



Director's Report on the Execution of the Budget for the Year 2021

The present annual report of the Director to the Ministerial Council (as required under Art 75 of the Treaty¹) gives an overview of Energy Community spending in 2021.

Movement restrictions due to the ongoing Covid pandemic, limited in-person contacts, need to adopt fully online or hybrid meeting modalities required funds reallocation and investments in IT infrastructure and further technical support. Yet even under those circumstances, the Energy Community achieved its mission and fulfilled the adopted Work Programme supported by the contributions made by the Parties to the Energy Community Treaty, i.e. the European Union (94.78%) and the Contracting Parties (5.22%) as a part of the ordinary budget approved by the Ministerial Council. In addition to the regular activities of its institutions, the Energy Community took the first decisive steps towards the energy and climate transition on the basis of the Decarbonization Roadmap and the Clean Energy Package adopted in November 2021. Intense work both on this file (in particular with regard to the adoption of 2030 energy and climate targets by the Contracting Parties) as well as on the completion of the electricity market integration in the Energy Community continued in 2022. This complements the work for and with Ukraine and Moldova following the Russian attack in February 2022.

The Energy Community Secretariat is thankful to its additional donors – the Republic of Austria, the Republic of Poland, the Visegrad Fund and the European Commission for their extraordinary contribution.

Artur Lorkowski

Director
Energy Community Secretariat

¹ Article 75 of the Treaty establishing the Energy Community ("the Treaty") and Art 38 of the Procedures for the Establishment and Implementation of Budget, Auditing and Inspection ("Budgetary Procedures") stipulate that the Director reports annually on the execution of the budget and activities of the Community to the Ministerial Council.

The presentation follows the applicable Standard 24 of the International Public Sector Accounting Standard (IPSAS) "Presentation of Budget Information in Financial Statements". In accordance with the standard, the comparison of the budget and actual implementation shall be presented, for each heading (budget line) separately, on the basis of both the original and the final budget amounts.

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1. Key achievements in 2021

- The Secretariat reviewed the following number of legal acts in 2021:

Contracting Party	Number of reviews
Albania	15
Bosnia and Herzegovina	10
Georgia	12
Kosovo*	3
Moldova	6
Montenegro	9
North Macedonia	4
Serbia	14
Ukraine	35

Source: IR2021 (status: 31 August 2021)

- The Secretariat assisted in the smooth implementation of several reforms across the Contracting Parties with particular focus on energy transition.
- Besides focusing on setting 2030 targets for energy efficiency, renewable energy sources and greenhouse gas emission reduction and the development of National Energy and Climate Plans, the Energy Community worked to put in place an enabling framework for renewables to play an active role in the transition to a smart and integrated energy system and a decarbonized economy. Activities focused on the introduction of market-based support schemes, citizen's participation in the development of renewable energy projects and implementation of a system for guarantees of origin.
- Most notable was the issuing of its recommendations on the draft NECP of Albania. Albania is the second Contracting Party to finalize and submit its draft National Energy and Climate Plan (NECP) to the Secretariat for review. Based on the Ministerial Council Recommendation 2018/01/MC-EnC, the Secretariat concluded that the draft constitutes a comprehensive overview of current and planned measures.
- Following the publication of a flagship study that recommended for the Contracting Parties to gradually introduce carbon pricing, the Secretariat invited all electricity generators in the Energy Community Contracting Parties to design and implement internal carbon pricing on a

voluntary basis. The electricity producer Elektrani na Severna Makedonija (ESM) of North Macedonia and the power utility Elektroprivreda BiH (EPBIH) of the Federation of Bosnia and Herzegovina have already joined the initiative.

