

ANNUAL ACTIVITY REPORT OF THE BUDGET COMMITTEE 2013

Background and Mandate

This report follows the reporting requirements of the Budget Committee defined in the *"Internal Rules of Procedure of the Budget Committee"*, in its item III.3, of 30 January 2008 and covers the financial year 2013. The report was approved by the Budget Committee at its meeting on 18 June 2013. The Budget Committee of the Energy Community was set up under the *"Procedures for the Establishment and Implementation of Budget, Auditing and Inspection"* ("Budgetary Procedures") at its constitutive meeting on 30 January 2008 in Brussels.

The Committee supervises and advises the Director in the financial management of the operations of the Energy Community under the conditions defined in the *"Budget Committee Internal Rules of Procedure"*.

Activities in 2013

As a continuation of its work, the Budget Committee met three times in 2013 to discuss topics of budgetary and/or financial relevance. The agendas of these meetings are presented in Annex to this Report. Minutes of all the meetings were approved, distributed to the Members of the Budget Committee and are attached to this report.

The members of the Budget Committee were consulted, when necessary, on budget and financial related matters. Among others, the Budget Committee had several topics of strategic importance on its agenda during 2013, such as:

- consultation on the budget proposal for the biennium 2014-2015¹,
- discussions on amendments to the current version of the Budgetary Procedures of the Energy Community of November 2006;
- Director's Budget Utilization Report under Art. 75 of the Treaty for the financial year 2012;
- Proposal of the discharge decision of the Director to the Ministerial Council based on the year-end results for 2012 as well as on the Audit Report for the same period;

In 2013, Mr. Stefan Tostmann and Mrs. Paloma Aba-Garrote² were in charge of chairing the Budget Committee meetings.

Conclusions

In 2013 the Budget Committee received from the Secretariat all requested information of financial relevance in order to carry its tasks of supervision and advice.

The Energy Community Financial Statements 2013 were audited and an unqualified audit opinion was issued. The Auditors' Report 2013 was discussed at the Budget Committee meeting of 6 March 2014. In the course of the audit 2013, no recommendations were issued to the Director. Based on all reports related to the budget execution for 2013, the Budget Committee concluded to propose the discharge decision for year 2013 to the Ministerial Council of the Energy Community at its next meeting on 23 September 2013.

¹ Adopted by the Ministerial Council on 24 October 2013

² The changed of responsibility as of 1/10/2014 was announced by Mr. Tostmann on 20/9/2013

ANNEXES: AGENDA AND MINUTES OF THE BUDGET COMMITTEE MEETINGS IN 2013 *(in chronological order)*

I. Agenda of the 18th meeting of the Budget Committee of 11 April 2013

1. Follow-up of the last meeting: Principles of reimbursement (item 7 of the Minutes of the Meeting of 22 November 2012)
2. Year-end results/Audit Report 2012 (not used budget appropriations 2012 - Repayments to the Parties; Recommendations of Auditors)
3. Budget 2013: Actual budget utilisation report; Parties contributions – status quo of payments
4. Budget 2014-2015: preparation, status quo
5. Financial Framework of the Energy Community Adjustments – Secretariat's proposal for the Ministerial Council
6. Organisational - meetings of the Committee in 2013

II. Agenda of the 19th meeting of the Budget Committee of 18 June 2013

1. Follow-up of the last meeting: Auditors' recommendations 2012: Presentation of legal commitments in year-end accounts
2. Budget utilization report 2013; Parties contributions 2012/2013– status quo of payments / repayments
3. Adjustments of the Energy Community *Procedures for the Establishment and Implementation of Budget, Auditing and Inspection*
4. Budget Committee's Annual Activity Report 2012
5. Reports to the Ministerial Council:
 - a) Director's Report on the Execution of the Budget 2012
 - b) Budget Committee's Report on Audit 2012
6. Discharge Decision for the financial year 2012
7. Energy Community Work Program and Budget 2014-2015 (Commission's proposal)

