje airports;
- organising over 60 airlifts of humanitarian supplies;
- providing grants to international agencies and non-governmental organisations involved in the humanitarian relief effort;
- providing a vehicle workshop and managing water and sanitation operations for the UN High Commissioner for Refugees in Albania, and providing personnel, vehicles and equipment for UN agencies; and
- operating field offices in Albania and Macedonia to manage operations in the region, make local aid interventions and assist in the co-ordination of the international aid effort.

1.15 After the UN Mission in Kosovo was established on 10 June, work began immediately on establishing civil authority, re-establishing health and education systems, mine surveys and clearance, and protection of minorities. As regards the more immediate humanitarian work, the key priorities were to provide, by October, winter shelter for those whose homes had been destroyed (Kosovo is a mountainous region with severe winters), ensure supplies of power and water, and keep the economy going. The focus of the Department's aid effort in Kosovo has been emergency rehabilitation and recovery (Figure 5). By October 1999 the Department had allocated £52 million for operations in Kosovo, of which £15 million had been spent.

1.16 As well as contributing towards the care of remaining refugees, the offices in Albania and Macedonia remain open and are carrying out rehabilitation projects in communities which hosted refugees, thus honouring commitments made to communities during the crisis, and continuing to support international co-ordination. By October 1999 the Department had allocated a further £6 million to these operations.

UK humanitarian assistance in Kosovo since 10 June 1999

Figure 5

- humanitarian assistance to returning refugees;
- supporting the UN Mission in Kosovo;
- mines survey, clearance and awareness activities;
- emergency repairs to the water and electricity infrastructure;
- provision of health services, including support for the hospital in Pristina and health centres; and
- supporting peace building, human rights and independent media.

How the Department delivered aid

1.17 Within the Department, action on disasters and emergencies is the responsibility of the Conflict and Humanitarian Affairs Department. It is responsible for directly managing humanitarian response operations, and liaison with other government departments, the European Commission, and United Nations agencies in relation to emergencies. It also assesses the level of support to international agencies and non-governmental organisations for work in emergencies. It has a dedicated unit of three people to monitor and co-ordinate the Department's response to rapid onset disasters.

1.18 The response to the Kosovo crisis reflects a change in how the Department contributes to international agencies' handling of large-scale crises. Formerly the Department expected to provide assistance in the form of financial contributions. Now the lead international agencies look to individual countries to provide specialist technical or financial assistance to complement their own resources, in the case of the UK this includes technical assistance for logistics management as well as financial support.

1.19 In Kosovo the Department have provided some services directly (for instance airlifts, some humanitarian supplies, and mine survey and clearance operations). But they have also worked extensively with the British military and a range of other public and private organisations to deliver their aid effort. They estimate that by October 1999 there were over 300 aid organisations operating in Kosovo. These included United Nations agencies, other bodies with internationally-recognised responsibilities such as the Red Cross, donor government agencies and non-governmental organisations. The main organisations the Department have worked with are as follows:

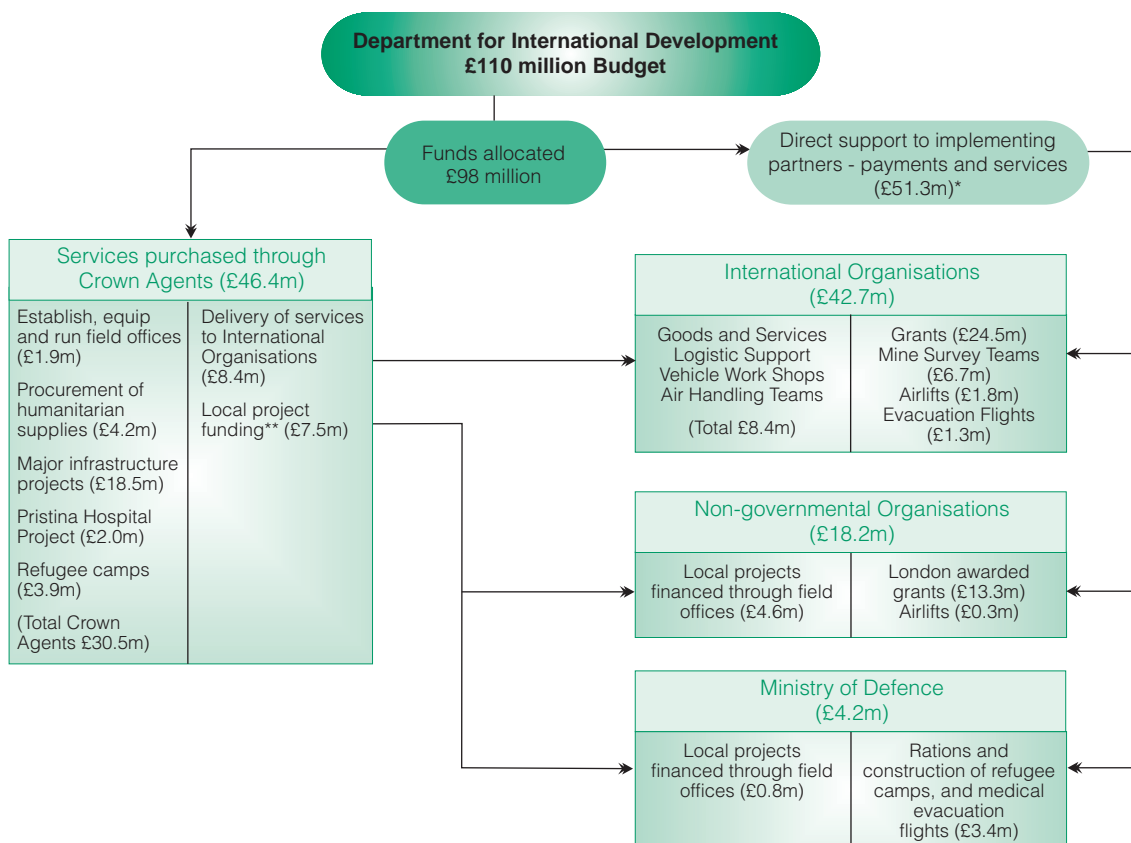
- The Department have contracted the Crown Agents to provide an emergency response unit, the Emergency Logistics Management Team (ELMT). This organisation has recruited, employed and managed the staff in the three field offices in Albania, Macedonia and Kosovo. ELMT have also run the convoy team and air cargo handling teams; recruited specialist staff who were seconded to international agencies; provided logistic support, vehicles, equipment and humanitarian supplies; and established an Infrastructure Engineering Unit in Kosovo.
 - The Department have funded a range of projects carried out by UK military units – particularly the construction and supplies for refugee camps, and immediate repair and rehabilitation tasks after KFOR entered Kosovo. For example, KFOR military forces (including British military units) were present in Macedonia when the refugees started to arrive. The Ministry of Defence told us that during the week of 4 to 11 April, UK military units helped the humanitarian operation by providing medical treatment for 7,000 people, moved 1,200 pallets of aid supplies, distributed 29,000 meals, erected 2,660 tents and dug 130 latrine trenches. After this initial work they were able to hand all these tasks over to humanitarian agencies.
 - International agencies have specific responsibilities for emergencies such as the United Nations High Commissioner for Refugees (co-ordination of humanitarian assistance for refugees), the World Food Programme (co-ordination of all food assistance), and the Red Cross (the protection and well being of displaced, detained or arrested persons). The United Nations Mission in Kosovo was created to provide an interim civil administration through which the work of UN agencies is co-ordinated in Kosovo. Appendix 2 outlines the responsibilities of the international agencies. Part of the Department's contribution was routed through 11 such agencies, in the form of cash grants or goods and services.
 - The Department have worked with some 130 non-governmental organisations to deliver aid projects on the ground.
- 1.20** By October 1999 the Department had allocated £98 million of their £110 million budget for humanitarian aid on the Kosovo emergency:
- £40 million during the bombing campaign, mainly to Albania and Macedonia (paragraph 1.13); and since then

- £52 million to operations in Kosovo itself (paragraph 1.15); and
- £6 million to further work in Albania and Macedonia (paragraph 1.16).

The way this money was distributed between the main participating organisations is shown in Figure 6.

Figure 6 How the Department have allocated funds

As at October 1999 the Department had allocated £98 million of their £110 million budget for the crisis to specific activities. This included cash and goods and services to support the work of international organisations, non-governmental organisations and the Ministry of Defence.



* This includes £0.5m for airlifts to move the Department's equipment into the field for use by ELMT.

** The funds available for local projects have not all been committed to specific projects.

Source: National Audit Office

What we examined

1.21 We looked at the different ways the Department worked with partner organisations to deliver aid. Figure 7 outlines the scope of our work and our audit approach. A full description of our approach is in Appendix 3.

Against this background, we examined:

- whether the Department were able to respond quickly (Part 2);
- what the Department's humanitarian aid projects have achieved (Part 3);
and
- how well have the Department managed their operations in the field (Part 4).

