

EUROPEAN ECONOMIC COMMUNITY
EUROPEAN ATOMIC ENERGY COMMUNITY
EUROPEAN COAL AND STEEL COMMUNITY

THE AUDIT BOARD

REPORT

on the accounts for the financial year 1975
followed by the replies from the Institutions

VOLUME TWO

Part Two: The Development Funds

EUROPEAN ECONOMIC COMMUNITY
EUROPEAN ATOMIC ENERGY COMMUNITY
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THE AUDIT BOARD

R E P O R T

ON THE ACCOUNTS FOR THE FINANCIAL YEAR 1975

VOLUME TWO

This report is presented in two volumes:

Volume I : Introduction
Part One: The Budget of the Communities

Volume II : Part Two: The Development Funds

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PART TWO

THE DEVELOPMENT FUNDS

I N T R O D U C T I O N

101. The balance sheets and accounts of the three European Development Funds for the financial year 1974 were approved by the Commission on 6 May 1975 and transmitted to the Audit Board on 22 May 1975. They were not published in the Official Journal until 29 March 1976.

The balance sheets and accounts for the financial year 1975, which were provisionally completed on 29 March 1976 and were subsequently adjusted on the basis of observations made by the Audit Board, had not been approved by the Commission by the date on which the present report was completed.

The financial regulations currently in force stipulate that the accounts must be completed and forwarded to the Audit Board by 31 March.

The draft financial regulation governing the fourth EDF puts back the date for forwarding the accounts to the Audit Board to 1 June whilst retaining 15 July as the final date for completion of the Audit Board's report. If this timetable were to be adopted it would weaken the degree of control exercised and at the same time make it impossible to have a proper examination accompanied by reciprocal discussion.

102. The most recent discharge decision relates to the EDF accounts for 1971. The decision was taken on 22 July 1975. The report of the Audit Board on the accounts for the financial year 1974, together with the Commission's replies to the observations contained in that report, was not forwarded to the authorities responsible for giving a decision on discharge until 7 November 1975.

Such delays are detrimental to the effectiveness of the audit. They hold up any conclusions which the budgetary authorities might draw from the criticisms made and prejudice the work of future audits.

103. As in earlier reports, it has to be stated that the performance of inspection visits by the Audit Board has again encountered several obstacles.

The Audit Board had requested that the minutes of the EDF Committee should be forwarded to it regularly, holding the view that these documents were indispensable for assessing the commitments entered into and sound financial management of projects. In refusing to accede to this request, the Commission pleaded the obligation of secrecy with regard to the Committee's work and discussions, invoking Article 6 (5) of the Rules of Procedure of the EDF Committee.

These rules (1) expressly provide that documents relating to the Committee's work and discussions may be transmitted only to the competent authorities of Member States and of the Community institutions. The Audit Board, considering itself to be a "competent authority of the Community institutions" with respect to the EDF, therefore repeated its request that it should be sent copies of the minutes.

This request remained unanswered for a very long time. It was not until 10 March 1976, on the occasion of a reply by the President of the Council to a parliamentary question, that the Audit Board learned that the Committee's minutes were to be circulated, albeit in very restricted fashion, that a certain amount of discretion was considered necessary, and that, furthermore, these documents were only in rare instances of interest to the Audit Board but that they could be sent to the latter if it so requested for audit reasons in connexion with closed projects.

A note from DG VIII on 30 March 1976 confirmed that "it had been decided to include extracts from the relevant minutes of the Fund Committee in the files of closed projects submitted for audit."

The Audit Board cannot agree with this interpretation of its rights and duties. The Audit Board strongly stresses that all its requests for information are self-evidently made "for audit reasons", that it has the right under the provisions of the financial regulations to call for any information it considers necessary for the accomplishment of its tasks, and that its auditing duties, far from being confined to the examination of operations relating to closed projects, extend to all operations of commitment and payment reflected in the annual accounts submitted to it for inspection.

104. Since the Commission had several times stated in its replies in the past that "the Audit Board's audit may under no circumstances relate to operations in progress", the Audit Board thought it appropriate, in its last report, to refute this erroneous conception of retrospective auditing and to remind the Commission that the audit is supposed to cover every commitment and payment which has been definitively authorized and entered in the accounts and for which administrators, authorizing officers and accounting officers have assumed responsibility, whether those acts relate to an isolated and completed operation or are part of a larger project still in progress. The audit is retrospective because it takes place after the commitment decision has been taken, after the payment order has been executed and after the relevant accounting has been made. To postpone the audit until after the closure of the projects, in other words in many cases until several years after the execution of the financial operations concerned, would not only destroy its principal usefulness but would prevent the external control body from fulfilling its main duty, which is to certify the truthfulness of the accounts and the correctness of the operations which they reflect, for the bulk of the accounting entries concern precisely the current operations and for these the Audit Board receives no supporting documents.

(1) Reproduced in similar terms in the Rules of Procedure of the Committee of the Fourth EDF, Article 11 (6).

The Audit Board argument, though repeated many times, does not appear to have been understood and this lack of comprehension has led to the introduction into the draft financial regulation governing the fourth EDF, submitted to the Council by the Commission on 15 March 1976, of provisions conflicting with the Audit Board's point of view.

Whereas Articles 68 and 69 stipulate that the balance sheet and revenue and expenditure account must be submitted for examination, together with the supporting documents, to the Audit Board referred to in Article 206 of the EEC Treaty and that the object of the audit is to establish the legality and regularity of the revenue and expenditure in the light of the relevant provisions and to confirm that there has been sound financial management, the draft regulation finds it necessary to state that this verification "shall relate to projects that have been closed."

This restriction utterly prevents the external control body from expressing an opinion on the balance sheets and accounts submitted to it for examination, because audit of the "closed" operations covers only a minute proportion of the transactions entered in the accounts.

105. This stubborn reference to "closed projects" also caused those responsible for administering the EDF to reject, in a letter dated 17 November 1975, the Audit Board's request to be forwarded lists of the overseas visits by officials of Directorate-General VIII and of the reports on the outcome of those visits and its enquiry as to the possibility of officials of the external control body participating in the inspection visits.

Since the time of that letter this inflexible attitude has been modified somewhat and consequently it was possible to arrange a joint visit to Madagascar in April 1976; the positive results of that visit would seem to have confirmed the usefulness of such visits, carried out as they are with mutual respect for the rights of the Community administrator, the national authorizing officer and the external control body.

The Audit Board hopes that in future the co-operation already found to a large extent in the sectors of "own resources", the EAGGF Guarantee and Guidance Sections, and the Social Fund will be extended to the sector of the EDF.

By contrast it has not been possible to obtain either the systematic communication of reports on visits in connexion with current projects nor of reports by resident supervisors or special investigators, on the use made of investment projects after completion despite the fact that the Audit Board has always considered consultation of such reports to be indispensable for a proper assessment of the quality of the financial administration of the EDF and the internal control situation.

106. The postponement of the Audit Board's intervention until closure of the projects has even more drawbacks due to the fact that despite the progress made in this area files are still late in being closed and closure is not taking place in some cases until many months after the final payments have been made.

Checks carried out since the last report have again thrown up many instances of abnormal delays.

107. The financial regulations state that there is a duty to inform the Audit Board of decisions on the appointment of authorizing officers, the financial controller, and accounting officers.

In the matter of the principal authorizing officer, deputy authorizing officers and their alternates, and of the accounting officer and the assistant accounting officers, the most recent decisions date back to 25 July 1973. But for the year under review (1975) the appointments made in this capacity had ceased, in part, to correspond to the new organization of the directorate-general and the persons mentioned by name had in some cases given up their posts.

The signatures on the supporting documents therefore no longer correspond to the delegations made. Regularization of these appointments has been postponed until the financial regulation governing the fourth EDF has been approved.

In connexion with organization of the financial control of the EDF, the last official notification to the Audit Board related to a decision of 21 December 1965 appointing the financial controller and his alternates. Since that time there have been changes in the organization and in the duties of the persons appointed. For quite a long time the same official has simultaneously performed the duties of deputy authorizing officer and controller of the authorization of payments. Here again, regularization of appointments has been postponed.

108. The work of the Audit Board has, in several instances, revealed a lack of communication between the departments responsible for authorizing payments and the accounts departments. This inadequate co-ordination is the source of certain accounting anomalies, the appearance of various cases of overspending and the existence of delays, already mentioned, in the closure of projects.

It must also be mentioned that reconciliation between the administrative accounts and the cash accounts is neither frequent nor strict and leaves differences which have to be adjusted.

CHAPTER 1 : THE GENERAL ACCOUNTS OF THE FOUR FUNDS

I. The first EDF

109. Fourteen years after the expiry of the first Association Convention, which was concluded for a period of five years (1958-1962), the accounts of the first EDF have still not been closed.

The power to commit expenditure had to be extended beyond 1962 and it was not until 1972 that the decision, long advocated by the Audit Board, to halt new operations and transfer any unused balances still remaining to the second EDF was finally taken. These transfers, made in 1973 and 1974, involved nearly 10 million u.a.

Thus truncated, the funds allocated to the first EDF (581.25 million u.a.) had given rise to total commitments of 570.7 million u.a. by the end of 1975 but this total still included 1.74 million u.a. of provisional commitments for which the relevant contracts had not yet been concluded; these provisional commitments related to projects in Algeria, Benin and Senegal. It is enough to say that for these countries at any rate it will not be possible finally to wind up the first EDF for several years. Moreover, it appears that the non-allocated reserves, amounting to 1.2 million u.a., will be insufficient to finance the completion of the projects still in progress.

Examination of the accounts revealed cost overruns on six projects, to a total amount of 109 414 u.a. Adjustments will have to be made in the 1976 accounts.

It also became apparent that four payments made in 1975 in respect of projects relating to Algeria and amounting to FF 1 763 446 were not entered in the accounts until May 1976, thus distorting the revenue and expenditure account of the first EDF.

Out of the 410 projects financed from the first EDF, 36 had not been closed by the end of 1975, contrary to the forecast by the EDF departments who in their replies to the preceding Audit Board report had put the number of projects whose execution would have to continue in 1976 at eight.

These delays are the result of disputes with the firms involved, the postponement of final acceptance of work, or administrative carelessness in the transmission of documents.

Thanks to new efforts on the part of the EDF departments, eleven projects were closed during the first four months of 1976. Constant vigilance remains necessary in order to expedite these closures.

II. The second EDF

110. Valid, like the first Association Convention, for a period of five years (June 1964 - June 1969), the second Association Convention provided funds amounting to 730 million u.a. Once again, the power to commit expenditure had to be extended.

As late as 1975 ten new financing decisions were taken, involving grants of 6 374 000 u.a. and loans on special terms of 2 303 000 u.a., whilst an investment project for 1 053 000 u.a. and a loan of 1 000 000 u.a. previously sanctioned were cancelled. Other decisions were still being made in respect of the Fund in 1976.

At the end of 1975 the implementation situation of the second EDF was as follows (in thousands of u.a.):

Total appropriation	740 049
Firm commitments	697 440 or 94.2% of the total allocation
Provisional commitments	20 811 or 2.8% of the total allocation
Financing operations pending	8 251 or 1.1% of the total allocation
Total commitments	726 502 or 98.2% of the total allocation
Payments made	680 894 or 92.0% of the total allocation

The initial appropriation was increased by some 10 million u.a. coming mainly from the transfers of first EDF appropriations already mentioned. Of these unused balances transferred, only 6.4 million u.a. has so far been committed, to supplement the financing of second and third EDF projects.

Distribution of the grants, laid down by Articles 17 and 18 of the Convention, has been changed several times. During 1975 a ceiling was set on production aid projects, releasing appropriations of 1.3 million u.a. which reverted to the overall appropriations of the second EDF and were subsequently allocated to the heading "Investments", contrary to the provisions of the Convention.

The amount of the provisional commitments and financing operations pending (over 29 million u.a.) seems very high considering that it is seven years since the expiry of this second Convention. In the case of the People's Republic of the Congo, the firm commitments still represent only 71.4% of the decisions taken. In the case of the sector "All countries", decisions relating to diversification aid, investments and special loans to an amount of over one million u.a. gave rise to no commitments. The same applies to the Netherlands Antilles in respect of the implementation of a loan on special terms.

A special loan of 1 271 000 u.a. was granted to Senegal for the improvement of a farming region, replacing a loan of one million u.a. granted in 1974, the accounting treatment of which had been criticized by the Audit Board in its previous report (point 118). Treatment of the new loan is still incorrect, the additional amount of 271 000 u.a. having been entered under the heading "All countries."

111. The Audit Board has several times had occasion to emphasize the necessity for bringing financial charging to the second EDF up to date (1972 report, point 62; 1973 report, point 127; 1974 report, point 118).

Invoking the uncertainties created by the rapid movement in prices since 1973, the Commission stated that it was appropriate to postpone implementation of the revision. But the necessity for revising the ceilings for both the second and the third EDFs is now urgent following the adoption of the Lomé unit of account and the emergence of substantial cost overruns on several projects. The operation was therefore initiated in the opening months of 1976 and should be completed by the end of the year.

It is expected to result in a halt being called to new decisions in respect of the second EDF and the transfer of the unused balances to the third EDF, as was decided in 1972 in the case of the first EDF.

During 1975, total payments made amounted to 23 357 468 u.a., bringing the total payments made since commencement of operations under the second EDF up to 680 894 062 u.a.

Although at the end of 1975 this cumulative total represents 97.6% of the firm commitments, the fact remains that out of the 926 projects and operations financed by the second EDF 206 were still in course of execution at that date.

Here again, examination of the balances on the accounts has revealed the existence of overspending, relating to 25 projects and totalling 1 320 677 u.a., and adjusting entries will be required.

112. On the liabilities side of the balance sheet the amount of contributions paid, which appeared in the 1974 balance sheet at 724 534 025 u.a., reached 730 million u.a. in 1975 even though no new payment had been made under this head. The balance remaining to be collected, 5 465 975 u.a., is the theoretical exchange difference calculated on the contributions paid by the Member States and converted into u.a. on the basis of a transitional method of calculation explained in last year's report (point 120). This balance was transferred to the balance sheet of the third EDF following a Council decision of 9 December 1975 on the procedure for regularizing the balances of contributions remaining due under the head of the third EDF.

Similarly, the sum of 3 868 245 u.a. which appeared in the 1974 balance sheet under the heading of cash accounts to be regularized pending the decision on the new definition of the unit of account (which was reached on 21 April 1975) was also transferred to the third EDF.

These two transfers were effected on 30 December 1975 with, as their sole reference, the above-mentioned decision of 9 December 1975 on the regularization of contributions to the third EDF.

The various items of revenue of the second EDF, consisting in the main of interest and gains on exchange, had been reduced in 1974 by an amount of 1 729 934 u.a. which had been transferred, together with the balance of miscellaneous revenue of the first EDF amounting to 270 066 u.a., to a special

account opened in the name of "EDF Commission - AASM Building - Brussels." This allocation of 2 million u.a. was intended to finance premises to accommodate the administrative and commercial services of the AASM.

Under a Council decision of 29 January 1976 a fresh transfer of 1 656 430 u.a. was made from the miscellaneous revenue of the second EDF to this special account.

The account in question, which is administered by the Co-ordinating Committee of the AASM and kept by the accounting officer of the EDF, was used in 1974 for the purchase of a plot of land. Since then, this initial plan seems to have been abandoned because later expenditure relates to the first instalments paid in connexion with the acquisition of a building.

At 3 June 1976 the total amount paid out of the special "Commission-Building-ACP" account was Bfrs 183 658 000, made up as follows:

30 December 1974	Acquisition of land at 37, rue du Lac, Brussels	Bfrs 18 658 000
25 February 1976	Exercise of option to purchase land with building in avenue Georges Henri	Bfrs 70 000 000
26 February 1976	Payment on account of building work	Bfrs 30 000 000
2 March 1976	Signature of contract for purchase of building	Bfrs 65 000 000
		<hr/>
		Bfrs 183 658 000

In the light of the special statute of the Co-ordinating Council of the AASM, the purchaser of the land and the building, it is evident that the registration fees of Bfrs 2 068 169 included in the payment of Bfrs 18 658 000 should be recovered and written back to the "Commission-Building-AASM" account which originally bore the charge.

In fact, the Co-ordinating Council of the AASM received this amount into its own account at the beginning of 1975. Attempts by the finance and administration department of the EDF to recover it have been in vain. The Co-ordinating Council of the AASM, since replaced by the Council of Ministers of the ACP, is thought to have used about Bfrs 577 900 of the money not only to pay the expenses of consultancy and improvements in connexion with the premises purchased in 1976 but also to meet operating expenditure of the ACP Council.