- The Secretariat was deeply engaged in several certification and exemption processes, providing its Opinions on the certification of JSC Georgian State Electrosystem, Vestmoldtransgaz in Moldova and Ukrenergo during the reporting period. Work on certification of the transmission system operators in Georgia and Moldova is ongoing.
- Particularly the certification of Ukrenergo brought the work of several years, which included changes to the Ukrainian electricity legislation, to a successful conclusion. In its final decision, the regulator NEURC took into account the Secretariat's requests and recommendations from its Opinion 4/21. The Secretariat had raised concerns about Ukrenergo's financial viability, and about interventions by state authorities in the corporate bodies of the transmission system operator (TSO). The decision constitutes a milestone for the process of integration with the ENTSO-E network.
- Taking into account the Opinion of the Secretariat, also the Regulatory Commission for Energy of Republika Srpska, an entity of Bosnia and Herzegovina, certified Gaspromet Pale as a gas transmission system operator.
- In the summer 2021, a Memorandum of Understanding to support trans-regional cooperation on the development of an integrated South-Eastern and Eastern European gas (SEEGAS) market was signed by the Energy Community Secretariat, energy exchanges and trading service providers BRM, UEEX, TGE, CEEGEX, ECG, BHG and Henex and transmission system operators Moldovatransgaz, GTSOU, FGSZ, GAZ-SYSTEM, Transgaz and Desfa. The signatories aim to cooperate on the development of cross-border natural gas trading, e.g. on exchange platforms, and introduce transparent and competitive interregional market-based pricing mechanisms and efficient cross-border gas transmission and interoperability. With the support of the Secretariat, the Ukrainian Energy Exchange became the first licensed commodity exchange in Ukraine. Georgia established the Georgian Gas Exchange.
- The Secretariat oversaw the implementation of the *acquis* under the Treaty by Contracting Parties and reported on the progress achieved in the Implementation Report 2021.
- During the reporting period, the Secretariat published a study on addressing energy poverty in the Energy Community Contracting Parties. It estimates the number of energy-poor households, analyses the legal frameworks for the protection of vulnerable and energy-poor consumers and investigates the main drivers and causes of energy poverty in the Contracting Parties. Efforts to address energy poverty are part of the Energy Community Just Transition Initiative to ensure that the move away from fossil fuels in the Contracting Parties is socially just, in the interest of women, workers and entire communities.

- The Secretariat oversaw the implementation of the energy transition in the Western Balkans and reported on the progress achieved in two WB6 Energy Transition Tracker editions (published in February and July 2021).
- The Secretariat designed several policy documents, including:
 - two compliance notes providing its opinion on the compliance of particular provisions of national laws and secondary legal acts with the Energy Community acquis;
 - four discussion papers; to evoke discussion in areas such as guarantees of origin, heating and cooling, tariff setting in district heating;
 - It also released a paper on the energy and buildings aspects of the EU Taxonomy Delegated Acts.
- Energy Community institutions organized more than 200 online meetings in 2020, bringing together thousands of international energy experts from industry, academia and the public sector to discuss energy policy issues of relevance for Contracting Parties (Electricity, Gas, Oil, Sustainability, Competition and Dispute Resolution Fora, Summer School, Regulatory School, Coordination Groups, Task Forces and Working Groups' meetings).
- The Secretariat launched a series of free educational webinars on energy topics. The online lectures offering insights into contemporary energy issues attracted a new audience to the Energy Community and its activities.
- The Secretariat continued to increase the presence of the Energy Community in social media (i.e. Twitter, Facebook, LinkedIn) and served as the focal point for journalists seeking detailed information on the process and energy sector developments in the Parties.
- Recognizing that its supporting role does not come without environmental impact, the Secretariat launched the process of introducing the Eco-Management and Audit Scheme (EMAS). The Secretariat obtained the EMAS certification in August 2021.
- Communications and outreach actions are summarised here:

86.097 Unique website visitors	39.340 Website downloads	362.119 Page views
12 Publications	7 Studies	142 News items
4.998 LinkedIn followers	3.256 Twitter followers	3.287 Facebook followers

Source: IR2021 (status 1. November 2021)

- The Secretariat continued performing three basic activities (A) in line with Art 67 of the Energy Community Treaty:
 - (a) providing administrative support to institutions and bodies
 - (b) reviewing and assisting in the implementation of acquis in the Contracting Parties
 - (c) assisting in the coordination of the donors' activities in the territories of the Contracting Parties.

With all these and other efforts, the Secretariat is committed to ensure that the Energy Community budget achieves the best outcomes for contributing to the attainment of the Energy Community's priorities and activities defined in the work programme. Its continuous efforts ensure the implementation of the budget in accordance with the principle of sound financial management.

Budget implementation in 2021 was smooth, effective, efficient and timely. Due to Covid-19 pandemic, the Energy Community underutilized the budgetary resources in the areas of event management including staff and participant's travels. Some additional investments into the upgrade of the online conference equipment and remote work capacities were made. The level of implementation of the ordinary budget reached 84.19%. The total repayment amount of unused budget appropriation amounts to EUR 771,805.86.

