

PROCEDURAL ACT OF THE ENERGY COMMUNITY SECRETARIAT

2025/12/ENERGY COMMUNITY SECRETARIAT-ECS: ON ESTABLISHING THE INTERNAL AUDIT

The Energy Community Secretariat,

Considering the fundamental importance of robust governance, risk management, and internal control systems to ensure the effective and transparent execution of the Secretariat's mandate, particularly in supporting the implementation of the Energy Community Secretariat strategic objectives,

Determined to enhance the Energy Community Secretariat's organizational resilience, accountability, and efficiency of operations amongst the increasing complexity of energy reforms, cross-sectoral integration, and the growing demands for compliance with international standards,

Acknowledging the challenges resulting from the Secretariat's expanding role in fostering energy market reforms, integrating renewable energy sources, and promoting sustainable energy practices, which require a highly structured and systematic approach to governance and oversight,

Recognising the need for continuous professional development, technical expertise, and capacity building to enable the Internal Audit to adapt to the evolving governance and compliance landscape, and to provide value-adding assurance and consulting services,

Further recognising the necessity for enhanced coordination between the Internal Audit and Energy Community Secretariat units, to ensure holistic risk assessments, effective mitigation strategies, and successful implementation of reforms,

Based on Article 18 of the Procedural Act of Financial Management Rules of the Energy Community Secretariat,

ADOPTS THE FOLLOWING PROCEDURAL ACT:

PURPOSE OF INTERNAL AUDIT

Article 1

This Procedural Act establishes the framework for the Internal Audit, defining its role in enhancing the efficiency and effectiveness of the operations of the Energy Community Secretariat.

DEFINITION OF THE INTERNAL AUDIT

Article 2

The Internal Audit of Energy Community Secretariat is an independent and objective assurance and advisory function designed to add value and enhance the operations of the Energy Community Secretariat. It helps Energy Community Secretariat achieve its objectives by applying a systematic and structured approach to assess and improve the effectiveness of risk management, internal controls, and governance processes.

OBJECTIVE OF THE INTERNAL AUDIT

Article 3

The primary objective of the Internal Audit is to assess whether the management and control systems of Energy Community Secretariat are effective, efficient, and aligned with:

- i) The applicable legal framework of Energy Community Secretariat,
- ii) International Financial Reporting Standards (IFRS)
- iii) The International Professional Practices Framework (IPPF) and

As part of the Internal Audit, the Internal Audit Expert provides the Director of Energy Community Secretariat with analyses, recommendations, and advisory support to enhance governance and operational effectiveness.

ROLE AND SCOPE

Article 4

1. The Internal Audit plays a critical role in identifying and assessing potential risks within the activities of the Energy Community Secretariat. It evaluates the adequacy and effectiveness of internal control systems designed to mitigate these risks.
2. The Internal Audit operates within the mandate given to it by this procedural act, addressing all the activities of the Energy Community Secretariat. Its scope includes:
 - Ensuring compliance with the legal framework and internal procedures,
 - Promoting economy, efficiency, and effectiveness of the activities of the Energy Community Secretariat,
 - Enhancing transparency and sustainability in achieving Energy Community Secretariat's objectives for the Contracting Parties of the Energy Community Secretariat, additionally,
 - Internal Audit serves to protect the interests of Energy Community Secretariat.
3. The Internal Audit has unrestricted access to all the activities of the Energy Community Secretariat and is responsible for:
 - Assessing the adequacy and efficiency of financial, operational, and management control systems in relation to identified risks.
 - Ensuring adherence to relevant legal frameworks and internal policies.
 - Evaluating whether resources are acquired economically, utilized efficiently, properly accounted for, and safeguarded against losses due to waste, inefficiency, fraud, or mismanagement.
 - Reviewing the accuracy, reliability, and integrity of financial and other key data, along with the methods used for measurement and reporting.
 - Examining the effectiveness of control mechanisms within existing and developing processes to prevent errors, fraud, and other risks, while ensuring alignment with Energy Community Secretariat's objectives.
 - Assessing whether Energy Community Secretariat and its organizational units are effectively fulfilling their functions and delivering services in a manner that is economical, efficient, effective, transparent, and sustainable.

