

# **REPORT OF THE BUDGET COMMITTEE TO THE MINISTERIAL COUNCIL ON THE ENERGY COMMUNITY AUDIT 2009**

## **I. BACKGROUND**

This report has been prepared by the Budget Committee, established under Article 22.1 of the Energy Community Procedures for the Establishment and Implementation of Budget, Auditing and Inspection<sup>1</sup> (called further “The Budgetary Procedures”) as to provide information to the Ministerial Council on the execution of the Energy Community Audit for 2009.

This report is due in accordance with Article 81.5 of the Budgetary Procedures.

The year-end accounts of the Energy Community have been audited by the external audit company, task which was performed by “Ernst & Young”. The Audit was assigned to the company “Ernst & Young” (the “Auditor”) after a Public Procurement Procedure, following the requirements of the Austrian legislation.

The Auditor conducted the audit in the first quarter of 2010 in accordance with the approved by the Budget Committee terms of reference. During the audit process, accounting records and procedures have been inspected for the purposes of verifying the accuracy and completeness of the records as required under the relevant Articles of the Procedures for the Establishment and Implementation of Budget, Auditing and Inspection (see Art. 81).

The major outcome of the Audit and the conclusions of the auditors are specified in the Audit Report. Further, some operational recommendations of the Auditors are specified in the so called Management Letter, which the Budget Committee also reviewed.

## **II. KEY FINDINGS OF THE AUDITOR**

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

1. The Audit “did not give rise to any objections”<sup>2</sup>.
2. The Auditors “have reviewed the accounts of the Energy Community for the period 1 January to 31 December 2009 as well as the internal control system of the Secretariat, including the Internal Management Rules of the Energy Community as referred to in Article

<sup>1</sup> As established by the Ministerial Council of the Energy Community with Procedural Act 2006/03 of 17.11.2006.

<sup>2</sup> The citations are from the Auditor's Report 2009.

- 81 of the "Procedures for the Establishment and Implementation of the Budget, Auditing and Inspection";
3. Their "analysis, based on a sample approach, included the review of the financial and business processes within the overall legal framework provided for the operations of the Energy Community";
  4. The Auditors point out that "the internal control system of ECS seems to be adequate as to the size and nature of the entity." ;
  5. "There seems to be adequate internal management rules and procedures to ensure effectiveness of internal controls.";
  6. The auditors state that "During our audit nothing has come to our attention which may cause material doubt about the fair presentation of financial statements or adequate use of financial means.".
  7. The rules and regulations set by the Ministerial Council and by the Director principally have been observed." (page 1, paragraph 2)

### **III. RECOMMENDATIONS MADE BY THE AUDITOR**

The Auditor made the following 4 recommendations in the Management letter, addressed to the Director of the Secretariat:

#### **1. Use of notes checklists**

In view of the growing number of disclosure requirements (refer also to 4. New IPSAS Standards) we recommend to use a standard checklist to ensure the completeness of disclosures. An official notes checklist can be down-loaded from the following website:

[http://www.nao.org.uk/guidance\\_and\\_good\\_practice/financial\\_audit\\_guidance/disclosure\\_guides/ipsas\\_clients.aspx](http://www.nao.org.uk/guidance_and_good_practice/financial_audit_guidance/disclosure_guides/ipsas_clients.aspx)

#### **2. Accounting Guidelines**

We recommend to prepare accounting guidelines on issues which are not explicitly regulated by the IPSAS Standards (such as carry-over, unused commitments and unused appropriations etc.) and to include them in the Internal Management rules. These guidelines should be approved by the Budget Committee to ensure common understanding and guarantee consistent and proper application of accounting policies.

#### **3. Documentation of risks and controls**

In view of actual developments regarding internal control and risk management standards we recommend to complete documentation of the main transactions of the Energy Community Secretariat and to define risks inherent in these transactions as well as controls implemented by management to ensure the accurate use of funds and reliable presentation of accounts. The aim of this documentation should be to provide reasonable assurance regarding the achievement of the following objectives:

- a) effectiveness and efficiency of operations
- b) reliability of financial reporting and

c) compliance with laws and regulations.

The documentation of transactions and internal controls is an important source of information for all supervising bodies of the EC as to whether the internal control and risk management system of ECS is adequate to ensure accurate use of funds and reliable financial reporting as well as for new employees to get an understanding of transactions and policies of the ECS within adequate time.

#### 4. New IPSAS Standards

In 2009 the International Public Sector Accounting Standards Board (IPSASB) has published the following new Standards:

- IPSAS 25 – Employee Benefits (effective after: 01.04.2011)
- IPSAS 26 – Impairment of Cash-generating assets (effective after: 01.04.2009)
- IPSAS 28/29/30 – Financial Instruments: Presentation, Recognition and Management, Disclosures (effective after: 01.01.2013)
- IPSAS 31 – Intangible Assets (effective after: 01.04.2011)

Early adoption of these standards is encouraged. Further, there are exposure drafts on the accounting of entity combinations and service concession arrangements. In view of the dynamic developments of IPSAS standards we encourage early consideration of the effects of these new standards on your accounts and prepare early implementation of the new guidelines.

All these recommendations are being addressed by the Energy Community Secretariat. Concrete details on the planned and undertaken steps are presented in the Report of the Director to the Ministerial Council of the Energy Community.

#### **IV. ASSESSMENT OF THE AUDITORS' FINDINGS AND NEXT STEPS**

1. The Budget Committee at its first meeting for 2010 (16 March 2010) analyzed the Audit Report 2009 and noted its positive outcome.
2. For 2009, the Budget Committee notes no disagreements with the Director in the process of the financial management of the operations of the Energy Community.
3. On this ground and in accordance with Art. 83 of the Budgetary Procedures, the Budget Committee recommends to the Ministerial Council discharge of the Director of the Secretariat for his management and administrative responsibility in respect of the budget for the financial year 2009.
4. 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.
5. The Budget Committee took note of the recommendations made by the auditors and of the actions that will be taken to address those recommendations in 2010. The concrete performance by the Energy Community Secretariat for meeting the recommendations of the auditors shall be further followed by the Budget Committee.