

**REPORT
OF THE DIRECTOR OF THE ENERGY COMMUNITY SECRETARIAT
TO THE MINISTERIAL COUNCIL OF THE ENERGY COMMUNITY
ON THE EXECUTION OF THE BUDGET 2016
PURSUANT TO
ARTICLE 75 OF THE TREATY
ESTABLISHING THE ENERGY COMMUNITY**

LIST OF CONTENTS

1. INTRODUCTION.....	3
2. ESTABLISHING THE INITIAL BUDGET 2016 AND BUDGETARY PROCEDURE	6
3. BUDGET TRANSFERS 2016	8
4. BUDGET APPROPRIATIONS 2016 - ' <i>PRO MEMORIA</i> ' ADJUSTMENTS	10
5. BUDGET 2016 - IMPLEMENTATION OVERVIEW	11
6. CARRY OVER FROM 2016 INTO 2017 (LEGAL COMMITMENTS).....	14
7. REVENUE 2016.....	15
8. RECOVERY PROCEDURE OF NON-USED BUDGET APPROPRIATIONS 2016	15
9. INSTITUTIONAL BUDGET 2016: YEAR-END UTILIZATION.....	16
10. AUDIT 2016	18
11. CONCLUSION AND OUTLOOK.....	19
ATTACHMENTS.....	20
Attachment 1: List of Rules and Procedures of Relevance for the implementation of the Energy Community Budget, status as of June 2016	20
Attachment 2: Budget Repayments 2007-2016 in comparison.....	21

1. Introduction

In the year 2016 the Secretariat of the Energy Community continued its vigorous efforts towards implementation of the budget in accordance with the principle of the sound financial management.

The budget's main contribution came from the European Union, represented by the Commission, and amounted to EUR 4.343.030 (94,94 % of the overall budget). This budget was sufficient to perform the activities specified in the Energy Community ("EnC"; "the Community") Work Program.

The main areas of activities of the Secretariat in the process of budget implementation are to:

- secure the resources for Energy Community policies, on the basis of an effective financial planning;
- manage the budgetary framework;
- implement the budget in compliance with the applicable regulatory framework;
- draw up the annual accounts of the Energy Community;
- report on the budget implementation on monthly and quarterly basis towards the Budget Committee and annually to the Ministerial Council;
- progress towards the granting of a Discharge Decision by the Ministerial Council and coordinate the discharge procedure;

In the context of its/these activities, the Secretariat's main achievements in the area of budget implementation in 2016 were as follows:

- The Secretariat continued the effective management of the available financial resources for the implementation of the activities under the Energy Community Treaty and the established Work Program 2016;
- It reported on regular basis on the budget execution of the ongoing year; the produced reports were issued on monthly, quarterly and annual basis;
- It managed VAT refunds and other (minor) recovery amounts;
- It organized the Budget Committee meetings and contributed to its preparation on substance (two meetings in 2016);
- At the beginning of 2017, the annual accounts of the Energy Community ('financial statements') for 2016 were drawn up, audited and reported to the Budget Committee; the overall results of the audited year-end accounts resulted in an *unqualified auditors opinion*;
- It carried out inventory of Energy Community assets within the applicable rules and framework;
- In the context of the financial management of funds, the Secretariat managed several procurement procedures in line with the applicable Procurement Law, both in the area of energy policy and general administration of services;
- It contributed to the establishment of improved legal framework through which certain rules were amended by the Ministerial Council in 2016;
- It managed other sources of revenue which were received through signed grant contracts with the Commission in the course of 2016.

Legal basis

Article 75 of the Treaty establishing the Energy Community ("the Treaty") stipulates that the Director of the Secretariat shall report annually to the Ministerial Council on the execution of the budget.

Article 38 of the *Procedures for the Establishment and Implementation of Budget, Auditing and Inspection* ("*Budgetary Procedures*") stipulates further the annual activity report of the Director.

The purpose of this report is to present a synthesis of the budgetary and financial management, as required by the above mentioned legal framework, of appropriations for the period ending 31 December 2016.

The analysis follows the International Public Sector Accounting Standard (IPSAS) 24 "*Presentation of Budget information in Financial Statements*" issued by the International Public Sector Accounting Standards Board (IPSASB) in December 2006. In accordance with the rule, 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. Changes approved by the Director and/or Budget Committee to revise the original budget and the actual implemented amounts shall be also explained.

Content of the 2016 report

The report presents, as in the past, in details the expenditure and revenue side of the budget of the Energy Community. It also provides *information on (...) received donations and their usage*¹, as expressed in Article 15 of the *Procedures for the Establishment and Implementation of Budget, Auditing and Inspection*.

