

REPORT OF THE BUDGET COMMITTEE TO THE MINISTERIAL COUNCIL ON THE ENERGY COMMUNITY AUDIT 2013

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* of 17 November 2006.

In 2013 the year-end accounts of the Energy Community were audited by an external audit company. After several years of service provided by "Ernst & Young" and following the procurement procedure, "KPMG" (hereinafter "Auditor") was awarded the contract as its offer was considered as the most technically and economically advantageous to carry out the audit of the Energy Community accounts for the years 2012-2013.

The audit was conducted in the first quarter of 2014 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 2013 Audit and the conclusions of the auditors are indicated in their Audit Report. No management recommendations of the Auditors were issued in this year of audit.

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.

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 2013 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

¹ As established by the Ministerial Council of the Energy Community with Procedural Act 2006/03 of 17 November 2006.

records), the internal financial controls and, in general, the financial consequences of administrative practices.

Following the agreement concluded by the Budget Committee in 2011², two separate reports were presented - which are not parts of the financial statements – in the Auditor's Report:

- a) table with all sources of revenue (incl. interest and other revenue)³;
- b) table with the calculation of the unused appropriators to be repaid back to the Parties⁴.

III. KEY FINDINGS OF THE AUDITOR

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

1. The Audit for the financial year ending 31 December 2013 *"did not give rise to any objections"*⁵;
2. The Auditor confirmed *"the compliance with International Public Sector Accounting Standards applicable by the Energy Community and "generally accepted accounting principles"*.
3. *"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 2012 and of its financial performance and its cash flows for the year from 1 January 2012 to 31 December 2012 in accordance with International Public Sector Accounting Standards (IPSAS)"*.

IV. ASSESSMENT OF THE AUDITORS' FINDINGS AND NEXT STEPS

The Budget Committee at its first meeting on 6 March 2014 analyzed the results of the audit as presented in the Audit Report 2013. The presentation was made at the occasion of the said meeting by the representative of KPMG.

In 2013, 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 2013.

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.

² See point 8 of the BC Minutes of the Meeting of 22 March 2011.

³ See 2.3.1 in KPMG Report on the Audit of the Financial Statements for the year ended 31 December 2013.

⁴ See table under 2.4.5. in KPMG Report on the Audit of the Financial Statements for the year ended 31 December 2013.

⁵ see the Auditors' Report 2013