- Monitoring corrective actions to ensure that identified weaknesses are addressed and audit recommendations are properly implemented,

as well as reporting on and evaluating the activities listed

4. The Internal Audit serves as the central communication point for all audit-related matters, facilitating interactions between Energy Community Secretariat and external auditors.



INDEPENDENCE

Article 5

The Internal Audit operates independently and reports directly to the Director of the Energy Community Secretariat. Its independence is safeguarded by this direct reporting line.

The Internal Audit Expert is not allowed to perform any task that may undermine his/her independence.

The Internal Audit maintains full autonomy in:

- Defining the scope of the internal audits,
- Selecting audit methodologies,
- Executing its tasks, and
- Reporting audit findings.

Article 6

The Internal Audit shall not have authority over, or be responsible for, any of the activities it reviews. The Internal Audit's role in developing or implementing departmental policies, systems, and procedures shall remain strictly advisory, ensuring alignment with its own past and present recommendations.

Article 7

The Internal Audit Expert must maintain objectivity, independence, and avoid conflicts of interest. In the event of a conflict of interest whether directly involving the Internal Audit Expert or their family members—the Director must be informed.

The Internal Audit Expert shall perform duties in accordance with:

- The IIA Code of Ethics for Internal Audit,
- The International Professional Practices Framework (IPPF) ([Standards](#)), and
- The Energy Community Secretariat's legal framework.

AUTHORITY

Article 8

- The Internal Audit derives its authority from the Procedural Act on Financial Management Rules of the Energy Community Secretariat.
- The Internal Audit Expert is authorized to conduct financial audits, compliance audits, performance audits, and combined audits.
- The Internal Audit Expert submits reports to both the auditee (the audited process/unit) and the Director Energy Community Secretariat.
- To fulfil its responsibilities, the Internal Audit Expert is granted full, free, and unrestricted access to all relevant records, property, and staff necessary for the performance of internal audits. The management of the Energy Community Secretariat shall cooperate by providing the required information and explanations to facilitate effective and efficient audits.

RESPONSIBILITIES

Article 9

The Internal Audit Expert is responsible for:

- Ensuring the effective execution of all applicable types of audits.
- Managing and developing the Internal Audit at Energy Community Secretariat by providing professional, technical, and operational direction in line with international audit standards and guidelines.
- Safeguarding the Internal Audit's independence by ensuring it has no direct responsibility for, or authority over, the activities it audits.
- Developing a strategic internal audit plan based on Energy Community Secretariat's objectives, risks, and scope, and submitting it for approval to the Director of Energy Community Secretariat.

- Preparing an annual audit plan that identifies key areas for review, defines specific tasks, sets target dates, and allocates resources accordingly.
- Implementing the approved audit plans and completing ad-hoc assignments as necessary to fulfill the Internal Audit's objective.
- Advising the Director of Energy Community Secretariat on resource requirements necessary to meet the approved audit plans.
- Maintaining a high level of professional competence by ensuring he/she possess the necessary knowledge, skills, and experience.
- Providing timely and continuous internal audit reports to the Director of Energy Community Secretariat while complying with confidentiality requirements.

FINAL PROVISIONS

Article 11

Entry into force

This Procedural Act enters into force on the day of its adoption.

For Energy Community Secretariat

Director



Artur Lorkowski

Done in Vienna, on 3 April 2025



Annex I:

INTERNAL AUDIT MANUAL ENERGY COMMUNITY SECRETARIAT

INTRODUCTION

INTERNAL AUDIT TERMINOLOGY GUIDE

Auditee – The unit or the project that is being audited.

Audit working papers – The documents that auditors create and use to support their findings, conclusions, and audit reports.

Audit program – A document that describes the testing process of audit samples.

Fieldwork – The phase of an audit where auditors gather evidence by reviewing documents, interviewing staff, and performing tests.

Follow-up audit – A review conducted after an audit to check if corrective actions recommended in the previous audit have been implemented.

Materiality – The significance of an error or misstatement in financial records that could influence the decision-making of stakeholders.

Population – The entire set of data or transactions from which an auditor selects a sample to test.

Sampling – Selecting a portion of a population (such as transactions) to test instead of examining everything.

Reasonable assurance A high but not absolute level of confidence that audited areas are free from material misstatement or deficiencies, based on audit procedures, sampling, and professional judgment, while acknowledging inherent limitations.

Risk assessment – The process of identifying and evaluating potential risks that could affect an organization's objectives.