The report analyses the year at budgetary level including:

- A summary of the budgetary procedure 2016, explaining how the appropriations for 2016 arrived;
- A description of the main adjustments to this budget during the financial year and reasons for these adjustments, leading to final appropriations of the year;
- An overview of the implementation of expenditure in 2016;
- An assessment of the evolutions of the outstanding commitments at the end of the financial year and
- A summary of information on the revenue of 2016.

The implementation data is based on the final and audited actual results for the financial year 2016².

Amounts are presented in *EURO*, after rounding.

¹ 15(2) of the amended *Procedures for the Establishment and Implementation of Budget, Auditing and Inspection* (Ref.:2014/01/MC-EnC) of 23 September 2014

² See *Auditor's Report on the Financial Statements as of 31 December 2016* dated 14 April 2016

The term “final budget” in this report refers to the initial (original) budget adjusted with the changes due to other sources of revenue and after the budget transfers.

2. Establishing the initial budget 2016 and budgetary procedure

Budget 2016 of the Energy Community is part of the biennium budget for 2016-2017 approved by the Ministerial Council on the proposal of the European Commission³ at its meeting on 16 October 2015 decided by signed Procedural Act PA/2015/01/MC-EnC.

The budget of the year was established in correspondence with the strategic planning of activities within the overall objectives of the Treaty establishing the Energy Community ("EnC") for the same period. Those activities are laid down in the corresponding EnC Work Program that was part of the budget proposal as required under Article 25 of the *Budgetary Procedures*.

As far as the structure of the budget is concerned, Title V of the *Budgetary Procedures* defines the principle relevant for it. Following the initially established structure, the distribution of the budget funds is allocated to four major categories of expenditures of the Energy Community, the so called "*budget lines*", subdivided into the subordinated lines, called "*budget positions*". Operational expenditures necessary for the functioning of its institutions are laid down in different parts of the budget.

The initial budget for 2016 set at EUR 4.574.500 has been adjusted '*pro memoria*' through other sources of revenue (see also item 4 of this report) in the course of the finalization of the accounts for 2016 and arrived at a level of EUR 6.372.353.

The revenue of the year 2016 came mainly from the Parties' contributions in accordance with the table of contribution (Annex IV of the Treaty). Further sources of revenue are referred at a later stage of this report. Overview of the approved budgets 2016-2017 with an indication of the percentage of subtotals in the overall budget is presented below:

³ Article 88 of the Treaty establishing the Energy Community [see: http://www.energy-community.org/portal/page/portal/ENC_HOME/ENERGY_COMMUNITY/Legal/About_the_Treaty].

(in EUR)

REVENUE

1. Contributions from Parties
2. Finance Revenue
3. Other Revenue
4. Donations from Republic of Austria (rent)

Budget 2016	Budget 2017
4,574,500	4,586,931
<i>p.m.</i>	<i>p.m.</i>
<i>p.m.</i>	<i>p.m.</i>
<i>p.m.</i>	<i>p.m.</i>

EXPENDITURE

1. HUMAN RESOURCES

Subtotal Human Resources

2,408,900	2,457,079
------------------	------------------

2. TRAVEL EXPENSES

- Daily Subsistence Allowance (DSA)
Travel Expenses (flights and incidentals)

Subtotal Travel Expenses

120,000	122,400
240,600	245,412
360,600	367,812

3. OFFICE EXPENSES

- Office rent
Office equipment
Consumables
Other Services

Subtotal Office Expenses

25,000	24,600
122,000	49,800
144,200	147,084
47,000	53,000
338,200	274,484

4. OTHER COSTS AND SERVICES

- Advertising, communication and representation
Studies, research and consulting
Costs of outsourced services (IT, payroll, etc.)
Costs of Audit, Legal and Financial Advice
Financial services
Conference costs
Refunding
Training

Subtotal Other Costs and Services

55,200	56,304
459,000	459,000
130,000	133,200
104,000	106,080
15,000	15,300
210,000	214,200
324,000	330,480
169,600	172,992
1,466,800	1,487,556

TOTAL EXPENDITURES

4,574,500	4,586,931
------------------	------------------

Table 1: Energy Community Budget 2016-2017: Overview [source: ECS intern]

3. Budget Transfers 2016

In 2016, several transfers were approved by the Authorizing Officer (Director) on the basis of Article 18(1) of the *Energy Community Procedures for the Establishment and Implementation of the Budget, Auditing and Inspection*⁴.

The Budget Committee supported the Director on transfers of budget appropriations in the overall amount of EUR 737.550 within and between the budget lines of the overall budget appropriations of EUR 4.574.500. This support related to the transfers within 10% of the total budget amount (Director's competence for transfers) and the amounts of transfers exceeding 10% of total budget (the Budget Committee preliminary agreement requested)⁵. The overall impact of the approved transfers on the initial budget was nil.

