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(Notices)

COURT OF AUDITORS

SPECIAL REPORT No 2/96

concerning the accounts of the Administrator and the European Union Administration, Mostar (EUAM) accompanied by the replies of the Commission and the Administrator of Mostar

(96/C 287/01)

(Observations pursuant to Article 188c (4) second paragraph of the EC Treaty)

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INTRODUCTION

Background relating to the European Union Administration, Mostar (EUAM)

1. In September 1993, during peace negotiations, the idea was launched and accepted in principle by all local parties in Bosnia and Herzegovina, that Mostar should be put under temporary European Union (EU) administration while a permanent solution to the problems of the city was sought. The matter was then left pending until an overall peace plan for the former Yugoslavia was introduced. Following an invitation extended to the European Union by the parties who signed the March 1994 Washington Agreement, the Council formally decided on 16 May 1994⁽¹⁾ to carry out a Common Foreign and Security Policy (CFSP) Joint Action, under the terms of Article J.3 of the Treaty on European Union to cover support for the administration of the city of Mostar, one of the cities most affected by the fighting. This Decision followed on from an earlier Council Decision of 8 November 1993⁽²⁾ to carry out a Joint Action to support the conveying of humanitarian aid in Bosnia and Herzegovina⁽³⁾.

2. The Council Decision of 16 May 1994 provided for an initial budget of up to ECU 32 million to be used to finance the initial establishment and the subsequent actions of a new European Union Administration of the city of Mostar (the EUAM). Subsequent decisions increased the total available budget to ECU 144 million (see paragraph 31).

3. The EUAM formally commenced operations on 23 July 1994, when the Administrator took up his appointment in Mostar. The EUAM's initial mandate was for a maximum of two years, ending, at the latest, on 22 July 1996⁽⁴⁾.

The Court's audit

4. Pursuant to the Treaty⁽⁵⁾ and following the invitation of the Council contained in Article 3 of the Council Decision of 16 May 1994, the Court of Auditors

carried out in 1995 an integrated audit of both the operations of the EUAM and the accounts of the Administrator. These accounts included finance directly provided by the EU Member States, as well as from the general budget of the European Union.

5. The Court examined whether all revenue to 31 August 1995 was received and all expenditure to that date was incurred in a lawful and regular manner and whether the financial management was sound.

6. Two audit visits were undertaken to Mostar, comprising a preliminary visit from 3 to 5 July 1995, followed by a final visit from 23 to 31 October 1995. During the audit, the progress of the EUAM towards meeting its objectives was reviewed, the EUAM's systems of internal control were examined, and an assessment made of their effective functioning. The audit of revenue was carried out on the basis of the amounts established as due under the terms of the different Council Decisions and the amounts actually paid to the Administrator's account. The audit of expenditure was carried out on the basis of both commitments undertaken by the EUAM and payments made up to 31 August 1995.

7. The visits on the spot enabled the Court to see at first hand the difficult conditions in which the EUAM team was working, resulting from the continuing tensions between the different parties, sporadic shelling of the city, the ruined state of most of East Mostar, the suffering of the population during and after the phases of open conflict, the breakdown of normal services and the collapse of the economy. The strong team spirit within the EUAM has contributed greatly to what has been achieved.

OBJECTIVES OF THE EUAM

8. The Memorandum of Understanding on the European Union Administration of Mostar ('the MoU'), signed on 5 July 1994, by the EU and Western European Union (WEU) Member States and the different parties involved in the former conflict, sets out various aims and objectives to be achieved by the EUAM. These were further developed in a strategy document dated 13 May 1995 prepared by the Administrator.

9. The central objective set out in the MoU is to create the conditions leading to a unified city of Mostar. While the EUAM is not explicitly required to achieve a single administration for Mostar, this remains the fundamental target. The EUAM has therefore been working with local parties to overcome the present division of Mostar, and to create a suitable climate that could lead to a common administration of a multi-ethnic city, the holding of

⁽¹⁾ Council Decision 94/308/CFSP of 16 May 1994.

⁽²⁾ Council Decision 93/603/CFSP of 8 November 1993.

⁽³⁾ The situation on the ground in Bosnia-Herzegovina in the winter of 1993/94, with the Bosnian Serb forces hindering access for the humanitarian aid convoys meant that the initially proposed Joint Action could not be implemented.

⁽⁴⁾ Council Decision 94/790/CFSP of 12 December 1994, later reaffirmed in Council Decision 95/517/CFSP of 4 December 1995.

⁽⁵⁾ Article 188 C of the Treaty establishing the European Community.

democratic elections (before the end of the EUAM's mandate), and a return to normal life for all of its citizens.

10. The main criteria considered in the EUAM strategy document to be fundamental to the concept of a unified city include:

- (a) a population willing to live under a common set of rules;
- (b) a central municipal authority acceptable to the population;
- (c) a common legal framework and guaranteed rights for all citizens;
- (d) a common public service, tax system, and police force; and, most importantly,
- (e) freedom of movement for all citizens residing in the city.

11. The principal assumptions against which the overall EUAM strategy document of 13 May 1995 was prepared, were that:

- (a) the Federation between the Bosnians and the Bosnian-Herzegovinian Croats would remain intact and develop further;
- (b) the United Nations Protection Force (Unprofor) would remain in the region with its existing strength unchanged;
- (c) the shelling of Mostar by the Bosnian Serb Army (BSA) would not reach a level that rendered the task of the EU Administration impossible; and,
- (d) the EUAM would progressively gain the confidence of the citizens of Mostar, and not be totally obstructed in achieving its aims and objectives by any of the different parties.

12. In addition to the EUAM's main aim of creating the conditions leading to a unified city of Mostar, there are other objectives, drawn from the MoU, and further developed in the EUAM's strategy document. These cover the different areas of intervention of the EUAM, and are summarized in *Annex 1*. Although the objectives in the MOU were not quantified, which makes evaluation of progress difficult, they were wide-ranging and ambitious, in a situation of continuing conflict and ongoing mistrust and tension between the parties who were to come together.

IMPLEMENTATION OF THE MISSION OF EUAM

13. The information contained in paragraphs 14 to 30 is taken from progress reports of the EUAM and files of the Administration on its different activities, complemented and confirmed by on-the-spot observations during the audit missions.

14. At 31 October 1995, when the audit work on the spot was completed, Mostar, a city with a population of about 60 000, was still nearly totally divided into Muslim controlled Eastern and Bosnian Croat controlled Western parts. Despite ongoing attempts by the EUAM to negotiate and achieve more progress relating to freedom of movement, no consensus had been reached between the two sides. 250 persons on each side (excluding men of military age) were able to obtain permits to cross to the other side of Mostar each day. A small number of people belonging to certain professional groups were also able to obtain ID cards enabling them to cross the demarcation lines. West Mostar Police, however, created continual problems over the question of unobstructed access of people from Mostar East to the EUAM Headquarters, situated in Mostar West.

15. The EUAM has experienced major difficulties in achieving progress towards a unified police force. Despite this having earlier been identified as one of the most important tasks agreed in the MoU, local forces in West Mostar steadfastly opposed the speedy development of such a body. Phase 1 of the unified police programme has however, been completed. This involved the establishment of a joint operations centre, improvements in police communications, and joint patrolling between WEU and East Mostar police, and WEU and West Mostar police on the demarcation line between both parts of the city. Under the terms of a signed agreement of 18 September 1995, Phase 2 provided for the establishment of joint headquarters, the beginning of joint patrols between East and West Mostar and WEU police, and the intensification of the process designed to replace the existing police forces in Mostar West and East. Implementation of this phase was being blocked at the time of the audit.

16. Article 21 of the MoU provides that all funds which the local parties (i.e. the two administrations for the West and East) have at their disposal for the administration of the city will be made available to the EUAM Department of Finance and Taxes, which will integrate them into the city's budget. This has not, however, been respected. Even though the two administrations receive funds from outside they do not declare them to the EUAM.

17. At the time of the audit, only limited progress had been made towards the objective of an unified administration. Subsequent developments, for example the signing of the Bosnian peace accords in Paris on 14 December 1995 and the agreement on Mostar obtained in Rome on 18 February 1996, provide opportunities for a greater degree of cooperation between the parties and the EUAM.