Figure 7**An overview of our audit approach**

Grants to the United Nations and other international agencies	<p>The auditors did not have rights of audit access to these organisations, but they visited six organisations in the region, which together had by October 1999 received £37 million, or 88 per cent of the Department's commitments to international organisations:</p> <ul style="list-style-type: none"> ■ the UN High Commissioner for Refugees ■ the UN Mission in Kosovo ■ the UN Children's Fund ■ the World Food Programme ■ the World Health Organisation ■ the International Committee of the Red Cross
London-funded grants to non-governmental organisations	<p>We have explicit rights of audit access to grant recipients, written into the Department's standard grant conditions. We visited six non-governmental organisations, interviewed staff and reviewed relevant papers held by the organisations. We also reviewed Departmental case papers and interviewed Departmental staff.</p> <p>We examined fifteen grants, together totalling £8 million (60 per cent of the grants approved by the London office). A list of the projects we looked at is at Appendix 4.</p> <p>The non-governmental organisations we visited were:</p> <ul style="list-style-type: none"> ■ Children's Aid Direct ■ Christian Aid ■ International Medical Corps ■ Oxfam ■ Save the Children ■ War Child
Contracts awarded by the Department in London	<p>We examined the award of all major contracts, including those for:</p> <p>Crown Agents and Emergency Logistics Management Team (under which services to a value of £46.4 million, including the cost of field offices, services to international agencies, and local project funding were provided). We exercised our access rights provided by the contract to examine the books and records of ELMT.</p> <ul style="list-style-type: none"> ■ Survey and clearance of mines and unexploded ordnance (£6.8 million) ■ Air brokerage (£2.6 million)
Expenditure by the field offices set up by Emergency Logistics Management Team in Skopje (Macedonia), Tirana (Albania) and Pristina (Kosovo)	<p>We visited all three of the field offices and the Infrastructure Engineering Unit. We examined local financial management systems and reviewed funding of a selection of 27 projects with a value of £4.3 million (Appendix 4). We visited 16 of these projects in the field, and Pristina University Hospital.</p>

Part 2: Were the Department ready and able to respond quickly?

2.1 We examined the speed of the Department's response to the crisis in Kosovo, and how well prepared they were. The key elements of their response were their ability to put field staff on the ground, deliver supplies, and provide prompt financial and other support to other organisations. This part therefore examines:

- the speed with which the Department provided support on the ground; and
- the Department's arrangements for acquiring emergency logistic support.

The speed with which the Department provided support on the ground

2.2 Between April 1998 and March 1999 the Department monitored the situation in Kosovo by liaising with the international agencies. They also visited the country in November 1998. They limited their direct involvement to financially supporting the work of international agencies working with internally displaced persons. On the 29 March 1999, following the sharp rise in the number of refugees fleeing to neighbouring countries, the Department announced that they would immediately make available £10 million of humanitarian aid for refugees from Kosovo. Subsequently, when the Department became aware that the international agencies required assistance to deal with the level of refugees, they decided to become more operationally involved in the delivery of humanitarian aid.

2.3 In providing an emergency response service the Department place considerable reliance on arrangements that they have with the Crown Agents. Under a contract with the Department, the Crown Agents are required to have in place arrangements whereby "they are able to provide ... logistic services to be used in theatre for the handling of personnel, equipment and materials". On 3 April 1999 the Department instructed the Crown Agents' Emergency Logistics Management Team (ELMT) to deploy to the region.

2.4 In accordance with the contract, ELMT staff were in the region within 12 hours of being mobilised by the Department. By 4 April the field office in Skopje, Macedonia, had been established and a reconnaissance team of ELMT staff had been deployed to Albania to identify possible sites for refugee camps – the field office in Tirana was established 12 days later. The field office in Pristina, Kosovo, was established on 14 June, just four days after the NATO air campaign was suspended, and two days after KFOR troops entered the province. The Infrastructure Engineering Unit was established in Pristina on 10 August to fund major engineering projects for rehabilitation of utilities and services.

2.5 The field offices have been established with a common structure of a UK-appointed head of office and specialist advisers. The numbers of staff have varied but at their peak were 6 in Macedonia, 10 in Albania and 30 in Kosovo. In addition each office has been supported by a team of locally appointed support staff. The role of the field offices has been to:

- fund and monitor local projects;
- liaise with other agencies;
- monitor the situation generally and report back to the Department;
- in Albania, construct and run a camp for 5,000 refugees at Elbasan;
- provide administrative support for the teams managing the convoy and air cargo handling operations in Macedonia and Albania. Also, the office in Skopje has assisted the Pristina field office because it depends on Macedonia for transport links, banking and some supplies; and
- assist with co-ordination between the national authorities, international agencies and non-governmental organisations.

2.6 Having an early presence on the ground meant that the Department were able to make a difference almost immediately:

The Department soon made an impact

In Macedonia

- ✓ between 5 and 14 April the field office in Skopje initiated the purchase of items including building materials, fencing, lighting and toilets for the refugee camp being constructed at Brazde by NATO.
- ✓ the Skopje field office also helped aid organisations to replace equipment they had had to abandon in Kosovo, thus allowing them to start working in Macedonia.

In Albania

- ✓ by 20 April the field office in Tirana had identified a suitable site for a refugee camp, negotiated the use of the land with the local authorities and signed contracts for construction work.

In Kosovo

- ✓ in their first days the field office in Pristina, working with the Department's staff in London, played an active role in establishing the international presence in Kosovo. They provided communications and other office equipment to the UN Mission in Kosovo (UNMIK) during their first week of operation in Pristina. They provided cash grants to support a wide range of local projects. And, through London, they arranged the secondment of staff from other Government Departments to UNMIK. They chaired donors' meetings on reconstruction and formed a small business forum to consider projects, in conjunction with other donors, to kick-start the local economy. UNMIK has now taken over this role.
- ✓ British military units, funded by the Pristina field office, carried out immediate repairs to a power station, water pumping stations and health clinics so that essential services could start functioning.
- ✓ the Department funded a team which took over the management of Pristina hospital, where there had been fighting in the wards between Serbian and Albanian staff and patients, and persuaded staff to work together to run the hospital.
- ✓ In August the Department established an Infrastructure Engineering Unit in Pristina to manage a programme of essential repairs to water and power supplies as part of the international community effort to prepare the country for the winter. This unit also handled essential rehabilitation work on prisons, the Pristina University Hospital and other public buildings.

2.7 It is in the nature of emergency situations that the people sent to deal with them need to have the initiative and resourcefulness to deal with the circumstances in which they find themselves. We noted, however, that although the people staffing the field offices had been employed by ELMT on short-term contracts specifically for the operation, they were not provided with detailed guidance from the Department or ELMT headquarters on the basic office procedures to be applied. For example, they had not received written instructions on what internal financial controls were to be operated, on procurement practices or on key personnel matters – security, local employment contracts, health and safety.

2.8 The Department told us that field office staff were provided with detailed oral briefing, rather than written guidance; that ELMT provided 24 hour management cover for issues and contingencies that arose in the field and which were referred for guidance from headquarters; and that key positions in all field offices were filled by staff who had experience of working on emergency tasks for ELMT on the Department's behalf, and who were therefore experienced in the needs of their procedures.

2.9 In the absence of standardised procedures there is no common baseline of best practice. There is the risk, therefore, on the one hand that insufficient attention is paid to some internal control matters. And on the other hand, there is the risk that more time and effort is put into implementing basic procedures than would otherwise have been necessary – at a time when staff need to be giving as much attention as possible to the emergency in hand. During our visits to field offices, staff had concerns about the extent of the up front administrative effort, and considered that they would have been effective sooner if they had been able to use pre-prepared accounting and administration packages. In September 1999, ELMT headquarters staff visited each of the field offices to review the systems and procedures they were operating and they set in train actions to standardise procedures. ELMT have subsequently drafted a comprehensive volume of Standard Operating Procedures for use on future emergency operations, and the Department are reviewing this.

Support for international and other agencies

2.10 In addition to the support provided by ELMT from the UK and through the field offices in the region, the Department centrally were heavily involved in providing funding for a wide range of international agencies, and supporting projects proposed by non-governmental organisations.

Support for International agencies

2.11 The UK makes regular budgetary contributions to a range of international agencies, including the United Nations. In addition, the Department have supported funding requests from some of these agencies for their work in connection with the Kosovo crisis. The Department's support has taken various forms depending on their knowledge of the organisations and the way they are managed, and whether they have considered it more effective in particular cases to provide cash or material support.






2.12 The value and type of funding provided to each Agency by 6 October is set out in Figure 8 below. There are established arrangements under which International Agencies report periodically to member states on how their contributions have been used. These wider reporting arrangements were not part of our study, given its specific focus on Kosovo.

2.13 The overall speed with which the Department were able to respond to requests for support from these agencies cannot be measured precisely – the urgency was self-evident and generally there were not specific deadlines attached to funding requests. However, we found that:

- we were able to examine response times for nine grants to five agencies totalling £13 million, where the Department responded to formal requests for funds. They took at most 16 days to make formal awards of grant in response to these requests – five of the responses were made within a week, including two grants made to the Red Cross within a day of receiving their request at the beginning of the crisis.
- the Department organised airlifts of tents, blankets, medical supplies and food for the United Nations High Commissioner for Refugees, the World Health Organisation and the World Food Programme – and in some cases bought the supplies as well. In most cases they responded to requests for airlifts of humanitarian supplies within two to three days. Deliveries of forklift trucks for the World Food Programme and vehicles and equipment requested by UNICEF (the UN Children's Fund) took between three and eighteen days.

Figure 8

Breakdown of the type of assistance and value (£000) provided by the Department to International Organisations as at October 1999

International Organisations	 Humanitarian Supplies £000	 Services £000	 Staff £000	 Airlifts £000	 Grants £000	Total £000
United Nations High Commissioner for Refugees	1,079	3,400	222	1,268	3,115	9,084
United Nations Mission in Kosovo	50	2,000	15	-	1,270	3,335
United Nations Mines Action Service	529	6,101	80	135	187	7,032
United Nations Children's Fund	-	-	-	-	5,250	5,250
World Food Programme	1,264	53	53	413	4,250	6,032
World Health Organisation	99	-	160	13	3,923	4,195
International Committee of the Red Cross	-	-	72	-	2,721	2,793
International Organisation for Migration	-	-	-	1,300	2,250	3,550
Office for the Co-ordination of Humanitarian Affairs	-	-	15	-	520	535
Food and Agriculture Organisation	-	-	-	-	400	400
United Nations Development Programme	-	-	-	-	625	625
Total (£000)	3,020	11,554	617	3,129	24,511	42,831

This funding is in addition to the UK's regular member contributions to these agencies.

