

REPORT OF THE BUDGET COMMITTEE TO THE MINISTERIAL COUNCIL ON THE ENERGY COMMUNITY AUDIT 2014

I. BACKGROUND

This report represents a reporting obligation of the Budget Committee, setup under Article 22(1) of the Energy Community *Procedures for the Establishment and Implementation of Budget, Auditing and Inspection*¹ (hereinafter: "*Budgetary Procedures*"), defined in Article 81(5) of the *Budgetary Procedures* in its amended version of 23 September 2014.

The Energy Community's annual accounts 2014 were audited by an external audit company. This is the second term of "KPMG" (hereinafter "Auditor") who is to carry out the annual audit of the Energy Community accounts for the years 2013-2014.

The audit was conducted in the first quarter of 2015 in accordance with the terms of reference approved by the Budget Committee. During the audit process, accounting records and procedures were inspected for the purposes of verifying the accuracy and completeness of the records as required under the relevant Articles of the Budgetary Procedures (in particular Article 81(3) thereof).

The outcome of the 2014 Audit and the conclusions of the auditors are indicated in their Audit Report. The minor management recommendations of the Auditors were addressed to the Director in this year of audit².

II. SCOPE OF THE AUDIT

The scope of work of auditors included the following:

- the verification of the compliance of transactions carried out by the Energy Community Secretariat with regard to Austrian law and with the Budgetary Procedures of the Energy Community,
- verification of bank accounts and cash reconciliations,
- overall validity of the financial statements,
- assets management and inventory procedures.

¹ As established by the Ministerial Council of the Energy Community with Procedural Act 2006/03 of 17 November 2006 and amended on 23 September 2014 with Procedural Act 2014/01

² KPMG Austria, Management Letter based on audit procedures for the year ending 31 December 2014 (ref.1189/698/7040, 03.03.2015)

Reconciliations of revenues, reconciliations of unused budget appropriations and a revision of internal management rules of the Energy Community and its operational implementation constituted some other integral parts of the scope of 2014 audit. In addition to auditing of the accounts, the auditors have evaluated the efficiency of the financial procedures, the accounting system (records and procedures for the purpose of verifying the completeness and accuracy of the records), the internal financial controls and, in general, the financial consequences of administrative practices.

III. KEY FINDINGS OF THE AUDITOR

The key findings of the Auditor can be summarized as follows:

- The Audit for the financial year ending 31 December 2014 “*did not give rise to any objections*”³;
- The Auditor confirmed “the compliance with International Public Sector Accounting Standards applicable by the Energy Community and “generally accepted accounting principles”.
- “In our opinion, which is based on the results of our audit, the financial statement comply with legal requirements and give a true and fair view of the financial position of the Organization as of 31 December 2014 and of its financial performance and its cash flows for the year from 1 January 2014 to 31 December 2014 in accordance with International Public Sector Accounting Standards (IPSAS)”.

IV. MANAGEMENT RECOMMENDATIONS 2014

In conclusion of the Audit of the Financial Statements of the Energy Community, auditors raised two issues/recommendations to the management of the Energy Community Secretariat which were the following:

- Accruals for annual leave shall be presented as prepayments in the Financial Statements instead of presenting under Other Liabilities,
- Implemented IT solution in 2014 shall provide improved system for the budget controls and documentation of obligations under legal commitments;

As far as the status of implementation of those two recommendations is concerned, at the date of this report, the first recommendation has been already implemented in the Financial Statements for the year 2014 and the second one is under implementation in the ongoing year 2015, subject to review in the next year by the audit company.

³ see the Auditors' Report 2014, https://www.energy-community.org/portal/page/portal/ENC_HOME/DOCS/3734146/EnC_Report_on_the_Audit_of_the_Financial_Statements_for_the_year_ended_31_December_2014.pdf

V. ASSESSMENT OF THE AUDITORS' FINDINGS AND NEXT STEPS

The Budget Committee at its first meeting on 17 March 2015 analyzed the results of the audit as presented in the Audit Report 2014. The presentation was made at the occasion of the said meeting by the representative of KPMG.

In 2014, the Budget Committee did not note disagreements with the Director in the process of the financial management of the operations of the Energy Community in the context of Article 22(2) of the Budgetary Procedures.

On this ground and in accordance with Article 83 of the above mentioned Procedures, the Budget Committee recommends to the Ministerial Council the discharge of the Director of the Secretariat from his management and administrative responsibility for the financial year 2014.

The Budget Committee shall continue to closely work with the Energy Community Secretariat as to perform effectively its supervisory and advisory functions in the process of financial management of the operations of the Energy Community.