18. Despite the above difficulties, the EUAM has pushed forward with the remainder of its programme. This has principally involved working together with the local administrations and the utilities companies of East and West Mostar to reconstruct and redevelop much of the damaged infrastructure of Mostar, and the launching of certain economic initiatives. In a few cases the EUAM has supported projects outside the official area under EU Administration, (the 'Blue Zone'), because of the important job creation possibilities.

19. Initially, the most important tasks were to re-establish water and power supplies in the city. By March 1995 water had been restored to all districts, except for the high areas, which did not have an adequate supply before. A special programme of leak detection and repair has been undertaken.

20. Concerning power supplies, the first objective was to connect East Mostar with low voltage cable so that households could have electricity. This was achieved by November 1994. Between then and March 1995, the EUAM worked on a high voltage connection from the West to the East. Progress on this was held up by the West, which tried — unsuccessfully — to use the connection as a lever to gain control of a hydro-electric site in the hands of the East. In September 1995, because of opposition from Elektroprivreda BiH⁽⁶⁾ in Sarajevo an EUAM plan to provide additional energy for the city and the Neretva Valley failed, with the result that there is still insufficient power for industry in the area.

21. An early task of the Administration was to organize the clearance of rubble from the streets. In the field of reconstruction, more than 3 500 slightly damaged buildings in the East and the West have been repaired, with a further 2 000 dwellings in Mostar East scheduled to receive glass for windows by the end of 1995. A number of public buildings have been repaired. Various measures have been taken to strengthen the capacity of

the local construction industry, and, after delays, a plant hire agency for East Mostar has been established⁽⁷⁾.

22. In the economic sector, the EUAM launched its Investment Support Programme (ISP) for large public companies in the textile, concrete, metal construction, equipment and fruit juice industries, as well as supporting 470 small and medium sized enterprises through its Small Enterprise Programme (SEP). This support covers reconstruction of buildings and premises and the purchase of new machinery and equipment, as well as management training courses. Preliminary findings arising from an evaluation carried out in East Mostar of phase 1 of the SEP programme, revealed, however, that the results were less satisfactory than had originally been hoped for. At the end of September 1995, some 28 % of the client enterprises had used less than 10 % of their allocated grants, while 57 % had used less than 10 % of their loans⁽⁸⁾.

23. The only nominally functioning joint enterprise project between Mostar East and Mostar West is the bus company which has operated a service since April 1995. The service is operated by two agencies, in the East and in the West, with a common management board chaired by the Head of the EUAM Department of Economy, Transport and Infrastructure (DETI). However, the buses still operate on strictly separate routes in the East and the West, and the fares paid are retained separately by the agencies on each side.

24. The repair of roads has also commenced, along with work on all but one of the bridges within the EUAM's area of responsibility. Work on the Tito bridge, the Bailey bridge at Potoci, and two footbridges to replace the Kamenica and the historic Stari Most bridges over the Neretva river, has been completed. The largest project, that of the Carinski Bridge was opened on 30 April 1996. In 1996 work is also due to commence on the Hasan Brkić bridge (East Mostar) and the Aviator's bridge in West Mostar, both of which will only be completely repaired after the end of the EUAM's mandate.

25. Telecommunication links have also largely been re-established in the city. An agreement for the

⁽⁶⁾ Bosnian Electricity Board.

⁽⁷⁾ The original intention was that the plant hire agency should be located both in the West and the East. For various reasons, including the fact that alternative plant capacity existed in the West, it was decided to limit the location of the agency to East Mostar. In current conditions it is likely to serve East Mostar only.

⁽⁸⁾ The funds not used were being held in the accounts of the local Mostar banks.

establishment of a common Post and Telecommunications Organization (PTT) in Mostar, has been signed by both sides, but had not been implemented at the end of 1995.

26. In the field of public health, extensive rehabilitation has been undertaken of war damaged medical structures, located mainly in East Mostar. An extensive pest control campaign has been undertaken. The Administrator decided that the project to complete and equip the Bijeli Brijeg central hospital in West Mostar should not be carried out in the absence of satisfactory guarantees regarding free access to it for all citizens.

27. With regard to education and culture, 12 elementary schools have been repaired, along with three kindergartens, and several historical buildings. Further extensive work is still in progress. A programme of measures to enable three secondary schools to be used through the winter of 1994/95 was also completed. The complete reconstruction of two secondary schools has commenced, but further reconstruction relating to other secondary schools is still subject to a political decision about common education and free access to all schools for all pupils. These pre-conditions, insisted upon by the EUAM, had not been fulfilled at the time of the audit.

28. In the field of cultural life, youth and sports, the EUAM has financed reconstruction of different sports buildings, 10 open air sports fields and supported 20 local sport clubs, in addition to financing youth and cultural exchange programmes.

29. In June 1995 a pilot housing programme was introduced, to repair 78 apartments, 80 structures in Mostar East, three apartment houses and other structures in Mostar West. Displaced persons were enabled to occupy them, thus freeing other apartments for their original owners to move back into.

30. The UNHCR⁽⁹⁾ and various non-governmental organisations, supported by ECHO⁽¹⁰⁾ provided food

supplies that were then delivered by government organizations and non-government organizations to both parts of the city. Fuel and other heating material was also provided. A spring sowing programme was supported to reactivate agricultural production. Public and semi-public kitchens prepared 15 000 meals a day for special groups, representing approximately 25 % of the total population of the city.

BUDGET AND EXPENDITURE OF THE EUAM.

EUAM budgetary resources

31. As shown in *Table 1*, the EUAM's combined budget, for the period July 1994 to July 1996, totalled ECU 144 million. Total EUAM funding amounts to nearly ECU 2 400 per person in Mostar (based on the estimated population of 60 000), to which may be added an additional estimated indirect cost of nearly ECU 35,0 million, ECU 585 per person⁽¹¹⁾. This represents a high concentration of assistance in this area.

32. The 1994 EUAM budget amounted to ECU 32 million, with ECU 15 million financed from the European Community general budget by the Commission, and ECU 17 million from Member States. The ECU 15 million was initially made up of ECU 10 million from Budget Line B7—010⁽¹²⁾ and ECU 5 million from ECHO, already approved for the International Management Group — Infrastructure for Bosnia and Herzegovina (IMG-IBH). This last amount was to be managed by ECHO, and not by the EUAM. This was subsequently modified, however as the Administrator did not accept that part of his budget was already earmarked. Alternative funds were, therefore, found by the Commission. The ECU 17 million from the Member States was provided by direct contribution, assessed according to the GNP key (see *Table 2*).

⁽⁹⁾ Office of the United Nations High Commissioner for Refugees.

⁽¹⁰⁾ The European Community-Humanitarian Office which is the service of the Commission responsible for humanitarian assistance.

⁽¹¹⁾ On the assumption that it costs the Member States an approximate ECU 79 700 per annum over a two-year period, per person, to equip, send and maintain approximately 181 WEU police and 39 expatriate civil staff.

⁽¹²⁾ Out of the ECU 14,15 million carried over from 1993 under the first CFSP Decision for a Joint Action supporting humanitarian aid convoys in Bosnia-Herzegovina. The balance of ECU 4,15 million was used for the United Kingdom Overseas Development Organization (ODA) airlift to Sarajevo.

33. The 1995 budget for the EUAM was set at ECU 80 million, entirely financed from the EC budget. This was made up of:

- (a) ECU 20 million provided in the second supplementary budget of 1994 by the Parliament for the Mostar hospital;
- (b) ECU 60 million from the 1995 budget, comprising ECU 10 million on the operational budget line (B8—100), and ECU 50 million in the reserve. On 18 July 1995 this ECU 50 million reserve was transferred to budget line B8—100.

34. The 1996 EUAM budget covering a seven-month period to the planned final end of EUAM operations, amounts to ECU 32 million, entirely financed from the EU general budget⁽¹³⁾.

EUAM expenditure

35. Table 3 provides a sectoral breakdown of the EUAM's actual expenditure in 1994 and 1995, as compared with the original and revised budgets.