The overall results of the audited year-end accounts resulted in an **unqualified auditors' opinion** provided by PwC in June 2022.

2. 2021 Energy Community ordinary (regular) and extraordinary budgets

2.1. Annual Revenue

In 2021, the Energy Community revenues and other available sources amounted to EUR 5,351,069.50 and were derived from the Parties' contributions EUR 4,812,073 (ordinary budget), extraordinary budget contribution EUR 537,461.54 and other revenue EUR 1,534.96

2.1.1. Parties' contributions

The core financing of the Energy Community comes from the Parties' contributions to be paid annually by March 31, 2021. The contribution and not used budget (with adjustments) is presented in Table 1.

Parties	Contribution in EUR	Contribution in %	Unused Appropriations 2021	Unused Legal Commitments 2020	Total repayment amount
			(1)	(2)	(3) = (1) + (2)
European Union	4.560.883,00	94,78%	721.420,11	10.097,52	731.517,63
Republic of Albania	4.331,00	0,09%	685,06	9,59	694,65
Bosnia and Herzegovina	9.624,00	0,20%	1.522,28	21,31	1.543,59
North Macedonia	4.812,00	0,10%	761,14	10,65	771,79
Moldova	4.812,00	0,10%	761,14	10,65	771,79
Montenegro	2.406,00	0,05%	380,57	5,33	385,90
Republic of Serbia	26.948,00	0,56%	4.262,51	59,66	4.322,17
Ukraine	189.596,00	3,94%	29.989,45	419,75	30.409,20
Kosovo*	3.368,00	0,07%	532,74	7,46	540,20
Georgia	5.293,00	0,11%	837,22	11,72	848,94
TOTAL	4.812.073,00	100,00%	761.152,22	10.653,64	771.805,86

Table 1: Payments of contributions and repayments of unused budget appropriations and other income

2.1.2. Other contributions

Other available sources represent additional funds available to the Energy Community. In 2021, it comprised donations from the Republic of Austria, the Republic of Poland and the Visegrad Fund as well as direct grants received from the European Commission presented in Table 2.

Other sources of revenue	Contribution in EUR
Republic of Austria	170.000,00
Republic of Poland	5.000,00
Vyshegrad Fund	33.710,03
Grant EU4Energy	307.075,71
Grant EU4Climate	21.675,80
Total	537.461,54

Table 2: Contributions made by other donors

2.2 Expenditures

The total level of expenditures reached the amount of EUR 4,589.917.28. The summary of budget expenditures from ordinary and extraordinary budget is presented in Table 3.

(in EUR)	ORDINARY BUDGET			EXTRAORDINARY BUDGET					Total Ordinary and Extraordinary Expenses 2021
	Final Budget 2021	Actual Expenses 2021 incl. Legal Commitments	Budget 2021 Utilization, %	Actual Expenses Donation Austria 2021	Actual Expenses Donation Poland 2021	Actual Expenses Visegrad Fund 2021	Actual Expenses Grant Contract EU4Energy 2021	Actual Expenses Grant Contract EU4Climate CC 2021	
1. HUMAN RESOURCES									
Subtotal Human Resources	2.804.091,00	2.703.416,54	96,41%				249.498,61		2.952.915,15
2. TRAVEL EXPENSES									
Daily Subsistence Allowance (DSA)	112.000,00	27.158,70	24,25%				2.113,80		29.272,50
Travel Expenses (flights and incidentals)	229.534,96	46.541,76	20,28%			13.011,62	2.803,67		62.357,05
Subtotal Travel Expenses	341.534,96	73.700,46	21,58%			13.011,62	4.917,47		91.629,55
3. OFFICE EXPENSES									
Office rent	175.000,00	173.659,91	99,23%	170.000,00			30.992,59		374.652,50
Office equipment	135.000,00	134.771,63	99,83%						134.771,63
Consumables	149.000,00	146.491,81	98,32%			283,90	5.197,38		151.973,09
Other Services	63.205,00	61.739,43	97,68%				5.177,26		66.916,69
Subtotal Office Expenses	522.205,00	516.662,78	98,94%	170.000,00		283,90	41.367,23		728.313,91
4. OTHER COSTS AND SERVICES									
Advertising, communication and representation	51.500,00	25.184,51	48,90%			1.954,14			27.138,65
Studies, research and consulting	316.777,00	248.599,36	78,48%		5.000,00		10.722,70	9.732,80	274.054,86
Costs of outsourced services (IT, payroll, etc.)	200.000,00	190.548,96	95,27%						190.548,96
Costs of Audit, Legal and Financial Advice	102.000,00	101.038,10	99,06%			1.000,00		11.943,00	113.981,10
Financial services	22.500,00	7.796,01	34,65%			69,00			7.865,01
Conference costs	133.200,00	50.806,77	38,14%			17.391,37	569,70		68.767,84
Refunding	209.800,00	33.416,08	15,93%						33.416,08
Training	110.000,00	101.286,17	92,08%						101.286,17
Subtotal Other Costs and Services	1.145.777,00	758.675,96	66,21%		5.000,00	20.414,51	11.292,40	21.675,80	817.058,67
TOTAL	4.813.607,96	4.052.455,74	84,19%	170.000,00	5.000,00	33.710,03	307.075,71	21.675,80	4.589.917,28

