

REPORT OF THE BUDGET COMMITTEE TO THE MINISTERIAL COUNCIL ON THE ENERGY COMMUNITY AUDIT 2010

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 Inspection¹ (called further "The Budgetary Procedures") as to provide information to the Ministerial Council on the execution of the Energy Community Audit for 2010.

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 an external audit company. The Audit was assigned to the company "Ernst & Young" (the "Auditor") after a Public Procurement Procedure, following the requirements of the Austrian legislation.

The audit was conducted in the first quarter of 2011 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 indicated in the Audit Report. In addition, some operational recommendations of the Auditors are specified in the Management Letter, which the Budget Committee also reviewed.

II. SCOPE OF THE AUDIT

The Audit scope included bank accounts and cash reconciliations as well as a verification of the compliance with Austrian law and with the Budgetary Procedures of the Energy Community, the Internal Management Rules and other applicable rules of transactions, including procurement, carried out by the Energy Community Secretariat in 2010. In addition to auditing the accounts, the auditors have evaluated the efficiency of the financial procedures, the accounting system, 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:

1. The Audit "did not give rise to any objections"²;

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

² The citations are from the Auditor's Report 2010 and from the Management Letter to the Director of the Secretariat.

2. The Auditor confirms “the compliance with IPSAS” (the International Public Sector Accounting Standards, applicable by the Energy Community).
3. 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”*. Further, it was noted that *“The rules and regulations set by the Ministerial Council and by the Director principally have been observed”*.
4. “Based on the results of our audit in our opinion, the financial statements present fairly, in all material respects, the financial position of the entity as of December 31, 2010, and of its financial performance and its cash flows for the financial year from January 1, 2010 to December 31, 2010 in accordance with the International Public Sector Accounting Standards (IPSAS)”.

IV. RECOMMENDATIONS MADE BY THE AUDITOR AND STEPS BY THE SECRETARIAT

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

"1. Use of notes checklists

In view of the growing number of disclosure requirements, we recommend to use a standard notes checklist to ensure the completeness of disclosures. An official notes checklist can be provided by Ernst & Young, if needed.

Management response:

Thank you very much for the recommendation. We would appreciate a submission of the official notes checklist by your company in its latest version to ensure the completeness of the disclosure as required under IPSAS. On this ground, we shall consider its use.

2. Accounting Guidelines

We recommend to prepare accounting guidelines on issues which are not explicitly regulated by the IPSAS Standards (such as 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 to guarantee consistent and proper application of accounting rules.

Management response:

We requested first consultative support by your company in the course of audit 2010 finalisation. This draft document has been made available to us in due time and we shall consider the proposal positively in the course of its finalisation including its approval in accordance with the Energy Community procedures by the end of June 2011.

3. Documentation of risks and controls

Internal control and risk management standards require to improve documentation of the main transactions and to identify risks inherent to these transactions as well as controls implemented by management to ensure the accurate use of funds and reliable presentation of accounts.

Internal management rules and policies should be analysed with regard to the completeness and accuracy of documentation of risks and controls inherent to significant transactions.

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

Management response:

Thank you for the statement, which I understand is of principle nature. The Secretariat has submitted at the beginning of 2010 all applicable rules, related to the budget utilization, to the Budget Committee with a request for analysis and proposals for improvement. So far, the Secretariat has not received any comments, related to risk management standards. However, the Secretariat shall review once again all rules and consider eventual amendments in this aspect. Further, the Secretariat shall invite again the Budget Committee to review and eventually to provide additional guidance in this aspect.

4. New IPSAS Standards

Early adoption of new or amended IPSAS standards as well as an early consideration of the effects of these new standards on the accounts is encouraged.

Management Response

Thank you for the consideration. The Secretariat shall follow the IPSAS developments and shall take timely measures to include any new or amended IPSAS Standards in due time in relation to the audit for 2011. "

V. ASSESSMENT OF THE AUDITORS' FINDINGS AND NEXT STEPS

1. The Budget Committee at its first meeting in 2011 (22 March 2011) analyzed the Audit Report 2010 and noted its positive outcome.
2. For 2010, the Budget Committee has not noted 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.
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 2010.
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 have and will be taken to address those recommendations as stated under point IV of this report.
6. In the next audit reports the following information should be provided by the auditors:
 - a) Budget table with all sources of revenue [incl. interest and other revenue];
 - b) A table with the calculation of the surplus to be given back to the Parties.