36. In the original estimates prepared for the 1994 budget, the most important sectors were health and social services, followed by economic sector support (investment promotion), municipal administration and unified police, transport infrastructure and equipment, and construction sector/housing repair.

37. Table 3 shows that the revised budgets and actual expenditure did not, however, follow this pattern owing to the continually changing situation on the ground in Mostar. Most expenditure was instead incurred in the sectors of public utilities (water and sanitation, power and telecom), construction/housing repair, and economic sector support (investment promotion).

38. During 1995 the EUAM made two revisions to its original budget, in response to changes in the overall political situation. The most significant change was a reduction of the health and social services budget by ECU 12 million, mostly representing funds no longer required for the completion and equipping of the Bijeli Brijeg central hospital in Mostar. In contrast, public utilities and housing repair programmes, which made more rapid progress than had been expected, had their budgets

increased. The budget provision for transport infrastructure was also reduced as plans for two new bridges were postponed from 1995 until 1996.

39. Table 4 shows that in 1994 in several sectors and in 1995 in the construction sector, the amounts committed exceeded the amounts in the agreed budgets. This was largely because of the lack of adequate procedures at the beginning of the EUAM's mandate for authorizing expenditure, and insufficiently rapid procedures to change the budget allocations between sectors. Also, as is noted in paragraphs 74 and 75, the EUAM's ability to monitor expenditure against budget was limited during most of the first 18 months because it had inadequate reporting systems. Total commitments, however, remained within the total budget of the EUAM.

ORGANIZATION OF THE EUAM

Establishment of the EUAM

40. In mid-April 1994, i.e. before the formal Council Decision on the Joint Action, a three-person Advance Party, sent out by the *Ad hoc* Council Group, arrived in Mostar to prepare for the arrival of the Administrator. The Advance Party submitted 28 separate reports to the Presidency of the Council. Many of these reports required written responses containing comment, guidance, advice or approval. Such responses, however, were not forthcoming.

41. There was no formal Council mechanism in place at the time to ensure that adequate funding was provided for the advance operation. Loans totalling ECU 32 600 from the European Community Monitoring Mission (ECMM) were arranged during June and July 1994, to fund the advance operations. These sums were brought in cash to Mostar from Zagreb and Split by courriers. Further cash amounts totalling ECU 53 000, were financed from the German Federal Budget. The Council then made a one-off payment of ECU 100 000 from its administrative budget, which, amongst other things, enabled the advance party to repay the ECMM's earlier loans.

42. The Council classified the expenses of the Advance Party as administrative expenses under the terms of Article J.11 of the Treaty on European Union. The Council considered that in certain circumstances, and on a decision of the Council, administrative expenditure on the CFSP could include 'les frais préparatoires à la mise en oeuvre d'une action opérationnelle (frais de voyage et de séjour des personnes visées ci-dessus et soutien logistique temporaire mis au service de ces

⁽¹³⁾ Council Decision 95/552/CFSP of 19 December 1995.

personnes)'(¹⁴). This decision of general principle was endorsed for the EUAM Advance Party by the Council on 11 July 1994(¹⁵).

43. The European Parliament has, however, pointed to the need for care in defining what is administrative and what is operating expenditure in respect of CFSP joint actions(¹⁶), and from what part of the European Union budget such expenditure should be financed. It proposed that only administrative expenditure for the purpose of political decision making in the Council, which must be incurred before the Council takes a decision to allocate funds, should be financed from the Council's budget. Any administrative expenditure incurred after the Council has taken a decision should be financed from the Commission's administrative appropriation (Part A of Section III) and all operating expenditure chargeable to the EU budget should be financed from Commission operational appropriations (Part B of Section III)(¹⁷).

44. Subsequently, in the context of the procedure for the supplementary and amending budget No 2 for the 1994 financial year, the Parliament pointed to the need to tackle the definition and content of an item of administrative or operational expenditure relating to the CFSP before embarking on actions which might place the budgetary authority before *faits accomplis*.

45. The work of the Advance Party formed part of the setting up of the action and so in this case the nature of the expenditure incurred can be regarded as operational. Such expenditure by the Commission in other areas of the budget is normally financed from operational appropriations.

46. While the Advance Party was preparing the ground in Mostar, the Member States, on the basis of proposals for the organization of the EUAM made by the German delegation including a suggested allocation of posts, nominated expatriate staff(¹⁸) to the EUAM. The Administrator was not consulted. Only one Member State proposed more than one candidate for a post. The arrival of the staff in Mostar was not adequately coordinated with the Advance Party, leading to logistical

problems. Also, ECHO sent out a Humanitarian Adviser, but with reporting lines to ECHO rather than the Administrator. At the same time Italy also sent a Humanitarian Adviser. These two remained somewhat uneasily for three months, until the Administrator obtained the approval of the Council Presidency to the appointment of a single Humanitarian Coordinator from Denmark.

47. Specific concerns raised by the Advance Party on several occasions during May 1994 with the Council Presidency, concerning the overall structure of the EUAM, and the appointment terms of personnel, went unanswered. It also remained unclear to the Advance Party which department, or individual within the Council or the Presidency was responsible for overall coordination.

Structure of the EUAM

48. At its meeting of 18 April 1994, the Council formally appointed Mr H. Koschnick, former Mayor of Bremen, as the EU Administrator for Mostar. Once Unprofor had finally demilitarized Mostar, and both parties to the former conflict had signed the 10 June 1994 Memorandum of Understanding on the European Union Administration of Mostar, the Administrator formally arrived on 23 July 1994 and the EUAM commenced operations.

49. Annex 2 sets out the organization structure of the EUAM, as at 6 October 1995. This is largely unchanged from the original situation in July 1994, except that, primarily to create a post of Department Head for another Member State, a split was made in early 1995 to the Department of Education and Culture to create a new Department of Cultural Life, Youth and Sport. Subsequently, the head of the Department also took on the role of Telecommunications Advisor.

50. The organizational structure of the EUAM is complex, and not entirely designed on functional lines. The number of departments and adviser posts is large and the breakdown of responsibilities between them is partly based on the need to provide acceptable portfolios for the persons nominated by the Member States. The Refugee Adviser and the Telecommunications Adviser have budgets but no departments. It would have been more logical to integrate the reconstruction of telecommunications into one of the operational departments.

(¹⁴) Doc. 7622/94, paragraph 3 (b) (i) of 'Note I'.

(¹⁵) Doc. 8239/94 CFSP 201 COYUG29.

(¹⁶) Notably in the Report of the Committee on Budgets on the financing of the CFSP of 18 October 1994 (rapporteur Mr F. Willockx).

(¹⁷) The Council and the European Parliament have a gentleman's agreement whereby they do not interfere in each other's budget.

(¹⁸) Including the WEU police contingent.

51. The EUAM, including the ombudsman's office⁽¹⁹⁾, is staffed by 39 expatriate civil staff, 6 additional staff provided by the ECMM, along with a WEU police element of 181 police officers. They are all supplied by the Member States, with their monthly salaries and living costs paid directly by their countries of origin, or as in the case of two Commission staff seconded to the EUAM Department of Finance and Taxes, by the Commission. The costs of these expatriate staff and police officials are estimated to amount to approximately ECU 16,8 million per annum and are not included in the budget of the Joint Action.

52. Formally each EU Administration operational department is headed by an EU Head of Department with two co-heads, from East and West Mostar. The co-heads do not, however, have any operational responsibility within the EUAM itself.

53. Sweden, Finland and Austria, who had earlier been observers in the Council groups, contributed four officials to the operation in Mostar before they formally became EU Members. All the other EU Member States have contributed officials to the EUAM and/or the WEU police operations. In addition Switzerland and Norway have provided two staff to the EUAM.

54. The senior management team to implement the programme was established by allocating the posts between the Member States, with no assessment of alternative candidates at Council level and without the head of the organization able to exercise influence on the composition of the team. The majority of the appointments have proved to be successful, and — perhaps because in the circumstances of Mostar there was no alternative — team members have generally worked well together. However, the procedure followed could easily have led to a very different result.