In April 1976 a receivable order in the sum of Bfrs 1 485 269, corresponding to the unsupported balance of expenditure, was issued against the ACP Council. Such a procedure, which nets off revenue against expenditure and would cause the expenditure to escape both approval by the internal audit body and scrutiny by the external audit body, is contrary to the provisions of the financial regulation.

III. The third EDF

113. The Convention governing the third European Development Fund came into force, after ratification, on 1 January 1971 and expired on 31 January 1975. Its life was, however, extended like that of the other Conventions.

The initial allocation to the Fund amounted to 900 million u.a. Following the association of Mauritius it was increased by 5 million u.a. Miscellaneous revenue (1 125 087 u.a.) and revenue originating from repayable aid (3 316 339 u.a.) brought the total amount of the Fund at the end of 1975 up to 909 441 426 u.a.

The trend of commitments and payments against the third EDF since its inception has been as follows (in thousands of u.a.):

	1971	1972	1973	1974	1975
Firm commitments					
Provisional commitments					<u>Voir original</u>
Financing operations pending					
Total commitments					
Payments					

The total commitments (856.5 million u.a.) are the result of 324 financing decisions. They represent 94.2% of the overall appropriation, a slightly lower percentage than that achieved in the year of expiration of the Convention of the second EDF.

The rate of utilization of the funds allocated to loans on special terms and to contributions towards risk-capital formation is only 70.6% at the end of five years. In 1975 three loans were granted to a total amount of 5.55 million u.a. but since 1973 no new commitment has been entered into for the second category of interventions and these participations still remain at 2.5 million u.a.

Firm commitments (640.6 million u.a.) represent 70.4% of the total allocation to the Fund. The time required for implementing financing conventions continues to be rather long, especially for the Overseas Countries and Territories and Overseas Departments where the allocations for investments have been firmly committed only to the extent of 53.1%.

The rate is as low as 40.7% for the Netherlands Antilles and 11% for Surinam. In the case of Mauritius no commitment has yet been charged in the accounts.

Examination of the balances on the accounts revealed, firstly, cost overruns over the commitments covering seven projects and a total of 1 525 955 u.a. and, secondly, excess payments over the commitments covering 27 projects and a total of 7 553 124 u.a.

Payments shown by the accounts amounted to 487 million u.a., representing 53.5% of the total allocation to the Fund. This overall percentage is the result of situations which vary very greatly according to the nature of the aid and the recipient countries.

In the case of "general technical co-operation", the rate of settlement (42.7%) seems low but the total does not include certain expenditure resulting from the multi-annual scholarship programme for 1972-1975, for which advances of 11.7 million u.a. were granted to five specialist bodies; this sum is shown on the assets side of the balance sheet pending the production of supporting documents which will enable the operations to be charged as expenditure.

In the case of loans on special terms, the funds used represent only 60.7% of firm commitments.

In the case of general and technical supervision, the payments made (28.3 million u.a.) still do not include the charges for the last financial year owing to the delay in closing the accounts of the EAC. This time-lag in accounting, which distorts the significance of the accounts of the EDF, has been pointed out many times by the Audit Board.

On the liabilities side, out of the 905 million u.a. of contributions provided for, the amount of contributions called for totals 500 million u.a., which breaks down as follows:

Contributions paid	466 769 804.66 u.a.
Balance to be paid for regularization	21 158 558.21 u.a.
1975 contributions overdue	12 071 637.13 u.a.

These entries stem from a decision taken by the Council on 9 December 1975.

Since the abandonment of fixed parities in May 1971 the trend of the international monetary situation has continued to pose difficult problems both for administration of the EDF's cash resources and for regularization of its accounting entries.

On the assets side of the balance sheet there appear under the heading of "transactions to be regularized" the debts to be collected from Member States for contributions for 1973, 1974 and 1975, to an amount of 33 230 195.34 u.a.; this sum is the difference between the amount of the contributions called for so far, 500 million u.a., and the equivalent in Lomé units of account of the payments so far received, 466 769 804.66 u.a.

But there is also on the assets side an account called "result of floating exchange rates" for an amount of 1 668 932 u.a. This balance is the result of the offsetting of, on the one hand, the amount of readjustments to the special accounts and contributions (30 049 587 u.a.) less the amount to be regularized adopted by the Council decision of 9 December 1975

(21 158 558 u.a.), viz. 8 891 028 u.a., and on the other hand, the amount of the gains on exchange made in 1975, viz. 7 222 096 u.a.

Owing to the monetary situation, this item will increase by more than 2 million u.a. when Italy pays the 17 400 million lire charged to it under the head of regularization.

This item does in fact reflect a loss, reducing by that amount the allocation made available to the Associated States.

The cash resources of the three Funds, combined on the assets side of the balance sheet of the third EDF, appear at 17 740 633 u.a.

In fact, this balance does not reflect the position at 31 December 1975 of the accounts opened with the Treasuries of the Member States and the paying agents, because conversion into u.a. of the balances on these accounts, which are kept in national currencies, was not made on the basis of the rates prevailing on 31 December 1975 but by using rates in force on 2, 7 and 13 January 1976 and even in some cases on the basis of the rates used at the time of the last transactions of the financial year which may go back several months.

In the same way, the balance shown for the Algerian Development Bank does not reflect the real cash resources held in that account, owing to failure to account for four payments by the first EDF made in 1975 and already mentioned in this report under point 109.

On the liabilities side of the balance sheet the miscellaneous revenue comprises 3 316 339 u.a. in revenue from repayable aid, both capital and interest.

In earlier reports the Audit Board had mentioned that because of the delay by the European Investment Bank in transferring funds received by it under this head the EDF's accounts were about half a year late in reflecting these receipts.

The account for 1975 shows only the repayments and interest received up to 31 July 1975, out of which the Council has decided to allocate 751 097 u.a. to finance exceptional aid.

However, the sums received by the EIB from 1 August 1975 to 31 December 1975, amounting to 409 312 u.a., are not shown in the account on the pretext that a Council decision of 22 July 1975 had provided for the "placing to reserve" of the sums repaid by the States in receipt of loans as from 1 August 1975, the Council having to decide later as to the allocation of these sums in the light of requirements.

The provisions of Article 19 (3) of the rules of the third EDF would seem to imply that pending a decision by the Council on either repayment to the Member States or transfer to other operations this revenue from repayable aid should continue to be shown in the accounts of the EDF.

IV. The fourth EDF

114. The Lomé Convention, signed on 28 February 1975, did not come into force until 1 April 1976 after ratification by the 46 African, Caribbean and Pacific countries and by the nine Member States of the Community. The new Convention expires after a period of five years from the date of signature, namely 1 March 1980.

The financial and technical co-operation provided for within the framework of this Fund is financed from a total allocation of 3390 million u.a., of which 3000 million u.a. forms the fourth European Development Fund while the remaining 390 million u.a. will be granted in the form of loans by the European Investment Bank. The aid from the Fund breaks down as 2100 million u.a. in subsidies, 430 million u.a. in special loans, 95 million u.a. in risk capital and 375 million u.a. for the stabilization of export revenues. The loans granted by the EIB may qualify for interest subsidies from the EDF.

The provisions of the Convention on trade came into force in entirety in advance on 1 July 1975. Similarly, the interim provisions on sugar were applied as from 1975. Intervention to secure stabilization of export revenues (STABEX) will apply retroactively to 1975 for applications submitted by the ACP States up to 15 April 1976.

The fact that the Lomé Convention has been signed by an additional 27 states will entail the installation in these states or in certain regional groupings of 21 additional Commission delegations.

To meet the cost of installing these delegations the Council granted an advance of 3.5 million u.a. against the allocation to the fourth EDF, within the framework of the internal transitional scheme applicable to the ACP States.

Similarly, an advance of 1.450 million u.a. was granted against the same allocation by a Commission decision of 15 December 1975 to meet the expenses of the programme of participation by the ACP States in trade fairs, etc during 1976.

The first financing decisions under the fourth EDF were taken by the Commission on 11 May 1976. The finance sanctioned consisted of grants to an amount of 56.895 million u.a. and loans on special terms to an amount of 3.84 million u.a. and can be further analysed as follows:

- exceptional aid to the ACP countries of Southern Africa	25	million u.a.
- exceptional aid to Somalia	3.42	million u.a.
- exceptional aid to Niger	9.61	million u.a.
- extension of the port of Brazzaville (Congo)	0.769	million u.a.
- continuation of Niamey-Zinder trunk road (Niger)	4.736	million u.a.
- technical and regional co-operation and marketing aid for the ACP States as a whole	9.5	million u.a.
- improvement of the Congo-Ocean railway (joint project EDF/Arab countries)	3.86	million u.a.
- complementary loan for Congo-Ocean railway improvement project	3.84	million u.a.

CHAPTER 2 : COMMENTS ON VARIOUS
PROJECTS

115. Since its last report the Audit Board has audited a large number of projects and has sent various questionnaires to the administrative departments to which it has received, to date, only late and partial replies.

In order to complete its information, the Audit Board took part in an audit visit to Madagascar carried out by an official of the EDF departments and performed verifications of expenditure on trade fairs on two occasions.

These various examinations give rise to the following criticisms, which relate to a limited number of operations only.

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* * *

116. Investment projects

In this field, which is the main recipient of EDF finance, the Audit Board's findings are in the majority of cases in line with the comments made at the time of earlier audits and relate to the size of the time and cost overruns caused either by inadequate preliminary studies, revision of programmes, shortcomings on the part of principals and controllers, or failure of contractors to meet their obligations. But the Audit Board's work also reveals certain faults in the very conception of the projects, an excessive leaning towards technical perfectionism and a failure to assess the running costs of the installations created, which may lead to the under-employment or abandonment of those installations if adequate budget funds or suitable vocational training are not available.

a) Road, port and railway projects

1. When tenders for road improvement work in Lobaye (Central African Republic (Project No 211.003.14) were examined, the firm submitting the lowest tender, which was accepted as valid from both the technical and the economic point of view by the EDF departments and which moreover was accepted provisionally by the scrutinizing committee, was rejected by the authorities of the Central African Republic.

Various arguments were put forward in support of this decision but they did not appear to provide sufficient justification for rejection of the tender. In the face of insistent rejection by the Central African Republic, of which additional evidence was provided by the expulsion of the head of the firm whose tender had initially been accepted, but contrary to the principles of free competition defined in Article 47 of the financial regulation governing the second EDF, the EDF departments accepted the choice imposed upon them.

2. A contract for modernization of the road from Ouagadougou to the Ghanaian frontier in Upper Volta (Project Nos 211.009.20 and 3100.441.09.04) was awarded, at a price of CFAF 1 760 000 000, to a group of undertakings despite an unfavourable opinion expressed by the authorities of Upper Volta.

The contract for the work, which was notified in April 1968, provided for the completion of the road in 28 months. However, at the end of this period the work was on average only 27% completed and for fear of insolvency the contract was terminated by amicable agreement in November 1970 when total payments had already reached CFAF 532 858 618. Under the terms of an overall arrangement the group paid the EDF a forfeit and penalties for delay amounting to CFAF 130 million.

Completion of the work was entrusted to another group of undertakings under a private contract worth CFAF 1 982 723 210.

Failure to heed the reservations expressed by the Upper Volta authorities at the time of adjudication of the tenders and subsequently during execution of the work had expensive consequences. The final cost of the work was CFAF 2 740 456 330; the cost per kilometre of road, initially estimated at CFAF 11 200 000, actually came to CFAF 16 800 000, an increase of 50%. Extension of the time allowed from 28 to 50 months caused serious cost escalation while - owing to the monetary situation - the decision of the EDF to pay in Deutschmarks sums that were owed in Belgian francs further increased the cost of the operation, which was several hundred million francs CFA higher than originally expected. Supervision of the work, estimated to cost CFAF 70 million, actually came to CFAF 142 607 301, an increase of 103%.

3. The agreement of December 1966 on Project No 211.009.16 had provided for the modernization of the Bobo-Dioulasso-Faramana road (Upper Volta) at a cost of CFAF 930 million, of which 820 million was for the construction work itself.

As the lowest tender came to CFAF 923.6 million, it was necessary, in order inter alia to provide sufficient cover for technical risks, to raise the financial ceiling on the project by 15%, bringing it up to CFAF 1069.5 million.

After completion of the work, which was accepted in April 1970, the undertaking submitted a file of claims, asking to be paid for various items of additional work and claiming exemption from lateness penalties.

The EDF, in agreement with the Upper Volta authorities, partially accepted the demand for CFAF 59.7 million. The total cost of the project therefore came to CFAF 1110.2 million, an increase of 20.2% over the contract price,

which caused, after revision due to the devaluation of the franc CFA, a residual overrun of CFAF 20.3 million which it was proposed to finance from an additional project charged against the third EDF (No 3.100.041.09.25) for CFAF 21 million.

But the financial controller withheld his approval in June 1972, maintaining that this indemnification was not justified on technical grounds and that it constituted taking on charge work executed without prior commitment. As late as October 1973 the Commission decided to override the withholding of approval. Meanwhile the undertaking, pleading the delay thus caused to settlement of the affair, put forward a claim for interest on overdue payments which was met in part out of the available balance.

The total exhaustion of the appropriations allocated to this project prevented repair work, which became necessary shortly after final acceptance of the main work, from being taken on charge.

4. Project No 211.005.06 called for the supply of heavy road transport vehicles to the Congo and technical assistance limited initially to a period of two years. The total budget for this project was CFAF 230 million.

Although supply of the vehicles took place satisfactorily, their use and maintenance caused very rapid deterioration which the prolongation by one year of the technical assistance programme was unable to prevent. The programme was incapable of remedying the lack of sufficient training for the drivers and mechanics, defects in organization of the work, in the storage of spare parts and in the geographical distribution of the vehicles, all of which were the obligation of the recipient State.

5. The two projects "Nola Port" and "River fleet, Upper Sangha" in the Central African Republic (Project Nos 12.23.311, 211.003.34, 215.003.33 and 34 and 3100.043.03.03) are part of an overall programme to open up communications from the south-western part of the Central African Republic. The sub-head "river development" represents an investment of CFAF 820 million of which CFAF 380 million is being provided by the EDF, the balance being met by the Government of the Republic and the private sector.

The various contracts for works and equipment were opened to tender in groups; analysis of the tenders in October 1970 and January 1971 revealed a cost of CFAF 617.3 million, an excess of 62.4% over the appropriations available. This excess beyond the obviously underestimated conclusions of the preliminary study carried out by the Central African authorities was the result partly of the trend of the economy but also of the way in which the invitation to tender was organized, the grouping together of the civil engineering contracts effectively excluding small local firms from competition. The Central African Republic having agreed to bear the cost of construction of the quay wall for the port of Nola amounting to CFAF 83 700 000, it was possible to cover the balance of the excess, on a decision by the principal authorizing officer, by raising the financial ceiling on the Nola Port project by CFAF 16 000 000 and by revising the appropriations available on Project No 215.003.33 "Nola Port" of CFAF 47 499 805 and transfer to Project No 215.003.34 "River fleet, Upper Sangha". Further, by two supplementary financing decisions, the ceiling

of Project No 12.23.311 "River fleet, Upper Sangha" was raised by CFAF 81 500 195, while a supplementary commitment of CFAF 12 000 000 was granted against the third EDF through Project No 3100.043.03.03. In fact, for the port of Nola, the cost of which came to CFAF 127 000 000, the work actually carried out - if one takes into account the cost of the work borne by the Central African Republic or reduced in scope (application of laterite restricted to 8000 m² instead of the 20 000 m² originally planned) - initially represented CFAF 61.1 million. Thus the effective overspending was 107.8%.

In the case of the "River fleet, Upper Sangha", after the Central African Republic had taken over a cost overrun of CFAF 1 240 800, the total cost of the project amounted to CFAF 437 650 600 against an estimate of CFAF 269 000 000, an increase of 62%.

b) Educational establishments

1. The construction, equipping and bringing into use of the practical agricultural school in Cameroon (Project No 11.22.212) required an abnormal amount of time.

Financing Agreement No 219 signed on 18 March 1964 provided for the completion of this project in 24 months for a cost of 474 000 u.a.

In fact, the study contract was not signed until 23 February 1965, the invitation to tender was published on 15 November 1966 and the works contract was notified on 27 May 1967. The work itself did not start until 4 August 1967.

Owing to lack of co-ordination between completion of the construction work, which was accepted in January 1969 without retention of a penalty for lateness, and supply of the furniture, the school could not be opened until April 1971.

Thus it was not until seven years after signature of the agreement that this educational establishment became operational, the premises having remained unused for more than two and a half years. Closure of the project did not take place until 1973 after final acceptance of the last additional supplies, but the documents relating to this operation were not forwarded to the Audit Board until December 1975, thereby retarding their examination by a further two years and more.