Table 3: Summary of budget expenditures from ordinary and extraordinary budget

2.2.1 Human Resources from an ordinary budget

The budget line Human Resources covers expenses for salaries of the Secretariat's staff which represent all-inclusive employee remuneration and expenses for accident insurance for staff.

On 31 December 2021, Energy Community employed 47 staff (includes permanent and temporary staff i.e. internship and secondment).

The level of utilization amounted to EUR 2,703,416.54 or 96.41%.

2.2.2 Travel Expenses from an ordinary budget

This budget line covers travel expenses of the Energy Community staff related to technical assistance to the Contracting Parties and participation at meetings and conferences organized at different locations outside the Secretariat's headquarters related to the implementation of the Treaty and includes direct travel expenses (flights, train and incidentals), as well as daily DSA.

The level of utilization amounted to EUR 73,700.43 or 21.58%. The low utilization level is due to the ongoing pandemic in Europe.

2.2.3. Office expenses from an ordinary budget

This budget line covers expenses for acquisitions of non-current assets, office furniture, computer equipment and software, as well as expenses for telephone, cleaning, maintenance and repair, and rental expenses.

The level of utilization amounted to EUR 516,662.78 or 98.94%.

2.2.4 Other costs and services from an ordinary budget

2.2.4.1 Advertising, communication and representation

Advertising, communication and representation expenses relate to Energy Community publications aimed at distribution to the interested public in order to promote operations and the Institutions of the Energy Community throughout the region of its scope of activities. Similarly, all material related to public relations together with representation is covered by this budget line.

The level of utilization amounted to EUR 25,184.51 or 48.90%.

2.2.4.2 Studies, research and consulting

In general, this budget sub-line allocates funds for activities related to consulting by third parties in the areas of work of the Energy Community. In 2021 the Energy Community initiated several contracts related to studies and research and some will continue in 2022.

The level of utilization amounted to EUR 248,599.36 or 78.48%.

2.2.4.3 Cost of outsourced services (IT, payroll, etc.)

Outsourced services relate to consulting and maintenance work provided by external IT companies (web server, HQ network, end-user equipment and software). Also included in this position are the costs for leased office equipment, as well as fees for web-based travel administration software and a yearly service fee for the accounting software.

The level of utilization amounted to EUR 190,548.96 or 95.27%.

2.2.4.4 Cost of audit, legal and financial advice

Expenses under this budget sub-line relate mainly to the costs of the annual audit as well as financial and legal advice, when required.

The level of utilization amounted to EUR 102,000 or 99.06%.

2.2.4.5 Financial services

This budget forecasts expenditures for bank fees in relation to a bank account held by the Energy Community. In the course of its regular business, the Energy Community reimburses travel costs to participants at conferences and meetings.

The level of utilization amounted to EUR 7,796.01 or 34.65%.

2.2.4.6 Conference costs

Conference costs relate to expenses incurred for conference and meeting facilities, rental and support of required technical equipment and catering. Due to Covid-19 pandemic, most of the conferences could not take place using in-person attendance format moving to cyberspace contributing drastically to this budget sub-line underutilization.