III. Agenda of the 20th meeting of the Budget Committee of 16 December 2013

1. Welcome and Follow up of last meeting of 18 June 2013:
 - a) Item 7 of the MoM dated 18 June 2013: Presentation of legal commitments in the Energy Community Financial Statements
 - b) Item 9 of the MoM of 18 June 2013: Amendments of the Budgetary Procedures, next steps
2. Budget 2013: Actual Budget Utilization Report; Studies 2013 – status of implementation, outstanding Budget Contributions 2013; Transfer of Budget Appropriations 2013; Budget Adjustments 2013 in year-end accounts;
3. Budget 2014 – 2015: payment of contributions 2014 – procedures/deadline;
4. Financial Reporting deadlines 2014;
5. Organizational aspects (nominations to the Budget Committee; Meetings' dates in 2014);

18th BUDGET COMMITTEE MEETING

11 April 2013, Vienna

MINUTES OF THE MEETING

WELCOME AND AGENDA APPROVAL

1. Chair opened the meeting and welcomed all participants. Mr. Abdel El Ameli was introduced as a new representative of the European Commission at the meetings of the Budget Committee. Since no adjustments requested, agenda of the meeting was adopted.

FOLLOW-UP OF THE MINUTES OF THE MEETING

1. Secretariat was asked to present the outcome of the analysis regarding the possible changes in the reimbursement approach. Following its presentation and taking into account conclusions made, the Secretariat proposed to continue with the currently applied principles of reimbursement. Further, the Secretariat informed that certain flexibility might be foreseen in an agreed before format, where deviations from the rules would be applied. These might be applied then case by case basis to the Contracting Parties in question.

YEAR-END RESULTS 2012 – AUDIT REPORT

2. Chair invited the present external Audit Company to present the report and its findings along the auditing of the accounts of the Energy Community for the period ending 31 December 2012.
3. Dr. Bauer, representative of KMPG - the audit company, informed that audit carried out did not give any objections and that the financial statements comply with legal requirement and give a true and fair view of the financial position of the Energy Community and financial performance for the year 2012.
4. Further, in its presentation KPMG informed about audit focus areas, providing information on the special topic of attention such as legal commitments of the year 2012, compliance with IPSAS, Internal Control Systems. Further, recommendations to the management issued in the course of audit were presented, in particular those concerning the rules for the accounting of legal commitments, calculations of accruals for leave as well as methodology/basis used for the repayment of not used appropriations.
5. Following the presentation made by the external audit company, Chair invited the Secretariat and members of the Committee to express their views on the recommendations issued. Following short discussion, the following was decided concerning the 3 recommendations:
 - a. **Repayment of not used appropriations (management recommendation 1):** the repayment of not used budget appropriations, representing a liability of the Energy Community towards the Parties, shall be based on the balance sheet as of 31 December of the year in question;



- b. Presentation of **legal commitments in the year-end accounts** (committed but not used budget appropriations) (**recommendation no. 2**): decision shall be taken upon final proposal presented by the Secretariat by the end of 2013 at the latest after careful review of compliance requirements and in the context of IPSAS definitions for *reserves* and *liabilities*;
- c. **Calculation of the accruals for leave (recommendation no.3)**: vacation divider of 18 shall be used in future calculations of accruals for leave (instead of using a fiscal divider of 21,65) to ensure reflection of vacation/public holidays and sick days of the employees.

ENERGY COMMUNITY BUDGET 2013 – ACTUAL BUDGET UTILISATION REPORT

- 6. The Secretariat was invited to present actual status of budget 2013 utilization. Major expenses in the period to 10 April 2013, incl. human resources, studies, events, were mentioned. Concrete planning by the Secretariat regarding the procurement of services for studies and consulting, in 2013 were presented.

ENERGY COMMUNITY BUDGET 2014 – 2015: STATUS QUO OF PREPARATION

- 7. Chair introduced the topic in general and asked representative of the Commission to inform about current status quo and next steps related to the approval procedure for the Energy Community Budgets 2014-2015.
- 8. In accordance with information provided, Commission's proposal has been under review and the internal procedure to be finalized by the end of May 2013.