2. In the case of the national agronomical school in the Ivory Coast (Project No 211.006.10) more than six years separate the signature of the financing agreement and provisional acceptance of the premises.

Inadequacies in the study, the cost of which came to 77 000 u.a., held up publication of the invitation to tender until June 1969. The work was awarded to an Ivory Coast firm which submitted the second lowest bid, at CFAF 414 615 595.

In spite of technical assistance from the Government, execution of the work was very slow. Commenced in April 1970, the work was supposed to be completed, after a supplementary agreement for a three-month extension had been signed, by 15 January 1972.

It was not until 5 April 1972, however, that provisional acceptance of the work was declared; but penalties were not applied beyond 11 February 1972, on the pretext that the work was finished by that date. The penalties were reduced in this way from 80 to 27 days, which represented a gratuitous remission of more than CFAF 22 million. But the numerous and substantial reservations expressed at the time of provisional acceptance do not seem to justify such indulgence, the more so since making good the defects held back final acceptance until May 1975, three years after provisional acceptance.

c) Hospital establishments

1. The completion and bringing into service of the three medical units at Mitsamiouli, Mamutzu and Foubouni in the Comoro Islands (Project Nos 11.24.204, 11.24.205 and 311.31.03) suffered substantial delays. These three medical projects, together costing 605 000 u.a., were executed by small local firms because the work was of a minor nature and the islands are a long way off.

In the case of the medical unit at Mitsamiouli, the time allowed for completion was initially 12 months, extended by supplementary agreement to 15 months, but in fact the time required became 25 months owing to the contracting firm leaving the site. Provisional acceptance took place in April 1968 but completion of minor additional items put back closure of the project until 1975.

In the case of the medical units at Mitsamiouli and Foubouni, the lack of appropriations to cover operating expenditure delayed commissioning for two years, some of the rooms being used meanwhile for storage. Not until 1971 was a satisfactory operating budget for these units obtained.

2. Agreement No 206 relating to Project No 11.23.313 "Medical units" in the south-west of the Central African Republic was signed in October 1963. It provided for the construction and equipping of field hospitals, maternity units, dispensaries and service accommodation in five centres within a time-limit of 26 months. In fact, the project was not closed until August 1975.

Signature of the construction contracts did not take place until October and November 1965. All the buildings were completed, with some delays, by the end of the first half of 1967. The equipment, ordered in October 1967, was delivered in July 1968. The five contracts for the provision of a water supply to the medical centres were not, however, signed until between March 1969 to January 1970 and the bankruptcy of the contractor delayed closure which was spread over the period September 1971 to September 1974. A final contract, for increasing the water supply and additional work (fencing, shelters for families, drainage), was signed in January 1972 and gave rise to partial acceptances between February and September 1973 and to the ordering of some more additional work. Final settlement of this last contract did not occur until July 1975, twelve years after signature of the agreement.

d) Water supply and sanitation improvements

1. The object of Project No 11.21.116 was the construction of installations necessary to provide a drinking water supply to eight secondary centres in Senegal for which drilling programmes had already been financed under Project No 11.21.112. The bringing into service of the boreholes sunk in 1967 was held up for five years by administrative delays.
2. Project No 12.22.207 "Soil conservation and anti-erosion campaign" in Cameroon had initially been allocated appropriations amounting to 717 026 u.a. This amount was raised to 1 000 595 u.a. at the time of the first ceiling-setting operation. Work intended to facilitate the movement of Kirdi communities to more favourable surroundings was started in 1963, but it was not until 1965 that the Commission was informed that the areas earmarked for new sites were already occupied and in use and that land-tenure problems were making it difficult to allocate the zones which were still free. The work carried out was abandoned after 400 000 u.a. had already been spent. With the exception of a few minor reforestation schemes and the maintenance of stone dams, none of the desired objectives was achieved. In June 1967 a supplement to the financing agreement put an end to this operation and subsequently the balance of the appropriation, 433 460 u.a., was transferred to the development of the Doubou Gane region.
3. The object of Project No 211.017.15 was the construction of 153 wells in the Kanem region of Chad, to a total value of 1 867 012 u.a.

The cost of the studies amounted to 84 886 u.a. whilst the supervision of the work, the value of which seems to have been debatable, cost 177 049 u.a. The contract for the work was worth 1 596 012 u.a. after deduction of penalties for late performance, but following two fatal accidents the Chad Government abandoned completion of two of the wells. Out of the 153 wells planned, only 101 are operational. In the Manga region the siting of some wells is such as to prevent their use, according to an expert.

e) Agricultural programmes

1. Project No 211.003.12, the establishment of a cattle ranch in the Central African Republic, the cost of which amounted to CFAF 158 292 406, was severely disrupted by the agrarian reforms introduced in the Republic in 1970. The project was notable for the high cost of technical assistance, representing 20% of the total cost, and for a very slow start to the work. The lack of administrative appropriations delayed the start of operations on the ranch for almost a whole year and its management was eventually entrusted to a private company.
2. Under Project No 211.003.30 "Eradication of the tsetse fly" in the Central African Republic, irradiation apparatus was delivered to Bangui at a cost of 43 400 u.a.

As a result of the agrarian reforms, completion of the project had to be abandoned and the irradiator was returned to the supplier without even having been unpacked. But no refund was made for returning the equipment, the supplier merely bearing the cost of carriage, which amounted to 2700 u.a.

3. The object of Project No 12.22.106 was to encourage the growing of oil palms in the village areas of Alokoegbe in Togo and the cost was 671 000 u.a. In a first phase, aid from the Community enabled the principal equipment of the oil mill to be overhauled. Third EDF Project No 3100.615.18.13 is intended to finance the purchase of additional equipment and the execution of work designed to enable the capacity for treatment to be doubled and to give the possibility of trituration of palm nuts from different sources.

Restoration of this oil mill which in 1959 was expected to cost CFAF 23 million finally cost CFAF 46 million, but even after overhaul of the equipment the factory is making a loss and only one boiler out of three is working.

Among the causes advanced by the EDF departments for this state of affairs is the drop in production due to the drought. It seems, however, that the rather adverse ecological conditions of the region were perfectly well known at the outset (rainfall not exceeding 800 to 900 mm/m²) and should have caused an investment project of this kind in this region to be very critically scrutinized before action was taken.

4. The results obtained from Project No 215.011.11 "Production of essential oil of oranges" in Mali are little better. This diversification aid project costing 41 000 u.a. has had mediocre results. Output over the three intervention years never reached as much as 10% of the obviously over-optimistic forecasts and even after the final intervention year oil output has not exceeded 17.2% of the amount forecast.

Delays and equipment shortages are not sufficient to explain these derisory results. It seems, even in the opinion of the EDF departments, as though the injection of just a small amount of managerial skill could have remedied this situation which has its origin principally in the pastoral mentality and calling of the communities affected by the operation.

5. The object of Project No 211.011.29 is the execution of two land improvement schemes at Farako and Dioro III in Mali covering an area of 7200 hectares and clearance and deep ploughing of 1500 hectares included in the Sarantomo-Siné land development scheme carried out under first EDF Project No 12.21.303.

The initial commitment was fixed at 3 908 000 u.a., of which 214 186 u.a. was for the Sarantomo-Siné improvement. For reasons not stated in the files on the project the latter work was abandoned but the cost of the project nevertheless reached 3 888 930 u.a.

In the case of the Farako development, the time-limits were not observed, either for earth-moving work or for clearing and ploughing but the penalty was calculated on the amount of work remaining to be done whereas the terms of the contracts stipulated that penalties should be calculated "on the value of the contract" and partial acceptances do not appear to have been made.

f) On-the-spot audit of investment projects in Madagascar

1. In April 1976 the Audit Board was able to carry out a visit to make an on-the-spot audit of projects executed in Madagascar. The aim of the visit was to check that the nine investment projects completed under the three Funds actually did exist and to verify that they complied with the financing agreements. It was also possible to examine the way in which these operations had been integrated into their economic and social surroundings.

The contacts which the Audit Board had on this occasion gave it more insight into difficulties encountered during execution of the projects, particularly by the departments of the Commission's representative. The verifications carried out with the help of the Community departments covered projects for construction, infrastructure and agricultural programmes.

2. The problem of taking over and maintaining the EDF installations is particularly acute in the present economic and political situation in Madagascar. But this is no new problem, as is shown by the present state of the Andapa-East Coast road (Project Nos 12.24.118, 211.010.10 and 211.010.27) where lack of maintenance since 1971 is jeopardizing an investment of more than 11 million u.a.
3. Some investment projects, which without doubt meet social and economic needs, do not take sufficient account of whether budget resources and local expertise are available.

Two of the projects visited, the slaughter-house at Tananarive and, especially, the hospital at Ampefiloha, have some technically advanced equipment which requires highly skilled labour to maintain but this labour is not readily available locally. The result is under-employment of Community-provided facilities which can only be remedied by recourse to technical assistance from outside.

The teaching hospital at Ampefiloha, financed from second EDF appropriations at a cost of 6 583 000 u.a., has been complete since 1973 apart from some items of additional equipment which have not yet been supplied. Despite several appeals from the Commission and intervention by the third EDF for the purpose of building up an initial stock of supplies at a cost of 1 167 000 u.a., the hospital is still not properly operational. A few departments are functioning (laboratories, laundry-room, radiography and radiotherapy sections), but the degree of occupation of the premises is only 15%. The reasons officially given for this underemployment are

principally financial: to operate the hospital would require nearly one quarter of Madagascar's entire health budget. But there are also political, technical and social reasons preventing proper use of this costly project.

It is essential that needs should be assessed on the basis of utility rather than prestige and that the assessment should be more realistic, taking account of local conditions of use and, especially, of the often heavy burden which the running costs will place on national budgets. Disregard of these principles leads to the wasting of Community aid.

4. The general education college at Nosy-Be, which was inspected during the Audit Board's visit, also illustrated this comment.

The college, which was financed to the extent of 612 000 u.a., comprises several buildings on two levels accommodating eight classrooms, two dormitories and the administrative services. The establishment is planned to take 320 pupils, including 92 boarders.

The buildings, which were accepted in May 1975, are still empty because there is no furniture; an invitation to tender for the supply of furniture was issued in June 1975, one month after acceptance of the premises.

The dilatoriness of the local administration is such that none of the planned contracts for the supply of the furniture had yet been signed by the time of the audit visit. It is improbable that the establishment will be able to be brought into service before the beginning of 1977, a year and a half after completion of the buildings. It seems, moreover, that the sparsity of the national budget funds allocated to the college will prejudice its proper functioning, particularly in the case of the boarding section.

5. Two of the three agricultural projects visited seem to hold more promise of profitability and future viability. The projects in question relate to large-scale nut-growing (Project Nos 215.010.18 and 31) and, more particularly, the development of the Andapa basin (Project No 3100.632.10.01). Their integration into the local economic and social surroundings seems assured, provided that the Malagasy authorities rapidly find a substitute to replace Community technical assistance.

The development of the Andapa basin, covered by an initial commitment of 5 401 000 u.a., an increase in which is currently being considered, is, in its present state, an interesting example of land development for agricultural purposes and of familiarization measures aimed at the local communities directly involved.

By contrast, the organization and structure of the East Coast coffee scheme do not augur well for the results of this EDF operation. This project, financed to the extent of 1 587 000 u.a. from the third EDF in conjunction with other sources of aid, represents the continuation of production aid provided by the EDF since 1966 for coffee and pepper. Management of the agency set up by the Malagasy authorities seems very cumbersome and delays in payments to producers have caused serious discontent.

6. As far as the actual execution of the projects is concerned, the serious incidence of delays must be emphasized. For the two agricultural projects mentioned above (large-scale nut-growing and development of the Andapa basin) the insolvency of two of the contractors caused a delay in bringing the projects into operation and an increase in costs owing to the prolongation of technical assistance and the rise in prices.

Finally, some technical problems with significant financial effects emerged in the course of the Audit Board's inspection of the road projects, particularly in connexion with the Vohemar-Sambava road (Project Nos 12.24.112, 3100.441.10.07 and 3100.041.10.27) and the rebuilding of the bridge over the Fanambana. The outcome of these projects which are still in progress will have to receive special attention from the Audit Board.

g) Price revision clauses

The Audit Board finds that the execution of some works contracts is affected by imprecision or unsuitability of the formulas for price revision.

In the case of Project No 211.015.15 relating to the extension of the Dakar water supply, the first call for tenders allowed the tendering firms to choose the definition of the revision formula and this unusual freedom is likely to hinder correct comparison of tenders.

In Project No 211.016.06 relating to road works in Somalia the revision formula is based 40% on the price of steel and only 10% on the cost of labour, yet little construction work was called for and the bulk of the charges consisted of wages. This illogical indexation has made the consequences of cost escalation more drastic.

117. Linked technical assistance

- a) In earlier reports the Audit Board pointed out various irregularities revealed on examination of the files falling under this heading. Inspection of the files forwarded to the Audit Board in 1975 prompts similar comments with regard to the time taken for execution and the quality and use of the studies.
- b) The study on telecommunications development in Somalia, financed through an accelerated procedure under the head of Project No 212.116.14 at a cost of 108 000 u.a., was characterized by a major extension of time-limits and poor execution of the study leading, after some delay, to cancellation of the contract and recourse to another firm.

The study, scheduled to take five months, was not finally submitted to the EDF until after a lapse of 23 months, but even then some documents relating to the buildings were still missing. Faced with such shortcomings, the EDF departments were forced to cancel the contract in July 1971 and to refuse to pay the balance outstanding.

In view of the inadequacy of the study and the necessity for certain additional work, a new contract had to be signed with another firm for 85 835 u.a., subsequently raised by supplementary agreement to 119 000 u.a.

Studies and research into tea-growing on the plateaux of Madagascar and the operation of an experimental station were the subject of five successive agreements starting in 1965 under the second and then the third EDF. The agreement governing work on this tea-growing project was not signed until eight years later, in February 1974, at a time when the technical and economic data collected in the early studies were clearly out of date.

The study for the "mothers and children" unit at the Befelatanana hospital (Madagascar) sanctioned in December 1965 under the head of Project No 212.110.26 did not result in a contract until January 1970, was never finished, and had no outcome owing to the fact that new decisions were taken on hospital projects in the interim period.

The time allowed in the contract for Project No 312.140.02, a study for improvement of sanitation facilities at Paramaribo (Surinam), was 16 months; it was not until after a lapse of 44 months that the report was produced.

The studies of schemes to combat functional illiteracy in Gabon, Senegal and Mauritania (Project Nos 213.108.07, 213.115.23 and 213.112.14) due to be produced by the end of 1970 were only partially complete by the end of June 1971, the remaining parts of the study not being finally produced until August 1973.

The penalty clause, which has generally been included in contracts from 1971 onwards, is sometimes disregarded. This was the case with Project No 3124.573.05.03 on the study for improvement of sanitary facilities in Brazzaville.

For the construction of St. Gabriel's College at Majunga (Madagascar), the subject of an agreement dated July 1966 (Project No 211.010.12) the study contract was not notified until the end of February 1967. Although planned to last only six months the architect's duties in fact took two years, yet despite this substantial delay, for which no penalty was charged incidentally, the results were incomplete and partly erroneous (lack of precision as to gradients, resulting in an underestimate of the amount of earth-moving to be done; incomplete survey of the ground, necessitating alteration of the foundations). These defects in the study and hence in the invitation to tender file allowed the firm responsible for the construction work to submit a file of claims and finally to obtain remission of 60% of the penalties incurred for late performance.

- c) Project No 212.103.13 provided for the study of five trunk roads in the Central African Republic up to the stage of completion of the invitation to tender files, at a total cost of CFAF 75 million.

By a rider signed in July 1967, that is to say one year after the signature of the initial agreement, the study was confined to two roads and the consultants' duties were limited to the preparation of preliminary plans; the cost of the study nevertheless remained fixed at CFAF 75 million.

The study contract was signed in February 1968 but the study was not carried out within the terms of the contract. Significant delays occurred at every stage. The documents called for by the contract were not submitted until April 1973, five years after signature of the contract. Despite this delay the penalty imposed was limited to 6.6% of the contract. To date the study has not led to any road-building.

- d) The study for the modernization of the Tsevié-Atakpame road in Togo was carried out in 1966 by a firm of German consultants under the head of Project No 212.118.05 at a cost of 202 000 u.a. The same firm was asked to supervise the work, at a cost of 208 709 u.a.; the work was divided into two parts (Project Nos 211.018.18 and 3100.441.18.04). Improvement of the first section of the road, the cost of which came to 3 071 500 u.a., was followed, shortly after provisional acceptance, by substantial deterioration of the roadway making it necessary to repair and strengthen the damaged lengths at a cost of 108 000 u.a.