DECISION MAKING STRUCTURES

55. CFSP Joint Actions fall under Articles J.3 to J.11 of Title V of the Treaty on European Union. It is the Council which decides that a matter should be the subject of a joint action, and which lays down the specific scope,

the Union's general and specific objectives in carrying out such an action, if necessary its duration, and the means, procedures and conditions for its implementation. The Council Presidency is responsible for the implementation of common measures, and the Commission is fully associated in such tasks.

56. In accordance with the requirements of Article J.5 of the Treaty on European Union, and as set out in the Council Decision of 16 May 1994, the Council Presidency, assisted by an advisory working party of Member State Permanent Representatives, and in association with the Commission, decides upon the practical orientations of the EUAM operation. It also determines the precise actions required to meet the needs identified by the Administrator, and decides upon the release of funds to the account of the Administrator. The Administrator is required to report regularly to the Council Presidency on his requirements and in turn the Presidency keeps the Working Party informed. The EUAM is not specifically required to report to the Commission on its progress under the terms of the Council Decisions, despite the fact that funding is provided from the EU general budget.

57. In practice, the *Ad hoc* Group on Former Yugoslavia, which incorporates the Advisory Working Party on the Bosnia-Herzegovina Joint Action, consisting of Member State representatives, as referred to in Article J.11 Part 1 of Title V of the Treaty, has acted as the body responsible for preparing the work of the Council Presidency and for carrying out the tasks assigned to it by the Council. The EU CFSP Joint Action in Mostar normally appears only as an item on the agenda whenever the *Ad hoc* Group meets, and the practical implications of decisions are not discussed in great detail. Important decisions in the Advisory Working Party are also not normally taken directly, but instead are often subject to delays for further consultations with the capitals of the Member States. At the time the *Ad hoc* Group negotiated the MoU, which was finally signed on 5 July 1994, many practical questions raised by the 'Advance Party' (see paragraphs 40 to 47) went unanswered. Similarly, practical advice submitted by the Commission's Political Representative associated with the *Ad hoc* Group, under the terms of Article J.8 Part 5, was not commented upon.

58. The responsible service in the Commission deals with all practical day-to-day matters concerning the financing of the EUAM from the general budget.

59. The role of the European Parliament is limited under current Treaty provisions relating to CFSP Joint Actions, and the decision-making and management arrangements for the EUAM that follow from them. Article J.7 of the Treaty on European Union provides for consultation with and the supply of regular information

⁽¹⁹⁾ An EU ombudsman was provided for by Council Decision 94/776/EC of 28 November 1994. Any person in the EU administered area may appeal to the ombudsman about any decision of the Administrator which he/she claims violates his/her rights, provided all other legal remedies have been exhausted.

to the Parliament on joint actions. Under these provisions, however, the Parliament is not able to exert influence over their implementation.

60. The Parliament has shown considerable interest in the implementation of the EUAM Joint Action, and in the decision-making procedures⁽²⁰⁾. In March 1995 a joint *ad hoc* mission of the Committee on Budgets and the Committee on Budgetary Control visited Mostar to examine at first hand the work of the EUAM, so that the Committee on Budgets would be in a position to decide on the transfer of appropriations since ECU 50 million for the 1995 budget of the EUAM had been placed by the Parliament in the reserve. The mission reported favourably on what the EUAM had achieved to date in terms of reconstruction and rehabilitation, and despite its objections to the decision-making procedures, the Committee approved the transfer rapidly so as not to hinder the work of the EUAM.

Observations on central decision making and management

61. Shortcomings in the decision-making structures and procedures for CFSP Joint Actions in general, and for the Joint Action in Mostar in particular have adversely affected the implementation of the Joint Action, and the internal functioning of the EUAM, in particular in the financial area.

Central decision making and management

62. The six-monthly rotation in the Council Presidency is, unfortunately, ill-adapted to the need for continuity in management of a Joint Action such as Mostar. The personnel responsible for the ultimate decisions and their execution change every six months, and, as is normal with the functioning of the Presidency of the Council, the apparatus shifts from one Member State capital to another as the Presidency rotates. The *ad hoc* Working Party also has not provided a suitable permanent structure for the overall supervision of the Joint Action. The officials that make up the Working Party have this amongst many other responsibilities. Examination of the minutes of the meetings show that frequently decisions are carried over from one meeting to the next, reflecting the need to refer back to Member

State capitals. This slows up decision making, including decisions on the release of funds to the EUAM. The Council Secretariat which services the Presidency and the Working Party performs a purely administrative function.

63. When the Administration presented the EUAM strategy document to the Presidency in July 1995 it was not even discussed by the Working Party, and the Administrator received no feedback on it. This document provides a most useful elaboration in practical and concrete terms of what the Administration intended to achieve under the Memorandum of Understanding.

64. In practice, it is the service in the Commission responsible for CFSP matters which is the most involved in day-to-day contact with the EUAM. However, the powers of the Commission in implementing a CFSP joint action are much narrower than those which it exercises when implementing non-CFSP matters, being essentially limited to tasks of budgetary execution.

65. Delays in the transfer of funds to the EUAM have been experienced throughout its existence. At 31 December 1994, ECU 4,9 million, representing 15,2% of EUAM's 1994 budget, was unpaid by France and the United Kingdom, out of the ECU 17 million that was to be paid by the Member States⁽²¹⁾.

66. In addition, the procedure adopted by the Council for releasing funds to the EUAM, and the way in which the Commission implemented this was needlessly complex, and led to cash flow problems. Thus, for the 1995 budget, entirely financed by the Community, the Council released the funds in three tranches. The Commission then transferred the funds in three stages, based on Commission procedures normally applied to individual projects. Thus, in effect, the Commission split the 1995 budget of the EUAM into three parts and treated each of them as though it was a separate project. As the EUAM had to report to the Commission on how it had utilized the advances against each corresponding tranche of the budget, it devoted a considerable part of its limited staff resources in the Department of Finance and Taxes to allocate actual expenditure accordingly.

67. A consequence of this procedure was that the EUAM requested the first advances of the second and

⁽²⁰⁾ Report of the Committee on Budgets on the financing of the Common Foreign and Security Policy 18 October 1994. Report of the *ad hoc* mission of the Budgets Committee and the Budgetary Control Committee of the European Parliament to Mostar, 26 to 29 March 1995 (rapporteurs Mme E. Müller and M. Joan Colom i Naval) (ref).

⁽²¹⁾ The last payment in respect of 1994 was received by the EUAM on 2 March 1995. There were some errors in Member States' transfers (Belgium underpaid while Ireland and Spain overpaid).

third tranches of the 1995 budget, so that it could commit new projects and obtain funds, before justifying the use of the first advance for the first tranche. At the time of the second audit visit in October 1995, the EUAM's total bank balance amounted to DM 2,1 million, whereas its normal spending rate was DM 1,1 million per week. As a result the EUAM was temporarily holding back payments due to its suppliers. Similar cash flow difficulties occurred in July 1995.

68. The auditors pointed out to the EUAM and the Commission that the procedures being followed were unnecessarily complex and did not improve financial control over the EUAM's budgetary execution. As a consequence, it was decided to simplify procedures by regarding all three budget years (1994, 1995 and 1996) as one continuous project.

Observations concerning financial management of the EUAM

69. At the level of the EUAM a number of internal control weaknesses, some of which were relatively serious, were found to exist. The underlying reasons for these can be traced back to the shortcomings in the way in which the EUAM was established.

70. Firstly, the EUAM did not have from the outset a set of standard operating procedures in the area of financial management (defined purchasing and market testing procedures, procedures for the authorization and commitment of expenditure, payment procedures, cash handling procedures, etc).

71. Secondly, the Department of Finance and Taxes had insufficient capacity and authority to ensure that the other departments followed procedures and carried out proper control checks prior to authorizing and submitting payment requests. There was a tendency for the individual department heads to work independently, with their own procedures.

72. Thirdly, the problems that arose from this were exacerbated by the shortage of staff resources in the Finance and Taxes Department at the start. The Deputy Head of Finance, who was responsible for ensuring financial accounting and budgetary reporting, was not appointed until two and a half months after the start of operations. By that time the individual departments had already started to do things in their own ways, which were not always correct or consistent one with another.