Source: Department for International Development

2.14 A high priority task in Kosovo is clearing mines and unexploded munitions. In June and July 1999 there were some 122 reported casualties, and in August the number of casualties was running at five a day. The Department played a key role in the early days by helping to set up and support the United Nations Mine Action Co-ordination Centre based in Pristina, which is responsible for co-ordinating clearance of landmines and unexploded munitions such as shells and bombs. Although the United Nations co-ordinate the work, the Department have contracted directly with organisations to carry it out – they were deployed to Kosovo within days of the suspension of the bombing campaign. The aim was to map all the sites of unexploded devices by the end of 1999 and to complete the clearance operation by the end of 2000.

Mines action

The HALO Trust, a UK-based non-governmental organisation, contacted the Department on 7 June with a proposal to enter Kosovo immediately hostilities ceased and to undertake an initial survey of minefields and areas contaminated with unexploded munitions – any of which could pose a severe hazard to returning refugees. After consulting the relevant United Nations agency, the Department agreed to fund this work, and the HALO survey teams began work in Kosovo on 13 June, the day after KFOR troops entered the province.

In addition the Department funded teams equipped to continue survey work and deal with the most dangerous unexploded devices, which, subsequently entered Kosovo on various dates between 20 and 29 June.

2.15 When we visited the region we consulted senior representatives of key international agencies involved in co-ordinating the relief effort. They could not comment specifically on the speed of the Department's response – the Department's contribution was part of the overall international response, and the staff in the region were not necessarily aware of what, specifically, had been provided when and by which donors. In general terms, however, they considered that the Department's support had been appropriate to the local context, and that it had been well targeted to cover current demands. For instance, air handling and convoy teams provided by the Department had filled gaps in the logistic capacity of the United Nations High Commissioner for Refugees organisation.

2.16 Also, the Department's work in Kosovo had focused on mines, the health sector, water supply and electricity distribution – areas in which other donors had been less active. Representatives of the international agencies also spoke positively about the contribution of the Department's field offices. In particular, they were on the ground quickly, they helped to co-ordinate the aid effort, and they had been able to start projects quickly because, within delegated limits, they had been able to act on their own initiative without referring back to headquarters.

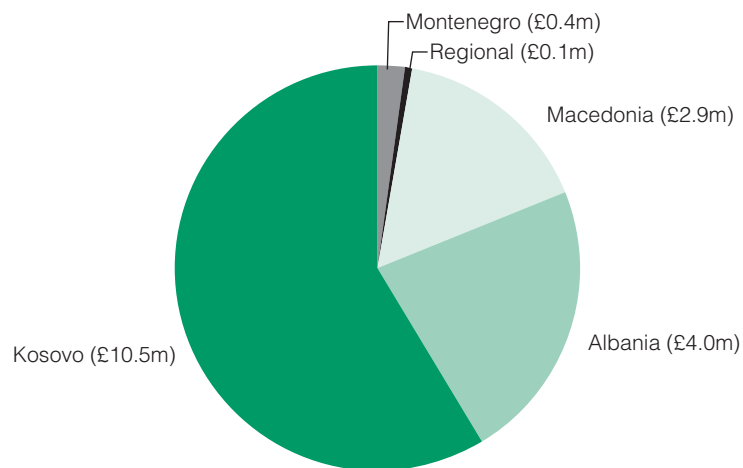
Support for other organisations

2.17 The Department awarded grants to a wide range of non-governmental organisations for specific humanitarian aid projects in Albania, Macedonia, Montenegro and Kosovo. The organisations included registered charities, private sector companies and academic institutions. As a condition of grant, the Department require reports and accounts from recipient organisations, and provide for the National Audit Office to have access to the organisations' books and records. By the end of September, the Department in London had approved some 44 separate projects to a value of £13.3 million. Projects ranged in scale from £16,000 to £2.5 million, and were awarded to 32 different organisations. Over the same period the field offices in Macedonia, Albania and Kosovo awarded a further £4.6 million to 103 organisations and £800,000 to British military units. Figure 9 shows how the funds were distributed between countries.

Humanitarian grants
awarded to
non-governmental
organisations in relation
to the Kosovo crisis
as at October 1999

Figure 9

Most of the money granted to non-governmental organisations has been for humanitarian work in Kosovo and Albania.



Source: Department for International Development

Note: "Regional" includes grants where the proportion spent by country is unknown.

2.18 In March 1999, at the beginning of the Kosovo refugee crisis, the Department told prospective applicants submitting project proposals to the London office that the Department would give an initial response on the same day, for project proposals received before noon, and by the following morning for proposals received in the afternoon. This meant that applicants would know quickly whether it was worth preparing a formal application, and proceeding with their preparations while the application was being dealt with.

2.19 We cannot make a precise assessment of how successful the Department were overall in achieving speedy approval of projects – they did not systematically record dates such as the date proposals were received, approved or rejected in principle, and formally approved. However, we reviewed the papers relating to our selection of 15 proposals assessed by the Department’s London office, and for the seven where we could establish key dates – all in the earliest days of the crisis – we found that five were approved in principle on the day, or day after, they were received, and all had been formally approved within a fortnight (see example below). The non-governmental organisations we interviewed in the United Kingdom and in the region told us consistently that in their view the Department had processed their applications promptly.

Oxfam water and sanitation project in Albania

On the afternoon of 31 March Oxfam faxed to the Department an outline proposal for emergency water and sanitation services for Kosovar refugees in Albania and Macedonia. The project was similar to work Oxfam had already been doing in Kosovo, but was broadly scoped to allow for the rapidly changing situation on the ground. The following day the Department agreed in principle to provide £300,000, and asked Oxfam to submit more specific proposals for each country. Oxfam submitted a revised proposal for water and sanitation provision to specific camps in Albania on Friday 9 April. The Department approved this proposal over the weekend and made a formal written offer of £300,000 on Monday 12 April.

The Department’s arrangements for acquiring emergency logistic support

2.20 Given the unpredictable and variable nature of emergency aid requirements the Department work on the basis of having arrangements with outside suppliers that they can call on when needed. We looked at their contract with Crown Agents to supply an emergency response service, and at how they arranged airlifts.

The contract with Crown Agents

2.21 As mentioned in paragraph 2.3, the Department have contracted with the Crown Agents to provide an emergency response service. The Crown Agents have formed a specialist team, the Emergency Logistics Management Team (ELMT) based at the Crown Agents Headquarters in Sutton, to deliver this service. Since 1995 they have provided services in support of the Department’s response to crises in Bosnia, the Great Lakes, Montserrat, Tanzania, and Sierra Leone. The contract

requires the Crown Agents to maintain a central response unit who are on call 24 hours a day, and to be able to deploy a team to the field at short notice. The contract distinguishes between:

- **core services** which include the provision of logistical advice and support, field assessment reports, costed proposals for additional services, procurement and management of emergency aid equipment and supplies, and regular monthly reports; and
- **call-down services** for additional assistance provided on a case by case basis at agreed rates. During the Kosovo crisis, these included the recruitment of specialist staff based in the Department in the UK, the provision of air cargo handling and convoy teams, and the establishment and operation of offices in Albania, Macedonia and Kosovo.

2.22 This contract is central to the Department's capacity to provide an emergency logistic response anywhere, anytime. The first contract, let in April 1995 following competition, was to run for three years. The Department extended the contract by 12 months to 31 March 1999, to ensure continuity of response to on-going emergencies. The contract was retendered in November 1998 and the Crown Agents were formally informed on 7 April 1999 that theirs was the preferred bid (there were four other bidders). Following post-tender negotiations, the new contract was not signed until 28 October 1999. By this time, and throughout the period of the post tender negotiations, ELMT were an integral part of the Department's response to the Kosovo crisis, and were running the field offices in Albania, Macedonia and Kosovo. These services were being provided on the basis of further extensions to the original April 1995 contract. The Department agree with the principle of ensuring that re-tendering exercises are undertaken in good time, and told us that the eruption of the refugee crisis hindered the completion of the bidding process on this contract.

2.23 We noted that the contract extensions resulted in a significant revision to the cost structure compared with the original contract. The Department told us that these changes reflected an increasing emergency workload, which had not been envisaged in the original contract. They therefore found it necessary to extend the contract on terms which provided for an increase in ELMT's core staff in Sutton, and additional staff provided under call-down services who attracted a management fee at a rate agreed with Crown Agents in November 1998. The Department told us that the increase in staff numbers was necessary because the Kosovo situation required the Department to be more actively involved in the field than had been envisaged when the original contract was let (paragraph 1.18).

2.24 We analysed the cost implications of these changes. The increase in ELMT core staff from 4 (the original contract number), to 7 in the course of 1998, and then to 14 people to cope with the additional demands of the Kosovo and other crises, increased the costs to the Department by £86,000 in the period April to October 1999. As for the field staff provided under the call down element of the contract, some 121 were deployed over the same period and we calculate that these attracted a management fee of some £154,000.

2.25 We asked the Department why they agreed to a monthly management fee for each member of the field staff, given that no such management fee was provided for in the original contract. They told us that:

- the fee was to compensate Crown Agents Headquarters for unrecoverable costs associated with employing ELMT staff, (including the costs of recruiting, contracting, overheads and corporate services provided by Crown Agents and a profit element); and
- the Department considered that the fee rate represented good value for money in the context of normal commercial consultancy practice.

2.26 In the post-tender period, the significantly increased workload caused by ELMT's heavy involvement in the Kosovo crisis led the Department to revise their needs assessment. Crown Agents, the preferred bidder, while leaving their level of charges unchanged, increased their estimate of the cost of the substantially expanded core element of the contract from £893,000 (the winning bid) to £2,298,000 – an increase of 157 per cent. The Department accept that, technically, the contract should have been re-tendered, which might have resulted in the engagement of a different contractor. However, they considered it extremely difficult and impractical to re-tender given the complex and uncertain nature of the interventions in the Kosovo region during this period.

2.27 We also noted that neither the original April 1995 contract nor the new contract signed on 28 October 1999 was clear about what level of activity can be supported by the services specified under the core contract. The Department have now recognised this and are seeking to ensure that the core services to be provided reflect the level of service they require.