Studies carried out by the Togolese public works authorities found that the damage had arisen because the safety margins had been too narrow, the foundation bed had been replaced with excessively compacted earth and the traffic density had been underestimated in the study. According to the EDF's technical departments the damage could have been caused by poor drainage of the roadway and of the clayey soil. These findings once again illustrate how unwise it is to entrust both the study and the supervision of the work on a project to the same firm.

- e) The main object of the study of the road from Porto Novo to Yoko and from Yoko to Pobé in Benin (Project No 212.107.22) was to prepare for maintenance and repair work on this road section of 80 km. The cost of the study came to 154 000 u.a.

Part of the study carried out on the section from Yoko to Igolo, a length of 12 km, was not needed because the line of a new road, constructed with the help of Nigeria, runs parallel to the existing road. Better co-ordination would have allowed a significant saving to be made on this study.

- f) The object of Project No 212.102.12 was the study by a firm of architects for an extension of the Vegt College at Yaoundé (Cameroon). Originally fixed at 45 760 u.a., the contract price was raised by supplementary agreement to 59 872 u.a.

Delays accumulated continually throughout the study and the plans, which were supposed to be completed by 15 December 1972, were not presented until 23 August 1973, in other words 251 days late. Because of postal strikes the penalties were calculated on lateness of 191 days. Moreover, the value of the study was considered inadequate with regard to the production of written documents for the invitation to tender file. The results of the invitation to tender revealed that the available appropriations would be grossly exceeded and that the study would therefore have to be recast.

- g) Examination of the files always reveals some instances of failure to observe the rule of prior commitment of expenditure.

The study for the bridge over the Ba-Ilé (Chad, Project No 3122.141.17.22) was the subject of a contract signed on 18 July 1974 stipulating that the report and files had to be submitted not later than 15 March 1974.

In the case of Project No 3123.471.17.10 in Chad relating to supervision of the construction of wells, the extension of the study visit by seven months, from January to July 1972, was not authorized by the study committee until 4 May 1972.

Similarly, in the case of Project No 3122.231.17.09 "Cotton plan" in Chad, the two-month extension (from 1 February to 31 March 1971) of a study visit commenced under the second EDF (Project No 212.817.43) was not sanctioned by the study committee until 7 May 1971.

In the case of Project No 215.110.38 relating to studies and research on tea-growing in Madagascar, Study Contract No ET/689 signed on 3 September 1969 had retroactive effect to 1 November 1968.

- h) The charging of travel expenses is sometimes irregular, in that, firstly, the expenses are sometimes charged for travel carried out before the contractual period for performance of the study (1) or, secondly, they are either calculated on a lump-sum basis (2) or are unaccompanied by adequate supporting evidence (3).

118. Emergency aid and exceptional aid

In 1975 a new financing decision, providing for 1470 million u.a. of exceptional aid to Somalia to combat the effects of the drought was taken. 273 000 u.a. of the aid is charged against the second EDF and 1 197 000 u.a. against the third EDF. Commitments in this sector at the end of 1975 amounted to 32.71 million u.a., against which 31.82 million u.a. had been paid out. As stressed in the Audit Board's report for 1974 (point 128), these operations, which are sometimes combined with food aid financed from the Commission's budget, still do not provide all desirable guarantees of sound management and effectiveness.

For emergency aid against cholera in Chad (Project No 3110.091.17.05), approved by the Commission in July 1971, a sum of CFAF 28 million was telexed to a special account of the Chad Treasury and charged against the appropriations

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- (1) Project No 3122.220.07.11 "Expert opinion on plans for the development of tourism in Benin."
(2) Project No 3124.573.05.03 "Study for sanitation improvements in Brazzaville."
(3) Project No 312.140.02 "Study for sanitation improvements in Paramaribo."

of Article 145 of the Commission's operating budget; it was repaid in December 1971 by charging the EDF.

It was intended that at least 60% of these funds should be used for the purchase of medicines, while the purchase of medical equipment and transport was to be limited to a minor proportion. A detailed specification together with documents supporting the expenditure and a report on the utilization of the funds should have been forwarded to the resident supervisor.

Four years after the granting of the aid the file was closed without the EDF having been able to obtain the documents, etc stipulated. It is at least clear that, contrary to instructions, ten Land Rovers were purchased out of this aid at a cost of CFAF 13.43 million (representing 48% of the aid). Despite the urgency of the intervention the EDF departments ought surely to be guided by the normal procedures followed by other countries in similar operations and ought to require the resident supervisor to approve the orders passed by the local authorizing officer.

Within the framework of the food aid granted to the population of Niger, Project No 216.013.21 was intended to cover the expense of transporting 13 311 tonnes of wheat in grain and flour form from the port of Cotonou to the points of distribution of food aid.

This contribution covers only the part of the transport costs not covered by the proceeds of sale of 2000 tonnes of wheat (estimated at CFAF 108 000 000) and is restricted to CFAF 39 000 000.

The supporting documents presented included just one invoice, relating to the transport of 2090.5 tonnes of flour and 2066.4 tonnes of wheat for a total of CFAF 39 000 000, i.e. precisely the maximum intervention amount of the EDF. No information was supplied as to the transportation of the remainder of goods nor as to the final proceeds of sale.

The Audit Board's report for 1972 mentioned (in point 45) serious errors affecting this aid and substantial losses found on arrival of the aid at Niger.

The exceptional aid granted to Senegal under Project Nos 3100.033.15.05 and 3110.091.15.05 provided for the payment of premiums to a total of CFAF 2000 million (7 202 000 u.a.) to farmers affected by the drought at the beginning of 1971.

The amount of premiums paid in July 1971 through the medium of a national agency amounted to CFAF 1 999 968 905. The documents in support of the payments were forwarded to the resident supervisor in May 1972 but it was not until February 1975 that the latter sent the Commission a summary statement of these payments.

In accordance with the clauses in the financing agreement governing this aid, a general report on the various measures taken was drawn up by the Senegalese authorities but although it mentions the payment of premiums, the report does not state what amounts were actually paid. Similarly, no mention is made in the report of measures suggested by the Commission for the reorganization of the groundnut price stabilization fund.

119. General technical co-operation

a) Scholarships and training courses

In 1975 the total expenditure resulting from the granting of scholarships charged against the third EDF amounted to 6 589 031 u.a., but this total reflects only imperfectly the expenditure really borne through the medium of the five bodies responsible for administering these activities. Advances amounting, at 31 December 1975, to 11 688 661 u.a. cover, in part, expenditure for 1975 not submitted to the Commission. Up to September 1972 the advances paid to these bodies were cleared quarterly by the submission of detailed statements of account accompanied by documents supporting the expenditure. Since October 1972 the advances have been cleared only annually. This procedure is the more regrettable because the administering bodies continue to be late in submitting their annual statements, which explains why such a large volume of advances appears in the third EDF's balance sheet. The result is a risk of prolonged immobilization of appropriations.

Analysis by country of the commitments and payments made in respect of scholarships does not take place, at EDF level, until after the closure of each scholarship programme, i.e. after a delay of several years. The unused balances found are not paid, as in the case of the other EDF projects, to reserve accounts of the countries concerned, but are used directly to cover the cost overruns that closure of the programme reveals for certain countries.

This procedure, which is at variance with the Commission's internal rules for the distribution of shares of aid, favours countries whose authorities rapidly come forward with a large number of scholarship-holders to the detriment of the less fortunate countries whose authorities have slower procedures.

The Audit Board carried out a sample verification on the EAC, which administers the scholarships awarded by the Commission in Belgium for nationals of the Associated States.

Of the 233 scholarship-holders under the administrative care of the Association, about 50% were nationals of Zaire, but contrary to the EAC Convention and Article 9 of Regulation 229/72 which lays down detailed rules of implementation of the third EDF, one of the scholarship-holders under the administrative care of the EAC, a student from Burundi, was following a course in Nairobi (Kenya).

The administrative expenses incurred in running the scholarships and training courses are dealt with in a separate accounting system kept by the EAC and payments are made on the basis of the actual substantiated expenditure whereas the four other administering bodies receive lump-sum

payments per student and per month for this purpose. However, it is difficult to compare the two systems because these reimbursements do not include the expenses relating to premises and managerial staff.

Audit of the documents relating to the year 1974/75 revealed various items of expenditure which seemed to have no connexion with the administration of scholarships and training courses or did not appear adequately justified (e.g. entertainment expenses, purchases of flowers and books, subsidy to the "Maison Africaine" in Brussels).

The on-the-spot audit also revealed defects in the management and control of cash. Recording of movements of funds was incomplete and the cash book did not reflect the existence of a balance of 15 400 Bfrs originating from an advance paid for a symposium dating back to November 1974. It is essential that the volume of transactions effected in cash should be reduced as much as possible and that regular control over the cash should be instituted.

Management of training courses by the EAC is separate from the administration of trainees of the AASM engaged directly by the Commission. This duality of systems, which entails a significant difference in the monthly grants, creates unjustifiable discord.

With regard to the organization of scholarships and training courses, the EAC encounters certain difficulties owing to the conditions of admission for students to the various schools and universities in Belgium. Some of these establishments require that applications for admission should be submitted by June at the latest, which excludes almost the majority of the EDF scholarship-holders. Similarly, monitoring of the progress of the scholarship-holders can be effected only by communication to the EAC authorities of documents proving that the students have sat their examinations. But in cases where studies are abandoned or finished, the date when the scholarship payments cease does not always coincide with the termination of studies. One student who gave up her studies in November 1973 continued to receive monthly grants until August 1974. It has not been possible to recover the amount improperly paid.

The Audit Board has several times suggested that the scholarships granted should be matched to the training needs entailed by the investment projects carried out under the aegis of the Funds. It is worth mentioning in this connexion that the Commission is currently evaluating the scholarship programmes completed to date (1969-1975) in order to take account of the results in planning future programmes.

b) Fairs and exhibitions

The Audit Board examined a second category of projects coming under the heading of general technical co-operation, common to all the AASM States, namely aid to marketing and sales promotion.

It examined the supporting documents in two on-the-spot audits designed to assess whether the goods or services said to have been supplied by the contracting firms had in fact been supplied and to test the effectiveness of the internal control procedures.

The expenses incurred by fairs and exhibitions are borne by the EDF in the case of participation by the Associated States and by the Commission's budget (Article 933) in the case of participation by the other developing countries.

This dichotomy in financing gives rise to a divergence between the modes of accounting in u.a. and, more seriously, to differences between the methods of valuing tenders, one group being converted at the official rates and the other group in "Lomé units of account." Thus two separate firms may be selected for the same exhibition, as happened in the case of the Milan Fair in April 1976 and the Commission is in this way prevented from benefiting from the saving that would accrue from a group approach.

The rules for concluding contracts for the construction, fitting out and running of the stands do not seem satisfactory. Until recently there was no genuine invitation to tender and some firms enjoyed a quasi-monopoly in the production of brochures and the preparation of stands.

The agreements were always based on estimates containing numerous round-sum elements; this effectively freed the contracting firms from any obligation to provide evidence in substantiation of the goods or services in question, which in any case were often supplied by sub-contractors. Labour costs were also charged on the basis of flat hourly rates, which appeared rather high. In addition, these rough estimates did not always distinguish, in the case of equipment, between hire and purchase. Where there was outright purchase, the files gave no indication of what was to happen to the items acquired (destruction, re-use or sale) and there was no evidence of any cash received in this connexion.

For the Kinshasa Fair in June-July 1975 the contracting firm invoiced the EDF for the supply of 700 m² of carpeting for 105 000 Bfrs, adding to that 90 000 Bfrs for transport from Brussels and 52 500 Bfrs for import duty. Not a single supporting document was produced in substantiation of any of these amounts and the last item was also in contravention of customs regulations.

The absence of any genuine competition and the highly approximate nature of the estimates produced a price per m² of stand varying between 1200 and 5800 Bfrs.

The frequent occurrence of these exhibitions should make it possible to design a standard type of stand, with specifications for surface areas, materials for fitting out, and for the requisite teams of technical and administrative personnel; this would facilitate the publication of invitations for more informative tenders.

The conditions under which orders are awarded make it essential that there should be very strict control of the goods and services supplied. But in almost every case examined to date the invoices, receipted after certification of the goods or services supplied, merely reproduced the wording of the estimate without any change. However, at the audits in which the Audit Board participated, it was found that many goods or services originally provided for were not in fact supplied and substantial deductions should have been made from the prices invoiced.

These findings emphasize the need for stricter checking of the work actually done (checking which could be effected by the EDF resident supervisors for the fairs held in the countries in which they live). Further, the contracts should require the production of invoices for all goods and services which the firms sub-contract to third parties.

It would also be valuable if, for each exhibition, close contacts could be established with the official services in order to ascertain exactly the distribution of charges between the organizers of the fair, the national administration of the host country and the States participating to avoid any risk of double financing.

Finally, it would be desirable if, after each fair, data on the commercial results achieved could be obtained.

120. General and technical supervision

At the time this report was prepared, closure of the accounts of the European Association for Co-operation (EAC) which should have taken place by the end of March had not yet been effected.

The staff numbers under the administration of the EAC were as follows:

	End of 1974	End of 1975
Headquarters	32	36
Overseas supervision (inc. consultancy)	125	123
Technical assistants	61	70
Locally-recruited staff	314	322
Staff employed under special contracts (inc. staff for fairs and symposia)	39	42
	<hr/>	<hr/>
Total	571	593

The Audit Board has on many occasions criticized the irregularity constituted by the existence of these "special contracts" under which officials have been appointed to carry out, in the majority of cases, the same duties as the officials of DG VIII and hence to supplement the staff of that Directorate-General in contravention of the limits laid down in the list of posts annexed to the Commission's budget.

Since its inception the EAC has engaged 84 persons by this means, of whom 29 have subsequently been integrated into the Commission's departments.

But undertakings, given many times, that these staff would be progressively absorbed have not been honoured; where staff have been absorbed in this way there has always been fresh recruiting subsequently, with the result that the number of officials employed under special contract, far from decreasing, has increased from 33 in 1971 to 42 in 1975.

Examination of the staff expenditure of the EAC has revealed certain situations deserving of criticism:

In March 1974 an official was recruited as assistant to the EDF representative in Upper Volta. At the end of his term of service this official left Upper Volta, on 13 February 1975, and took his contractual holiday until 17 April 1975. As from 18 April 1975 the EAC placed him on temporary assignment in Europe and for this it paid him until the end of October 1975 a monthly salary plus an expatriation allowance (even though he was living in his country of origin) amounting to Dkr 13 321.84 despite the fact that he had not been called upon to do any work whatsoever for the European Communities. In November 1975 the official was re-engaged by the EAC under a special contract and several months later he was integrated into the Commission's departments, at the same grade as before, as a temporary official.

A Commission official of grade B 3, 4th step, obtained leave on personal grounds in order to take up a post as a member of EAC headquarters staff as from 1 April 1976 at grade A 5, 7th step. Apart from the wide disparity of classification which characterizes this appointment, it must be pointed out that the leave on personal grounds did not take effect until 1 May 1976 and that in April this person drew, simultaneously, his annual holiday pay as a Commission official and his salary as an EAC official.

This deferred recruitment of Commission staff is carried on without respect for the provisions of the Staff Regulations either as to the organization of competitions, the duration of posts of temporary officials or the limitation on additional seniority on entry.

Furthermore, the EAC gives these officials gradings which sometimes do not correspond either to their qualifications or to the duties they perform, with the result that their eventual integration into the Community administration can be effected only by down-grading them.

The Audit Board once again expresses the hope that this system of recruiting which is contrary to both the provisions of the Staff Regulations and the budgetary and financial rules will be brought to an end as soon as possible.

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This report, drawn up in the French language, was agreed in Brussels on 13 July 1976 by the Audit Board

Mr G.	Freddi, President
Mr M.	Bernard
Mr R.	Burgert
Mr J.	French
Mr P.	Gaudy
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Mr A.K.	Johansen
Mr Ed.	Molitor
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REPLIES BY THE COMMISSION OF THE EUROPEAN COMMUNITIES
TO THE OBSERVATIONS CONTAINED IN THE REPORT OF
THE AUDIT BOARD
ON THE ACCOUNTS FOR THE FINANCIAL YEAR 1975

VOLUME II

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VOLUME II

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(1) As in the first volume, the references to the numbers of the points and their headings, as well as the page numbering, are those used in the Audit Board's 1975 report. To facilitate the reading of the replies, it has been thought appropriate to introduce titles for certain points and paragraphs which did not have titles in the Audit Board's report.