The financial management expertise within the individual departments was generally weak.

73. The EUAM organization structure does not provide for an independent financial controller in the sense of Community budget rules. There was initially, however, a separation of functions between those responsible for authorizing expenditure (the Administrator, or operational Department Heads, depending on the level or political importance of the expenditure), and those responsible for checking supporting documentation, that funds are available and that either an order can be committed or a payment made (either the Head or Deputy Head of Finance). Following the Court's first visit in July 1995 a recommendation was made to the EUAM and to the Council to reinforce the internal control functions of the EUAM by establishing two new posts. These were a budget manager who would take over responsibility for checking the availability of funds prior to committing expenditure and making payments, as well as budget reporting and an internal auditor/evaluation officer, who would check the functioning of procedures within the departments, and evaluate the progress of departments towards their objectives. The budget manager was appointed in October 1995, but the internal auditor/evaluation officer had still not been identified at the end of 1995.

74. The ability of the EUAM to manage and control its funds in a satisfactory manner has been seriously hindered by the lack of appropriate financial and management accounting tools, capable of recording properly the EUAM's financial operations and generating accounts along with meaningful management information. When the EUAM was established neither the Council nor the Commission provided it with appropriate tools. It was not a simple task for the individuals recruited to the EUAM to find and set up appropriate systems in the short term. The first attempt, based on an accounting package used in the Commission delegations, was unsuccessful as the software was unsuitable for the EUAM's needs. By the time a second, more suitable package had been found for the financial accounts, there was a large backlog of operations to be checked and entered into the system which took until July 1995 to achieve.

75. This accounting package has some shortcomings, the most notable of which is that it cannot be used to generate directly budget reports in the format required. The EUAM employed consultants in mid 1995 to develop a budget reporting system, but the results were not entirely successful: what was proposed required an unrealistic volume of work each month, with laborious reconciliation exercises between the budget reports and the financial accounts. The budget manager appointed in October 1995 has, however, been successful in making the system work.

76. The weaknesses in internal control procedures of the EUAM led to a number of unsatisfactory practices. Amongst the most serious of these was the way in which cash was handled. The situation in Mostar, particularly during the first year of the EUAM's mandate, was such that many operations had to be paid for in cash. Cash payments amounted to about 30 % of total payments in 1994 and 1995 together. Substantial amounts of cash were, therefore, handled on a daily basis. While there were some weaknesses in the EUAM's procedures, those of the WEU police were most unsatisfactory. Large volumes — up to DM 500 000 — were transported by the Police Paymaster on his own, in a camera bag. Cash books were not written up in a timely manner, and suppliers were not always required to sign for receipt of cash. Unfortunately, the EUAM did not provide funds to the WEU police on an imprest basis. If it had, the WEU police would have had to tighten up their procedures. When reconciling the 1994 and 1995 cash advances made by the EUAM to the WEU police, it was found that apparently the EUAM had paid out in cash DM 582 000 (ECU 309 000) more than the WEU police had recorded as having received. The EUAM is still investigating this. A cash count revealed cash in hand at DM 19 000 higher than book cash. The Court did not identify anything to indicate that cash had been misappropriated, but it is clearly most unsatisfactory that such differences should arise. At the time of the second audit visit the WEU police was taking steps to improve its financial management in general and its cash management in particular. If the WEU Police are to operate as a semi-autonomous financial unit, funds should only be provided from the EUAM on an imprest basis.

77. Some of the practices used by departments for ordering supplies, testing the market, and negotiating prices with contractors departed from best practice, and there were differences in the ways that the different departments dealt with the same suppliers. However, while this situation was not ideal, during the audit no important cases were identified where the EUAM had lost money as a result.

78. The Reconstruction Department decided to use a procurement agency to purchase vehicles and equipment for the water companies at the end of 1994, and for the plant hire agency in mid 1995. This was a potentially cost effective way of proceeding, but there was insufficient monitoring of the actual costs incurred, on the 1994 purchases. As rapid procurement was required, orders were placed on the basis of estimated prices and charges, amounting to DM 627 159. The actual prices invoiced to the EUAM's account with the procurement agency were DM 704 475, i.e. an increase of 12 %, and in excess of the authorized amount. Neither the Reconstruction Department nor the Finance Department were aware of this.

79. Checks on a statistical sample of payments representing almost 30 % by value of total EUAM payments for the period 23 July 1994 to 31 August 1995, provided evidence of weak procedures in the EUAM, notably:

- (a) eleven of the contracts examined were unsatisfactory for a variety of reasons, including poor drafting, absence of signatures or dates of signature, omission of completion dates, thus rendering penalty clauses inoperative; also, different departments used different contract formats;
- (b) there was a lack of standard ordering procedures, without specific provisions for such matters as delivery conditions: some orders provided insufficient technical specifications;
- (c) although formal tendering procedures existed, there was room for improvement, notably in the opening and recording of offers;
- (d) payments could be made on the Mostar banks with one signature only;
- (e) a few cases were noted where cash payments — in one case of DM 500 000 — were given to an official of the East Mostar local authority instead of to the contractual beneficiary, without any authorization having been given by the beneficiary;
- (f) in 25 out of 70 payments, the supporting documents presented to Finance and Taxes were inadequate: for example, faxed or photocopied invoices were used without certification of their conformity to the original, and without ensuring that further copies could not be presented⁽²²⁾, in some cases there was no copy of the order or its acceptance;
- (g) there was frequently little evidence that checks had been properly carried out by the responsible department on invoices prior to submission to Finance and Taxes: indeed, Finance and Taxes

⁽²²⁾ A few cases of double payments in the EUAM and the WEU police occurred as a result. None of them were for large amounts, and most were detected by the Department of Finance and Taxes' own internal checks, and recoveries made.

frequently returned documents to the departments for further checks and to obtain more adequate supporting documentation.

The errors identified in the above cases do not have a material affect on the accounts.

Monitoring and supervision

80. Generally supervision and management of the work of contractors were good, with the electricity section within DETI particularly effective. Indeed, the EUAM as a whole could have benefited from adopting some of the simple but thorough procedures applied in this area. Probably the most difficult area to manage was the programme of light to medium repairs to a very large number of houses. With such a large programme it was impossible for the department concerned, with its available professional staff, to visit each site and check that what was being done was within the agreed criteria. However, some claims for payment from contractors had been processed despite the fact that they contained data that indicated that some repairs were outside the criteria fixed. The EUAM should have increased the resources available to monitor the work of local authority bodies in this area.

Arrangements for the end of the EUAM's mandate

81. There are a number of areas where decisions need to be taken concerning the arrangements for the termination of the EUAM's operations. Firstly, there is the question of the future use of the EUAM's assets, estimated to have a net value in excess of ECU 3,1 million. These assets include the EUAM's cars and other vehicles, furniture and equipment (including computers), and the plant and equipment for the plant hire agency in East Mostar. It is important that there are clear decisions, and clear procedures for whatever is decided.

82. Secondly, the EUAM has established revolving loan funds for small enterprises with the commercial banks in Mostar. These funds total ECU 0,9 million. The absence of any decisions about the post-mandate situation has led the EUAM to require payment of these loans by the banks on or before the end of the mandate. As the period for which the funds are available becomes shorter, they become increasingly unattractive. It is

desirable that the banks continue to have the use of these funds, but with arrangements to ensure that they manage them correctly, and continue to provide small business loans of this type to enterprises in Mostar.

83. The basic policy of the EUAM has been not to undertake projects that extend beyond the end of its mandate. However, for large projects like the rebuilding of the Hasan Brkić bridge, this is not feasible. Administrative and technical capacity will be required after the end of the mandate to check construction work and payments to suppliers.

84. The need for some capacity to follow up the work of the EUAM should be addressed well before its mandate comes to an end.

CONCLUSIONS

85. The EU Administration of Mostar was the first major CFSP Joint Action of the European Union. It was undertaken in the extremely difficult circumstances of the conflict in Bosnia-Herzegovina. The objectives that were set for the EUAM were extremely ambitious, and the EUAM did not itself control the key elements that influenced whether or not the objectives could be achieved.