FINANCIAL FRAMEWORK OF THE ENERGY COMMUNITY AND ITS SECRETARIAT – SECRETARIAT'S PROPOSAL FOR THE MINISTERIAL COUNCIL

- 9. Secretariat informed about its reasons for proposal to consider the amendments in the Energy Community Budgetary Procedures.
- 10. Following exchange of view on the presented few proposals for amendments, it was agreed that the Secretariat will provide its amendment proposals in due time, and distribute the draft for comments to the Budget Committee representatives. It is assumed that these amendments will be endorsed by the PHLG in June 2013 and adopted in final stage by the Ministerial Council after further discussion at the Budget Committee in its meeting of June 2013.

MEETINGS OF THE COMMITTEE IN 2013

- 11. Budget Committee discussed the meetings dates for 2013. It was agreed that it will meet in Vienna on 11 April, 18 June and 12 November of the year 2013. Optionally, a phone meeting might be considered among the members in December 2013.
- 12. As there were no other issues addressed for discussions, Chair thanked the participants for discussions and closed the meeting.

P.O. A. ELAMELI

List of participants:

1. Stefan Tostmann – Chair, European Commission
2. Abdel El-Ameli – European Commission
3. Aferdita Daja Barette – Albania, Ministry of Economy, Trade and Energy
4. Natasa Mihajlovic – Croatia, Ministry of Economy
5. Razmena Cekic Durovic – former Yugoslav Republic of Macedonia
6. Natalia Lukovic – Serbia, Ministry of Energy, Development and Environment Protection
7. Victoria Ruzhenkova – Ukraine, Ministry of Energy and Coal Industry
8. Janez Kopac – ECS, Director
9. Dirk Buschle – ECS, Legal Counsel
10. Bozena Mazur – ECS, Head of Finance and Administration

19th BUDGET COMMITTEE MEETING
MINUTES OF THE MEETING
18 June 2013, Vienna

WELCOME AND AGENDA APPROVAL

1. Mr. Abdel-Ilah El-Ameli chaired the meeting on behalf of Mr. Stefan Tostmann. Following opening remarks, the Chair welcomed new representatives of the Albania and Bosnia & Herzegovina in the Budget Committee. Agenda was adopted in its proposed and circulated draft, however it was proposed that first points for decision taking (Annex 2 – 9) are tackled and then discussions (Annex 1).

BUDGET COMMITTEE'S ANNUAL ACTIVITY REPORT 2012 [ANNEX 4]

2. Chair invited the members to comment on the draft report of the Budget Committee's activities in 2012. The purpose and background of the report was recalled. As no comments were received, Chair informed that this report will be presented to the Ministerial Council at the upcoming meeting on 24 October 2013.

REPORTING TO THE MINISTERIAL COUNCIL: DIRECTOR'S REPORT ON BUDGET EXECUTION [ANNEX 5] AND BUDGET COMMITTEE'S REPORT ON AUDIT 2012 [ANNEX 6]

3. Following short introduction, Chair invited all present to provide their comments on the relevant reports. After short discussion, the reports were unanimously adopted and approved for further proceedings at the next meeting of the Ministerial Council.

DISCHARGE DECISION FOR THE FINANCIAL YEAR 2012

4. Based on the content of information presented in Annex 5 and 6, Budget Committee agreed on the draft discharge decision of the Director for the financial year 2012.

FOLLOW-UP OF AUDITORS' RECOMMENDATIONS [ANNEX 1]

5. Under this agenda point follow-up tasks of previous meeting were recalled.
6. As far as the discussions relevant for the implementation of the Energy Community refunding budget¹ are concerned, the Secretariat informed about increased needs for the flexibility in the implementation of the Reimbursement Rules based on the fact that several national authorities from the Contracting Parties requested special consideration by the Secretariat (like request for advanced payments of travel expenditures). Director informed that several exemptions were needed in the context of past events and most likely will be for the future.
7. In regard with the recommendation of KPMG on the presentation of the position of the legal commitments in the financial statements of the Energy Community, the Secretariat presented the information prepared in coordination with the external audit company (see ANNEX 1). After short presentation by the Secretariat, it was stated that the issue concerns the principle of the presentation of the financial statements with the best efforts

¹ See Annex 1 of 18th Budget Committee meeting of 11 April 2013

to improve the readiness to the addressees (stakeholders) of the statements. It was recognized in principle that the presentation of the financial information in the annual accounts shall be improved and made in compliance with the requirements of IPSAS. Chair informed that Commission's services shall be also involved in the discussions in between, and that further discussions shall take place later this year (well before the closure of the year-end accounts 2013).