The level of utilization amounted EUR 50,806.77 or 38.14%.

2.2.4.7 Refunding

Refunding represents the reimbursement of travel expenses to the eligible participants at the meetings organized by the Institutions of the Energy Community. The budget of this position was reduced within the financial year from the original level of EUR 372,800 to EUR 209,800. Due to Covid-19 pandemic, most of the conferences could not take place using the in-person attendance format moving to cyberspace contributing drastically to this budget sub-line underutilization.

The level of utilization amounted EUR 33,416.08 or 15.93%.

2.2.4.8 Training

In general, this budget sub-line allocates different pieces of training for employees of the Energy Community. In 2021 some of those training was not completed, but funds are obligated as they continue in 2022.

The level of utilization amounted EUR 101,286.17 or 92.08%.

3. Budget management

Since 2007, the EU and the Contracting Parties to the Treaty establishing the Energy Community have committed to biannual budgets that provide a solid basis for the implementation of the objectives of the Treaty and the functioning of the institutions.

The Director of the Secretariat is entrusted with the implementation of the budget in accordance with the principles of Energy Community financial regulation, primarily Procedures for the Establishment and Implementation of Budget, Auditing and Inspection and Budget Committee Internal Rules of Procedure ("Budgetary Procedures").

The budget for 2021 is part of the biennium 2020-2021 approved by the Ministerial Council in 2019.

The biannual financial framework lays down the maximum amounts (ceilings) that the Energy Community may spend in 4 (four) different categories of expenditure (budget lines) each year.

The structure of the budget is defined in Title V of the *Budgetary Procedures*.

The funds are allocated between four major categories of expenditures of the Energy Community, “*budget lines*”, composed of “*budget positions*”. The headings (budget lines) correspond, therefore, to different types of expenditures, which are:

1. *Human resources* include the resources for the employment of the Energy Community personnel (temporary and permanent) at the seat of its Secretariat in Vienna;
2. The *travel* budget line defines resources required for the travel activities of its personnel;
3. *Office expenditures* include any resources that are necessary for the functioning of the Secretariat as a seat of the Energy Community;
4. *Other costs and services* include resources required for the continuous functioning of the Secretariat (i.e. outsourced services for IT and accounting) and for technical assistance provided to the Contracting Parties as well as management and refunding of events.

The operational expenditures necessary for the functioning of its institutions are laid down in different parts of the budget. For the year 2021, the biannual ordinary budget sets a maximum of EUR 4,812,073 for commitment appropriations.

3.1 Budget implementation

During the year, the budget of the Energy Community may be modified as is often required by the changing conditions during the year of implementation. This is usually done either through transfers or sometimes through amending the budget.

The final budget for a given year is considered as a final one once the financial year has ended and all changes have been approved, either by the Director or by the Budget Committee in line with their respective competencies (Art 18 of the Budgetary Procedures).

The following flexibility instruments may result in changes in the annual budget of the financial year:

3.1.1. Carryover of unused legal commitments

Unused commitments are budget contributions that have not been used (paid or invoiced) at the balance sheet date but for which commitments (e.g. by the commissioning of studies) have been entered into in the current year or in prior years. The carryover of legal commitments is presented in Table 4.

Title	2021 in EUR
Studies, research and consulting	201.380,00
Advertising, communication and representation	-

Training	42.234,78
Total ORDINARY BUDGET	243.614,78
Total EXTRAORDINARY BUDGET	-
Total ORDINARY & EXTRAORDINARY BUDGET	243.614,78

Table 4. Legal Commitments carried forward from 2021 to 2022.

3.1.2 Transfers of budget appropriations

Transfers between budget lines are by definition neutral in their effect on the overall budget. They are decided upon either by the Director, who has to inform the Chair of the Budget Committee or in agreement with the Budget Committee. In 2021, EUR 108,000 were transferred from the budget line “Other costs and services” to the budget line “Office expenses” 2,24%, see details in Table 5.

