

## **ANNUAL ACTIVITY REPORT OF THE BUDGET COMMITTEE 2014**

### **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 2014. The report was approved by the Budget Committee at its meeting on 23 June 2015. 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 2014**

As a continuation of its work, the Budget Committee met three times in 2014 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 2014, such as:

- 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 2013;
- Proposal of the discharge decision of the Director to the Ministerial Council based of the year-end results for 2013 as well as on the Audit Report for the same period;

In 2014, Mrs. Paloma ABA-GARROTE was in charge of chairing the Budget Committee meetings.

### **Conclusion**

All activities of the Budget Committee through the meetings held were aimed to add value and make a contribution to the basic principles drawn up by the Budgetary Procedures, which include:

- The efficient functioning of the internal control system for relevant risks,
- The reliability of financial reporting,
- Compliance with policies, procedures, rules and legal provisions.

In 2014 the Budget Committee received from the Secretariat all requested information of financial relevance in order to carry its tasks of supervision and advice. It therefore considers that it has

satisfactorily and appropriately fulfilled the responsibilities assigned to it by the Budgetary Procedures and its own Internal Rules of Procedure.

The Committee maintained direct ongoing contact with the Director, responsible for the financial management of the Energy Community budget, as well as with the external auditor of the Energy Community year-end accounts.

## **ANNEXES: AGENDA AND MINUTES OF THE BUDGET COMMITTEE MEETINGS IN 2014** *(in chronological order)*

### **I. 21<sup>st</sup> meeting of the Budget Committee of 6 March 2014**

- 1. Audit Report 2013
- 1.1. Presentation of year-end accounts by KPMG (Dr. Bauer)
- 2. Energy Community Procedures for the Establishment and Implementation of Budget, Auditing and Inspection
- 2.1. Amendments proposal – follow up discussion of 16 December 2013
- 2.2. Outline of next procedure steps
- 3. Miscellaneous
- 3.1. Former Employee – claim of entitlements
- 3.2. Meeting of the Budget Committee 14 May 2014: Outlook of points for discussion

### **II. Agenda of 22<sup>nd</sup> meeting of the Budget Committee of 14 May 2014**

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- 1. Welcome and Follow-up of last meeting of 6 March 2014
- 2. Budget Utilisation Report 2014
- 2.1. Current Status of utilisation and forecast of year-end activities
- 2.2. Budget Contributions 2014 – status of payments
- 3. Audit Services 2014-2015: Director's proposal for designation of external audit company for the years 2014-2015 (Art. 80 of the Budgetary Procedures)
- 4. Financial Reporting to the Ministerial Council
- 4.1. Director's Report on Budget Utilisation 2013 (under Art. 75 of the Treaty)
- 4.2. Budget Committee Report on Audit 2013 (under Art. 81 of the Energy Community Budgetary Procedures)
- 4.3. Budget Committee's Annual Activity Report for the year 2013 (under item III.3. of the Internal Rules of Procedure of the Budget Committee)
- 5. Misc.
- 5.1. Follow-up on the discussion regarding the amendments of the Energy Community Procedures for the Establishment and Implementation of the Budget, Auditing and Inspection
- 5.2. Follow-up on the Director's Report to the Budget Committee on the claim from the former staff member of the Energy Community
- 5.3. Accession of Georgia to the Energy Community and Annex IV of the Treaty – procedure and next steps

### **III. Agenda of the 23<sup>rd</sup> meeting of the Budget Committee of 16 December 2014**

1. Welcome and follow up of the last BC / MC meeting
2. Budget 2014
  - 2.1. Current budget utilization report
  - 2.2. Budget contributions 2014 – payments and repayments
3. Budgeting 2016-2017 in the context of the proposals of High Level Reflection Group
  - 3.1. Principles and timeline
  - 3.2. Budget contribution system – possible changes
4. Misc.
  - 4.1. Internal Rules of Procedures of the Budget Committee – proposal for changes
  - 4.2. Audit 2014 – next steps and timeline
  - 4.3. Accounting at the Secretariat – organizational set up in future



## *21<sup>st</sup> meeting of the Budget Committee*

*Location: Energy Community Secretariat, Vienna*

*Date and time: 6 March 2014, 11:00 – 13:00*

### **1. Opening of the meeting: Welcome and agenda approval**

- 1.1. Chair of the Budget Committee, Mrs. Paloma Aba-Garotte, welcomed representatives of the Contracting Parties to the meeting and asked for comments on the draft agenda. As no comments were received, the meeting started with agenda point 2 (see below).