ADJUSTMENTS OF THE ENERGY COMMUNITY PROCEDURES FOR THE ESTABLISHMENT AND IMPLEMENTATION OF BUDGET, AUDITING AND INSPECTION [ANNEX 3]

8. Secretariat recalled the context of discussions of the Budgetary Procedures at the meeting in April 2013. It recalled the reasons for its proposal for consideration by the Ministerial Council.
9. Following exchange of views on the presented amendment proposals, it was agreed that the detailed discussions will take place bilaterally between the involved service of the Commission and the Secretariat. Since the proposal of the amendment of these Procedures shall be proposed by the Commission, it was concluded that the next possibility of amendment by the Ministerial Council may be envisaged in 2014. Until then, the Secretariat might propose a concise proposal for Commission's consideration.

BUDGET 2013

10. Chair invited Secretariat to present actual information on the utilization of the Energy Community budget 2013. Secretariat provided required overview as well as details of budget utilization as of mid of June 2013. Forecast of major activities by the end of the year was presented.
11. In reference with the provided details on the planned studies and technical assistance in the Contracting Parties, the Commission asked for clear definition of procedures to be compliant with the applicable Procurement Law and in the frame of discussions at the previous meetings of the Budget Committee.
12. In conclusion, Secretariat provided status quo of repayments of unused budget appropriations 2012 (see ANNEX 2b) as well as of receiving budget contributions for 2013.

ENERGY COMMUNITY WORK PROGRAM AND BUDGET 2014-2015 [ANNEX 8-9]

13. Chair recalled discussions of the Committee at the last meeting. Details of Commission's proposal on the Energy Community Budget 2014-2015 were presented. After including technical change in Attachment 3 of the budget (i.e. Energy Community Salary Scale), the document will be forwarded – together with the Work Program 2014-2015 – for Council's approval on 24 October 2013.
14. In conclusion of the presentation, Chair invited the Director of the Secretariat to present the outline of the Work Program 2014 - 2015.

MISC.

15. Budget Committee discussed the meetings dates for 2013. It was agreed that it will meet in Vienna as planned on 12 November 2013. Optional meeting might be considered in December 2013.

A. EL AMELI

On behalf of the Chair of the Budget Committee

List of participants:

1. CHAIR, EUROPEAN COMMISSION - Abdel – Ilah El-Ameli
2. EUROPEAN COMMISSION - Blanca Andres-Ordax
3. ALBANIA - Ermira Mustafaj
4. BOSNIA AND HERZEGOVINA - Milan Papaz
5. SERBIA - Natalia Lukovic
6. UKRAINE - Olena Kucherenko
7. ECS - Janez Kopac, Director
8. ECS - Bozena Mazur, Head of Financial and Administrative Unit
9. ECS - Vladimir Nikiforov – Assistant

20th Meeting of the Budget Committee

Location: Energy Community Secretariat, Vienna
Time: 13:00 – 15:00

1. Welcome and Follow-up of the last meeting of 18 June 2013

- 1.1. Following the opening remarks by Director Kopac, introduction of all members of the Committee, new Chair of the Budget Committee, Mrs. Paloma Aba Garrote, welcomed the participants to the meeting and asked for comments on the draft agenda. Agenda as proposed was approved.
- 1.2. Presentation of Legal Commitments in the Energy Community Financial Statements: as a follow-up of discussions at the previous meetings of the Committee in 2013, the Chair asked the Secretariat to recall the background and substance of the topic (see *Annex 1* of the meeting of 18 June 2013). Secretariat informed also about the interim consultation with the external audit company, based on which it was further recommended to the Energy Community that the position of the legal commitments is shown as a liability. Following this exchange of views, Chair agreed that the Secretariat continues the presentation of the legal commitments in the same way as in the previous years.
- 1.3. Amendments to the Budgetary Procedures: In reference with the previous discussions, it was agreed that proposals for the amendments of the Budgetary Procedures shall be forwarded in the agreed upon table format (*Annex 1*) for comments to the Budget Committee members by 20 January 2014 at the latest. The consolidated version shall be then forwarded by the Secretariat to the Commission for further service consultations.