PART TWO : THE EUROPEAN DEVELOPMENT FUNDS

Before replying to the two sections of this part of the Audit Board's report (General accounts of the four Funds; Comments on various projects), the Commission considers it necessary to make a number of general remarks. It is prompted to do so by the nature and scope of the observations made by the Audit Board in the introduction to its draft report.

I N T R O D U C T I O N

101 and 102. Submission of accounts (p. 2)

It is true that in the draft financial regulation submitted to the Council the Commission proposed 1 June as the date for completion and forwarding of the EDF accounts. This proposal was chiefly influenced by two desires:

- firstly, that there should be conformity with the provisions of the general financial regulation, which adopted 1 June as the date for the forwarding of budget accounts,
- secondly, that regard should be paid to the new burden imposed on the Commission by the proliferation of accounts of paying agents in 46 States; such a proliferation of accounts cannot fail to cause difficulties for the consolidation and processing of the accounting records at the end of the year.

Anxious to heed the requests of the Audit Board, the Commission nevertheless agreed, in the course of discussions on the financial regulation, to withdraw its proposal and to retain 31 March as the date for completion and forwarding of the accounts. It will endeavour, despite the difficulties enumerated above, to adhere to this time schedule.

103 to 105. Performance of inspection visits by the Audit Board (pp. 2 to 4)

As in its previous report, the Audit Board again emphasizes the obstacles it has encountered in obtaining regular communication of certain documents and criticizes the Commission's interpretation of the Audit Board's duties.

The Commission cannot let such phrases as "lack of comprehension" and "stubborn reference" pass without drawing attention to the efforts it has made to satisfy the wishes of the Audit Board.

- a) Since 1974 most of the Audit Board's requests for the regular forwarding of documents have been met. The other requests, which had not been acceded to at the time when the Audit Board was preparing its report, related to the forwarding to the Audit Board of the minutes of EDF Committee meetings, the list of overseas visits by Commission officials and the reports on the outcome of those visits.

During discussions in Council of the draft financial regulation for the fourth EDF the Commission proposed, to facilitate verification by the Audit Board, that there should be regular forwarding to the Audit Board during the year not only of the minutes of EDF Committee meetings but also of decisions on financing, agreements on financing and transfers, and all periodical situation reports relating to the financial implementation of operations in progress. This proposal was accepted by the Member States and was the subject of a declaration in connexion with Article 64 of the financial regulation.

However, communication of the list of overseas visits by officials of the Directorate-General for Development and of the related reports raises rather different problems.

These visits are not, as the Audit Board states, audit visits but are as a general rule visits for purposes of administration and action: their purpose is to examine the conditions under which a project is being executed and to determine, in agreement with the authorities of the beneficiary country if necessary, what modifications or adjustments ought to be made to the project. They thus relate essentially to operations in progress. To accede to the Audit Board's request to take part in these visits would be tantamount to allowing it to participate in the management tasks arising in the course of execution of the projects.

Such a request is contrary to the spirit of the Audit Board's task, which is intended to be the performance of a retrospective audit, and cannot therefore be acceded to by the Commission. In adopting this attitude, the Commission does not exclude the possibility that an official from the Audit Board could take part in a visit of this kind in exceptional cases and provided that the visit had an auditing bias. Such was the case with a visit to Madagascar in April 1976, in which an official from the Audit Board participated.

- b) It seems to the Commission that the Audit Board takes its interpretation of "retrospective auditing" too far. For the Audit Board to be allowed to start auditing as soon as every commitment and payment forming part of a project had become definitive but before the project had been closed would lead to real congestion between Commission and Audit Board on all the operations financed by the EDF.

The Commission acknowledges, however, that to postpone action by the Audit Board until after the closure of each project might in some cases destroy a major part of the usefulness of the audit. For this reason it proposed, in the course of discussions on the financial regulation, that verification by the Audit Board should be able to take place, if the Audit Board so requested, as soon as each contract or estimate forming part of an operation or project has been closed.

This proposal will henceforth be reflected in a declaration in connexion with Article 65 of the financial regulation, from which the reference to closed projects has been deleted. The Commission does not doubt that these statements will convince the Audit Board of its concern to provide the best possible conditions for performance of the external audit.

106. Closure of projects (p. 4)

The Audit Board is correct in pointing out that the files are still late in being closed and that closure is not taking place in some cases until many months after the final payments have been made.

This situation has its origin in the release of appropriations to the credit of the reserve account of the country in question for savings achieved. These release operations, which must be sanctioned by the national authorizing officers, are not effected with the same speed in all countries. The Commission regularly reminds its representatives of the instructions given in this matter, stressing in particular the importance of closing certain projects, because the unused balances released enable new operations to be financed.

In general the Commission does all it can to keep the time required for closing projects to the minimum. In this connexion, the following steps have been taken:

- systematic monitoring of first and second EDF projects which have not yet been closed. With the help of lists which are reviewed periodically, many projects have been closed and the details forwarded to the Audit Board;

- introduction of a new system for classifying the files and monitoring the closure of contracts, in parallel with the computerization of EDF accounting records (in Luxembourg).

In view of the results achieved so far, the Commission expects to be able to remove all the delays in forwarding closed files to the Audit Board by the end of 1976.

107. Decisions on the appointment of authorizing officers and accounting officers (p. 5)

It is true that the most recent decision on the appointment of EDF authorizing and accounting officers, dating from 25 July 1973, has ceased, in part, to correspond to the new organizational structure of the directorate-general which became effective in July 1975.

This problem has not escaped the attention of the Commission's departments, who have prepared a new draft which will be submitted to the Commission for approval as soon as the financial regulation governing the fourth EDF has finally been adopted. This draft reflects firstly the new duties of DG VIII defined by the Commission and, secondly, the entry into force of the fourth EDF.

Pending the entry into force of the financial regulation and in order to avoid holding up the operations of the fourth EDF, the Commission took a decision on 25 May 1976 reiterating the principles of the earlier decision of July 1973.

With regard to the observation about the performance by the same official of the duties of deputy authorizing officer and controller of the authorization of payments, it must be pointed out that this duality of functions is only apparent: in its decision of 13 March 1968 the Commission stipulated that "the Directorate-General for Development Aid shall continue to be responsible for the control of authorizations and, more generally, for the authorizing department, on behalf of the principal authorizing officer".

It was in implementation of this decision that the authorizing department of the EDF was set up; its object was:

- firstly: to administer the appropriations of the EDF on behalf of the principal authorizing officer;
- secondly: to audit, in the main retrospectively, the authorizations and payments effected on the spot by the national authorizing officer which have been approved by the representatives of the Commission and the paying agents of the EDF in conformity with the provisions of Article 15 (2) of the Financial Regulation.

The fact that in certain cases an official may, through the delegation of powers, have carried out the function of controlling the authorization of payments simultaneously with the function of authorizing officer is

perfectly compatible with the above-quoted decision of the Commission since in any case the responsibilities involved form an aggregate of duties which is entirely within the province of the authorizing officer, whether it is a question of the act of authorizing payment or measures to be taken before or after that act. Moreover, these duties are quite separate from those performed by Financial Control.

108. Communication between authorizing departments and accounts departments
(p. 5)

The lack of communication between the departments responsible for authorizing payments and the accounts departments, which is reported by the Audit Board, has indeed been one aspect of the accounting system sometimes meriting criticism and giving rise to delays in the closure of projects.

Since the reorganization of this directorate-general, which became effective on 1 July 1975, this aspect of management has been progressively improved in the context of the introduction of a new accounting system based on the computer in the Computer Centre in Luxembourg and the adoption of new directives on the closure of projects.

The accounting system now in operation, which is based on separate accounting for authorizations of payments and actual payments of expenditure, entails automatic reconciliation of accounts when a transaction is closed, with the object of checking that these accounts agree. This procedure came into force on 1 June 1976 at the same time as the new method of classifying supporting documents, of which it is an extension. The Commission thinks that these measures should remove, or at any rate considerably reduce, the differences discovered by the Audit Board.

It must be pointed out that basically the differences found at the close of a year for a given project were purely mechanical, in that they were the result of time-lags in accounting. In fact, if the overall financial situation of the project is analysed - without regard to the position shown by the accounts at the end of the year - the accounting records will reveal no overspending.

CHAPTER 1 : THE GENERAL ACCOUNTS OF THE FOUR FUNDS

I. The first EDF

109. Closure of the first EDF (p. 6)

During 1975 the Commission has not ceased to make every effort to speed up closure of the operations of the first EDF. However, owing to disputes with the firms involved or postponement of the formalities for closure of operations, fresh delays prevented the projects being closed in accordance with the planned timetable. The country principally involved was Algeria, where six projects were due to be closed shortly.

These delays are quite outside the control of the Commission, which is doing all it can to wind up the operations of the first EDF. Thus eleven more projects were closed during the first four months of 1976 and another two projects are currently in process of closure.

The Commission wishes to draw attention to the fact that the total commitments from the funds allocated to the first EDF amounted to 570.7 million u.a. and not 370.7 million u.a. as stated in the report. Furthermore, the unused balance of 1.74 million u.a. (not 1.76 million u.a. as stated) represents the balance of provisional commitments relating to all the countries concerned and not merely Algeria, Benin and Senegal.

The cost overrun of 109 414 u.a. was adjusted in the accounts for 1976, with the exception of a debt of approximately 53 000 u.a. relating to Algeria which has remained in suspense for many years owing to difficulty in collecting a guarantee which became payable on the bankruptcy of a contractor.

II. The second EDF

110. Operations financed from the second EDF (p. 7)

The appropriations released from production aid projects were allocated to the heading "Investment projects" in error. As soon as the error was discovered an adjusting entry was made.

The same applies to the special loan of 1 271 000 u.a., for which an error in programming on the LOGABAX computer resulted in entry under the heading "All countries". In fact, the whole of the loan should be assigned to Senegal.

111. Setting of ceilings (p. 8)

For some time now the Commission has been contemplating a financial revision of the projects of the second and third EDFs still in progress in order to take account of changes that have occurred due to rapid price movements and developments in the monetary sphere. This operation, which is known as "setting a ceiling" on projects, is intended to result in the fixing of a firm allocation of finance by country for each of the Funds. Unfortunately, owing to the persistent instability of prices, the Commission has had to postpone this work several times.

A new factor now affecting the situation has been the decision to apply the new "basket" unit of account to EDF payments as from 1 July 1975. In general, the result has been an appreciation of the various currencies of the Member States, except for the Italian lira, in relation to the rates of exchange previously used for EDF commitments expressed in national currencies. Consequently, the amounts in units of account made available have been greater than originally planned.

For this reason the Commission decided to carry out the ceiling-setting operation without further delay, with the aim of determining for each associated country the financial limits of the Commission's commitment, which will be expressed in European units of account. This operation is now in progress and is expected to be completed by the end of 1976.

112. AASM building (p. 8)

Before replying to the Audit Board's comments on the registration fees, it will be useful to restate the major outlines of this operation.

On 12 November 1974 the Council took a decision to assent to a request from the Chairman of the Co-ordinating Council of the AASM that part of the miscellaneous revenue and interest of the first and second EDFs should be earmarked for the construction of a building in Brussels to accommodate the administrative and commercial services of the Associated States. To this end the Council granted an appropriation of 2 million

u.a., corresponding to about 100 million Belgian francs. The first transaction effected with the aid of this appropriation was the purchase of a site on which the premises in question were to be built.

However, in order not to delay the setting up of their secretariat, the ACF States were compelled to abandon the original plan to erect a building and to consider purchasing a four-storey building which was already in course of construction, at a cost of approximately Bfrs 205 million. To achieve this they submitted a request for additional financial aid to the Community.

Acceding to this request, the Council agreed on 29 January 1976 to increase the Community's contribution for the acquisition of the building, raising it from 2 million to 3.65 million u.a., or about Bfrs 180 million.

In adopting this decision the Council considered that it was essential not to restrict the use of this appropriation to the needs of the secretariat of the ACP States but to extend it, as the ACP States themselves had suggested, to the needs of the Centre for Industrial Development provided for under Article 36 of the Lomé Convention.

To complete the financing of this operation the ACP States for their part decided, at their conference in Malawi on 11 and 12 December 1975, to make a contribution of Bfrs 25 million.

In the light of this information, it is necessary to set out the conditions for the recovery of the registration fees mentioned by the Audit Board.

When the land was purchased, a sum of Bfrs 2 063 169 was paid in registration fees; this sum was subsequently refunded to the AASM under a remission decision taken by the Belgian tax authorities. The sum refunded was not, however, paid into the AASM buildings account but into an account opened in the name of the Co-ordinating Council of the AASM, and part of it was used in accordance with the provisions governing that account.

The Commission made several approaches in an attempt to secure the transfer of the sum back to the buildings account. At a meeting with the AASM the Commission accepted a number of items of expense directly connected with the acquisition of the building (architects' invoices, payment on account made to the firm of consultants responsible for supervising the building work).

Contrary to what the Audit Board states, however, it refused to accept any operating expenditure of the Co-ordinating Council of the AASM.

A receivable order was therefore issued in April 1976 against the Co-ordinating Council in order to secure the transfer of the difference between the amount of the original refund and the amount of justified expenditure, namely Bfrs 1 485 269, back to the buildings account.

The transfer back did not take place until June 1976, for an amount of Bfrs 451 269, the balance of Bfrs 1 034 000 having been used directly by the AASM to meet (justified) expenditure on the fees of the notary who drew up the deed of purchase and on a further payment on account to the firm of consultants.

The Commission did not fail to draw the attention of the AASM to the fact that netting off of revenue and expenditure in this way is contrary to the provisions governing the use of the appropriations earmarked for the acquisition of the building.

III. The third EDF

113. Administration of the third EDF (p. 10)

a) Firm commitments exceeding provisional commitments; payments exceeding commitments

It is true that the accounting balances showed firm commitments exceeding provisional commitments and payments exceeding commitments. This was due to material accounting errors which have been corrected.

b) Regularization of EDF accounting records

In accordance with the Council decision of December 1975, Italy has paid the Fund the 17 400 million lire which had been charged to it under the head of regularization.

c) Revenue deriving from repayable aid

It is true that the sums received by the EIB in the form of repayments of special loans and income on risk capital between 1 August 1975 and 31 December 1975 were not credited to the Fund's accounts. This situation is the result of the Council decision of 22 July 1975 which provided for the placing to reserve of such sums.

This decision was confirmed by Article 10 of the internal financial agreement relating to the fourth EDF and by Article 68 of the financial regulation of the fourth EDF. The latter article stipulates in particular that these repayments must be consolidated in a special account opened in the books of the Bank. It does not stipulate, as did the corresponding clause (Article 63) of the financial regulation of the third EDF, that the Bank is obliged to repay to the Fund, on mere request from the Commission, the sums thus received.

CHAPTER 2 : COMMENTS ON VARIOUS PROJECTS

I. Investment projects (Point 116, p. 15)

a) Road, port and railway projects (p. 15)

1. Improvement of roads in Lobaye (Central African Republic)
- Project No 211.003.14 (p. 15)

It is true that the lowest tender for the work on this project, which had been accepted as valid by the Commission from both the technical and the economic point of view and which moreover had been accepted provisionally by the scrutinizing committee, was rejected by the authorities of the Central African Republic. Three weeks after the opening of the tenders (23 November 1970) the Commission was informed by its representative that the authorities of the Central African Republic intended to expel the lowest-tendering firm, whose bid had amounted to CFAF 317 million, and to award the work to the company with the second lowest tender which proposed to reduce its price from CFAF 421 million to CFAF 350 million and to subcontract the work to a local firm.

Various arguments were put forward by the Government of the Central African Republic in justification of this decision. In particular, it was said that the head of the lowest-tendering firm was regarded by the Republic's authorities as "persona non grata" in that country.

Anxious that its regulations should be respected, the Commission stood by its decision to accept only the lowest tenderer. This gave rise to a considerable exchange of correspondence between the Commission and the local administration and many representations were made by our delegation at Bangui.

In June 1971 the Ministry of Public Works stated that the Government would not go back on its decision and proposed, as "a way out of the impasse", that there should be a fresh call for tenders, but this time a limited one completely excluding the firm concerned.

Such a solution would not have solved the problem of the lowest-tendering firm. Moreover, the result of such a course would have been the submission of less interesting proposals than those submitted in response to the first invitation, particularly in the matter of prices.

The categorical refusal by the authorities of the Central African Republic, which was confirmed by a delegation from that country that travelled to Brussels in July 1971, prompted the Commission to settle for a less expensive solution and award the contract to the second-lowest tendering firm.

Adoption of this solution enabled savings to be made since the tenderer was still agreeable to reducing his offer to CFAF 350 million, as mentioned above, and accepted that the cost escalation clause should be deleted from the contract. However, he was allowed to revise his prices for the period from the date of the opening of the tenders to the date of signature of the contract.