Emergency airlifts

2.28 In 1996 the Department (then the Overseas Development Administration) undertook a competitive tendering exercise to identify firms that would arrange air charters on their behalf. They selected two companies (Hanover Aviation Consultants Ltd. and Chapman Freeborn Airchartering Ltd.) on the basis of their experience in relief work,



the size of the organisations, their flexibility and their fees - the cost of individual airlifts would depend on quotes obtained by the brokers. Each company was issued with a Memorandum of Understanding which required them, when requested, to provide within four hours at least three fully costed options for each request for an air charter made by the Department. The fee for the service was set at a rate 5 per cent of the cost of the charter. Guidance prepared by the Department in 1996 required staff using these services to:

- seek quotes for air charters from both companies;
- evaluate quotes using normal value for money criteria, but take into account the primary purpose of the rapid and effective delivery of humanitarian relief; and
- maintain a written record of the reason for the final selection.

2.29 The Memorandum of Understanding with each company expired in December 1997. The Department told us that because so little use had been made of the chartering service prior to the Kosovo crisis they had overlooked the need to renew these arrangements, which they accept they should have done. There were two factors behind this:

- until the Kosovo crisis, the Department's policy had been to fund other agencies' interventions rather than manage their own operations; and
- there had been a new emphasis on procuring relief goods locally where possible in a crisis, rather than making use of the expensive option of airlifting goods from outside.

2.30 Between 31 March and 1 July 1999 the Department provided 61 airlifts for the Kosovo crisis. On 54 occasions they used aircraft chartered through Hanover Aviation Consultants Ltd, one of the two previously selected firms. On one of these occasions the Department sought alternative quotes from another broker (Chapman Freeborn Airchartering Ltd – the other previously selected firm). The total cost of these 54 airlifts was £2.3 million. On seven occasions when small loads had to be lifted the Department approached the RAF as well as the broker. On these occasions they considered that the use of RAF aircraft when available offered better value for money than the quotes obtained by the broker. Eight of the airlifts were therefore subject to price competition.

2.31 As refugees began to return to Kosovo, the demand for and urgency of airlifts requested by the international community decreased. The Department did seek alternative quotes for the four airlifts chartered since 1 July 1999, and they confirmed that they are taking steps to put contractual arrangements for air chartering arrangements back into place by the end of May 2000. The Department consider that, since air brokers will, on the whole, be going out to the same pool of suppliers, equal value for money can be obtained through contracting one air broker to submit competitive quotes by air service suppliers. They intend, therefore, to contract one air broker, through competition, to submit to the Department three written and fully costed quotes by air services suppliers, supported by evaluations of suitability, on each occasion airlifts are required.

2.32 We noted that the Department did not obtain written quotes from Hanover Aviation for the 54 air charters. They told us that they requested and reviewed paper work from Hanover Aviation on two occasions. But the Department had not retained any documentation and they could not demonstrate whether they had obtained the best available price in each case. Hanover Aviation told us that they received no commission from the Department but that they received a commission from the aircraft operators. This is contrary to the terms of the lapsed Memorandum of Understanding in which the Department was to pay a commission to the broker and the broker was required to pass any commission or discount received from the aircraft operators onto the Department. The Department told us they were taking steps to ensure that there are clear arrangements for commissions and that future invoices provide a proper breakdown of charges.

Part 3: What have the Department's humanitarian aid projects achieved?

3.1 In addition to their grants to international agencies, a large part of the Department's humanitarian aid effort has been to support specific projects run by other organisations – a wide range of voluntary organisations, the Ministry of Defence, and local groups in the region. This Part of the report looks at:

- how the projects were selected; and
- what has been achieved.

3.2 To gain a broad view we examined a cross-section of projects:

- 15 projects implemented by non-governmental organisations, funded through the Department's London office, for a range of emergency relief projects and rehabilitation work;
- 21 similar, though lower value, projects funded by the field offices in Albania, Macedonia and Kosovo including five implemented by British Military units; and
- 6 projects implemented by the Infrastructure Engineering Unit in Kosovo in association with local water and electricity companies.

How the Department selected projects

3.3 The Department recognise that in emergencies the urgency of human need compels a swift reaction. Accordingly, they apply streamlined procedures for approving aid project proposals for humanitarian emergencies. The Head of the Conflict and Humanitarian Affairs Department has authority to approve individual projects costing up to £3 million and he has discretion on the content, range and depth of analysis required in project proposals to support the award of such grants.

3.4 Nevertheless, the Department's procedures recognise the need to be satisfied that the project is relevant to their own overall objectives, and likely to succeed. Depending on the project value, proposals for projects in relation to the

Kosovo emergency have been considered either by the Department's London office or by one of their ELMT-run field offices – the field offices have had delegated authority to approve individual projects up to a value of £100,000.

3.5 For the benefit of prospective applicants generally, the Department outline, in *Guidelines on Humanitarian Assistance* published in 1997, the information they are likely to require to assess an application for project funding. In respect of the Kosovo emergency the Department guided potential applicants by updating in a series of press releases their broad objectives and the specific areas in which they were willing to fund aid (described in Figures 4 and 5 in Part 1). They provided further details on their website. In the UK they provided a weekly Humanitarian Assistance Briefing, and issued a daily Situation Report which helped inform other agencies of the Department's activities. Because of the proliferation of aid organisations operating in and around Kosovo, the Department's field offices communicated their priorities to aid organisations through co-ordinating meetings organised by United Nations agencies, and in Albania, the national government.

3.6 The 42 projects we examined had all been properly approved, either by the Department's London office or by one of the field offices, and all fell within the limits of financial authority delegated to the London office (£3 million) and field offices (£100,000). The amount awarded, which was not necessarily the amount applied for, depended on judgements about the value of the project, the availability to the applicant of other funds, and the resources available.

3.7 It is nonetheless important that the Department maintain and keep adequate records to support financial decisions, not only to demonstrate financial propriety but also to show the consideration given to achievement of value for money. The extent to which the Department documented the basis for their appraisal decisions varied considerably:

- for those projects approved in London, at the beginning of the crisis, when the Department's primary concern was speed of response, officers made minimal manuscript annotations and signed the project application document as evidence of their review;
- for projects approved when the crisis became less acute, the level of detail provided in support of decisions increased; and

- for those projects approved by field offices a short note was added to project documents in confirmation that the purpose of the project was in line with the Department's objectives.

However, it was not always clear what evaluative criteria the Department had applied in specific cases, what had been done to test the robustness of the project proposal, and how the Department had reached a judgement about the amount of money to award. We suggested to the Department that in future they use a simple checklist which will achieve a minimum standard of documentation, while taking into account the need for speed and minimal bureaucracy, and they have agreed to do this.

3.8 In the absence of detailed documentation we asked staff in London and in field offices to outline the criteria they had actually applied in assessing applications for funding. They told us that their priorities at the start of the crisis were broadly whether the agency bidding for funds could work with the host government (in Albania, Macedonia or Montenegro); respond quickly (preference being given to agencies already in place on the ground); and whether the proposal met immediate needs (Figure 10). The 42 projects we examined appeared to be broadly consistent with these criteria. During the crisis, staff in the Conflict and Humanitarian Affairs Department in London made regular visits to the field offices, to monitor local developments and inform staff locally of the Department's funding priorities.

The broad criteria staff told us they used to assess applications

Figure 10

Staff in London and field offices told us that they applied a range of criteria to assess projects, but that this also depended on the experience and judgement of the individual officer conducting the appraisal.

- Does the project fit the overall objectives and priorities that were evolving? For example, in Macedonia and Albania projects were expected to be refugee- or host community related.
- Is the agency accredited by the host government or United Nations co-ordinating body, a signatory to relevant codes of conduct – for example that of the Red Cross – and is it already in place in the country and ready to act quickly?
- Does the proposal meet clearly evidenced need and does it dovetail with assistance being provided by other agencies?
- Is the proposal technically feasible, bearing in mind the capability and skills of the applicant, realistic, achievable in the timescale and appropriate to the cultural and natural environment?
- Are project costs credible and reasonable and the project, taken overall, cost effective?
- Have any security risks been adequately addressed, especially for any projects operating in northern Albania, which was exposed to banditry and within range of Serb artillery?

Source: National Audit Office

What has been achieved

3.9 Many of the humanitarian aid projects sponsored by the Department are not yet complete and their impact may not be known for some time. However, we sought to make an assessment of what had been achieved by the time of our visit to the region. We did this by examining project reports received from grant recipients and the results of the Department's visits. In doing so we also assessed the Department's own monitoring arrangements. And, as we have rights of audit access to grant recipients we used those rights to:

- visit six non-governmental organisations which had received funding from the Department in London for 15 projects. We spoke to their representatives and examined their records in the UK, Kosovo, Albania and Macedonia as appropriate; and
- visit 16 of the 27 projects in our selection (paragraph 3.2) funded by the Department's field offices to inspect work undertaken on the ground.

Our aim was to gain an understanding of how projects were progressing, not to carry out a full audit of how the organisations had used and accounted for grants.

Project reporting

3.10 To ensure that their funds are used as intended, the Department recognise the need to monitor project progress against the agreed timescale and budget. The Department's reporting requirements, set out in the grant letter, are normally for grant recipients to provide interim progress reports at quarterly intervals and a final report within three months of the end of the project. The Department's *Guidelines on Humanitarian Assistance* state that the purpose of project reports is to:

- Help ensure that continuous learning and quality control takes place within a project for the benefit of the beneficiaries, the implementing agency and the Department;
- Enable lessons learned to be applied to future humanitarian assistance policies and practices; and
- Assure the Department that their funds are used effectively and efficiently.