2. Budget 2013

- 2.1. Chair invited the Secretariat to present the actual budget utilization report for the year 2013. In this relation details regarding the individual budget lines and position were outlined, with particular focus on the forecasted data by the end of the year. In this context Secretariat informed about the details and justification of the needed transfers of the budget appropriations (see *Annex 5*) within the budget 2013 to cover the deficiency of funds in few budget lines.
- 2.2. In relation with the presented details of studies initiated in 2013 (see *Annex 3*), the representatives of Serbia, Kosovo* and Republic of Macedonia inquired about the possibility of continuation of the technical assistance regarding the implementation of the Oil Directive. The Director informed about the envisaged TA/EX support for the next year 2014 under which the consulting work might be continued and/or followed-up.
- 2.3. Further, in relation with the presentation of the actual budget utilisation figure the Secretariat informed about the estimates related to the year-end budget adjustments (see *Annex 6*) which will result from the other and finance income for the year 2013.
- 2.4. In conclusion, the Secretariat informed about the outstanding liability of Ukraine towards the Energy Community out of the yet paid budget contribution for 2013. Secretariat further informed that Energy Community shall pay back its liability towards Ukraine, resulting from not used budget appropriations in 2012 (amount of EUR 5,865.44) only upon receipt of Ukrainian's budget

Conclusions

20th Budget Committee
Meeting 20th Budget Committee



contribution for 2013. Representative of Ukraine informed that best efforts shall be made to transfer the due amount before the end of the financial year 2013.

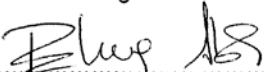
3. Budget 2014-2015

- 3.1. Secretariat recalled the financial obligations of the Parties to contribute to the budget of the Energy Community in the years 2014 and 2015 (see *Annex 7*) making reference to the approved budget of the Energy Community by the Ministerial Council on 24 October 2013. Parties were informed about the procedures on the collection of the budget contributions for the year 2014, which will be finalized by the Secretariat by the end of 2013. Representative of Ukraine asked for the invoice related to the Budget Contribution for 2015 at the same time.
- 3.2. In conclusion the table of the Financial Reporting deadlines for 2014 was in short presented and discussed (see *Annex 8*). Budget Committee agreed with the continuation of the approach from the previous years and approved the table of deadlines.

4. Organisational Aspects

- 4.1. Secretariat recalled the commencement of the next mandate of the Budget Committee members with the new budget 2014-2015. Any changes in composition of the Budget Committee for the next two years shall be communicated to the Secretariat as soon as possible.
- 4.2. In the context of the overall event planning in the year 2014, it was agreed that the meetings of the Budget Committee will take place in Vienna on 6 March, 14 May and 16 December 2014.
- 4.3. As there were no other items under miscellaneous, the meeting was closed.

Chair of the Budget Committee



Signature and date

Conclusions

20th Budget Committee
Meeting 20th Budget Committee



List of participants:

1. Mrs. Paloma Aba-Garrote – Chair, European Commission
2. Mrs. Blanca Andres-Ordax – European Commission
3. Mrs. Aferdita Daja Bareti – Albania, Ministry of Economy, Trade and Energy
4. Mr. Admir Softic - Bosnia & Herzegovina, Ministry of Foreign Trade and Economic Relations of BiH
5. Mr. Luan Morina – Kosovo*, Ministry of Energy and Mining
6. Mrs. Razmena Cekic Durovic – former Yugoslav Republic of Macedonia, Ministry of Economy
7. Mr. Oleg Izvoreanu - Moldova, Ministry of Economy
8. Mrs. Natalia Lukovic – Serbia, Ministry of Energy, Development and Environment Protection
9. Mr. Oleg Shevtchenko - Ukraine, Ministry of Energy and Coal Industry
10. Mrs. Victoria Ruzhenkova – Ukraine, Ministry of Energy and Coal Industry
11. Mr. Janez Kopac – ECS, Director
12. Mrs. Bozena Mazur – ECS, Head of Finance and Administration
13. Mrs. Julia Szendrei – ECS, Accountant