2. Modernization of the road from Ouagadougou to the Ghana-Upper Volta frontier - Project Nos 211.009.20 and 3100.441.09.04 (p. 16)

Despite the unfavourable opinion expressed by the Upper Volta authorities, the Commission decided to award the contract to the consortium submitting the lowest tender (21 % lower than the next lowest competitor) for the following reasons:

- this consortium was able to provide very solid financial guarantees, being supported by powerful financial groups;
- the companies' representatives, at a meeting in Brussels, confirmed their unit prices and gave assurances that they would execute the contract correctly;
- at that time it was impossible to grant contracts for this type of work to firms other than French firms;
- the consortium's bid was the only one compatible with the budgeted cost of the contract.

At the time the contract was terminated by mutual agreement the indemnification charged to the consortium amounted to CFAF 337.5 million, representing about 20 % of the contract. After the final settlement of accounts the amount that had been repaid by the contractor was CFAF 130 million.

A new contract was concluded privately with the group that had submitted the second lowest tender in response to the initial invitation, for a price of CFAF 1 982 723 210. Completion took place within the stipulated time-limit, with provisional acceptance on 30 June 1972 and final acceptance on 23 June 1973.

It is clear that extension of the contractual time-limits and the fact that the payments were made in Deutschmarks caused a significant cost escalation.

On the latter point, the Commission would point out that payment in Deutschmarks instead of Belgian francs as originally planned was justified for two reasons:

- firstly, the German partner's share in the consortium was substantial,
- secondly, this same partner bore the cost of continuing the work almost on its own.

This change had no effect on the amount committed for the project in units of account.

The explanation for the increase in the cost of supervision of the work is as follows:

- the consultancy firm commenced its duties, in keeping with a decision by the Upper Volta authorities and in accordance with its contract, on the official date for the commencement of construction work (17 April 1968) but before the contractor had been appointed.

It should be noted that the period prior to the appointment of the contractor, which influenced the actual start of the work, was put to good use by the consultants, who used it to study the siting of the road and to assist the Ministry of Public Works in other spheres.

- postponement of the target date for completion of the work had the same effect.

3. Modernization of the Bobo-Dioulasso-Faramana road (Upper Volta)
- Project No 211.009.16 (p. 16)

The Commission cannot agree entirely with the Audit Board's comments here.

It is true that payment of compensation to the firm was held up owing to the difficulty of the questions that had to be resolved. For this reason the Commission's Legal Service had to be consulted before a firm decision could be taken by the Commission.

On the other hand, refusal to bear the cost of repair work (not restoration work) was not caused by exhaustion of the appropriations but by purely objective considerations.

4. Supply of heavy road transport vehicles to the Congo
- Project No 211.005.06 (p. 17)

The shortcomings in this project pointed out by the Audit Board have not escaped the attention of the Commission who, however, despite repeated representations to the responsible authorities, have been unable to remedy the situation. The reasons behind this state of affairs are of two kinds:

- the Congolese administration has persistently repudiated its undertakings as given in the financing agreement; in particular, it made no arrangements for providing logistical support to the technical officer in his duties. Only when the situation had deteriorated beyond the critical stage and in response to the continued representations of the Commission, did the administration begin to comprehend the scope of the problem, but by then it was too late to remedy matters.

- at the time in question the administration was hampered in its action by the political authorities who had demanded mobilization of all Congolese citizens.

5. Nola Fort and Upper Sangha river fleet in the Central African Republic - Project Nos 12.23.311, 211.003.34, 215.003.33/34 and 3100.045.03.03 (p. 17)

The statement that the grouping together of the civil engineering contracts excluded small local firms from competition is incorrect: a number of contracts were in fact awarded to Central African firms under the "Nola Fort" project; a list of these can be sent to the Audit Board if it so wishes.

With regard to the increase in the cost of the work, although underestimation in the preliminary study and the manner of organization of the invitation to tender may have been contributing factors, the main reason was the very steep rise in the cost of raw materials, particularly steel - of which a large quantity was used - and the price of labour which was also subject to considerable rises.

Whilst it is true that the Commission granted financial support on a large scale, it should not be forgotten that the Central African Government also made a financial contribution to the work which was far from negligible in relation to its budgetary resources.

b) Education establishments (p. 18)

1. Practical agricultural school in Cameroon - Project No 11.22.212 (p. 18)

- The period of 24 months allowed in the financing agreement for completion of the project, including architectural studies (for which no consultancy firm had been appointed), was obviously an underestimate;
- negotiation of the contract took nearly a year and the time required for study of the project until issue of the invitation to tender approximately 21 months;
- on the other hand, the construction work was completed within the stipulated time-limit, although the school was not opened until

more than two years after completion of the work, which was regrettable of course but was principally the fault of the Cameroon authorities who were unable to provide the school in time with the teaching staff essential for starting the courses.

With regard to the delay in forwarding files to the Audit Board, the Commission acknowledges that this was the result of faulty organization of this work. Steps have since been taken, notably periodical checking of closed files, which should prevent the recurrence of such faults.

2. National agronomical school in the Ivory Coast - Project No 211.006.10
(p. 18)

Although it is true that there were certain inadequacies in the study, it was possible to remedy these during construction. The Commission would point out that the consultancy firm responsible for the study, which was subsequently wound up, was not awarded any further study contracts by the Commission.

In the matter of penalties, it is true that the contracting firm should have had to pay lateness penalties of approx. CFAF 33 million. However, in view of the fact that this firm was being assisted by the Ivory Coast Government under a scheme to encourage Ivory Coast firms, the application of too severe a penalty would not have been welcomed by the national authorizing officer and the Government. Moreover, it is certain that a penalty of this order would have placed an excessive financial burden on the company, which was carrying out work on this scale for the first time.

In addition, the work still remaining to be performed after the end of the contractual time-limit was considered by the principal as finishing-off work.

All these factors together caused the Commission to agree that the penalties should be calculated for the period from the end of the contractual time-limit (15 January 1972) to the date of the second request for provisional acceptance (11 February 1972), a period of 27 days.

It may be noted that the users had not contemplated opening the school until the beginning of the October term, 1972, and that the contracting firm, despite the shortcomings in its organization, made a real effort in the closing months to make good the delay that had accumulated over the course of the work.

c) Hospital establishments (p. 19)

1. Medical units in the Comoro Islands - Project Nos 11.24.204/205 and 311.31.03 (p. 19)

Work on projects in the Comoro Islands is often a source of difficulty, particularly where work of a minor nature in regions like Foubouni, Mitsamiouli and Mamutzu is concerned.

Small local firms are the only undertakings involved in this work, but they lack adequate technical and financial facilities. On top

of this, procurement of construction materials is often difficult owing to the distance of the islands from sources of supply and difficulty of access to the centres in question.

The construction of the medical unit at Mitsamiouli was awarded to one such firm, which was unable to complete it. Besides the fact that the authorities had to take over completion of the work, it was necessary to carry out additional improvement work to the fresh water distribution network and to erect fencing.

These factors explain why the time required for execution of the work, originally set at 12 months, actually took 25 months.

In the case of the medical units at Foubouni and Mamutzu, completion of the work overran the stipulated time-limit by three months. This lateness was caused by the fact that these schemes, too, had to be completed under management by the authorities.

It is true that commissioning of the medical units at Foubouni and Mamutzu was delayed for two years for lack of appropriations for operating expenditure.

Following intervention by the Commission and its representative the Mitsamiouli medical unit was able to commence operation in August 1969, after the necessary medical personnel had been appointed. The Foubouni medical unit could not be brought into service until 1971.

The provision of sufficient operating appropriations and the performance of additional work financed from existing balances of funds made it possible, moreover, to remove the final obstacles standing in the way of the satisfactory operation of these two medical units.

2. Medical units in the Central African Republic - Project No 11.23.313
(p. 19)

The Commission can only restate what it has already said concerning the causes of the delays occurring in completion of this investment project. While the bankruptcy of the contractor responsible for installing water supplies to the centres was in large part the reason for this state of affairs, there was also the need to carry out additional work to increase the comfort of those using the medical units (drainage, fencing, shelters for families), for which a contract was signed in January 1972, followed by two supplementary agreements signed in November 1972 and October 1973 respectively.

Late closure of this project, in July 1975, arose from differences of opinion between the Commission and the Central African authorities concerning the balance due and postponement of the guarantee period. Nevertheless, it is encouraging to note that the contractual work on the buildings was completed with relatively little delay and that the equipment, ordered in October 1967, was delivered within the stipulated time, in July 1968.

d) Water supply and sanitation improvements (p. 20)

1. Provision of a drinking water supply to eight secondary centres in Senegal - Project No 11.21.116 (p. 20)

It is true that the bringing into service of the boreholes sunk in 1967 was held up for five years by abnormally lengthy administrative procedures.

The reason for this was that right from the stage of examination of the project a fundamental problem arose as to the size of the project and as to its management after completion. Differences arose between the Commission and the administration on the design of the project, which was considered by the former to be too lavish. All the Commission's demands were aimed at matching the installations to the needs of the population and bringing the recurring charges within the financial resources of the consumers and the bodies responsible for management.

It is of course regrettable that the dialogue between the Commission and the Senegalese administration should not have been easier, but the part played by the Commission in the role of adviser in the matter of drinking water supplies at the time the project was being examined can only be approved.

In addition, there were some other factors contributing to increasing the delays, namely:

- difficulties within the Senegalese administration;
- lack of qualified staff, hence the need to resort to technical assistants;
- blockage of files while the technical assistants were on holiday, which was the fault of the Senegalese administration;
- shortcomings of the administration in the matter of preparing and producing files.

Furthermore, adjudication of the second batch of tenders relating to motor-driven pumps raised difficulties because the only bid strictly conforming to the conditions of the invitation to tender, which was technically the best bid, was the most expensive and therefore called for a slight upward adjustment of the appropriation earmarked for the project.

Despite these successive delays, the project was correctly executed and was kept within the financial limits originally laid down, viz. CFAF 115 million (425 000 u.a.) or, after devaluation, CFAF 118 million.

Now that it is known that the Senegalese Government is finding it extremely difficult to set up a body to take charge of management of the drinking water supply because of the massive financial charges arising from the work already completed, it will be better understood why the Commission took a firm stand on this particular project.

2. Soil conservation and anti-erosion campaign in Cameroon -
Project No 12.22.207 (p. 20)

The specific problems attendant on implementation of an experimental measure of this type were correctly assessed by the Commission at the outset and even before application of the finance sanctioned. The difficulties encountered may be considered normal, for the following reasons:

- undulating ground in a region with a fragile ecology;
- land-tenure problems which always arise when communities have to be moved;
- particularly difficult problems connected with establishing an agricultural policy in heterogeneous regions, for physical and human reasons.

Thanks to careful handling of the actual work and close monitoring of the measures implemented, the parts of the project completed did not deviate from their objectives of land improvement and the socio-economic progress of the communities concerned. The measures in question were:

- soil conservation measures and anti-erosion campaign (protective reforestation to prevent erosion by wind and surface water, anti-erosion banks, etc). Because of the recurring charges which such schemes give rise to, the present measures are in the nature of pilot projects;
- insertion of stone blocks into watercourses (to regulate the flow), an operation which has been very successful;
- opening up of tracks;
- provision of physical and managerial infrastructure for agriculture and public health.

Expenditure during the first implementation period, extending from 1962/63 to 1964/65, related to the necessary soil and topographical studies, acquisition of the plant required and execution of work under management by the authorities in the Kapsiki and Matakam regions (anti-erosion and reforestation work, regulation of watercourses).

The second implementation period, in the Doulo Gane district of the same region, between 1968/69 and 1970/71, enabled optimum results to be achieved by organizing the settling of communities, whose migration is inevitably slow and hesitant, and caused rural production to make rapid progress locally. The measures, which were redefined in 1966, had been resumed in 1967 after a supplementary agreement giving this type of operation a more social and more productive character had been concluded.

Recruitment and settling of migrant farmers proceeded as planned, in spite of problems with the allocation of vacant land. Rural production made fairly rapid progress during the period 1968/69 to 1970/71.

The principal delays were caused by the inefficiency of the firm responsible for carrying out construction work, which had to be completed under management by the authorities. The savings made on closure of these contracts and schemes enabled a public health dispensary to be built at Aïssa-Harde in 1974.

3. Construction of 153 wells in the Kanem region of Chad -
Project No 211.017.15 (p. 20)

In this kind of project the fees for studies and supervision of work cannot be the same as the fees normally charged in connexion with civil engineering projects.

These projects call for studies on site, in very varied and little known regions: they require general hydrogeological familiarity with the region, gained in earlier studies or through knowledge of wells already used by the local population and knowledge of the way

life of the local people (nomadic for most of the time and very little known even to the local administrative authorities); conditions of access are very variable (distances, drought, sandstorms); the political context affects the safety of persons and their belongings.

The Kanem lies in one of the most difficult regions of Africa from the point of view of the characteristics enumerated above. The divergent conclusions reached by "experts" who have spent as much as two years in these regions and have investigated this type of problem at close quarters (provision of water to rural communities) confirm the extreme difficulty firstly of understanding and overcoming the physical phenomena to be found here and secondly of assessing the behaviour of the people concerned and forecasting their reaction to projects designed to improve their well-being.

A study for wells thus presupposes many visits to the sites, which will be long and costly, for the purpose of evaluating the physical data (water resources, soil geology), making contact with essentially nomadic peoples, and planning installations which will meet their needs (drinking water, improvement of pasture land) and suit their way of life. If the list of data specially required for this type of study is compared with that obtained in ordinary civil engineering studies, it will be appreciated why the fees are high.

Similarly, the cost of supervision, which is fairly high, appears justified if one considers firstly the technique used, which calls for two officials with different qualifications (hydrogeologist and civil engineer) and secondly the length of time needed for the work - even longer than originally foreseen, in this case, because of very harsh climatic conditions (sandstorms) and the mode of life of the people who leave their camps to take part in the rural activities of their community.

Completion of the work at the sites was fraught with serious difficulties, it is true (there were two fatal accidents), and the method

of work employed had to be reviewed for the wells remaining to be sunk. However, it was lack of funds which forced the authorities to abandon completion of the wells.

As far as hydrogeological exploration is concerned, the results seem satisfactory (152 wells: water discovered in 149); as far as construction is concerned they are less satisfactory (32 wells still to be completed). However, it has been possible to confirm the quality of the work performed after a period of 18 to 24 months of use.

As for maintenance of the wells - after the departure of the construction firm - different arrangements have been made according to whether the wells in question are village wells or wells intended for the use of nomads in transit. In the Kanem, where there is a tradition of well-use and where the herdsmen's movements are principally motivated by the existence of water supplies, maintenance has been left to the care of the people themselves. But the results cannot be known in advance: changing climatic conditions (drought, sandstorms), the movement of nomads, the reaction of the people, their ignorance of techniques needed for concrete wells - these are to date the best-known reasons for failures and are receiving special attention from the administrative authorities and the international financial agencies.

e) Agricultural programmes (p. 20)

1. Cattle ranch in the Central African Republic - Project No 211.003.12
(p. 20)

The high cost of technical assistance was due to the lack of skilled management resources in the Central African Republic; during the stage of creation of the ranch this necessitated the appointment of three executives (director, stock-breeding agent and construction manager) and the taking on of various specialists from the Office for the Development of Stock-Breeding (ODEL).

The volume of this technical assistance was in no way excessive when one considers that the development work on the farm (fencing; scrub clearance; construction of tracks, buildings, sheds and dipping tanks) was performed under administrative control of the authorities. Until the departure of this expatriate staff in 1970 it was possible to execute the programme in accordance with the provisions of the financing agreement.

After the ranch had been taken over by the Central African administration following completion by the EDF it was not possible to bring it into operation for lack of administrative appropriations. This finance was to have been supplied by ODEL, which was responsible for managing the slaughterhouses, directing operations and exercising the marketing monopoly. ODEL was eventually dissolved.

It must be added that this disorganization was not wholly unconnected with the Central African Government's agrarian reforms. For lack of material and animal resources requisitioned by the central authorities, the ranch had to be abandoned for three or four years. Subsequently, the Government decided to entrust management of this operation to a private company.

2. Elimination of the tsetse fly in the Central African Republic
- Project No 211.003.30 (p. 20)

The operation to eliminate the tsetse fly was part of a research

programme which, under the terms of the financing agreement, should have been entrusted to the sole body specializing in this field, the Institute of Stock-Breeding and Veterinary Medicine in Tropical Countries (IEMVT). But the Central African Republic disregarded these conditions and expelled IEMVT without requesting the appointment of other expatriate research workers who could have completed the programme.