3.11 We looked to see, where applicable, whether the Department had received interim progress reports and final reports for our selected projects. We found that:

For projects approved in London

- The Department's standard grant conditions require interim reports for projects lasting longer than three months. The Conflict and Humanitarian Affairs Department do not normally ask for interim reports for immediate impact projects, although they may do so if a project is extended, or if it is clear in advance that it will last longer. Of the 15 projects we looked at, 11 had been approved between April and June, for provision of emergency relief, and none was expected to last more than six months. The Department attached no interim reporting requirements to these grants. However, in July 1999, as refugees started to return to Kosovo, the Department requested progress reports for eight of these projects to enable them to reassess funding requirements in the light of the changing circumstances in the region. By the end of October 1999 the Department had received reports for four of these eight projects.

For projects approved by the field offices

- The Albania office required grant recipients to provide interim reports where projects were funded in instalments, with further payments being conditional on completion of project stages. Of the six projects we examined, two had progressed sufficiently for progress reports to be due – in both cases these had been received and they indicated that the projects had progressed as intended.
- Most Macedonia office projects involved the purchase of assets for recipient organisations. The field office requested project reports, together with documentation of the assets held. By October, reports had been received for all six projects in our selection and they indicated in each case that the assets or grants had been used for the intended purpose.
- The Kosovo field office had not asked grant recipients for reports, but required implementing organisations to provide receipts to verify their expenditure. All but 2 of the 15 projects we examined were up to date with their receipts. The field office intended to request a final report for all projects, including evidence of completion and achievement of objectives.

Visits undertaken by the Department to assess project progress

3.12 Although the projects in our selection are supported by the Department, responsibility for implementing them rests with other organisations. Monitoring visits by the Department to projects they are funding while they are in progress allow them to assess progress, identify any problems for remedial action, and check funds are being used in the manner intended and the accuracy of any progress reports received. We found that monitoring by the Department of the projects in our selection was patchy:

For projects approved in London

- The Department told us that initially they considered that field offices had work of higher priority, and that the Department therefore decided not to require them to monitor projects approved in London. But London-based staff had visited projects in the field to review the performance of the major international organisations to which grants had been given. The Department added that later on, when staff in field offices had more time, they were asked to conduct project monitoring on behalf of the Department's London headquarters. We noted that the field office in Albania had visited 5 of the 15 London-funded non-governmental organisations working in that country. The other field offices told us that they had not routinely received details of projects approved in London, and that they had not therefore generally carried out detailed monitoring. However, the field office in Kosovo were monitoring the key health and mine clearance projects in the territory.

For projects approved by the field offices

- The Albania field office were proactive, and by the time of our visit had visited all projects they had funded up to the end of September, or obtained other evidence that the project had been implemented. The Macedonia field office carried out monitoring visits to those recipients who were slow to produce progress reports, or where reports indicated problems. The Kosovo field office, which was established later than the others, had started to make monitoring visits, but not yet on a systematic basis.

- The value of visiting projects while they are in progress is demonstrated by two cases in Macedonia where the Department have as a result of the field office's visits recovered unspent grants totalling about £16,000.

3.13 None of the field offices systematically recorded the results of monitoring visits. The field offices were aware of the need for a more structured approach to these matters, and in September ELMT headquarters devised a standard format for monitoring reports, covering project objectives and achievement, beneficiaries covered, assets used and problems and lessons from the project.

Our own review of the progress made

3.14 Based on the evidence available within the field offices, and visits to grant recipients and their projects, we made a broad assessment of whether the projects were proceeding as intended. In addition to our main selection of 42 projects (paragraph 3.2), our assessment includes projects for refugee camp construction in Albania and the rehabilitation of Pristina hospital. We found that overall, projects had been specified in ways which defined broad timescales and stated clearly what they were intended to deliver.

3.15 Although many projects were still under way there were clear signs of significant successes amongst those we examined, but as might be expected given the difficult operating conditions in the region (paragraph 1.3), some had encountered problems. Where problems have occurred it is generally the implementing organisation's responsibility to take remedial action. But the Department retain responsibility for ensuring that their funds are used effectively and efficiently, and such cases emphasise the importance of careful monitoring of projects – including visits to see what is happening on the ground. The following paragraphs sum up our findings.

In the refugee camps

Achievements noted

3.16 The Department's contribution should be viewed in the overall context of World Food Programme and World Health Organisation assessments that the immediate needs of the refugees were successfully met – there was no malnutrition and no epidemics. As regards specific projects funded by the Department, notable achievements are:

- Children's Aid Direct provided hygiene kits for 30,000 refugees at Kukes in Albania;
- War Child ran a bakery for seven weeks which they estimate produced, at its peak, 28,000 loaves a day; and
- Oxfam identified 668 disabled refugees amongst the 40,000 refugees in two camps in Macedonia and provided them with facilities and equipment.

Problems noted

3.17 The difficulty of targeting and delivering aid expenditure successfully in a rapidly changing situation is illustrated by the Department's decision on 15 May to construct a second camp at Korce in Albania. This turned out to be one month before the suspension of the NATO air campaign, and the return of the refugees to Kosovo. The difficulties are again demonstrated by a project the Department funded through Christian Aid. The purpose of the project, over a six month period, was to assist refugees and host families in Albania through the provision of food parcels; these were to be purchased in Greece as local procurement of food would take too long. Due to unforeseen delays in clearing the food parcels through Albanian customs, the parcels arrived later than intended (mid-May). By the time the refugees began to return to Kosovo in late June, following the suspension of NATO air operations, Christian Aid had been able to distribute nearly half the parcels. With the Department's agreement Christian Aid quickly set up points along the return route to distribute the remaining parcels to both refugees returning to Kosovo and those remaining in Albania, as well as other vulnerable people in Albania.

3.18 We noted a difficulty in relation to local purchases of goods and services. When ELMT staff tendered for local contractors to construct Elbasan camp in Albania the field office were concerned that local bidders might have colluded with each other. They offered identical piece rates and profit margins, and two bidders proved to be part of the same company. After field staff realised what was happening, they used other firms for the remaining work, and obtained lower profit margins – 8 per cent instead of 15 per cent, which would have saved £20,000 on the earlier work.

In the host communities

Achievements noted

3.19 The international aid effort was aimed more at the refugees in camps than those staying with host communities, where conditions were more difficult to monitor. However, host communities were in danger of being overwhelmed by the number of refugees and it was therefore important that the Department funded projects in such communities as well as in camps. Some of the projects we examined were still in progress, because they were fulfilling commitments to host communities or helping to rebuild them. The projects had been, or were being delivered effectively - they were tightly focused with concrete outputs. For instance, a project to rebuild a school in the village beside the planned Korce camp was completed in time for classes to start on 27 September, and a project to refurbish 30 homes of families who had housed around 600 refugees had been completed.



Emergency rehabilitation and rebuilding Kosovo

Achievements noted

3.20 All projects in Kosovo were intended to concentrate on areas where immediate benefits could be delivered quickly. Some of the earliest projects the Department funded were delivered by military units before the international agencies and aid organisations were established in Kosovo, and there were some particularly effective interventions. For example, British army engineers repaired a water pumping station which had been disused since 1986, to provide 35 per cent of Pristina's water supply. The field office supplied materials to reactivate the power station which previously provided 38 per cent of the electricity generated within Kosovo. This was another project on which the Department worked with the British Army.

3.21 British Army units also cleared the surroundings of Pristina hospital, where clinical waste had been dumped outside the hospital during the fighting and preyed upon by stray dogs. In addition, the Department funded a new facility for the hospital to provide essential emergency services – previously there was no centralised emergency facility, which meant that there could be critical delays in treating patients. We visited this facility a short time before it was open, and it was clearly modern and seemed well equipped.

3.22 The Department's other major project in the health sector was making good progress, with 90 per cent of the planned health clinics expected to be ready by November, in a programme which the implementing organisation, the International Medical Corps, told us would normally take three years. We also examined a project to refurbish 10 schools in south-eastern Kosovo – the schools were open by October.

3.23 The Infrastructure Engineering Unit had provided equipment to the electricity company to enable them to repair damaged installations and restore power. They had started funding projects for:

- the repair of the electricity distribution system, focusing initially on the municipality of Glogovac;
- the replacement of inadequate and damaged pumps for the major pumping stations supplying Pristina with water;



- the installation of over 5,000 pumps to household wells in remote villages; and
- the emergency rehabilitation of some key building services and infrastructure at Pristina hospital, including heating, water and power generation.

Problems noted

3.24 The Department's aim, in collaboration with other donors and agencies, was to have essential services working for the winter. However:

- for one project we visited, which had been approved early in September, some repairs had been carried out, but equipment for the electricity distribution network was due to be delivered in batches in November and December;
- in the water sector, orders for equipment with a ten week lead time had not been placed by 21 October because of difficulties in establishing a specification with the local water company.

Subsequent to our visit, the Department told us that the infrastructure repair programme continued through the winter with some interruption to the installation of equipment in January and February due to severe weather.

3.25 The health clinics and the schools, included in the projects referred to in paragraph 3.22 above, were without stoves when we visited – lack of heating would have jeopardised their use in the winter. However since our visit the organisation implementing the school projects has told us that 200 stoves were delivered and installed in classrooms by early December 1999. And we were told that by February 2000, 74 health clinics were completed and all had been equipped with heating.

3.26 In some instances equipment had been delivered but was not being used. For example, vehicles supplied to a water company were not being used for lack of fuel, although fuel supply was outside the Department's control; and the Department also told us that they had difficulty in re-deploying vehicles purchased by one of the mine clearance teams because they required computerised servicing support which was not available in Kosovo.

Part 4: How well have the Department handled the financial management of operations in the field?

4.1 This Part looks at the financial management of the Department's field operations in Albania, Kosovo and Macedonia. The offices are controlled and staffed by ELMT under their contract with the Department, although the Department retain overall responsibility for the field operations. The contract provides for the National Audit Office to have access to ELMT's books and records, including those of the field offices. The offices control substantial quantities of cash, especially in Kosovo where there is no banking system, and are responsible for equipment and supplies purchased either locally or flown into the region from the UK. We examined:

- cash management;
- procurement; and
- the management of assets and stores.