86. In terms of working towards the re-establishment of a single administration for the city of Mostar, with a joint police force, organizing democratic elections, and securing freedom of movement, progress has been very slow because of the unwillingness of the parties to work together. Considerable progress has, however, been achieved in the areas of rehabilitation, reconstruction and redevelopment. Until the late summer of 1995, while the city was still subject to sporadic shelling, the only significant rehabilitation effort in the East was that undertaken by the EUAM. Once the shelling stopped, however, and the people began to think that perhaps a degree of stability was returning, they started more self-help rehabilitation.

87. When the EUAM was established, the method chosen for appointing personnel from the Member States to the organisation was unsatisfactory, and it is more a matter of chance than a consequence of the procedure adopted that the team has managed to work well together. Also, insufficient attention was paid to the need for the EUAM to have from the outset financial

procedures and systems with an integrated system of financial accounts and budget reporting, and sufficient staff in this area.

88. The weaknesses identified in the internal financial management and reporting of the EUAM stem largely from these oversights at the start. The conditions of Mostar at the start — for example the need to make a lot of payments in cash — exacerbated the problems.

89. It is necessary, however, to keep these shortcomings in financial management in perspective. First, the EUAM has progressively overcome the main weaknesses, and the reinforcement of the Finance and Taxes team in October 1995 has helped considerably. Secondly, these weaknesses have not had a seriously adverse impact on the effectiveness of the EUAM.

90. The central decision-making and management structure is too diffuse to be effective. The Commission is the only part of the structure with operational expertise and capacity. It has exercised a degree of supervision of the operation, but its powers in implementing a CFSP

Joint Action are much narrower than those it exercises when implementing non-CFSP matters, being essentially limited to tasks of budgetary execution.

RECOMMENDATIONS

91. An effective permanent structure for the management of CFSP Joint Actions is needed. This will require interinstitutional agreement.

92. Also, in the area of CFSP, planning should ensure that adequate financial management and accounting procedures and systems are instituted from the outset, with sufficient qualified staff. The permanent structure referred to in paragraph 91 above, should identify or develop basic tools and procedures for any future action.

93. The procedures for appointing expatriate staff to Joint Actions should ensure that there is choice between candidates and opportunity for the head of the organisation to participate in the process of selecting his team.

This report was adopted by the Court of Auditors in Luxembourg at its meeting of 11 July 1996.

For the Court of Auditors

Bernhard FRIEDMANN

President

ANNEX 1

SUMMARY OF OBJECTIVES FOR EUAM⁽¹⁾

(a) Displaced people and refugees

To allow displaced persons to return home — through contacts with the UNHCR and other UN agencies and NGOs.

(b) Legal aspects

To establish a *modus vivendi* dealing with *de facto* laws applied on each side of the divided city, as well as drafting a new municipal statute for Mostar, solving property rights.

(c) WEU police

To monitor the demilitarization of Mostar with Unprofor, to restore and to maintain public order with local police forces, and to establish and train a unified police force in Mostar (UPFM), capable of carrying on after the final departure of the EUAM and the WEU Police force.

⁽¹⁾ As set out in the Memorandum of Understanding and developed by the EUAM in its strategy document.

(d) Finance and taxes

To maintain and control EU funds, ensuring their efficient and economic use. Also, to assess the level of funding available to the two existing Mostar administrations (East and West), for the purpose of assessing whether the manner in which revenues are collected is satisfactory, and to introduce progressively a single budget.

(e) City administration

To build up and integrate a modern administrative structure in the municipality of Mostar.

(f) Economy and transport infrastructure

To relaunch the local economy, and re-establish the electricity and public transport network, and also to rebuild the Carinski Most and certain other bridges.

(g) Reconstruction

To undertake basic structural repairs to housing, and to demolish dangerous buildings where necessary; to restore a water supply to Mostar, integrating the water companies in the East and the West; and to improve the capacity of the construction industry through the supply of materials, equipment and technical/managerial skills. Also, to help create a sustainable unified urban planning system.

(h) Education and culture

To complete the rebuilding programme for schools and kindergartens; to continue the preservation of historic and cultural buildings; to re-establish a single University for Mostar; and to establish integrated schooling.

(i) Cultural life, youth and sports

To re-establish multi-cultural life in the city; to rebuild youth centres and to facilitate youth exchange programmes; to support sports clubs and their activities.

(j) Health and social services

To re-establish a unified health system for Mostar; to organize extensive health system reforms according to federation health reform; to continue running the Velmos hospital; to strengthen mother and child health care; and to complete and activate the main Bijeli Brijeg Mostar hospital in Mostar West, once free access and equal treatment is guaranteed.

(k) Press

To support a mixed press and a free flow of information in the city, as well as television and radio broadcasting programmes; and to bring about an end to the media war.

(l) Telecommunications

To establish a common Post and Telecommunications (PTT) infrastructure; a decentralized telecommunications system and to fully integrate Mostar in the inter-regional and international network.

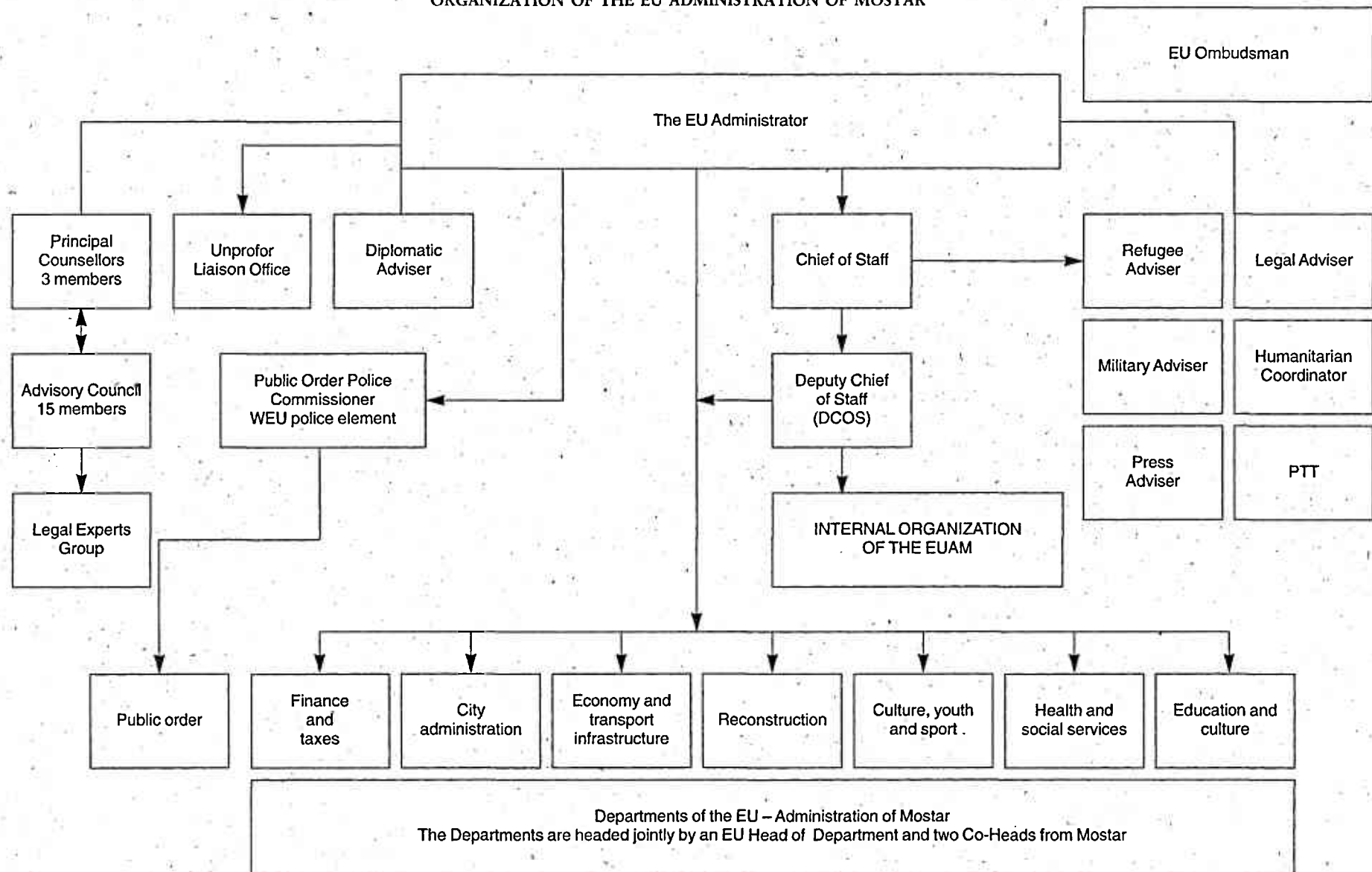
(m) Humanitarian aid

To monitor and coordinate with the UNHCR, with the support of NGOs, humanitarian aid delivered to Mostar.