Transfers affect the total appropriations by increasing them with amounts released from the other budget lines/positions. Transfers between the budget lines modify the total appropriations of those lines.

The impact of all transfers is summarized in a table format (*Table 2*) and details further on in (*Table 3*) below:

⁴ See *Procedures for the Establishment and Implementation of Budget, Auditing and Inspection* ([https://www.energy-community.org/portal/page/portal/ENC_HOME/DOCS/3570154/EnC_Budgetary_Procedures_update_2014_final_22-05-2014_\(new_template\).pdf](https://www.energy-community.org/portal/page/portal/ENC_HOME/DOCS/3570154/EnC_Budgetary_Procedures_update_2014_final_22-05-2014_(new_template).pdf)).

⁵ See Articles 18(1) and 18(2) of the *Procedures for the Establishment and Implementation of Budget, Auditing and Inspection* (MC/PA/2014/01).

<i>(in EUR)</i>	Original Budget 2016	Budget Transfers	Final Budget 2016
1. HUMAN RESOURCES			
Subtotal Human Resources	2,408,900	-240,000	2,168,900
2. TRAVEL EXPENSES			
Daily Subsistence Allowance (DSA)	120,000	-27,560	92,440
Travel Expenses (flights and incidentals)	240,600	-63,710	176,890
Subtotal Travel Expenses	360,600	-91,270	269,330
3. OFFICE EXPENSES			
Office rent	25,000	-3,280	21,720
Office equipment	122,000	257,390	379,390
Consumables	144,200	-56,000	88,200
Other Services	47,000	-4,610	42,390
Subtotal Office Expenses	338,200	193,500	531,700
4. OTHER COSTS AND SERVICES			
Advertising, communication and representation	55,200	-20,380	34,820
Studies, research and consulting	459,000	-152,900	306,100
Costs of outsourced services (IT, payroll, etc.)	130,000	202,470	332,470
Costs of Audit, Legal and Financial Advice	104,000	277,690	381,690
Financial services	15,000	-1,450	13,550
Conference costs	210,000	-73,780	136,220
Refunding	324,000	-73,780	250,220
Training	169,600	-20,100	149,500
Subtotal Other Costs and Services	1,466,800	137,770	1,604,570
TOTAL EXPENSES	4,574,500	0	4,574,500

Table 2: Energy Community Budget 2016 – Overview Transfers of Budget Appropriations 2016

4. Budget Appropriations 2016 - ‘pro memoria’ adjustments

Following the decision of the Ministerial Council of 6 October 2011⁶ based on Commission decision (C(2011)6207 final) of 5 September 2011, initial budget appropriations of 2016 (EUR 4.574.500) were adjusted ‘pro memoria’ with other sources of revenue. The adjustments concerning the increase of expenditure for consumables were decided upon by the Director in the course of closing the accounts for 2016.

According to the principle of equilibrium of the Energy Community budget, the amounts of budget revenue and expenditures must be in balance.

The revenue and expenditure estimates in the initial budget are subject to modifications during the budgetary year.

For the year 2016, two budget modifications were adopted (‘pro memoria’). Their impact on the revenue side of the 2016 budget is indicated in the table below:

Main subject	Total revenue 2016
Incorporation into budget position PI 310 Office Rent, in accordance with the rental agreement between the Energy Community and property owner regarding donations to the total rent expenditure	171.952,92
Incorporation into budget position PI 330 Consumables relating to the other sources of revenue	1.679,09
TOTAL	173.632,01

⁶ MC-2011/PA/2011/01 Procedural Act of the Ministerial Council of the Energy Community on the adoption of the Energy Community budget for the years 2012 – 2013 and on the contributions by the Parties to this budget.

5. Budget 2016 - Implementation Overview

This section gives an overview in % of the implementation to the budget during the financial year 2016 and provides brief comments on the utilization of 2016 budget appropriations in comparison to the actual amounts.

As required by IPSAS 24⁷, the execution of 2016 budget is presented as comparison of the budget and actual implementation, for each heading (budget line) separately, on the basis of both the original and the final budget (budget after 'pro memoria' adjustments) amounts.

This presentation is made both at the level of the budget line as well as of each budget positions within budget lines.

⁷Glossary of used terms: Appropriation(s) mean(s) budget funding; Comparable basis means the actual amounts presented on the same accounting basis, same classification basis, for the same entities and for the same period as the approved budget; Commitment appropriations are the total costs of the legal commitments entered into during the current financial year; Unused appropriations are budget contributions from any sources of revenue (parties' contributions, finance income, other income) which have not been used in the current year and which have to be paid back to the parties in the following year; unused appropriations are calculated as a difference between total revenue (incl. interest and other income) and incurred actual expenditures (incl. unused commitments); Donation means direct financial contribution; Final budget is the original budget adjusted for all reserves, carry over amounts, transfers, allocations, supplemental appropriations, and other authorized legislative, or similar authority, changes applicable to the budget period; Original budget is the initial approved budget for the budget period.