Cash management

4.2 We confirmed that the field offices operate within budgets determined by the Department. For the period to 31 March 2000 the budgets totalled £1.9 million for office operating costs and £26 million to fund local projects, and by the end of September 1999 the field offices had spent £6.8 million. Although our work did not constitute a full financial audit of the field office accounts we reviewed the financial controls for evidence that transactions were properly approved within delegated authorities, had appropriate supporting documentation, and were accurately recorded. We found that:

- for a selection of 50 transactions examined (covering salaries, office operating costs, equipment purchases and local project payments) the controls were adequate but the field offices recorded transactions on spreadsheets instead of a bespoke accounting package. Spreadsheets allow users to alter or delete data without retaining a record of the changes, and therefore do not provide a reliable audit trail. The Department are considering what alternatives might be available but

have confirmed that in the mean time they are addressing the situation by obtaining regular signed hard copies of the spreadsheets backed up with appropriate supporting documentation.

- the physical cash holdings agreed with the local records but only one of the three field offices regularly carried out and documented reconciliations between local office transaction records, cash holdings and local bank records (although there is no banking system in Kosovo, the field office have local bank accounts in neighbouring Macedonia).

Cash transfers

4.3 To fund field operations provided by ELMT under the call down element of the contract for emergency logistic support (paragraph 2.21), the Department transferred funds to accounts in the Department's name with Crown Agents Financial Services Limited. ELMT have authority to draw down money from these accounts to fund local projects, the procurement of goods and services in support of projects, and field office operating costs. Between 1 April and 30 September 1999, the Department transferred some £14 million to these accounts. The Department told us that they transferred funds for field projects in this way because the scale of expenditure was greater than Crown Agents could be expected to carry. They considered the availability of cash balances for rapid deployment to be a necessary resource, especially given the anticipated speed of expenditure and the requirement for cash in an area with a fragile or non-existent banking system.

4.4 We noted, however that:

- all these funds are held in non-interest bearing accounts in the Department's name, for which Crown Agents Financial Services Limited raise no charges. Over the six months to the end of September 1999 the month-end balances on these accounts did not fall below £2.7 million in total. We calculate that for each £1 million transferred in advance of need, the Exchequer interest cost is £5,000 a month.
- the Department did not keep the overall level of funding under review when the nature of activities had changed – for example, following the suspension of NATO air-strikes - and they did not adjust the level of funds promptly (Figure 11). The Department recognise the need to adjust the

level of funds transferred quickly while retaining flexibility in a fast-evolving situation, and have confirmed that they are taking steps to make the appropriate adjustments.

The effect of changes in activity on unspent cash transfers

Figure 11

Example 1: The effect of a reduction in activity on funds transferred

In April 1999 the Department transferred £2.5 million to their account with Crown Agents Financial Services Limited for the construction and management of a refugee camp at Elbasan in Albania. After the departure of the last refugee, the camp closed on 10 July 1999. The camp was dismantled and the equipment sold, given away or stored locally. ELMT's financial reports on activities in Albania showed that a balance of £902,000 was unspent in November 1999. The final underspend of £846,000 was transferred to the Department in March 2000 for use on other activities.

Example 2: The effect of a cessation of activity on funds transferred

On 9 June 1999 the Department transferred £330,000 to their account with Crown Agents Financial Services Limited for the construction of Vrapciste camp in Macedonia. The following day, the airstrike campaign ceased. On 15 June, when it became clear that the refugees were starting to return to Kosovo in earnest, the Department instructed ELMT to take no further action in constructing the camp. By then £77,783 had been spent, leaving a balance of £252,217. This balance was transferred to the Department in February 2000 for use on other activities.

4.5 The Department need to satisfy themselves that money spent by the Crown Agents on their behalf through the field offices has been spent properly. For this reason, the contract requires the Crown Agents to provide the Department with monthly financial statements. Although in July 1999 ELMT produced a draft financial statement for activities in Macedonia, the Department did not receive the first monthly financial statements certified by ELMT's Finance Controller until August 1999. These statements only covered activities in Albania and Macedonia up to 30 June 1999. Certified financial statements for the Infrastructure Engineering Unit were produced in December 1999 (for expenditure up to 30 October 1999) and for other activities in Kosovo in January 2000 (for sterling expenditure up to 31 December 1999). As a condition of contract the Department have access to the Crown Agents' books and records. By February 2000 they had not yet carried out any such inspection, but they intended to do so before the end of the financial year.

Procurement

4.6 The field offices were initially equipped by the Department as mobile offices, each with computers and communications equipment and two Land Rovers. As the offices became established and expanded, they procured additional equipment, vehicles, fuel and office consumables either locally or through the

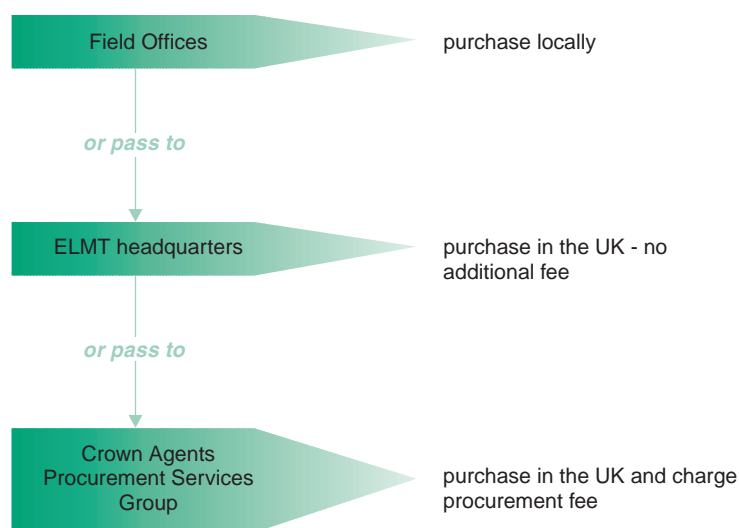
ELMT headquarters in Sutton. In addition the Infrastructure Engineering Unit in Kosovo contracted with suppliers to repair and service equipment and buildings as part of the engineering projects they were running.

4.7 The field offices and the Infrastructure Engineering Unit were not provided with written guidance on procurement (paragraph 2.7), but the Department confirmed that the offices received oral briefing and guidance from the ELMT headquarters staff. The Department’s policy was to use local suppliers because it would help to revive the local economy, and the offices sought competing quotes. But where the local conditions made use of local suppliers difficult the field offices liaised with each other to overcome supply problems. For example, the field offices in Skopje assisted the Pristina office to purchase computers and vehicles.

4.8 If no local suppliers can meet their requirements, or if the requirement exceeds their delegated authority, the field offices pass requests to the ELMT headquarters in Sutton. They competed some requirements among potential suppliers themselves and referred others, which were complex or outside their competence, to the Crown Agents Procurement Services Group (Figure 12). By 31 October 1999 the Crown Agents Procurement Services Group had handled £3.3 million of the £5.5 million of purchases for the field offices.

Procurement routes for field office purchases

Figure 12



Source: National Audit Office

4.9 We noted that there is a potential conflict in the procurement procedures in that the staff in the field offices, the Infrastructure Engineering Unit and ELMT headquarters who decide what procurement route to take are themselves part of the Crown Agents. Under an Enabling Agreement the Department pay a management fee, which is charged on a sliding scale according to the value of the transaction (smaller transactions attract fees at higher rates), on all purchases made through the Crown Agents Procurement Services Group. By the end of October these procurement fees for purchases for the field offices and the Infrastructure Engineering Unit totalled £228,100.

4.10 The Department recognise the need for oversight of this procurement process. We note that their procedures include reviewing a number of procurement transactions undertaken by Crown Agents Procurement Services Group, which would pick up purchases initiated by ELMT. And the new ELMT contract, applying from October 1999, sets out rules for when Crown Agents Procurement Services Group should be used, based on the order value. However, the Department are considering what additional monitoring procedures are required to ensure that they have proper visibility of the procurement decisions taken by the field offices, the Infrastructure Engineering Unit and ELMT headquarters.

The Management of Assets and Stores

4.11 We looked to see whether the Department had maintained effective control over the assets and stores sent to, and purchased in, the region. Specifically, we tracked a selection of items to see if they had reached their intended destination, and examined the completeness of local asset registers.

4.12 At the time of our visit the Department had over 400 items of equipment in the region, including almost 100 vehicles, over 60 computers and some 250 items of communications and other equipment. As a test check on whether items were where they were meant to be, we selected 17 items from ELMT's records of assets despatched from the UK to the region, and 25 items purchased locally by the field offices. We located all the items.

4.13 The Department's grant conditions require recipients to maintain an inventory of assets purchased with grant funds and they state that the assets remain the property of the Department. We noted, from an examination of the Department's records and our visits to the headquarters organisations of

UK-based grant recipients, that nine of the projects we visited held assets funded by the Department. During our site visits, we physically checked on the existence of 25 of these items and managed to locate all of them.

4.14 The Department provided tents and blankets, food and medical supplies to a value of approximately £1 million for distribution in the region by the United Nations High Commissioner for Refugees, the World Health Organisation and the World Food Programme. The Department arranged for these supplies to be airlifted, normally to the airport at Skopje (in Macedonia) or Tirana (in Albania), where they were unloaded by air cargo handling teams funded by the Department and attached to the United Nations High Commissioner for Refugees - the supplies were then collected by representatives of the international agencies. The Department told us that they selected distributing organisations on the basis of their track record of delivering reliably to final beneficiaries.

4.15 We attempted to check whether 11 consignments (including tents, food, medical and other supplies to the value of £350,000) had reached the distributing organisation. But we were unable to complete the exercise because there was an incomplete audit trail. The air cargo handling teams kept a log of flights, with basic details of the tonnage and nature of the cargo,



and intended recipient but there was no documentary evidence that they had checked the contents in detail against cargo manifests. The Department did not arrange to obtain confirmation that supplies had been delivered to the distributing organisation - for instance, they did not receive copies of the cargo manifest signed off by the recipient. So they can not confirm that supplies were:

- delivered to the correct location;
- received complete and intact; or
- collected by the intended distributing organisation.