1. Purpose and scope

The Internal Audit Manual provides structured guidance on the objectives, functions, and operational procedures of the Internal Audit at Energy Community Secretariat. It ensures that the Internal Audit activities align with audit best practices, international standards, and the Energy Community Secretariat's objectives.

2. Legal framework

This manual is prepared in accordance with:

- The Procedural Act on establishing an Internal Audit in Energy Community Secretariat



- The Institute of Internal Auditors (IIA) Code of Ethics¹
- The International Professional Practices Framework (IPPF)²
- The Energy Community Secretariat's internal legal framework

3. Roles and responsibilities

Internal Audit Expert:

- Conducts internal audits in accordance with IPPF and the Energy Community Secretariat legal framework.
- Identifies risks, evaluates controls, and provides recommendations for improvements.
- Prepares audit reports and follows up on the implementation of recommendations.
- Advises management on internal control enhancements and best practices.

Director of Energy Community Secretariat:

- Approves and provides oversight for the internal audit plan and strategy.
- Ensures the independence and objectivity of the Internal Audit.
- Allocates necessary resources for conducting audits effectively.
- Monitors the implementation of audit recommendations and holds management accountable.

Heads of audited units:

- Provide access to necessary information for the Internal Audit Expert during audits.
- Cooperate with the Internal Audit Expert throughout all phases of the audit process.
- Implement audit recommendations and report progress to Director.

INTERNAL AUDIT

1. Mission and objectives

The primary objective of the Internal Audit is to provide independent assurance and advisory services to enhance Energy Community Secretariat's operations. Key objectives include:

1. Ensuring compliance with legal frameworks.
2. Assessing the efficiency and effectiveness of Energy Community Secretariat's internal controls.
3. Identifying risks and recommending mitigation measures.
4. Enhancing governance and accountability.

¹ <https://www.theiia.org/globalassets/documents/content/articles/guidance/implementation-guidance/implementation-guides-for-code-of-ethics-principles/ig-code-of-ethics-combined.pdf>

² <https://www.theiia.org/en/standards/2024-standards/global-internal-audit-standards/>

TYPES OF AUDITS

As part of the Internal Audit at the Energy Community Secretariat, various types of audits are conducted to ensure transparency, efficiency, and compliance. The audits fall into the following categories:

1. Financial audits

Financial audits focus on assessing the accuracy, completeness, and reliability of financial records and statements. The objective is to determine whether financial transactions are recorded in accordance with applicable accounting standards, Energy Community Secretariat policies, and regulatory requirements.

These audits involve:

- Evaluating financial controls and processes
- Ensuring proper authorization of expenditures
- Ensuring proper use of Energy Community Secretariat's assets
- Identifying misstatements, errors, or fraudulent activities

2. Performance audits

Performance audits assess the efficiency, effectiveness, and economy of the activities of the Energy Community Secretariat. These audits provide insights into whether resources are utilized optimally to achieve organizational objectives. Key aspects include:

- Evaluating the achievement of goals and objectives
- Analysing operational efficiency and cost-effectiveness
- Identifying opportunities for process improvements and best practices

3. Compliance audits

Compliance audits verify whether the operations, activities, and transactions of the Energy Community Secretariat adhere to laws, internal procedural acts, and contractual obligations. The main objectives include:

- Ensuring adherence to legal frameworks
- Assessing compliance with Energy Community Secretariat procedural acts
- Identifying non-compliance and recommending corrective actions

4. Combined audits

Combined audits integrate different audit types to address multiple aspects simultaneously. This approach ensures a comprehensive evaluation of Energy Community Secretariat activities. Examples include:

a) Compliance-performance audit

This type of audit examines both the effectiveness of operations and their adherence to legal framework. It ensures that:

- Programs and activities are achieving their intended outcomes efficiently;
- Compliance issues do not affect the operational effectiveness;

b) Financial-compliance audit

This audit assesses financial integrity while ensuring compliance with the applicable legal framework. It focuses on:

- Examining financial records for accuracy and completeness;
- Verifying compliance with financial regulations and internal controls;

5. Ad-hoc audits

Ad-hoc audits are those not included in the annual audit plan but are conducted upon direct request of the director of Energy Community Secretariat or upon the request of the heads of units, subject to approval by the director of Energy Community Secretariat. These audits address emerging risks, specific concerns, or urgent matters requiring immediate examination.