Owing to the long periods required for manufacture and delivery, the only money spent on the project was on the irradiation apparatus which, as soon as it was received, was put into storage by the Central African authorities in a place unknown to our delegation.

Eventually, three years later, the investigations instituted by our delegation led to the discovery of the apparatus, which had not been properly protected in its temporary shelter. Exposed to the weather, it had suffered severe deterioration.

Moreover, the apparatus had been damaged on unloading. After difficult negotiations, the supplier agreed to take the apparatus back and he is now trying to restore it to a condition in which it can be resold. The supplier had already agreed to bear the cost of carriage and will now draw up a final account based on the proceeds of resale, if any.

Growing of selected oil palms in village areas - Togo -
Project No 12.22.106 (p. 21)

The Commission confirms that the loss made by the factory was due principally to a drop in production caused by the drought. Another factor also contributed to this state of affairs: the increase in selling prices for the oil caused peasants to sell their own small-scale production at better prices instead of sending the date clusters to the oil mill which could offer only a rather low price (CFAF 3.5 per kg). Subsequently, this price was raised from CFAF 3.5 to CFAF 5 per kg for clusters collected from peasants and from CFAF 5 to CFAF 6 per kg for clusters from selected palm groves.

It is true that the technical annex attached to the file for the submission of the project emphasized the rather adverse ecological conditions of the region; but the Commission was perfectly well aware of the need to observe certain technical exigencies. Although the wild palm can adapt itself to a rainfall of 800 to 900 mm/ha, the selected variety is much more demanding, requiring an optimum of 1800 mm/ha well spread over the year.

With regard to the cost of overhauling the factory, which was double the amount of the estimate, reaching CFAF 46 million as against CFAF 23 million, the Commission would point out that the initial estimate was based on a plan submitted in 1959 and that the size of the underestimate was not appreciated until the studies made in 1965 had been seen. Given the objectives which it was desired to achieve, restoration of the factory was essential. For this

reason, therefore, the Commission, in a first phase, financed the overhaul of the existing equipment in order to keep the machinery operational and, in a second phase, provided for the financing of equipment and construction work to double the mill's processing capacity and to enable it to undertake the trituration of palm nuts from different sources.

4. Production of essential oil of oranges - Mali - Project No 215.011.11
(p. 21)

Two main factors were responsible for the unsatisfactory results obtained from this operation:

- the targets and estimates for annual growth were over-optimistic: multiplying output eight times in three years is a feat rarely achieved in agriculture;

- it would have been necessary to effect a partial change in the outlook and way of life of a predominantly pastoral people living from a subsistence economy in a region lacking any means of communication - the latter being a factor accentuating the population's self-sufficiency - and lying outside the range of any monetary circulation.

To engage in the production of essential oil of oranges these communities had to open their economy to the outside world and to base it on an agricultural activity considered degrading for the Feulhs, who only took it up to the extent that their children were able to do the work.

A long-term programme to train up managerial personnel would have helped to bring about the change in outlook necessary for the attainment of the planned goals. But the local administrative authorities were not disposed to accept long-term technical assistance. For their part the Commission's representatives, preoccupied with more important projects, were unable to remedy the causes for these results which were mediocre in relation to objectives that were, it will be recalled, too ambitious for a short-term project.

The Commission considers, however, that now that Community financing of the project has been completed, the operation is continuing to bear fruit. From 1970 to 1974 annual production increased from 800 to 1700 kg, giving the producers a price varying between FMG 750 to 1000 per kg for machine extraction and FMG 1100 to 1350 per kg for extraction by the spoon method. On an investment of FMG 11 million, the total gross income of the peasants has been about FMG 8 million and that of the State about FMG 26 million. In other words from the economic point of view the project has had some beneficial results.

5. Land improvement schemes at Farako and Dioro III in Mali -
Project No 211.011.29 (p. 21)

Paragraph 5 of the special conditions in financing agreement no 574 stated that the land development at work at Sarantomo-Siné would be carried out only if there were real possibilities of bringing the land into productive use. So, at the time of the planning visit of January 1970, a meeting was held with the responsible officials from the Ministry of Production at which it was decided to send an expert to the site to study all possibilities of completing the improvement of the plain so that a decision could be taken on whether to start the work provided for in the new project or to abandon it. On another matter, the Agricultural Engineering Department, disinclined to undertake the whole of the clearance and ploughing work under its own control (for lack of qualified personnel) suggested that recourse should be had to private firms and contacted several such firms for the purpose of obtaining quantified estimates.

Subsequently, the local representative sent the Commission a note from the Agricultural Engineering Department which dealt with the questions raised at the January meeting and stated:

- firstly, that as a result of the visit to the site by the director of the Agricultural Engineering Department and the technical adviser there was now nothing to be gained from sending an expert to the site, particularly since the FAO rice-growing mission SEGOU had just produced a study of the plain;

- secondly, that the failure of the State-owned company SONEIRA had caused certain works (civil engineering structures and dykes) executed by the Agricultural Engineering Department to be put under the management of the authorities; the cost of this work, estimated at FM 35 million, was to be financed from the MOPTI regional development tax.

Although the Agricultural Engineering Department considered that a sum of FM 35 million would be sufficient to open up the plain to productive use, the Commission, adopting a more cautious attitude, continued to hold the work at Sarantomo-Siné in suspense.

However, the Agricultural Engineering Department was able to complete only part of the work in 1970.

Furthermore, execution of contracts 5 and 6 "SFEDTP" and "SOCOFRAN" and the opening of invitation to tender no 929 demonstrated the inadequacy of the overall budget, thus confirming the fears expressed by the Commission. Consequently, in a letter (7214/CM) of 21 September 1971 the Commission's representative declared that owing to the higher cost of the Farako scheme, the work at Sarantomo-Siné would be abandoned, and the area covered by Dioro III was extended by 800 ha.

The cost of the project (3 888 930 u.a.) reached that level owing to the following factors:

- inadequate study of the plains and, in particular, failure to analyse the results of the FAO rice-growing mission SEGOU, especially with regard to topography and the siting of the canal at Farako;
- devaluation of the Mali franc on 12 August 1969;
- substantial increase, before the contracts were drafted and during execution, in the unit prices of the work;
- recourse to private enterprise rather than the authorities for the clearance and ploughing work.

In connexion with the Farako development, the Audit Board notes that both for the SOCOFRAN contract (earth-moving and masonry work) and for the SATOM contract (clearance and ploughing) the time-limits were not observed and penalties were calculated on the amount of work remaining to be done rather than on the value of the contract and that moreover partial acceptances did not appear to have been made. In this connexion the Commission would point out firstly that a distinction should be drawn between, firstly, the original time-limits and the extended time-limits made necessary by the execution of essential additional work and, secondly, the multiple difficulties encountered in the course of execution. In the case in point, the time overruns related mainly to additional work. In application of Article 16 of the special terms and conditions the rate of penalties provided for in the contract was not altered in view of the low value of the work remaining to be done and the fact that it had no effect on bringing the major part of the plain into cultivation.

With regard to the work on clearance and ploughing, the Commission emphasizes that partial acceptances were made in the normal way. It should be remembered that for this type of work each acceptance of parcels of land that have been **scythed clear or mowed or ploughed** is deemed to be a final acceptance (Art. 15 of the special terms and conditions). For this reason a minute of acceptance for the work executed during the month was attached to each monthly statement of account.

f) On-the-spot audit of investment projects in Madagascar (p. 22)

Compatibility of the investment projects with national budget resources, from the point of view of the financing of recurring charges, and the availability of local or expatriate personnel is a constant and priority concern of the Commission's departments.

However, application of this principle does not exclude the risk of conflict arising from the demands of governments, one of the major concerns of governments being to ensure respect for their sovereignty. It is impossible for the Commission to cast doubt on assurances given by governments in this matter. Too often, in fact, attempts by the Commission to secure moderation in the planning of projects are interpreted as a desire to impose investment projects on governments "on the cheap".

This basic consideration is especially significant in the case of Madagascar, bearing in mind that that country has had a revolution bringing about a profound change in its structure and is at present experiencing a serious economic crisis accompanied by galloping inflation and a massive exodus of foreigners who hitherto had helped to maintain economic activity on the "Grand Ile".

The observations made by the Audit Board with regard to one project or another and the replies these observations presuppose must be viewed in the light of the foregoing.

The present situation in Madagascar gives rise to every kind of problem which will be difficult - even impossible - to overcome in the immediate future. The Commission is pleased that, on the occasion of this on-the-spot audit, the Audit Board has been able to appreciate the extent and the diversity of the problems facing the Commission.

g) Price revision clauses (p. 24)

The Commission regularly adjust the formulas for price revision in order to make them as realistic as possible and suited to each project.

However, since the general terms and conditions define only the principle, the price revision clause is the subject of negotiation for each contract awarded. This does not mean that the government in question accepts the Commission's proposals in every case.

In the case of Project No 211.016.06 relating to the Afgoi-Baidoa road in Somalia, the rather unrealistic price revision clause was imposed by the World Bank which was co-financing the project to the extent of 82 %.

II. Linked technical assistance (Point 117, p. 24)

b) Study on telecommunications development in Somalia - Project No 212.116.14 (p. 24)

The Commission has had occasion to describe to the Audit Board the shortcomings of the consultancy firm which had been commissioned to

undertake this study. In particular, the Commission indicated that erroneous estimates by the consultancy firm had resulted in a 128 % cost overrun on the project at the opening of the tenders.

These grounds for complaint, clearly notified to the firm on the occasion of the opening of tenders for the equipment, which took place on 2 July 1971, led the Somalian authorities to cancel the contract and to demand that the firm should fulfil its duties in the matter of providing architectural documents. Since the services rendered were judged to be inadequate, it was decided to withhold payment of the outstanding balance of 15 000 u.a. The work of preparing specification files relating to civil engineering work essential to continuance of the project and necessary for completing the architectural studies was awarded to another firm at a cost of 119 000 u.a.

Research into tea-growing on the plateaux of Madagascar (p. 25)

It is true that signature of the financing agreement for this tea project did not take place until eight years after the start of studies and research into tea-growing in 1966 (not 1956). The long delay is explained by the fact that nothing of this kind had been attempted in Madagascar before 1966. It was therefore necessary to carry out thorough studies and research into the behaviour of indigenous and imported plants, the selection of which for high productivity is a process stretching over many years.

The timing of the work and research undertaken was in keeping with the classical agronomical and technical approach used when a new theory is being introduced. This research was the indispensable link, the sine qua non, on which the entire development of tea-growing was to be based. The time needed to obtain reliable results might have been greater than it actually was (10 years). At the very best it would have been possible to submit the planting plan to the executive authorities in 1972 (instead of 1973) if the Malagasy administration had not been slow in making known its views on the experts' findings and the revision of the plan, both of which were submitted in April 1972.

c) Studies for roads in the Central African Republic - Project No 212.103.13 (p. 25)

The observations made in connexion with the project relating to the studies for roads in the Central African Republic call for the following comments:

Whereas the financing agreement had provided for localized improvements to roads 1, 2, 3, 6 and 9, the Central African Government considered it preferable to effect a programme of continuous improvement.

This desire was reflected in the conclusion of a supplementary schedule to the financing agreement, without any alteration being made to the overall budget for the project which remained at CFAF 75 million. This modification was justified in view of the more complete nature of the studies to be undertaken and the fact that the average cost per kilometre studied, CFAF 169 000, was in line with the normal cost for this type of service at this time.

The substantial delays occurring at each stage of execution of these studies were the result partly of dilatoriness by the administration and partly of the need to conclude a second supplementary schedule to take account of the increase in the volume of service rendered.

The consultancy firm could not be penalized for defects and events which were not its fault. This was why only the delays connected with presentation of the final study were penalized, by applying a penalty corresponding to 6.6 % of the contract.

Although it is true that this preliminary study has not yet resulted in any road-building projects, it is possible that use may be made of it in connexion with Route Nationale No 2 following the decision by the Economic Commission for Africa to route the trans-Africa highway via Bangassou and Bambari along this line of road.

d) Modernization of the Tsevié-Atakpame road in Togo -
Project Nos 211.018.18 and 3100.441.18.04 (p. 26)

The Audit Board makes two observations about these two road projects in Togo:

- that substantial deterioration of the roadway was discovered shortly after provisional acceptance, making it necessary to repair and strengthen the damaged sections;
- that it was unwise to entrust supervision of the construction work to the firm that had carried out the studies.

With regard to the first observation, it must be pointed out that this road, which was designed and built on the basis of the projected traffic flow and the types of vehicle likely to use it, had to carry, at the height of the rainy season, an unusual and unforeseen flow of overloaded lorries transporting food supplies from the port of Lomé to the drought-stricken countries of the Sahel.

In addition, tests carried out by the National Laboratory of Benin revealed poor compaction of the road bed and inadequate lateral drainage. It was possible later, by making good these defects and at the same time strengthening certain sections, to accommodate the increased traffic flow. It should be noted that the contractor had to bear the cost of the compaction work, whilst the improvement work on drainage necessitated a supplementary commitment of 108 000 u.a. for the project.

As to the Audit Board's second point, the Commission considers that this procedure, which is the one in general use by national and international organizations, has practical and economic advantages. Firstly, supervision of the work is performed by engineers thoroughly familiar with the terrain and with the specifications and techniques of the project and secondly the fact that they are already on site means that savings can be made in the cost of their services.

In the event, this procedure has not given bad results, when one considers the cost of the road (CFAF 10.2 million, or about 37 000 u.a., per km in all) and the time taken for completion.

e) Porto Novo-Yoko-Fobé road in Benin - Project No 212.107.22 (p. 26)

Co-ordination of Community aid and Nigerian aid was not possible in this case owing to the unforeseeable and extremely rapid decision of the Governments of Nigeria and Benin to build a direct link between the two countries.

This line of this road traverses the coastal dunes and lagoons and construction was difficult and very expensive; the main aim was to give Nigeria access to the port of Cotonou.

g) Contracts with retroactive effect (p. 27)

Continued research into tea-growing in Madagascar (agreement no 335) should have been financed by the Malagasy Economic Development Fund from November 1968. As a result of budget restrictions, the authorities announced in February 1969 that they were unable to finance this operation.

This failure by the administration to meet its obligations compelled the Commission to finance, through the second EDF, a contract negotiated with retroactive effect from 1 November 1968 in order to allow the operation to continue.

III. Emergency aid and exceptional aid (Point 118, p. 27)

The Commission does not share the Audit Board's view that "these operations still do not provide all desirable guarantees of sound management and effectiveness".

These operations, which are financed either from the Commission's budget or from EDF appropriations, are surrounded with guarantees sufficient to ensure their sound management. Overall, the operations proceeded normally and the Audit Board acknowledged that "on the whole the production of the supporting documents required for clearance was satisfactory" (see page 108 of Volume I of the 1975 report).

Of course, for certain special cases such as those mentioned below the Audit Board's remarks are valid, but in the Commission's view it is wrong to generalize from these cases. In many countries control of management and utilization has been organized with scrupulous care and implemented very satisfactorily. The substantiating documents are available for examination by the audit bodies, either on the spot or in Brussels.

- Emergency aid against cholera in Chad - Project No 3110.091.17.05
(p. 27)

Article 20 of the association convention stipulates that utilization of exceptional aid must conform to the allocations officially decided upon and must take place under the best economic conditions possible. However, owing to the urgency with which action must be taken by the Commission in operations of this sort, it is not always possible to observe the normal rules governing the financing of projects.

Although the recipient of exceptional aid is the government, it was the Ministry of Public Health which actually received the funds granted and hence should have observed the "joint agreement" entered into between the Commission and the Government. In the present case the Commission had specified the modes of allocation of this aid to combat cholera, but Chad did not respect its obligation to consult the Commission's representative on the subject of the planned use of the CFAF 28 million granted. These funds were transferred to a special Treasury account opened in the name of the Ministry of Public Health and not to the Commission's account with the paying agent - paying office of the Central Fund for Economic Co-operation. If they had been transferred to the latter account, drawings from the appropriation would have automatically required the prior approval of the Commission's representative.

Similarly, and in contravention of the directives issued, which stipulate that approximately 60 % of the funds should be used for the purchase of anti-cholera drugs, nearly 48 % of the finance granted was used for the purchase of Land Rovers for transporting the mobile medical teams.

Despite copious correspondence from the Commission and representations by the Commission's agent, it unfortunately proved impossible to prevail upon the authorities to submit a report on the utilization of the funds granted.

In justification of their failure to fulfil their obligations, the Chad officials responsible invoked political reasons, especially the fact that in the case of international aid organized by other countries, particularly by Arab countries like Libya for example, no obligation was imposed on the Chad Government to supply "documents" showing the results of the struggle against the disaster of cholera.