However, they told us that during visits to distributing organisations in the field, they carried out spot checks to confirm that supplies had been received. And they are putting arrangements in place to obtain documentary evidence of receipt by recipient organisations in future.

4.16 Although consumable items form a large part of the supplies provided by the Department, much of the equipment will be reusable when it is no longer required in the region, and it is important that they have a reliable record of its whereabouts. We confirmed that each field office maintains a record of the assets under its control and items on loan to other organisations, and that ELMT headquarters in Sutton also maintain an asset register listing the Department's assets under their management control. We noted that in the early days of the crisis these central records did not tally with the field office registers, but ELMT have recognised this, and informed us that they have updated their records and instituted a series of ongoing checks on asset holdings.

4.17 The Department aim to return equipment to the UK for storage in readiness for a future crisis, if it is economical to do so. If not, they may decide to donate it to a local organisation, government agency or non-governmental organisation - under their contract, ELMT are permitted to dispose of equipment on instruction from the Department. In October 1999, the Department were reviewing equipment and staff requirements to 31 March 2000. They had already determined that some equipment was no longer required - for instance, the Tirana office was in the process of disposing of supplies of tents, medical kits, and kitchen equipment. Other items had been donated to local organisations and the United Nations High Commissioner for Refugees, and some sold - the proceeds, of some £7,000, are accounted for in ELMT's accounts for the field office.

Appendix 1: Timetable of key events during the Kosovo crisis

1990s	A new organisation, the Kosovo Liberation Army emerges. It begins a campaign of attacks against Serbian security forces, who respond with military repression in the province.
January - June 1998	<p>The Federal Republic of Yugoslavia increases the size of its security force in Kosovo, including both Federal Army and paramilitary police. They launch heavy-handed operations in the Drenica area at the end of February and in the spring launch an offensive to reclaim territory from the Kosovo Liberation Army. Serb soldiers attack villages in Drenica, Decani and Pec areas.</p> <p>Contact Group (France, Germany, Italy, Russia, the United Kingdom and the United States) meets regularly to resolve the situation by diplomatic means.</p>
11-12 June 1998	NATO Defence Ministers task NATO military planners to produce a full range of options for military support to the diplomatic process.
September 1998	The United Nations High Commissioner for Refugees (UNHCR) estimates 250,000 Kosovo Albanians driven from their homes and some 50,000 still in the open as winter approaches.
23 September 1998	UN Security Council adopts resolution 1199, highlighting the impending humanitarian catastrophe in Kosovo and demanding an immediate cease-fire and the start of real dialogue.
24 September 1998	NATO Defence Ministers' Informal Meeting sends a powerful signal to Belgrade by agreeing an Activation Warning to Allied Forces, thus beginning the formal process of force generation for air operations.
8 October 1998	Contact Group Foreign Ministers give US envoy Richard Holbrooke a mandate for his mission to Belgrade to secure agreement based on full compliance with Security Council Resolution 1199.
12 October 1998	After meeting Milosevic, Holbrooke reports agreement in principle to a Verification Mission by the Organisation for Security and Co-operation in Europe, and political process.

End of 1998	UNHCR estimates 300,000 persons displaced from their homes in Kosovo. Some have fled to surrounding countries.
15 January 1999	Massacre at Racak. The Federal Republic of Yugoslavia subsequently refuses to allow the International Criminal Tribunal for the Former Yugoslavia to investigate.
11 February 1999	The Defence Secretary announces the deployment of first elements of the UK contribution to a NATO peace implementation force, which became the Kosovo Force or KFOR.
February 1999	Representatives of the Federal Republic of Yugoslavia and Kosovo Albanian leaderships attend talks at Rambouillet in France. Neither side sign the Accords but broad agreement is reached on the principle of substantial autonomy for Kosovo.
Beginning of March 1999	UNHCR estimates a total of 315,000 internally displaced persons and refugees in the region, with the majority (260,000 persons) being internally displaced within Kosovo. Nearly 45,000 others have sought refuge in Albania, Macedonia, and Bosnia and Hercegovina. An additional 100,000 have filed for asylum in other European countries.
15-19 March 1999	Second round of talks (over the practical implementation of autonomy for Kosovo) between Yugoslav and Kosovo Albanian leaderships adjourned. The Kosovar Albanians signed the Accords, but the Serb delegation failed to negotiate seriously and resiled on its Rambouillet commitments. Yugoslav and Serb security forces campaign intensifies.
22 March 1999	US envoy Richard Holbrooke sent once more to Belgrade. However, he fails to persuade President Milosevic to withdraw his forces in line with UN Security Council resolution 1199.
23 March 1999	NATO Secretary Solana delegates authority to the Alliance's Supreme Commander to begin air strikes against the Federal Republic of Yugoslavia.
24 March 1999	Air campaign begins at 1900 GMT, lasts for another 78 days.
29 March 1999	£10m aid from the Department authorised (funded from the Department's existing resources for conflicts and emergencies).
31 March 1999	The Department's first airlift to Tirana, Albania - contains tents and blankets (Flights to Skopje, Macedonia begin 3 April).

24 March - 1 April 1999	UNHCR contingency plans to meet the need of 100,000 new Kosovo refugees quickly overwhelmed when 227,000 fled Kosovo in the first eight days of the air campaign.
13 April 1999	UNCHR adopts resolution on human rights in Kosovo.
6 May 1999	G8 Foreign Ministers agree principles to resolve the crises. These form the basis for UN Security Council resolution 1244. Unlike the Rambouillet Accords, they demand full withdrawal of Serbian and Yugoslav forces from Kosovo, while also requiring the demilitarisation of the Kosovo Liberation Army.
24 May 1999	Construction of first Departmentally funded refugee camp in Elbasan, Albania complete.
3 June 1999	Milosevic accepts the agreement presented to him by Finnish President Ahtisaari and Russian envoy Chernomyrdin, which specifies withdrawal of all Serbian and Yugoslav forces from Kosovo and 'substantial NATO participation' in an international security presence under unified command and control.
8 June 1999	United Nations produces estimates that 780,000 refugees and internally displaced persons have been displaced to the countries surrounding Kosovo, while over 81,000 have left the immediate region on the UNHCR/International Organisation for Migration Humanitarian Evacuation Programme.
10 June 1999	Air campaign is suspended. UN Security Council resolution 1244 adopted, setting up the UN Interim Administration Mission in Kosovo. It consists of four substantive components or pillars: interim civil administration (UN-led), humanitarian affairs (UNHCR-led), reconstruction (EU-led) and institution building (Organisation for Security and Cooperation in Europe-led).
12 June 1999	KFOR enter Kosovo.
14 June 1999	The Department's aid workers enter Kosovo on the first UN humanitarian aid convoy.
20 June 1999	Withdrawal of regular Serb forces complete.
By 28 June 1999	415,000 Kosovo refugees return to the province by their own means.

- 1 July 1999** First organised returns of refugees to Kosovo (arranged by UNHCR, Albanian Government, NATO, and non-governmental organisations).
- By 15 July 1999** Through spontaneous and organised repatriation, a total of 650,000 Kosovo refugees now returned from outside the province.
- 20 September 1999** Commander KFOR declares the Kosovo Liberation Army compliant with their undertaking to demilitarise.
- November 1999** UNHCR estimate 200,000 minorities, mainly Serbs and Roma, may have fled Kosovo since the end of the NATO bombardment.

Appendix 2: The roles of the United Nations and international agencies in the Kosovo emergency

Food and Agriculture Organisation	Assistance to agricultural production in Albania, Macedonia and Kosovo.
International Committee of the Red Cross	The protection of displaced, detained or arrested persons, and facilitation of efforts to locate missing persons.
International Organisation for Migration	Evacuation of refugees from the region, and facilitating their return.
Office for the Co-ordination of Humanitarian Affairs	Promoting co-ordination in the donor community and the United Nations humanitarian system.
United Nations Children's Fund (UNICEF)	Support for refugee women and children, provision of emergency education, health and mines awareness programmes and programmes to restore the psychosocial well-being of children affected by the crisis.
United Nations Development Programme	Supporting Albania and Macedonia in addressing socio-economic problems which have been exacerbated by the crisis, and starting rehabilitation and recovery work in Kosovo.
United Nations High Commissioner for Refugees (UNHCR)	Co-ordination of humanitarian aid to refugees, protection of the human rights of refugees.
United Nations Mines Action Service	Co-ordination of mine action activities in Kosovo including surveys, mine awareness education, mine clearance and explosive ordnance disposal.
United Nations Mission in Kosovo	Provide an interim civil administration in Kosovo, and co-ordinate all assistance efforts of the international community.
World Food Programme	Provision and co-ordination of food assistance in the region; provision of air bridge and other logistics support.
World Health Organisation	Reinforcement of health services in Albania and Macedonia and reconstruction of health services in Kosovo.

Appendix 3: The National Audit Office methodology

Our examination comprised of principally: visits to the Department's headquarters; Crown Agents' headquarters; the Department's representative offices in Albania, Kosovo and Macedonia; inspection visits to non-governmental organisations in the United Kingdom, Albania, Kosovo and Macedonia; and meetings with representatives of the international community. The main features of the study methodology are set out below.

Examination at the Department

We reviewed relevant documents and interviewed staff at the Department to identify the mechanisms of providing aid that were applied in their response to the Kosovo crisis. For each mechanism we examined how the Department controlled resources and obtained value for money. Aid is delivered through implementing partners by means of grants or services provided through a commercial contract.

Support to United Nations and other international organisations

We examined this area by identifying:

- how the organisations requested support from the Department;
- what support they requested;
- how the Department responded to the requests, including matching requests to actual response; and,
- the speed with which the Department responded.

Work we carried out in the region on the support to these organisations is outlined below.