For the entire Glossary of Terms Defined under IPSAS see <https://www.ifac.org/system/files/publications/files/glossary-of-defined-terms-2.pdf>;

(in EUR)	Original Budget 2016	Changes due to other Sources of Revenue	Budget Transfers 2016	Final Budget 2016	Actual amounts 2016 on a comparable basis	Legal Commitments 2016	Actual amounts 2016 on a comparable basis incl. Legal Commitments	Actual amounts on a comparable basis incl. Legal Commitments [in %]	Unused Donations	Unused Appropriations
ORDINARY BUDGET										
1. HUMAN RESOURCES										
Subtotal Human Resources	2,408,900.00		-240,000.00	2,168,900.00	2,142,272.20		2,142,272.20	98.77%		26,627.80
2. TRAVEL EXPENSES										
Daily Subsistence Allowance (DSA)	120,000.00		-27,560.00	92,440.00	92,438.64		92,438.64	100.00%		1.36
Travel Expenses (flights and incidentals)	240,600.00		-63,710.00	176,890.00	176,881.01		176,881.01	99.99%		8.99
Subtotal Travel Expenses	360,600.00		-91,270.00	269,330.00	269,319.65		269,319.65	100.00%		10.35
3. OFFICE EXPENSES										
Office rent	25,000.00		-3,280.00	21,720.00	21,717.36		21,717.36	99.99%		2.64
Office equipment	122,000.00		257,390.00	379,390.00	99,745.84	279,640.00	379,385.84	100.00%		4.16
Consumables	144,200.00	1,679.09	-56,000.00	89,879.09	88,153.90		88,153.90	98.08%		1,725.19
Other Services	47,000.00		-4,610.00	42,390.00	42,383.64		42,383.64	99.98%		6.36
Subtotal Office Expenses	338,200.00	1,679.09	193,500.00	533,379.09	252,000.74	279,640.00	531,640.74	99.67%		1,738.35
4. OTHER COSTS AND SERVICES										
Advertising, communication and representation	55,200.00		-20,380.00	34,820.00	34,724.33		34,724.33	99.73%		95.67
Studies, research and consulting	459,000.00		-152,900.00	306,100.00	3,540.00	302,560.00	306,090.00	100.00%		10.00
Costs of outsourced services (IT, payroll, etc.)	130,000.00		202,470.00	332,470.00	159,975.62	172,493.00	332,468.62	100.00%		1.38
Costs of Audit, Legal and Financial Advice	104,000.00		277,690.00	381,690.00	368,787.10	12,900.00	381,687.10	100.00%		2.90
Financial services	15,000.00		-1,450.00	13,550.00	13,547.80		13,547.80	99.98%		2.20
Conference costs	210,000.00		-73,780.00	136,220.00	126,217.68		126,217.68	92.66%		10,002.32
Refunding	324,000.00		-73,780.00	250,220.00	250,216.78		250,216.78	100.00%		3.22
Training	169,600.00		-20,100.00	149,500.00	116,927.00	32,560.00	149,487.00	99.99%		13.00
Subtotal Other Costs and Services	1,466,800.00		137,770.00	1,604,570.00	1,073,936.31	520,503.00	1,594,439.31	99.37%		10,130.69
Subtotal Operating Expenses	2,165,600.00	1,679.09	240,000.00	2,407,279.09	1,595,256.70	800,143.00	2,395,399.70	99.51%		11,879.39
TOTAL EXPENSES - ORDINARY BUDGET	4,574,500.00	1,679.09	0.00	4,576,179.09	3,737,528.90	800,143.00	4,537,671.90	99.16%		38,507.19
EXTRAORDINARY BUDGET										
Donation Austria		171,952.92		171,952.92	171,952.92		171,952.92	100.00%	0.00	
Sponsor's Donation		10,000.00		10,000.00	10,000.00		10,000.00	100.00%	0.00	
Donation Poland		30,000.00		30,000.00	84.11		84.11	0.28%	29,915.89	
Donation UK					16,936.18		16,936.18			-16,936.18
IVF Vyshegrad Fund		14,641.62		14,641.62	14,641.62		14,641.62	100.00%	0.00	
Grant Contract CONNECTA		516,650.00		516,650.00	19,134.92		19,134.92	3.70%	497,515.08	
Grant Contract EU4Energy		1,052,929.00		1,052,929.00	132,887.92		132,887.92	12.62%	920,041.08	
TOTAL EXPENSES - EXTRAORDINARY BUDGET		1,796,173.54		1,796,173.54	365,637.67		365,637.67	20.36%	1,447,472.05	-16,936.18
ORDINARY & EXTRAORDINARY BUDGET	4,574,500.00	1,797,852.63	0.00	6,372,352.63	4,103,166.57	800,143.00	4,903,309.57	76.95%	1,447,472.05	21,571.01