(n) Freedom of movement

To work towards total freedom of movement in Mostar for all of its citizens.

ORGANIZATION OF THE EU ADMINISTRATION OF MOSTAR



Source: EUAM, 6. 10. 1995.

Table 1 — The EUAM's combined budget for July 1994 to July 1996 and actual funding received

(million ECU)

EUAM budgeted income foreseen		1994	1995	1996	Total	%
1. EU Member State contributions		17,0	—	—	17,0	11,8
2. General budget of the European Union		15,0	80,0	32,0	127,0	88,2
Total		32,0	80,0	32,0	144,0	100,0

Actual funding received by the EUAM to 31. 10. 1995		Booked 1994	Booked 1. 1. to 31. 10. 1995	Due 1. 11. 1995 to 22. 7. 1996	Total	%
Budgeted income						
1. EU Member State contributions	— 1994 budget	12,7	4,9	—	17,6	12,1
	— overpayment refund	—	-0,6	—	-0,6	-0,4
2. General budget of the European Union	— 1994 budget	9,0	3,0	3,0	15,0	10,4
	— 1995 budget	—	35,8	44,2	80,0	55,4
	— 1996 budget	—	—	32,0	32,0	22,2
Non-budgeted income						
3. Other contributions:						
3.1. German Ministry of Foreign Affairs contribution — 3. 8. 1994		0,1	—	—	0,1	0,1
3.2. Belgian EU rail project contribution — 11. 4. 1995		—	0,3	—	0,3	0,2
Total		21,8	43,4	79,2 ⁽¹⁾	144,4	100,0

(¹) Comprising ECU 20 million of the ECU 80 million budget for 1995 not yet committed or paid at 31. 10. 1995, and a further ECU 27,2 million of the 1994 and 1995 budgets not yet paid at 31. 10. 1995 as well as the 1996 budget of ECU 32 million.

Source: Court of Auditors, from EUAM prepared data.

Table 2 — Breakdown of Member States contributions by GNP key and subsequent payments

(million ECU)

	GNP key %	Amount due based on GNP key	Amount paid — 1994	Amount paid — 1995	Total paid	Under/Over paid	Recovered/Refunded
B	3,23	0,55	0,51		0,51	-0,04	1996
DK	2,04	0,35	0,35		0,35		
D	29,16	4,96	4,96		4,96		
GR	1,27	0,22	0,22		0,22		
E	8,16	1,39	1,97		1,97	0,58	1995
F	19,72	3,35	—	3,35	3,35		
IRL	0,61	0,10	0,15		0,15	0,05	1996
I	15,76	2,68	2,68		2,68		
L	0,21	0,03	0,03		0,03		
NL	4,74	0,80	0,80		0,80		
P	1,37	0,23	0,23		0,23		
UK	13,74	2,34	0,77	1,57	2,34		
Total	100,01 ⁽¹⁾	17,00	12,67	4,92	17,59	0,59	

(¹) A small difference arises as a result of the incorrect application of the GNP key which totalled 100,1% instead of 100%.

Source: EUAM data.

Table 3 — Breakdown by sector of EUAM actual expenditure, compared with 1994/1995 budgets

(million ECU)

Action	Initial budgets combined as at 31. 12. 1995 ⁽¹⁾	% share	Revised budgets combined as at 31. 12. 1995 ⁽²⁾	% share	Total expenditure to 31. 12. 1995	% share
Public utilities	13,3	11,9	24,1	21,5	16,2	22,1
Public utilities 1 — Water and sanitation	4,8	4,3	9,8	8,8	6,8	9,3
Public utilities 2 — PTT and garbage	2,4	2,1	6,2	5,5	4,7	6,4
Public utilities 3 — Energy	6,1	5,5	8,1	7,2	4,7	6,4
Construction sector support and housing repair	18,3	16,3	21,7	19,4	14,0	19,0
Construction sector support	7,5	6,7	6,8	6,1	4,5	6,1
Housing repair/reconstruction	10,8	9,6	14,9	13,3	9,5	12,9
Economic sector support	12,6	11,3	13,9	12,4	11,8	16,1
Education, culture, sport	10,2	9,1	11,8	10,5	9,4	12,9
Running and common costs	8,3	7,4	8,6	7,7	6,8	9,2
Municipal administration and unified police	11,8	10,5	11,6	10,4	6,6	9,0
Municipal services	4,6	4,1	4,6	4,1	1,9	2,6
Municipal police	7,2	6,4	7,0	6,3	4,7	6,4
Health and social services	20,5	18,3	8,5	7,6	3,8	5,2
Transport infrastructure equipment	11,9	10,6	7,1	6,3	3,5	4,8
Transport infrastructure	9,3	8,3	4,7	4,2	2,6	3,6
Public transport	2,6	2,3	2,4	2,1	0,9	1,2
Reintegration of displaced persons	5,1	4,6	4,7	4,2	1,2	1,7
Total	112,0	100,0	112,0	100,0	73,3	100,0

⁽¹⁾ Includes both the 1994 budget and the 1995 initial budget following Council Decision 95/23/CFSP of 6 February 1995.⁽²⁾ Includes both the 1994 budget and the 1995 final budget (presented to the Council Presidency on 27 September 1995).

Source: EUAM data, 5 February 1996.

Table 4 — Breakdown by sector of 1994-1995 EUAM commitments, compared with revised budgets

(million ECU)

Item	Action	Budget 1994	Contracted commitments to 31. 12. 1994	% 1994	Budget 1995 ⁽¹⁾	Contracted commitments to 31. 12. 1995	% 1995
1	Construction sector support and housing repair	9,3	9,1	97,8	12,4	13,4	108,1
	Construction sector support	3,5	3,1	88,6	3,3	2,1	63,6
	Housing repair/reconstruction	5,8	6,0	103,4	9,1	11,3	124,2
2	Public utilities	5,3	6,5	122,6	18,8	15,0	79,8
	Public utilities 1 — Water and sanitation	2,2	2,1	95,5	7,6	7,8	102,6
	Public utilities 2 — PTT and garbage	0,8	0,9	112,5	5,4	4,2	77,7
	Public utilities 3 — Energy	2,3	3,5	152,2	5,8	3,0	51,7
3	Economic sector support	2,6	2,6	100,0	11,3	10,8	95,6
4	Transport infrastructure equipment	2,9	3,3	113,8	4,2	3,0	71,4
	Transport infrastructure	1,3	3,0	230,8	3,4	2,4	70,6
	Public transport	1,6	0,3	18,8	0,8	0,6	75,0
5	Health and social services	0,5	0,6	120,0	8,0	7,4	92,5
6	Education, culture, sport	4,2	4,2	100,0	7,6	7,5	98,7
	Education building and equipment	(²)	(²)		6,1	6,1	100,0
	Cultural life, youth, sports	(²)	(²)		1,5	1,4	93,4
7	Municipal administration and unified police	2,8	1,4	50,0	8,8	5,5	62,5
	Municipal services	0,6	0,2	33,3	4,0	2,5	62,5
	Municipal police	2,2	1,2	54,5	4,8	3,0	62,5
8	Reintegration displaced persons	0,1	0,1	100,0	4,6	4,6	100,0
9	Running and common costs	4,3	4,2	97,7	4,3	3,0	69,8
	Total	32,0	32,0	100,0	80,0	70,2	87,8

⁽¹⁾ The 1995 final budget (presented to the Council Presidency on 27 September 1995).⁽²⁾ Data not available as the Department was only first split in 1995.