AUDIT PROCESS

1. Pre-audit planning

- **Notification:** Auditees are informed at least seven calendar days before the audit.
- **Initial meeting:** Objectives and scope are discussed with the auditee.
- **Gathering information:** Review of relevant documentation such as legal framework, financial records, and prior audit reports (if any).
- **Preliminary risk assessment:** Identification of key risk areas and determination of focus areas for testing.

2. Planning stage

The planning phase ensures that the audit is conducted efficiently and effectively by setting clear objectives and scope. The key activities in this phase include:

1. **Development of audit approach:**
 - Define audit objectives and scope.
 - Establish the audit methodology.
 - Identify key risk areas and control weaknesses.
2. **Audit program development:**
 - Define specific audit tests and procedures.
 - Establish testing strategies, including sampling methodologies.
 - Develop checklists and questionnaires.
3. **Preliminary assessment of internal controls:**
 - Review existing internal control frameworks.
 - Identify key control points and areas requiring detailed testing.
4. **Risk assessment & materiality consideration:**
 - Establish materiality levels.
 - Assess potential risks that could impact organisation's operations.
5. **Meeting with Auditee:**
 - Conduct an opening meeting to discuss audit expectations.
 - Ensure cooperation and clarify any concerns.

3. Fieldwork and data collection

The fieldwork phase is the execution stage where audit procedures are performed to gather evidence and analyse processes. This phase includes:

1. **Execution of audit tests:**
 - Conduct compliance, performance and substantive testing based on the audit plan.
 - Apply audit sampling techniques to ensure coverage of key areas.
2. **Data gathering and analysis:**
 - Perform document reviews, interviews, and process walkthroughs.
 - Validate financial and operational controls.
3. **Observations and findings:**
 - Identify control weaknesses, irregularities, or inefficiencies.
 - Document audit findings with supporting evidence.
4. **Communication during fieldwork:**
 - Discuss preliminary findings with auditees for validation.
 - Clarify issues and obtain additional evidence if necessary.
5. **Audit workpaper documentation:**
 - Ensure proper referencing and organization of audit evidence.

- Maintain confidentiality and integrity of working papers.
- 6. Fieldwork review:**
- Conduct internal review to ensure completeness and accuracy.
 - Evaluate whether additional testing is required based on preliminary results.

REPORTING AND COMMUNICATION OF RESULTS

This phase involves summarizing audit findings, drafting reports, and communicating results to auditee and director. Key activities include:

- 1. Draft audit report preparation:**
 - Structure the report with an executive summary, scope, observations, recommendations, and a conclusion.
 - Provide clear and actionable recommendations for improvement.
 - Share the draft report with the auditee for comments and responses.
- 2. Finalization and distribution of the final report:**
 - Submit the final report to director, heads of units and other relevant stakeholders.
 - Submit the action plan form to the auditee and require them to provide corrective actions and implementation timelines.
- 3. Follow-Up Procedures:**
 - Schedule follow-up audits or verification checks.
 - Ensure that recommendations are implemented effectively.

AUDIT DOCUMENTATION AND WORKING PAPERS

1. Structure of audit files

Audit files include:

- Planning documents
- Fieldwork evidence
- Reporting records
- Follow-up documentation

All audit findings must be supported by appropriate documentation.

2. Access to working papers

Audit working papers remain the property of Energy Community Secretariat. External access requires written approval from the Director of Energy Community Secretariat.

TRANSITIONAL AND FINAL PROVISIONS

1. Approval and amendments

This manual shall be reviewed periodically and updated as necessary.

2. Effective date

This manual is effective from the date of approval by the Director Energy Community Secretariat.

Approved by director:



Artur Lorkowski

Date: 3 April 2025

List of Annexes:

- Annex I. Internal audit manual (attached in this document)
- Annex II. IIA Code of ethics
- Annex III. Instructions for strategic and annual planning
- Annex IV. Risk assessment
- Annex V. Independence statement
- Annex VI. Agenda for the minutes of initial meeting
- Annex VII. Note on planning the internal audit
- Annex VIII. Instructions on sampling and materiality
- Annex IX. Audit findings
- Annex X. Agenda for final meeting
- Annex XI. Audit report template
- Annex XII. Action plan