

REPORT OF THE BUDGET COMMITTEE TO THE MINISTERIAL COUNCIL ON THE ENERGY COMMUNITY AUDIT 2011

I. BACKGROUND

This report has been issued by the Budget Committee, setup under Article 22(1) of the Energy Community *Procedures for the Establishment and Implementation of Budget, Auditing and Inspection*¹ (thereinafter: "*Budgetary Procedures*") on the ground of Article 81(5) of the *Budgetary Procedures*.

As every year, in 2011 the year-end accounts of the Energy Community have been audited by an external audit company. The Audit of 2011 accounts was assigned to the company "Ernst & Young" (thereinafter "*Auditor*") after applicable Public Procurement Procedure.

The audit was conducted in the first quarter of 2012 in accordance with the terms of reference approved by the Budget Committee. 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 Budgetary Procedures (in particular Art. 81(3) thereof).

The outcome of the 2011 Audit and the conclusions of the auditors are indicated in their 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 2011. In addition to auditing of 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.

Following the agreement concluded by the Budget Committee in 2011², the auditors have presented the following two separate reports which are not the part of the annual audited financial statements:

- a) Table with all sources of revenue (incl. interest and other revenue) (see annex 1);
- b) A table with the calculation of the unused appropriators to be repaid back to the Parties (annex 2).

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

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

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*”³;
2. The Auditor confirms “the compliance with International Public Sector Accounting Standards applicable by the Energy Community and “generally accepted accounting principles”.
3. “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, 2011, and of its financial performance and its cash flows for the financial year from January 1, 2011 to December 31, 2011 in accordance with the International Public Sector Accounting Standards (IPSAS)”.

The auditors made some operational recommendations, which do not influence the outcome of the audit.

IV. ASSESSMENT OF THE AUDITORS' FINDINGS AND NEXT STEPS

The Budget Committee at its first meeting on 22 March 2012 analyzed the Audit Report 2011.

For 2011, 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.

On this ground and in accordance with Article 83 of the above mentioned Procedures, the Budget Committee recommends to the Ministerial Council discharge of the Director of the Secretariat for his management and administrative responsibility for the financial year 2011.

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.

The Budget Committee took note of the recommendations made by the auditors and of the fact that the Secretariat has undertaken to address those recommendations.

³ The citations are from the Auditor's Report 2011 and from the Management Letter to the Director of the Secretariat.

Annex 1: Table with all sources of revenue (incl. interest and other revenue)⁴

	Notes	Estimated EURO	Actual EURO	Actual %
I. Income From Annual Contributions of the Parties				
European Community		3.312.400,00	3.312.400,00	100,00
Republic of Albania		3.380,00	3.380,00	100,00
Bosnia and Herzegovina		10.140,00	10.140,00	100,00
Republic of Croatia		16.900,00	16.900,00	100,00
Former Yugoslav Republic of Macedonia		3.380,00	3.380,00	100,00
Moldova		3.380,00	3.380,00	100,00
Republic of Montenegro		3.380,00	3.380,00	100,00
Republic of Serbia		23.660,00	23.660,00	100,00
United Nations Interim Administration in Kosovo		3.380,00	3.380,00	100,00
Sub Total		3.380.000,00	3.380.000,00	100,00
II. Other sources of revenue				
Interest income	1	38.692,04	38.692,04	100,00
Other income	2	8.307,96	8.307,96	100,00
Sub Total		47.000,00	47.000,00	100,00
Total		3.427.000,00	3.427.000,00	100,00

Notes:

1 Interest earned 2007-2010 (EUR 37.009,51) + an estimate for 2011

2 Other income earned 2007-2011

⁴ Proposal of Accounting Officer, not audited in 2012; subject to future audits;

Annex 2: A table with the calculation of the unused budget appropriators 2011 to be repaid to the Parties

Parties	Contributions in EUR	Contribution in %	2011 Budget Unused Appropriations
European Union	3.312.400,00	98,00%	520.301,75
Republic of Albania	3.380,00	0,10%	530,92
Bosnia & Herzegovina	10.140,00	0,30%	1.592,76
Republic of Croatia	16.900,00	0,50%	2.654,60
former Yugoslav Republic of Macedonia	3.380,00	0,10%	530,92
Moldova	3.380,00	0,10%	530,92
Montenegro	3.380,00	0,10%	530,92
Serbia	23.660,00	0,70%	3.716,44
United Nations Interim Administration Mission in Kosovo	3.380,00	0,10%	530,92
TOTAL	3.380.000,00	100,00%	530.920,15