

ANNUAL ACTIVITY REPORT OF THE BUDGET COMMITTEE FOR 2024

This Annual Activity Report (“the Report”) follows the reporting requirements of the Budget Committee (“BC”) defined in item III.3 of the “Internal Rules of Procedure of the Budget Committee” (“Rules”) to issue an annual report on its activities including conclusions and submit it to the Permanent High-Level Group.

1. Activities 2024

In 2024, the Budget Committee convened twice online. The first time, 43rd BC Meeting on the 5th July 2024 and the second time in the year, for the 44th BC Meeting, on the 22nd November 2024. The contracting parties met to discuss topics of budgetary and/or financial relevance in the context of the implementation of the Energy Community budget.

While both meetings were held virtually for cost-effective reasons, the Chairperson and members suggested that at least one meeting per year should be held in person. It was thus, decided that the following meeting, planned for June 2025, would be hybrid.

The quorum for decision making was not reached in the July meeting but was achieved in November. The Budget Committee used the written procedure for the approval of some documents after the meetings, particularly for the June meeting.

In line with its mandate, the Budget Committee advised and supervised the Director in the financial management of the operations of the Energy Community. During the year, the following items were included in the agenda of the meetings or adopted via written procedure:

- Discussion of the Director’s Report under Art. 75 on the Execution of the Budget for the Year 2023, later endorsed via written procedure.
- Approval of the Budget Committee Annual Activity Report for 2023 and the Budget Committee Report on Audit 2023.
- Discussion of the Audit Report as of 31 December 2023 presented by the external auditor Forvis Mazars.
- Decision on the discharge of the Director for the year 2023.
- Discussion on utilization of the current budget and forecast, including HR issues such as the fulfillment of open positions, the impact of the new health insurance reimbursements, the Staff Appraisals and salary Increases in the context of the new performance appraisal system, and increased costs in office equipment and events (especially from September onwards).
- Adoption of revised Rules of Procedure of the Budget Committee.
- Discussion on extra-budgetary grants activities and funds utilization.
- Update on the Ukraine Energy Support Fund and related activities set up by Energy Community.

- Opinion on the unpaid contribution by Ukraine to the core budget.
- Check on the state of play of the cybersecurity landscape including an update on the 2024 incident and the IT upgrades as a consequence.
- Information provided on the progress made of the Internal Control System (ICS) Action Plan.

2. Highlights from the discussions on Budget Committee meetings

1. Audit of Financial Statements 2023

The 2023 financial audit of the Energy Community Secretariat was conducted by Forvis Mazars, marking their first year as the newly appointed external auditor.

The results of the audit of consolidated financial statement 2023 were presented by the audit and concluded that the financial statements comply with legal requirements and are fairly in accordance with International Public Sector Accounting Standards (IPSAS). The audit did not give rise to any objections, no corrected / uncorrected audit misstatements were identified, no indicators of fraud were detected, no material weakness in the internal controls over the financial reporting process was detected and during the audit, the auditor did not note any facts which indicate there could be substantial doubt about the Organization's ability to continue as a going concern.

The Chairperson acknowledged the information and requested that future audit reports should introduce a clear distinction between the ordinary and extraordinary budget of the Secretariat and the donations received under the Ukraine Support Fund. These footnotes, clarifications or sub-tables with a detailed breakdown would support accountability and show that a large amount is not part of the ECS core budget. The audit focused on the following areas:

- Clear separation between the ECS budget and Ukraine Energy Support Fund (UESF): transactions were examined and confirmed.
- Special attention was paid to unused appropriations, legal commitments, and unused donations, particularly those related to third-party and extraordinary funding sources.
- Internal controls, including procurement, payroll, travel, journal entries, and financial reporting processes, were tested and found to be robust with proper segregation of duties.
- Compliance with all applicable internal and external regulations was verified.

Key Figures:

- Total 2023 actual revenue and expenses: €57.7 million (mostly related to the UESF).
- Unused donations at year-end: €299.2 million.
- Unused appropriations: €23.7k, all booked as liabilities.
- Final budget (ordinary and extraordinary, including UESF): €356.76 million.

Process & Governance:

- The Budget Committee supported the request to clearly distinguish ECS operational finances from the UESF.