Support to non-governmental organisations

All support to non-governmental organisations was in the form of grants. We examined 15 grants, together totalling £8 million (60 per cent of the grants approved by the London office). A list of the projects we looked at is at Appendix 4. We examined:

- how the Department assessed grant awards;
- the speed of the Department's response; and
- the Department's monitoring arrangements for the grants.

We exercised our explicit rights of audit access to grant recipients, which are written into the Department's standard grant conditions.

Contractual relationships

We reviewed documents and interviewed staff at the Department to identify pre-existing and new contractual arrangements. We examined how the Department obtained services under the contracts and how value for money was demonstrated through competitive tendering or quotes and use of specialist services. We reviewed the contractual arrangements for:

- Air chartering (£2.6 million);
- Survey and clearance of mines and unexploded ordnance (£6.8 million); and
- Crown Agents and Emergency Logistics Management Team (£46 million including the cost of field offices and services provided for international agencies, included above).

Under the contract with Crown Agents we have audit access rights that we exercised in the UK and in the region, see below.

Crown Agents

ELMT were responsible for managing £46 million of the Department's activity or equipment in the field. We visited the Crown Agents head office in Sutton and examined paperwork and interviewed staff. We examined how ELMT:

- procured equipment or services;
- maintained a register of assets funded by the Department; and
- made financial reports to the Department.

The interviews also provided detailed information of the size and development of operations in the field, such as number of staff recruited and deployed to the field.

Examination at the Department's field offices in Skopje, Tirana and Pristina

Between September, October and November 1999 we visited all three field offices and the Infrastructure Engineering Unit for up to five working days each. We examined local financial management systems and reviewed funding of a selection of 27 projects with a value of £4.3 million. A list of the projects we examined is at Appendix 4.

Internal financial controls

We examined the internal controls over financial procedures including procurement, payments, accounting records, management of local office and reporting procedures. We considered the controls in respect to seven control principles (adequacy of records, segregation of duties, supervision, reconciliations and checks, security of resources, clear allocation of responsibility, staff experience). We examined records and supporting documentation for a selection of 50 transactions and verified cash holdings in each office, and verified the physical existence of 42 assets.

Locally approved projects

We reviewed nine projects at the Kosovo field office and six at each of the other three – a total of 27 projects. For each of these projects we reviewed the procedures for: assessment and approval; payment; monitoring and reporting.

We visited 16 of these projects in the field, identified in Appendix 4. During which we sought to establish whether the Department's funds had been applied as intended.

Inspection visits to non-governmental organisations

We exercised our rights of audit access to six non-governmental organisations which received grants (Children's Aid Direct, Christian Aid, International Medical Corps, Oxfam, Save the Children, War Child). We visited these organisations in the United Kingdom and in the region to:

- interview project and financial staff;
- review relevant papers;
- establish what progress each project has made;
- obtain feedback on how successfully the Department had worked with grant applicants; and
- inform ourselves as to how grant recipients ensure they safeguard public funds and publicly funded assets.

International community

The auditors did not have rights of access to United Nations and international organisations, but we visited six organisations in the region, together accounting for £37 million, or 88 per cent of the Department's commitments to international organisations to October 1999:

- the UN High Commissioner for Refugees (UNHCR),

- the UN Mission in Kosovo (UNMIK),
- the UN Children’s Fund (UNICEF),
- the World Food Programme (WFP),
- the World Health Organisation (WHO) and
- the International Committee of the Red Cross (ICRC).

We sought their opinion of how the Department responded in the field. We also enquired if the response was appropriate to needs in the field. We obtained their opinion on the Department’s contribution to the humanitarian aid response.

Appendix 4: The projects we reviewed

We looked at a selection of 15 grants to six non-governmental organisations for project proposals that were appraised and approved by the Department in London, and 27 grants to 18 organisations approved by field offices. The grants, totalling some £12 million, were in support of a variety of humanitarian relief projects in Albania, Macedonia and Kosovo.

Approved in London

Recipient	Formal award	Region	Amount (£)	Purpose
Children's Aid Direct	12 April	Albania	102,000	Distribution of hygiene packs to refugees and host families
Oxfam	12 April	Albania	300,000	Hygiene packs, water and sanitation, and health education in camps
Save the Children	12 April	Albania and Macedonia	300,000	Distribution of children's clothing, hygiene items and baby food in camps; school equipment
Christian Aid	14 April	Albania	350,000	Distribution of food and hygiene packs to refugees and host families
War Child	20 April	Albania	350,000	Field bakery
Children's Aid Direct	23 April	Macedonia	200,000	Distribution of hygiene packs to refugees and host families
Christian Aid	23 April	Montenegro	250,000	Distribution of food and hygiene packs to refugees and host families
International Medical Corps	6 May	Albania	437,000 (US \$700,000)	Healthcare to refugees and host communities
International Medical Corps	6 May	Macedonia	312,500 (US \$500,000)	Healthcare to refugees and host communities
Oxfam	7 May	Macedonia	100,000	Provision of equipment, clothing and other support to disabled refugees
Children's Aid Direct	7 June	Macedonia	160,000	School equipment
International Medical Corps	13 July	Kosovo	2,500,000	Rehabilitation of primary healthcare infrastructure
International Medical Corps	13 July	Kosovo	2,500,000	Reintroduction of primary healthcare services, sustained by education and training
Oxfam	20 July	Macedonia	150,000	Water and sanitation provision in host communities
Children's Aid Direct	15 September	Macedonia	50,000	Mobile van equipped with sport and recreation materials, plus staff

Approved by field offices

Recipient	Formal award	Region	Amount (£)	Purpose	Site visit
Mission East	26 June	Albania	58,420 (\$92,304)	Rebuilding school	✓
International Rescue Committee	5 July	Albania	93,509 (\$147,745)	Refurbishment of host families' homes	✓
Movimondo Molisv	7 September	Albania	24,949 (\$39,420)	Renovation of surgical clinic, Mother Theresa Hospital	✓
Movimondo Molisv	7 September	Albania	14,231 (\$22,485)	Water and sanitation, Mother Theresa Hospital	✓
Movimondo Molisv	7 September	Albania	23,241 (\$36,720)	Burns unit renovation, Mother Theresa Hospital	✓
Durres District Council	16 September	Albania	n/a (loan)	Loan of sewage truck	
Doctors of the World	19 April	Macedonia	35,954 (104,565 DM)	Vehicles and equipment for supplying medicines to refugee camps	
Solidarités	27 April	Macedonia	22,278 (71,372 DM)	Vehicles and equipment for refugee camp water and sanitation project	✓
KFOR	21 May	Macedonia	20,750 (61,078 DM)	Camp construction materials	
CARE	15 June	Macedonia	16,930 (50,000 DM)	Camp kitchen construction	✓
Macedonia Press Centre	8 July	Macedonia	19,518 (57,398 DM)	Equipment for media forum and training facility	✓
Skopje City Council	24 August	Macedonia	30,148 (90,649 DM)	Playgrounds	✓
Mother Theresa Society	6 July	Kosovo	20,190 (65,415 DM)	Forklift trucks for humanitarian supplies warehouse	✓
Radio 21	11 July	Kosovo	27,842 (90,207 DM)	Radio equipment for new radio station	
KFOR	22 July	Kosovo	5,598 (18,139 DM)	Refurbishment of milk factory	✓
KFOR	26 July	Kosovo	27,778 (90,000 DM)	Repairs to Pristina airport	
DINOR Car Service	16 August	Kosovo	37,206 (120,546 DM)	Machinery to re-establish motor garage	
Feed The Children UK	16 August	Kosovo	89,457 (289,840 DM)	Refurbishment/renovation of schools in Vitina, SE Kosovo	✓
Ajka Dairy	17 August	Kosovo	73,194 (237,150 DM)	Refurbishment of dairy	
KFOR	27 August	Kosovo	40,123 (130,000 DM)	Reactivation of metal factory	

Approved by field offices *continued*

Recipient	Formal award	Region	Amount (£)	Purpose	Site visit
Arts Gallery Restaurant	8 October	Kosovo	25,525 (82,700 DM)	Refurbishment of restaurant/art gallery	
KFOR	17 July	Kosovo	77,910 (252,427 DM)	Chemicals for recommissioning of Kosovo A Power station	
Batlava Water Company	3 August	Kosovo	22,281 (72,189 DM)	Vehicles for water company	✓
Electrokosovo	6 September	Kosovo	1,141,975 (3,700,000 DM)	Gllgovac area electricity distribution network repairs	✓
Electrokosovo	20 September	Kosovo	2,160,494 (7,000,000 DM)	Transformer repairs and replacement - throughout Kosovo	
Batlava Water Company	30 August	Kosovo	50,375 (163,216 DM)	Pipe fittings for water supply repairs	✓
Batlava Water Company	3 October	Kosovo	180,000	Badovac pumping station refit	✓

Source: National Audit Office

Appendix 5: Glossary

Crown Agents	The Crown Agents for Overseas Governments and Administrations Limited - a private company which provides on commercial terms services which assist in development. It is owned by a non-profit distributing Foundation, of which the Secretary of State for International Development is a member.
Crown Agents Financial Services Limited	An authorised bank which is a subsidiary of Crown Agents.
ELMT (Emergency Logistics Management Team)	A team established by the Crown Agents, based in Sutton to provide an emergency response team service under contract to the Department.
International Agencies	Organisations of which national governments are members, with internationally-recognised responsibilities (see Appendix 2).
Infrastructure Engineering Unit	A unit set up by ELMT in Kosovo to run projects, funded by the Department, for reinstatement of essential infrastructure such as power and water supplies in Kosovo.
KFOR	Kosovo Force (the NATO peace implementation force in Kosovo).
Non-governmental Organisation	The term used in international development for private bodies active in development work, which are not part of government or have national government representation.
UNHCR	United Nations High Commissioner for Refugees (see Appendix 2).
United Nations Mission in Kosovo (UNMIK)	The interim civil administration in Kosovo established by United Nations Security Council Resolution 1244.