Table 3: Comparison of Budget and Actual amounts for the year 2016 (see also Report on the Audit of the Financial Statements for the year ended 31 December 2016; "Audit Report", Annex I/3)

Utilization of budget appropriations in 2016 is presented in comparison with the previous periods of budget implementation (see *chart* below).

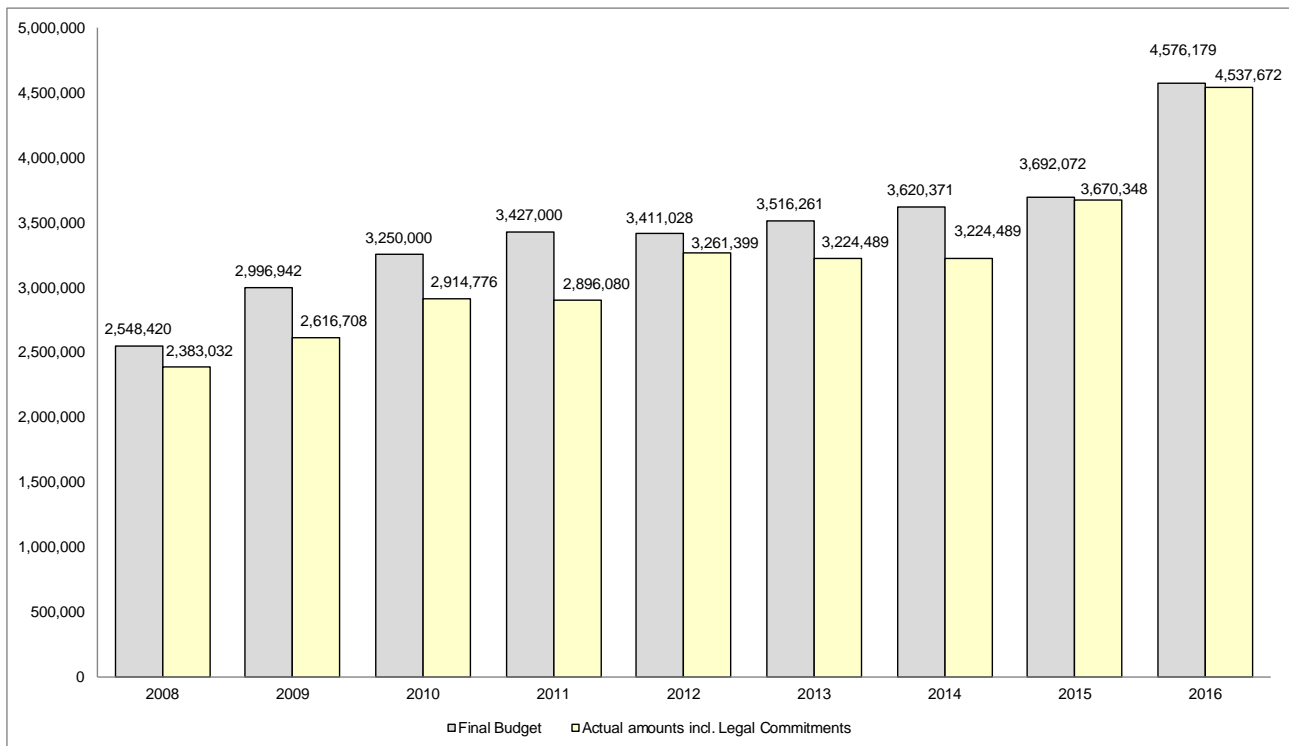


Chart: Energy Community Budget: Comparison of Budget⁸ and Actual amounts⁹ 2008-2016 [source: ECS intern]

Narration note on the expenses 2016

The implementation of the budget line *1 Human Resources* amounted to EUR 2.142.272, i.e. to 98,77% of the budget appropriations.

The budget for *Travel Expenses* amounted to EUR 269.320 and was utilized in 100,00%. Included therein actual expenditure for position *Daily Subsistence Allowance* amounted to EUR 92.439 and EUR 176.881 for *Travel Expenses* (tickets, accommodation and others). These expenditures are related to the authorized travels on behalf of the Energy Community by its staff (visits to the Contracting Parties, implementation missions, technical assistance, participation at various conferences etc).