2. Director's Report under Art 75 of the Treaty for the year 2023

Director Lorkowski presented its annual report at July's meeting. Although the report was only for information (not presented for approval or endorsement), the European Commission announced the will to introduce comments, which were provided after the Budget Committee meeting in writing. The report supported the discharge decision and was part of the discharge package to be presented to the Ministerial Council in December.

Below, the key financial results of the report:

- Ordinary budget utilization: 99.55%.
- Unqualified audit opinion confirmed by external auditors.
- Total expenditure: EUR 5.79 million.
- Ukraine's 2023 contribution was waived.

Donor Contributions information:

- Major donors: EU, Austria, Poland, Visegrad Fund, Germany, UK, Denmark, etc.
- Ukrainian Energy Support Fund (UESF) continued playing a significant role, with €135 million received in 2022 and active disbursements in 2023.

Highlight of activities:

- Electricity Market Integration with the EU (SDAC/SIDC participation).
- Carbon Pricing and CBAM policy support.
- War-related aid to Ukraine: via the UESF, USTF, and legal support platforms.
- Renewables and NECP support in Contracting Parties.
- Training, studies, consulting, and high-level outreach increased.
- EMAS environmental certification was successfully renewed.

Due to the lack of quorum, the endorsement by the Budget Committee of the financial discharge of the ECS Director had to be postponed and was done via written procedure.

3. The Budget Committee annual report 2023 was approved via written procedure after introducing several changes.

4. Budget Planning 2024–2025

The Secretariat informed about the state of play of the Budget execution and planning for the current years. The impact of the ECS's expanded role in climate and decarbonization and led to a reviewed and supported proposal for a 30% increase in core budget, with 13 new positions and new salary scale/steps system to introduce. Additionally, the introduction of the health insurance reimbursement and corresponding staff regulations' update has also impacted on the execution of resources.

5. Discharge 2023: based on the audit unqualified opinion and the Director's Report, the Budget Committee supported the discharge of the Director.

6. Follow-up of the Internal Control System assurance report for 2023:

Below there are the main points assuring the follow-up of the implementation measures of the internal control assurance report 2023 that were presented and discussed by the Budget Committee:

- A new and improved risk matrix has been developed by the Internal Auditor.
- An evaluation survey of IT contractor Nettek showed positive results. Similar assessments for Deloitte and BDO were planned.
- Migration to an upgrade accounting platform RS was successfully completed in September 2024 while further analysis is still underway.
- A new electronic access policy to RS accounting system has been implemented, ensuring that all access requests are electronically logged and approved via a centralized register.
- Attractive assets have been individually assigned to staff, with locked storage and upcoming electronic access systems being tendered.
- The Nettek current contract was amended to include 6-month reporting cycles with KPIs, stronger access controls, and improved change request authorization.

7. Budget Execution and Financial Monitoring

Information about the budget 2024 execution was provided:

- July meeting noted good performance with anticipated budget transfers due to HR vacancies and increased operational needs.
- November meeting showed 73% utilization as of October, with a projected year-end execution of 96–99%.
- Increase in event-related and service costs (7–10%) outpaced the budgeted cost of living increase (2%).
- Ukraine's unpaid 2024 contribution (EUR 260,148): flagged for Ministerial Council decision; potential coverage by HR underspending was discussed.

Extra-budgetary updates:

- EU4Energy Phase II closed in March 2025. The EU contribution amounts to EUR 1.800.000.
- EU4Energy Phase II+ progressing well EUR 4.682.650 allocated by the EU.
- New and ongoing grants: ECF (EUR 110.000), GIZ (EUR 54.300), Visegrad Fund (EUR 29.575), FCDO (GBP 100.000), Austrian Government (EUR 170.000).
- UESF reached EUR 946 million by December 2024.

In the 43rd meeting, the Chairperson took note of the situation, particularly on the evolution of conference costs and was supportive of possible transfers while containing costs on this budget line and requested to keep the Budget Committee informed. In the 44th meeting, the Commission took note of the good budget implementation, and its forecast for the end of the year, despite the late recruitment due to the delay of the entry into force of the current budget.

8. Performance Appraisal and HR Budget

The Comprehensive Performance Appraisal system was introduced and implemented for the first time in 2024, with satisfactory results and overall positive feedback from staff. High performers (rated 4 or 5) were granted career step advancement. The conditions for step

promotions are the availability of the budget. In 2024, the extra steps granted cost about EUR 54.000. Director did not make use of fast promotions. The power is delegated to the heads of units. The Chairperson reiterated the importance of the system for performance management in talent retention, and welcomed the training planned for a consistent approach. She suggested conducting a satisfaction survey and asked the Secretariat to continue monitoring the financial impact of step promotions. She underlined the necessity to respect the principle of fairness and transparency and have a prudent approach to fast-track promotions.