Source: EUAM data, 5 February 1996.

THE REPLIES OF THE COMMISSION AND THE ADMINISTRATOR OF MOSTAR

1. Introduction, objectives and implementation of EUAM

The introduction and summary of the principal operations (point 13 to 30) do not call for any particular comment on the part of the Commission.

Point 16: It remains to be seen whether the proposed elections will result in the creation of a unified central city administration and what, if any type of city budget might emerge. The likelihood is, however, that since any central administration will, by definition, involve Federal and Cantonal participation, at least in terms of tax revenue, that no immediate progress will be made on this aspect hence EUAM involvement in creating a unified budget remains unlikely. (Administrator)

Point 22: The situation improved considerably towards the end of the year. (Administrator)

Point 28: We would like to point out that also a youth centre in Cernica (Mostar East) has been completed and a large number of cultural societies have been supported. EUAM is the main actor in the renewal of cultural life in Mostar. (Administrator)

2. EUAM budget and expenditure

The section on the EUAM's budget and expenditure (points 31 to 39) does not call for any particular comment on the part of the Commission.

3. Organization of the EUAM

As regards the comments concerning the EUAM's organization (points 40 to 54), the Commission would point out that the practical arrangements for implementing joint actions had not yet been defined in the EUAM's preparatory phase. Given the need to act quickly in order to maintain the momentum of the Washington peace accords (18 March 1994), some degree of improvisation (see points 41 and 42) was inevitable if any progress was to be made. The definition of administrative and operational expenditure and choice of budget heading differed from one institution to another (Council and Parliament), as the Court points out (points 42, 43 and 44).

The Commission shares the Court's view that preparatory expenditure incurred in mounting a joint

action can be regarded as operational. However, as no decision had been taken on the action's budget it could not be financed by the Community budget (point 45).

The Court is correct in stating (points 46 and 47) that the decision-making process is too complex to be able to meet operational needs promptly.

Points 50 and 54: The Commission shares the Court's implicit view that the selection and appointment procedures and breakdown of responsibilities for senior management in an operation of such magnitude and duration need to be reviewed and improved in the future.

4. Decision-making structures

Point 56: It is correct that the Administration is not obliged to report specifically to the Commission under the Council decisions. However, when a budget tranche is 'released' by the Council, the Administration is required to report to the Commission on the financial implementation of the funds in question under the agreements concluded between the Commission and the Administration.

Point 64: The Commission has endeavoured to administer funds within the confines of the powers given to it by the Treaty. However, it shares the Court's view that its authority is less extensive in the case of this Joint Action than under the first pillar.

The problems which have arisen (points 66 and 67) have been overcome, as the Court notes (points 68). The various tranches made available under the 1995 budget have been grouped together, the 1996 budget has been released in one tranche and made available to the Administration in one instalment by the Commission.

5. Financial management of the EUAM (points 69 to 79 and 87 to 89)

Point 70: Since the Administrator is primarily responsible for administering aid for Mostar under the aegis of the Commission and in view of the unprecedented nature of the operation, the Commission had no directly transposable legal framework it could use for the Administration. It was therefore left up to the Administration itself, and in particular the Department of Finances and Taxes, to put such a framework in place in collaboration with the Commission. This was gradually undertaken in the light of local conditions, the experience acquired

and the recommendations made by the Court during its audit.

The fact that it took over a year and that there is still room for improvement is largely due, as the Court also underlines, to the shortage of staff resources to administer and put in place such a framework.

Points 71 to 73: The Commission and the majority of Member States had difficulty in identifying suitable officials who could be made available at short notice (the Council decision was taken in May 1994 and the Administration started operating on 23 July 1994). The Head of Department, a Commission official, was appointed on 1 September 1994 and his deputy (United Kingdom official) was recruited with effect from 1 October 1994. Although the budget manager requested in July 1995 was made available fairly quickly by Sweden (1 October 1995) the request for a financial controller (evaluation officer) made to another Member State was not met (point 73).

The lack of authority highlighted by the Court is due to this inherent weakness in the conditions under which the operation was decided upon, negotiated with local parties and implemented. Given the lack of pre-established procedures it was quite normal for departments to apply rules with which they were familiar as well as they could. There was not sufficient financial capacity gradually to introduce common rules and police their observance.

The deficiencies in the internal financial management procedures of other departments are largely attributable to the fact that they are applied by local staff without appropriate experience who have had to be trained on the spot by department heads who were unfamiliar with such duties.

In the event the EUAM was unable to obtain an evaluation officer along the lines first envisaged. The Council secretariat sent a 'political evaluation officer with a different focus on an exploratory visit'. It is now too late in the day for a 'financial' evaluation officer to make any meaningful contribution. (Administrator)

Point 74: It is correct that neither the Council nor the Commission were able to provide EUAM with appropriate financial and accounting management tools. This is due to the unprecedented, innovative nature of the operation. It was the first time that the Presidency, with the Commission's assistance, had had to set up a full municipal administration. Moreover, the arrangements had had to be worked out and implemented very quickly. Many of the

difficulties encountered on the ground, to which the Court has drawn attention, could not have been foreseen (e.g. relations between the EU team and the WEU police team, see point 7, below).

Points 76 to 79: The deficiencies and irregularities identified by the Court have been corrected as far as possible by the Administration.

Point 76: The recent arrival of a police officer with an accounting background has led to a vast improvement, both in the handling of the imprest system set up after the Court of Auditors' visit in October 1995, and in the contribution of new systems and tightening of procedures.

Despite continuing efforts we have been unable to reconcile the discrepancy of DM 582 000 between our records and those of the WEU police. We suspect, however, that the major part relates to purchases of vehicles in 1994. The early problems surrounding the setting-up of both the EUAM and the WEU police resulted, necessarily in *ad hoc* procedures.

The WEU police records for 1994 are rudimentary and there was no computerized system. This taken together with the fact that the police contingent rotates on a six-monthly basis with neither handover periods nor handover notes left by departing officers plus the fact that few, if any, officers in the finance cell had any previous financial experience, served to exacerbate the problem.

It seems unlikely, however, that we will succeed in reconciling the book difference in which event we therefore intend to write it off. (Administrator)

Point 78: EUAM has instituted much more rigorous checking of the heavy plant hire account which is handled by the reconstruction department in the first instance. It is now possible to query any difference in good time. (Administrator)

Point 79 (a): General standards of contracts have improved. There is much closer scrutiny of draft contracts carried out by the assistant/legal adviser.

Point 79 (b): EUAM has issued standard ordering forms 'purchase orders' and continues to work towards improvement of specific provisions.

Point 79 (c): The responsibilities of the Tendering Committee have been expanded to cover all aspects of contract and procurement awards. Procedures have

been improved and redrafted leading to much tighter control.

Point 79 (d): Changed to a double signature system in October 1995 immediately after the auditors raised the question. (Administrator)

6. Arrangements for the end of the EUAM's mandate (points 81 to 85)

The Commission is aware of the problem of the EUAM's assets and obligations beyond its mandate, which ends on 22 July or 31 December 1996.

Point 81: No decisions have yet been made and time is passing. EUAM and the Commission need to address the question of disposal of assets as a priority. (Administrator)

Point 82: Similarly decisions on the future of the SEP funds are necessary and urgent. (Administrator)

7. Conclusions (points 85 to 90)

Point 87: Without wanting to disagree with the Court's analysis, the Commission would point out that it would have taken much more time to introduce more efficient procedures for personnel selection and financial management than political imperatives allowed. It is doubtful whether, without previous experience of such an operation, more appropriate procedures could have been identified by the central decision-making and management structure, whose limitations are pointed out by the Court (point 90).

8. Recommendations

Point 91: The Commission agrees with the Court on the need for a permanent operational structure to monitor joint actions from beginning to end.

Points 92 and 93: The Commission agrees with the Court.

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