The budget for *Office* expenditures of EUR 533.379 was utilized in 99,67%, in the amount of EUR 531.641. Within this budget line the expenditure for *Office Rent* (Energy Community share) amounted to EUR 21.717¹⁰, for the *Office, Equipment and communications* (IT) amounted to EUR 64.301, for the budget position *Consumables* amounted to EUR 88.154 and for the budget position *Other Services* (telephone, fax, communications) to EUR 42.384.

⁸ Final budget.

⁹ Actual amounts on comparable basis.

¹⁰ These actual expenses are composed of expenses covered by the Republic of Austria (on monthly basis) and of portion of rent related expenses, paid directly by the Energy Community. In total an amount of EUR 171.952,92 was covered by Austria in 2016 (see also Audit Report 2016, Statement of Financial Position for the period ending 31 December 2016).

The implementation of *Other Costs, Services* (budget line 4) amounted to EUR 1.594.439 resulting in 99,37% usage of the budget appropriations. Expenditure for the respective budget positions included in budget line 4 was utilized at the levels as presented in table 3 above.

All in all, budget of the year 2016 was spent at high level of 99,16%, where the difference of EUR 38.507 remained unspent (for details see item 8).

6. Carry over from 2016 into 2017 (legal commitments)

In 2016, budget appropriations for legal commitments concluded by 31 December 2016 were carried into 2017 amounting to total amount of EUR 800.143. Details of implementation of those are presented in a summary table below:

Budget Line	Budget Line Description	Appropriations 2016 carried over to 2017	Payments till 31.05.2017	Open for payments in 2017
		1	2	3=1-2
PI 111	Human Ressources	-	-	-
PI 210, PI 220	Travel Expenses	-	-	-
	Office	293,240	171,471	121,769
PI 310	Rent	-	-	-
PI 320	Office equipment	293,240	171,471	121,769
PI 330	Consumables	-	-	-
PI 340	Other Services	-	-	-
	Other Costs, Services	506,903	299,310	207,593
PI 410	Advertising & Communication	-	-	-
PI 420	Studies, Research, Consulting	302,550	191,210	111,340
PI 430	Costs of Outsourced Services	158,893	75,540	83,353
PI 440	Costs of Audit, Financial Advice	12,900	-	12,900
PI 450	Financial Services	-	-	-
PI 460	Conference Costs	-	-	-
PI 470	Refunding	-	-	-
PI480	Training and seminar costs	32,560	32,560	-
PI490	Secondment and Traineeship	-	-	-
	TOTAL	800,143	470,781	329,362

Table 4: Budget appropriations 2016 carried over into 2017: Overview [source: ECS intern]

7. Revenue 2016

This section of the report refers to the requirement of Article 15(2) of the *Budgetary Procedures* and provides information on the revenue as presented also in the *Statement of Financial Performance for the period 1 January – 31 December 2016* (see in the *Report on the Audit of the Financial Statements for the year ended 31 December 2016*).

In 2016, the Energy Community received its funds from the following sources:

- Parties Contributions	EUR 4.574.500
- Other Sources of Revenue	EUR 1.796.174
- Finance revenue	EUR 1.679

Budget Appropriations 2016 in the amount of EUR 4.574.500 result from the financial responsibility of the Parties to the Treaty under Article 2 of the *Budgetary Procedures*.

Other Sources of Revenue represent additional revenue received by the Energy Community in 2016. It comprises contributions from the Republic of Austria, Republic of Poland, Great Britain and received through grant contracts concluded.

The Republic of Austria contributed to the office rent expenses in the amount of EUR 171.953¹¹ based on political commitment of it as host country of the Energy Community Secretariat.

Further donation in the amount of EUR 30.000 was received from Poland to activities of drafting the laws in the Contracting Parties, different sponsors contributed in the amount of EUR 10.000 to the organisation of the Vienna Forum on European Energy Law; contract with Vyshegrad Fund of EUR 14.641,62 contributed to the organisation of the Energy Community Summer School; two grant contracts concluded mid 2016 served the purpose for the defined project of regional relevance in the region of activities of the Energy Community (and beyond)¹² (see Table 3).

Finally, in 2016, the funds paid to the Energy Community earned an interest of EUR 1.679 (finance revenue). The finance revenue is a subject to repayment together with not used budget appropriations (see chapter below).

8. Recovery procedure of non-used budget appropriations 2016

In 2016 almost entire (final) budget 2016 was spent. For comparison reasons, non-spending (=repayments) in the previous years is presented in the *attachment 2*.

¹¹ See also EnC Auditors' Report 2016 and Statement of Financial Performance for the period 1 Jan – 31 Dec 2016.