- Exceptional aid - Niger (p. 28)

With regard to exceptional aid to Niger, the Commission can show the Audit Board the definitive report prepared by the Ministry of Economic, Commercial and Industrial Affairs which was forwarded to it by the Ambassador in March 1974.

This document shows that receipt of cereals at the distribution points took place as follows:

wheat - scheduled quantity: 10 000 tonnes

received at Dosso	900.000 tonnes
" " Niamey	3132.540 tonnes
" " Agades	999.600 tonnes
" " Maradi	1530.666 tonnes
" " Tahova	1756.080 tonnes
" " Zinder	1500.000 tonnes
	<hr/>
total	9818.886 tonnes
	=====

This wheat was distributed free at arrondissement level by voluntary organizations set up by the local préfets. The cost of carriage to Niger and from centres in the département to the arrondissements was covered by the proceeds of sale of the flour.

wheat flour - scheduled quantity: 3311 tonnes

quantity received: 3098.222 tonnes, of which
1764.668 tonnes was weevil-infested or damp.

Because of these losses, the authorities did not distribute the flour free but decided to sell it in order to cover the costs of transport and distribution; the damaged flour was sold, at different prices according to the degree of usability of the product, to Copro-Niger which has a monopoly for the import and wholesale distribution of wheat flour.

The net proceeds of sale of the 1329.554 tonnes of good flour and the 1764.668 tonnes of weevil-infested or damp flour, after deduction of Copro-Niger's margin, was CFAF 102 608 177.

Although the credit of CFAF 39 000 000 granted may have been authorized for payment on presentation of an invoice for 4156.9 tonnes of wheat and flour, the Commission finds nothing reprehensible in this procedure, in view of the fact that what was involved were commodities delivered under the Community's food aid scheme, that is to say as part of a humanitarian operation, and that, moreover, the Community had the assurance of the control exercised by its local representative.

Exceptional aid - Senegal (p. 28)

The documents in support of payments under the head of exceptional aid to Senegal were, it is true, submitted rather late, owing to difficulties with the Senegalese authorities about the preparation of files in support of payments. In this connexion, the Commission wishes to draw attention to the efficiency of the EDF delegation at Dakar which has been very conscientious in clearing this operation. Thanks to their

considerable efforts the project was closed with a saving of CFAF 4 806 568. The Commission is now in possession of these files and summary statements and will forward them to the Audit Board if the latter wishes.

With regard to the reorganization of the groundnut price stabilization fund, the Senegalese authorities have been asked to provide information about these measures. The details will be passed to the Audit Board as soon as they are received.

IV. General technical co-operation (Point 119, p. 29)

a) Scholarships and training courses (p. 29)

The new financial procedure for administering scholarships was instituted a few years ago in order to put an end to the delay which was regularly occurring in clearance of the quarterly accounts.

The present system has made it possible to absorb this delay and to simplify audit of the files, both for the Commission and for the Audit Board. In its last report the Audit Board expressed its satisfaction at the improvements obtained as a result of the introduction of this reform. Of course, administration of the scholarships by the annual system means that clearance of the advances does not take place globally until the end of the academic year, but this is a minor drawback if care is taken to adjust, on the occasion of each quarterly supply of funds, the amount of the advances to the real needs of the administering bodies, i.e. if account is taken of their liquidity balances.

The Commission therefore considers, contrary to the criticisms expressed by the Audit Board on the subject of clearance of the advances, that the system introduced in October 1972 is perfectly valid provided that cash resources are adjusted to needs and that an effort is made to clear the advances granted as rapidly as possible.

With regard to the distribution by country of commitments and payments, it should be pointed out that until October 1972 the scholarship programme was annual and was the subject of a global financing proposal submitted to the EDF Committee. It was only for the purpose of charging the definitive expenditure by country or territory that charging was effected at the end of each academic year. Since the scholarship programme became multi-annual in October 1972 the award of a scholarship by the Commission has entailed commitment of an amount corresponding to the total duration of the studies charged immediately against the quota of the recipient country.

Under this new scheme each country or territory receives an allocation for its training programme which can in no case be exceeded.

The scholarship awarded to a student from Burundi which entailed his following a course in Nairobi (Kenya) is an isolated case of disregard of the provisions of Article 9 of Regulation No 229/72 which was prompted by a request from the Burundi Government. In any case the spirit of Article 9 of Regulation No 229/72 was respected in that the Commission

made sure that the training of this Burundian was given under the most effective and logical conditions. Furthermore, the cost of the scholarship was less than if the scholarship-holder had had to pursue his studies in Europe.

It is true that the administrative expenses incurred in running the scholarships and training courses are dealt with in a separate accounting system in the case of the EAC. The system of reimbursement on the basis of actual expenditure was adopted by the EAC because it was the system best suited to its financial organization.

The Audit Board states that some items of expenditure relating to the year 1974/75 seem to have no connexion with the administration of scholarships and training courses (entertainment expenses, purchase of flowers and books, subsidy to the "Maison Africaine" in Brussels). The Commission points out that these expenses are the result of authorizations granted to the EAC to take account of certain situations, namely:

- marriage between scholarship-holders
- meals offered to scholarship-holders on their arrival

- gift of an educational book on Belgium to every student successfully completing his studies
- financial assistance to the "Maison Africaine" (Bfrs 10 per meal and Bfrs 30 per guest) in parallel to that granted by the Belgian social services and others to cover the services it provides, principally at the time of large-scale arrivals of students and trainees who are given accommodation until they can find lodgings. This procedure means that it is possible to dispense with recourse to hotels for the three days following arrival, which is the normal procedure.

The defects found in the EAC's cash management were the result of cash advances made for the organization of symposia. Thus the absence of the balance of Bfrs 15 400 from the cash book was caused by the granting of an advance by the EAC to the department responsible for education, training and symposia for the organization of a symposium in Strasbourg. Although the documents in support of expenditure were passed to the paying department in good time, the related receivable orders were late in being drawn up owing to difficulties in clearing the documents. Although reimbursement of the balance was indeed late in being recorded, it should be pointed out that the sum mentioned was paid in to the accounts department correctly.

However that may be, periodical cash audits are carried out and at the end of each financial year the cash balance is paid back to the Bank and the cash book is examined by the auditor.

The training courses managed by the EAC are in fact training scholarships awarded for the purpose of giving advanced training or retraining to nationals from Associated States. They are held in educational or training establishments. On the other hand, the training courses organized by the Commission are information courses reserved principally for students at the end of their studies before their entry into working life. These training courses are given within the actual departments of the Commission. For the past year the Commission has no longer been awarding places on training courses to AASM nationals out of its

own budget, considering that it should be the responsibility of the EDF to finance any places that may be awarded on training courses in Commission departments to nationals of ACP States.

With regard to the organization of scholarships and training courses, and in particular registration in various schools and universities in Belgium, the only difficulties encountered by the EAC relate to the ULB, which requires that applications for admission should be submitted by June at the latest. Since this is the time when the baccalauréat examinations are being held in the African States, it is obvious that this requirement cannot be met. The Commission cannot agree with the statement that the majority of EDF scholarship-holders are affected by this, bearing in mind that except in one or two cases the admission applications have always been looked at, even if, as has sometimes happened, the files do not arrive until December.

Since the EAC took over the administration of scholarships, i.e. since 1 February 1974, each file has shown the results of the examinations of the first and second sessions.

Checks are regularly carried out at the educational establishments to ensure that the students have been attending their courses. In the case mentioned by the Audit Board it became apparent from the attendance check that the scholarship-holder in question was no longer pursuing the course for which he had been registered.

The Audit Board's suggestion that the scholarships granted should be matched to the training needs entailed by the investment projects financed by the EDF is wholeheartedly supported by the Commission. Since the multi-annual programme came into operation, efforts have been made with this object in mind to persuade the governments of Associated States to consider the employment needs created by the investment projects completed on their territory.

b) Fairs and exhibitions (p. 30)

1. Rules for concluding contracts with firms commissioned to construct stands

Since the commencement of the Community programme, stand construction firms have been chosen from among those concerns best able to provide the types of work and service required at the right prices.

Since that time, in view of the special characteristics of each exhibition and the rapidity with which the Commission departments responsible for organizing the various trade fairs have to organize and complete the various operations involved, it has been judged more efficient and less expensive to conclude contracts on a private basis with the few specialist firms in the Member States which have already done work for some of the Associated African States.

Despite the rise in the cost of labour (which may be put at around 40 %) and construction materials (about 80 %), the costs for construction of stands have increased by only 27 % over four years.

The invitations to tender issued since the end of 1975 for the purpose of obtaining even more advantageous prices has only confirmed the correctness of the choice of construction firms previously engaged by the Commission.

Of the 20 stand construction companies recommended by the exhibition directorates and consulted again, and of the 30 publishing firms consulted in the Member States for the printed matter, it turned out that the lowest-quoting companies were those that had already provided services - which they had done, incidentally, to the total satisfaction of the recipient States.

Since 1973 the Commission has asked eight companies, from all Member States, to organize an average of sixteen commercial exhibitions, i.e. about two exhibitions per company, the orders being worth about Bfrs 4 000 000 per year; this can hardly be called a monopoly.

2. Agreements based on round-sum estimates, for certain items (p. 31)

As the States receiving Community aid in connexion with fairs and exhibitions do not forward their complete lists of products to be exhibited until a very late stage and in view of the fact that the centres of decision-making are far distant and that administrative delays occur, the Commission's departments have been compelled to use round-sum estimates, calculated on the basis of past experience. These lists are naturally discussed in the light of the list of exhibiting States and of the products and equipment to be exhibited.

3. Kinshasa Fair (p. 31)

With regard to the supply of 700 m² of carpeting for the Kinshasa Fair, the Commission can provide the Audit Board with all the relevant supporting documents if the latter so wishes.

4. Price of a stand (p. 31)

The price of a stand per square metre of ground occupied has no significance since the area covered by stand does not correspond to the area rented: there may be substantial differences between the two. What should be compared are the prices per stand, that is to say per unit of product display.

The table below shows that the real price disparities are far less great.

Exhibition	Total price in 1975 (Bfrs)	Price per stand in 1973 (Bfrs)	Price per stand in 1975 (Bfrs)
International fair, Göteborg	1 379 650	297 823	229 941
ANUGA	2 642 265	245 317	330 283
International fair, Milan	2 193 900	158 307	219 390
International fair, Trieste	1 482 600	192 000	370 650
International fair, Marseilles	1 973 160	245 448	246 660
International fair, Algiers	1 863 660	342 742	186 360
International Salon of Leather	1 148 968	195 806	229 793
International fair, Kinshasa	2 250 000	250 000	203 210
Trade fair, Brussels	2 662 475	187 692	190 176

In fact, the unit prices per stand are substantially the same, if it is borne in mind that the price includes in some cases, apart from the actual construction of the stand, the cost of hiring items such as espresso coffee machines, equipment for wine-tasting, public relations operations, fashion shows, drinks for Associated States' Day, entries in the exhibition catalogue, purchase of exhibitors' cards, parking cards, etc.

5. Design of a standard stand (p. 31)

The idea of designing a standard stand has been studied on several occasions but has not been taken up owing to the unalterable timetable of exhibitions which prevents the re-use of materials except in exceptional cases. In the Community's overall programme:

- eight exhibitions are held in April-May
- eight exhibitions are held in September-October

In addition, since the fairs, and particularly the specialist exhibitions, are very heterogeneous in nature - and this includes the way the products are displayed - the use of standard types of stand would be almost impossible.

6. Findings of the Audit Board at on-the-spot audits (pp. 31-32)

The orders given to the construction firms in connexion with the Milan and Brussels fairs were not complied with as far as the supply of certain materials was concerned, it is true. This exceptional situation arose from the fact that after the issue of invitations to tender and the time allowed by the ACPC for giving an opinion the construction firms selected did not receive firm orders from the Commission's departments until twelve days before the opening of the exhibition, a period which was obviously too short to allow them to supply materials made to order in time.

V. General and technical supervision (Point 120, p. 32)

Accounts of the EAC (p. 32)

It is true that there has been some delay in closing the accounts of the European Association for Co-operation (EAC). This is due to the fact that the December accounts of the imprests kept by the local representatives have not been arriving in Brussels until the end of January or even the end of February.

It is therefore very difficult to finalize closure of the accounts by 28 February so that the EDF accounting staff can in turn integrate them into their records by 31 March, the date by which the EDF balance sheet and revenue and expenditure account must be sent to the Audit Board.

This situation might deteriorate still further with the increase in the number of delegations in the newly-associated English-speaking countries.

For this reason the Commission has been reviewing the problem of the management and clearance of imprests with a view to facilitating presentation of the EAC accounts within the time allowed. A directive has now been prepared, in co-ordination with the Commission's departments and its local representatives. The new instructions will come into force from the beginning of 1977. Meanwhile some measures have been introduced immediately, with the aim of removing the delays. The Audit Board will be informed of these new arrangements.

Observations on the recruitment of staff (pp. 32-33)

1. The Audit Board's comments are correct. However, in order fully to appreciate the situation and what lies behind it, one must bear in mind the particular circumstances attaching to the recruitment of the agent mentioned by the Audit Board.

This agent was recruited on 11 March 1974 as an assistant to the EDF supervisor in Upper Volta and as a liaison officer between the **Permanent Inter-State Committee for Drought Control and the resident supervisors** in the Sahelian region.

Since the person in question desired to become a Community official, it was stated in the special clauses of his contract that Articles 23 to 26 of the general clauses relating to termination of service would not be applied if the agent became an official.

All the circumstances seemed to indicate that recruitment into the Commission's service would be able to take place on 1 March 1975. The person was therefore given permission to leave Upper Volta on 13 February 1975 and to take the leave to which he was entitled until 17 April 1975.

By that date the administrative procedures for his recruitment had still not been completed: his appointment as an official was delayed for medical reasons.

In this situation two solutions were open:

- to terminate his contract as an agent and thus to break all his contractual links with the EAC until he was actually appointed;
- to place him on temporary assignment in Europe.

The first solution would have entailed paying him compensation for termination of contract, because since termination of contract would not have coincided with his appointment as an official the exemption from Articles 23 to 26 of the general clauses mentioned above would not have been operative.

It was for this reason it was judged preferable and more economical to place the agent on temporary assignment during the short period preceding his appointment.

The administrative difficulties connected with the appointment of this agent subsequently proved to be more serious than expected, delaying his appointment still further.

Faced with these unforeseeable and quite exceptional delays, the Commission decided to replace the agent's initial contract with a special - and less costly - contract taking effect from 1 November 1975. Four months later the agent was appointed a temporary official in the service of the Commission.

2. The circumstances in which a Commission official of grade B/3 was appointed to EAC headquarters staff at grade A/5 were as follows:

After sitting a Commission entrance examination for principal administrators, the official in question was informed by the Directorate-General for Personnel and Administration that the selection committee was satisfied with his performance and had recommended him for a post as principal administrator in connexion with legal questions, financial and budgetary problems and general administration. The name of this candidate was therefore listed with a view to his subsequent appointment to a post at the appropriate level.

After a lapse of four months, the candidate was informed that all the vacant posts of grade A 5/4 had since been filled. As a result, he accepted a temporary post in category B in May 1974 on the understanding that this was only a provisional measure entailed by regrettable circumstances.

However, because the appointment of new grade A officials was temporarily suspended in 1975, this official found himself remaining in grade B whilst performing the duties of a grade A official. This happened in spite of repeated efforts by the director-general responsible to obtain a grade A appointment for him.

At the end of 1975 a post of principal administrator (A/4) was offered to this official by the European Vocational Training Centre in Berlin. However, he preferred to accept the post at EAC headquarters which he occupies today.

The explanation for the payment by the EAC for the month preceding his leave on personal grounds (1 April) is as follows:

- a) This official accepted the post with the EAC referred to above on 18 February 1976. In view of the necessity that he should commence his duties as soon as possible, he agreed to start work on 1 April 1976, after being given a verbal assurance by his directorate-general that there was no objection to his doing so.

- b) For administrative reasons the official was unable to obtain his leave on personal grounds until 1 May 1976. As he had accumulated an entitlement to 25 days' leave and the EAC was insisting that he should start work as soon as possible, he used these days of leave to start work with the EAC at the beginning of April 1976.

The EAC is an association governed by Belgian law and for that reason is obliged to apply the Belgian laws on contracts of employment and also the legislation relating to social security. Since it is independent of the Commission, the EAC cannot take into account leave not taken from the Commission.

On the other hand the EAC is obliged to remunerate the agent for all work done. Guided by this principle, moreover, the EAC pays every agent leaving the Association for any holiday entitlement that may remain due to him even if that agent is entering the service of the Commission.