(in EUR)	Original Budget 2021	Changes due to other Sources of Revenue	Budget Transfers 2021	Final Budget 2021
ORDINARY BUDGET				
1. HUMAN RESOURCES				
Subtotal Human Resources	2.804.091,00	0,00	0,00	2.804.091,00
2. TRAVEL EXPENSES				
Daily Subsistence Allowance (DSA)	112.000,00	0,00	0,00	112.000,00
Travel Expenses (flights and incidentals)	228.000,00	1.534,96	0,00	229.534,96
Subtotal Travel Expenses	340.000,00	1.534,96	0,00	341.534,96
3. OFFICE EXPENSES				
Office rent	170.000,00	0,00	5.000,00	175.000,00
Office equipment	50.000,00	0,00	85.000,00	135.000,00
Consumables	131.000,00	0,00	18.000,00	149.000,00
Other Services	63.205,00	0,00	0,00	63.205,00
Subtotal Office Expenses	414.205,00	0,00	108.000,00	522.205,00
4. OTHER COSTS AND SERVICES				
Advertising, communication and representation	51.500,00	0,00	0,00	51.500,00
Studies, research and consulting	332.777,00	0,00	-16.000,00	316.777,00
Costs of outsourced services (IT, payroll, etc.)	145.000,00	0,00	55.000,00	200.000,00
Costs of Audit, Legal and Financial Advice	86.000,00	0,00	16.000,00	102.000,00
Financial services	22.500,00	0,00	0,00	22.500,00
Conference costs	133.200,00	0,00	0,00	133.200,00
Refunding	372.800,00	0,00	-163.000,00	209.800,00
Training	110.000,00	0,00	0,00	110.000,00
Subtotal Other Costs and Services	1.253.777,00	0,00	-108.000,00	1.145.777,00
TOTAL EXPENSES - ORDINARY BUDGET	4.812.073,00	1.534,96	0,00	4.813.607,96

Table 5. Comparison of original budget with budget transfers and other revenues

3.1.3 Amendments to the budget

There were no amendments in 2021.

3.2 Accounting framework

The Energy Community accounts are prepared in accordance with the International Public Sector Accounting Standards (IPSAS), ensuring that the accounts provide relevant, reliable, comparable and understandable financial information to its stakeholders.

3.3 Annual accounts

The accounts provide information on the financial position (statement of financial position) and financial performance (statement of financial performance) with detailed explanations of the respective positions presented (notes to the financial statements). Further, a detailed report on the execution of the Energy Community budget, as required under IPSAS 24, is part of the annual accounts.

Annual accounts comprise two main elements:

- 1) Financial statements that show the Energy Community's assets and liabilities and the revenues and expenditure for that period;
- 2) The budget implementation report shows the ordinary budget, derived from the contributions of the Parties, and the extraordinary budget, established through other sources of revenues received (direct grants, donations, other).

3.4 The budgetary discharge

Every year, the Ministerial Council, after taking account of the potential observations of the Budget Committee, examines the certified accounts and financial statements of the Energy Community and the report of the external auditors, with the view of granting the discharge of the Director from his/her management and administrative responsibility with respect to the budget for the year in question.

The integrated financial package being a basis for the discharge decision comprises the following documents:

- 1) The Director's Report on the budget utilization as required under Article 75 of the Treaty (the present Report);
- 2) Annual accounts produced in accordance with IPSAS;
- 3) Potential observations of the Budget Committee in relation to the audit as per Article 82 of the Budgetary Procedures.

3.5 Control of the Energy Community budget

The annual accounts are audited by the assigned external audit company, which gives its opinion in a public report (published on the website of the Energy Community) and directly to the Budget Committee of the Energy Community comprising representatives of the Parties to the Treaty.

In June 2022, the designated external audit company PwC finalized the audit of the financial statements of the Energy Community for the year ending 31 December 2021. The audit's scope included the review of the annual accounts of the Energy Community as well as of the internal control systems relevant for the implementation of the budget.

The key statement of the auditors for the relevant period ending 31 December 2021 is the following:

" In our opinion, the accompanying financial statements comply with legal requirements and give a true and fair view of the financial position of the Organization as at 31 December 2021, of the financial performance and of its cash flow for the financial year then ended in accordance with International Public Sector Accounting Standards (IPSAS). The Statement of Comparison of Budget and Actual Amounts for the Year 2021 is prepared, in all material respects, also in accordance with IPSAS.."²

As a final outcome, a statement of assurance has been issued by the audit company, which is the sound basis for the proposal for the decision on the discharge of the Directors from their management and administrative responsibilities for the financial year 2021.

² See Audit Report on the Financial Statements as at 31 December 2021.