¹² 'CONNECTA' project with the duration of 2 years, starting June 2016 for Mio 1 EUR and 'EU4Energy' project with the duration of 4 years, starting June 2016, for Mio 6,5 EUR.

Repayments amounts calculated for 2016 (on the basis of the original budget) are as follows:

Parties	Contribution in EUR	Contribution in %	Unused Appropriations 2016	Corrections 2016	Total repayment amount
			(1)	(2)	(3) = (1) + (2)
European Union	4,343,030.00	94.94%	36,558.72	- 15,121.42	21,437.30
Republic of Albania	4,117.00	0.09%	34.66	- 14.33	20.33
Bosnia and Herzegovina	9,149.00	0.20%	77.01	- 31.85	45.16
former Yugoslav Republic of Macedonia	4,575.00	0.10%	38.51	- 15.93	22.58
Moldova	4,575.00	0.10%	38.51	- 15.93	22.58
Montenegro	1,830.00	0.04%	15.40	- 6.37	9.03
Republic of Serbia	24,702.00	0.54%	207.94	- 86.01	121.93
Ukraine	179,320.00	3.92%	1,509.48	- 624.35	885.13
Kosovo*	3,202.00	0.07%	26.96	- 11.15	15.81
TOTAL	4,574,500.00	100.00%	38,507.19	- 15,927.34	22,579.85

Table 5: Not Used Budget Appropriations 2016 – table of repayments (see Report on the Audit of the Financial Statements for the year ended 31 December 2016)

Total repayment amount for not used budget appropriations 2016 and other sources of revenue 2016¹³, amounts to EUR 22,579.85. This amount includes not entirely used legal commitments of 2015 as well exchange rate losses out of contact concluded in foreign currency in 2015 and finalized in 2016.

9. Institutional budget 2016: year-end utilization

In this section of the Report, the utilization of the established budget of the institutions is reported¹⁴. The structure of this report follows the established structure of the approved budget.

The initial budget 2016 established for the functioning of its institutions at the level of EUR 534.000 has been sufficient and even amended to the level of EUR 386.440. Details of the utilization through comparison of the final budget with actual results, are presented in details, in the table below.

¹³ Other sources of revenue relate to total interest earned in 2016.

¹⁴ As required by the Article 74 of the Treaty establishing the Energy Community.

(in EUR)	Final Budget 2016	Actual 2016	Utilisation Act - Final Budget in %
Ministerial Council (incl. Budget Committee, Env TF, Energy Efficiency CG, SoS)	69,800	68,525	98.17
Permanent High Level Group	30,000	15,324	51.08
Energy Community Regulatory Board	80,000	61,118	76.40
Secretariat	145,640	162,348	111.47
Electricity Forum	20,000	23,055	115.28
Gas Forum	26,000	29,303	112.70
Oil Forum	15,000	16,762	111.75
TOTAL	386,440	376,434	97.41

Table 6: Institutional Budget Utilization Report for 2016

10. Audit 2016

In March 2017 the designated external audit company¹⁵ finalized the audit of the financial statements of the Energy Community for the year ended 31 December 2016. The audit 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 2016 is the following:

*"In our opinion, the financial statements present fairly, in all material respects, the financial position of the Organization as of 31 December 2016, and its financial performance for the year then ended in accordance with International Public Sector Accounting Standards (IPSAS)."*¹⁶

As a final result, statement of assurance has been issued by the audit company, which is the sound basis for the proposal of the decision on the discharge of the Director from his management and administrative responsibility for the financial year 2016.

¹⁵ In accordance with Article 80 of the *Budgetary Procedures*.

¹⁶ See Auditors' Report 2016.

11. Conclusion and outlook

In 2016, the operations followed the successful establishment of the Energy Community as an international organization. Financial resources provided by the Parties to the Treaty allowed successful implementation of the Work Program of the Energy Community within this period.

While the internal control structures created within the previous periods have been successfully implemented, in terms of organization of compliance more needs to be done to ensure controls are working effectively in practice. In particular, further efforts are needed to ensure that all staff members are aware of their responsibilities as regards internal control.

The internal control system will continue to be monitored and strengthened where necessary as to keep the effectiveness of utilization of the Energy Community budget and thus to create financial conditions for achieving the Energy Community objectives.

Thus, on the ground of the rule of law and concrete planning, it is expected that the implementation of the Energy Community budget shall be efficient tool to achieve the Energy Community objectives.