Additionally, the Budget Committee was informed about the revised provisions on conflict of interest and engagement in outside activities in the Staff Regulations, which had previously been presented to staff, including the declarations to be signed, as follows:

- 2024 was the first full implementation of the Comprehensive Performance Appraisal System.
- A step increase was granted to top performers (rated 4 or 5), with cost impact around EUR 54,000, within the approved budget.
- Director delegated promotional proposals to Heads of Units.
- Fast-track promotions (more than 1 step per two years) were not used.
- A staff satisfaction survey is planned for 2025 following a training session.
- As part of its internal control and integrity framework, the Secretariat maintains a structured process for the Declaration of Interests by staff members. Annual Declaration requirements include submission an annual declaration of interest, covering personal, financial, and professional interests that may give rise to a real or perceived conflict.

9. Budget Committee Internal Rules of Procedure

The Secretariat presented the proposal for amended internal rules of the Budget Committee, which had not changed for nearly 10 years. Most of the proposed changes stemmed from the 2022 revision of the Budget Rules and the 2024 revision of the Staff Regulations, both adopted by the MC:

- Hybrid decision-making procedures introduced: The rules now formally allow for decision-making via written procedure and remote (online) meetings, increasing flexibility and responsiveness.
- Stronger oversight provisions: Enhanced language clarifies the Committee's advisory and supervisory role on both the ordinary budget and extraordinary funds, including the Ukraine Energy Support Fund (UESF).
- Observer participation clarified: The rights and limitations of observers, including those representing donors or Contracting Parties, are more clearly defined – ensuring transparency while maintaining voting integrity.
- Annual planning cycle formalized: A clearer structure for the annual activity schedule, including expected timelines for budget reviews, audit discussions, and discharge processes.
- Reporting obligations strengthened: The Committee's responsibility to report to the Ministerial Council has been further specified, including formats and timelines.

- Adoption of Rules of Procedure by simple majority including the EU, replacing the unanimity requirement.
- Terminology updated to refer to the "European Union" instead of the "European Community."

The Chairperson asked the Secretariat to circulate a final version of the amended internal rules of procedure.

10. IT and Physical Security

In 2024, the Energy Community's systems were targeted by a cyberattack. Although the system was restored successfully, the incident revealed vulnerabilities and highlighted the need for further financial and capital technical investment in secure infrastructure. A dedicated agenda point was added in the November 2024 meeting discussing.

The ECS provided an overview of the ongoing measures to enhance physical security, which include fire safety plan; tender procedure for the office access system with electronic tracking and monitoring floor warden system; inventory and upgrades of the available security equipment; mandatory annual drills; security contact persons, training of staff for the first aid help in an emergency, and the use of mobile applications for security alerts. With regard to IT security, the ECS listed the main actions undertaken, which include the use of new licensed security software, tender procedures for an IT security service provider (procedure to be relaunched after the previous ones failed), specific training for new employees, and a corporate subscription on LinkedIn for all staff, among other measures. As users are the weakest point of entry into the system, it is important to provide training and awareness updates. The ECS also informed that penetration tests were planned in 2025.

With regard to cybersecurity, the Director underlined the development of protocols on how to react to and handle the crisis situations.

3. Other Notable Points

As part of the UESF Fiduciary activities, the Tetra-Tech procurement agent has reimbursed the Energy Community for the funds misappropriated through identified, investigated and reported IT fraud.

Per Articles 15 and 22 of the Procedural Act of the Ministerial Council of the Energy Community (consolidated version 2024/06/MC-EnC of 19 February 2024) on the Procedures for the Establishment and Implementation of Budget, Auditing, and Inspection, the Budget Committee was informed and asked for the formal agreements to receive donations from different donors as a part of contributions to extraordinary budget.

4. Conclusion

In 2024, the Budget Committee effectively fulfilled its mandate, overseeing and discussing financial management, internal controls, cybersecurity, HR reforms, and budget execution. An unqualified audit opinion was received for the 2023 fiscal year. The Budget Committee supported initiatives to ensure prudent and transparent financial governance and proposed all required documentation for the Ministerial Council in a timely manner.