ATTACHMENTS

Attachment 1: List of Rules and Procedures of Relevance for the implementation of the Energy Community Budget, status as of June 2016

1. Procedural Act No.2006/03 of 17 November 2006 on Adoption of Energy Community Procedures for Establishment and Implementation of Budget, Auditing and Inspection;
2. Staff Regulations of the Energy Community; MC Decision of amendment of the Staff Regulations of 18 December 2009;
3. Procedural Act 2008/01/ECS of 16 January 2008 on the Adoption of the Accounting Rules and Methods of the Energy Community;
4. Procedural Act 2008/02/ECS of 21 July 2008 on the appointment of a Steering Committee of the Energy Community Secretariat for ECRB related studies, research and consultancy services financed from the Energy Community Budget;
5. Procedural Act 2008/06/ECS of 10 September 2008 on Transfer of Appropriations within the Budget of the Energy Community;
6. Procedural Act 2011/01/ECS of 15 February 2011 on the Appointment of a Steering Committee for ECRB;
7. Procedural Act 2011/05/ECS of 21 December 2011 on the implementation of the Ministerial Council decision of 6 October 2011 on the amendment of 2011 budget;
8. Commission decision (C(2011)6207 final) of 5 September 2011
9. Procedural Act 2012/03/ECS-EnC of 28 September 2012 on the Energy Community Accounting Policy;
10. Procedural Act 2014/01/ECS of 23 January 2014 on Energy Community Property Inventories;
11. Procedural Act 2014/02/ECS-EnC of 23 January 2014 on the adoption of Internal Management Rules of the Energy Community Secretariat on Personnel Administration;
12. Procedural Act 2014/03/ECS of 28 February 2014 on the Rules for Secondees, Interns and Locally Recruited Persons;
13. Procedural Act 2014/05/ECS On the adoption of the Financial Management Rules
14. Procedural Act 2015/05/ECS On the adoption of the Reimbursement Rules of the Energy Community
15. Procedural Act 2015/01/MC-EnC On the Adoption of the Energy Community Budget 2016-2017 and on the contributions by the Parties to this budget
16. Procedural Act 2016/02/ECS-EnC On adopting Procedural Rules for appointment of the temporary staff replacing Secretariat's Staff of the Energy Community in certain cases

Attachment 2: Budget Repayments 2007-2016 in comparison

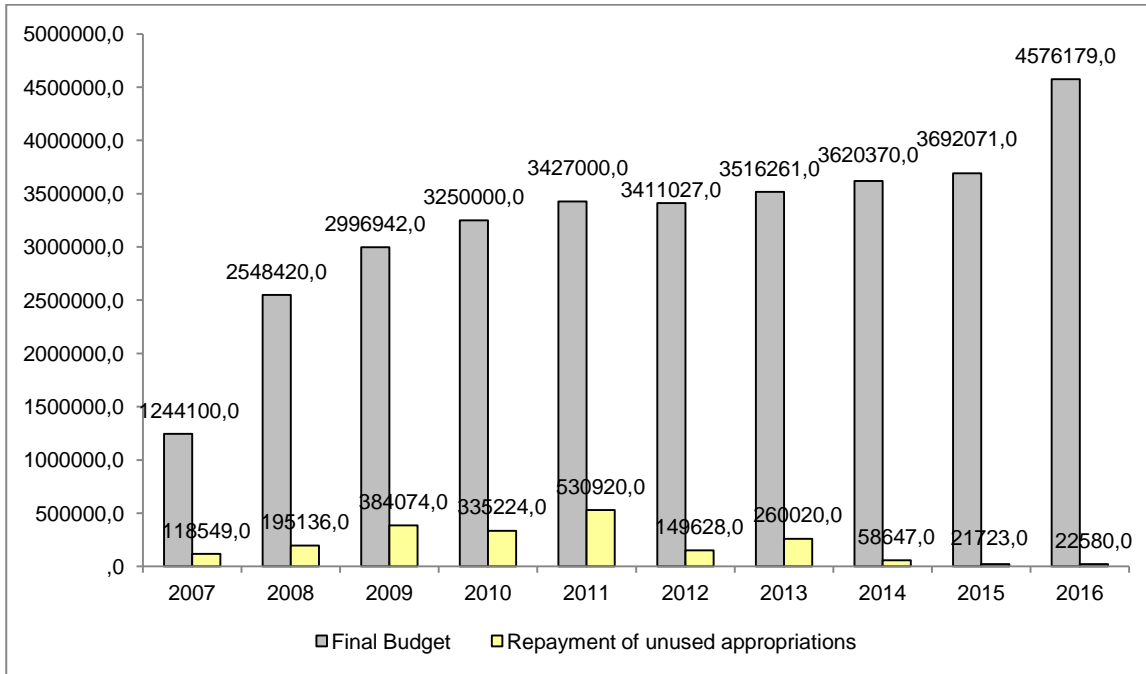


Chart: Energy Community Budget 2016 in comparison to unused budget appropriations [source: ECS intern]