### **2. Audit 2013: Presentation of year-end accounts by KPMG**

- 2.1. Mrs. Aba-Garotte invited the representatives of the external audit company to take the floor and present the overall results of the audit of the financial statements of the Energy Community as of 31 December 2013.
- 2.2. In introduction, Dr. Bauer from KPMG informed that the audit of the Energy Community's financial statements did not give rise to any objections (see also Annex 1 of the meeting's documents): it presents the true and fair value of the financial position as of December 31, 2013 and of its financial performance and cash flow for the year from January 1, 2013 until December 31, 2013 in accordance with applied accounting standards (IPSAS).
- 2.3. Following the general report, Dr. Bauer explained in details the budget report under IPSAS 24 referring also to the budget transfers and amendments 2013.
- 2.4. In particular the presentation of the amount of not used budget appropriations (as liability position) was recalled and repayment amounts to the Parties referred to. In this context it was recalled that Energy Community repays the amount of not used budget appropriations as shown in the statement of financial position of December 31, 2013 as well as of all other and finance income.
- 2.5. In conclusion Dr. Bauer presented the follow-up in respect of the Management Letter 2012 and noted that all issues stated therein have been solved and documented. External auditors did not have any issues/recommendations to the Management of the Secretariat after the audit of the financial statements for the period ending December 31, 2013.
- 2.6. In conclusion, exchange of views regarding the presentation of the legal commitments in the statements took place. Following the respective opinion of the auditors, presentation of this item remained under liability in the statement of financial position as it reflects better the requirements of the Energy Community.
- 2.7. As there were no further questions or remarks on the audit, Chair thanked the representatives of KPMG for their presence at the meeting.

### **3. Energy Community Procedures for the Establishment and Implementation of the Budget, Auditing and Inspection**

- 3.1. Under this agenda item, draft amendments to Budgetary Procedures in its final version (see Annex 2 of meeting's document) were discussed. Review - article by article - resulted in few

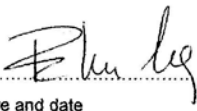
minor editorials to be implemented in the draft document. Further required changes in the following articles of the Budgetary Procedures were discussed:

- Art 16(2) deletion of 'refunds'
  - Art 23 (2) and Art 23(5) replacement European Community with 'European Union'
  - Art 38 deletion of 'to' in the 1st sentence
  - Art 43 correction of the sequence of numbering
  - Art 48 reversal of amendment proposed (upon advice of EC, after internal consultations)<sup>1</sup>
  - Art 76(2) replacement of 'when' with 'till' (in the 1st sentence).
- 3.2. The Secretariat was asked to consolidate the very final comments discussed at the meeting. Due to absence of the most of the members, Chair proposed to obtain the approval on the document – as required for further procedural steps – through written procedure foreseen in the Internal Rules of Procedures of the Budget Committee. It was agreed that all members shall be given 5 working days as a timeframe for response.
- 3.3. In conclusion of the discussion, representative of the Commission informed about next procedural steps to be undertaken within the Commission.

#### 4. Miscellaneous

- 4.1. Director reported about the pending case in relation with former employment of accounting officer at the Energy Community in the years 2007-2013. Detailed report of the Director (see Annex 3 of the meeting's documents) as well as proposal for solution of this dispute was referred to. In conclusion of his presentation, the Director asked for required approval of budget for the claimed extraordinary expenditures by the former employee. Following short discussion and exchange of views, Chair asked the Director to obtain first a third party - independent - opinion on the assessment of the case. Based on such opinion, the required decision on the approval of the budget for the settlement of the case would follow.
- 4.2. Under this agenda point, the Secretariat informed about the outlook of topics relevant for the discussions at the upcoming meeting of the Budget Committee scheduled for 14 May 2014. At this meeting several documents of financial relevance will have to be approved and subsequently forwarded for adoption to the Ministerial Council meeting on 23 September 2014.
- 4.3. Chair thanked all participants for the participation and closed the meeting.

#### Chair of the Budget Committee

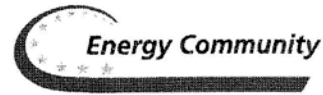


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<sup>1</sup> Energy Community repays all gained interest on its funds to the Parties together with the not used budget appropriations.

Minutes of the meeting

21st Budget Committee



**List of participants:**

1. Mrs. Paloma Aba-Garrote – Chair, European Commission
2. Mr. Abdel-Ilah El-Ameli – European Commission
3. Mrs. Borjana Shaka – Albania, Ministry of Energy and Industry
4. Mr. Admir Softic - Bosnia & Herzegovina, Ministry of Foreign Trade and Economic Relations
5. Mrs. Razmena Cekic Durovic – former Yugoslav Republic of Macedonia, Ministry of Economy
6. Mrs. Natalia Lukovic – Serbia, Ministry of Energy, Development and Environment Protection
7. Mr. Janez Kopac – ECS, Director
8. Mrs. Bozena Mazur – ECS, Head of Finance and Administration
9. Mrs. Julia Szendrei – ECS, Accountant



## *22<sup>nd</sup> meeting of the Budget Committee*

*Location: Energy Community Secretariat, Vienna*

*Date and time: 14 May 2014, 11:00 – 12:30*

### **1. Opening of the meeting: Welcome and agenda approval**

- 1.1. Chair of the Budget Committee, Mrs. Paloma Aba-Garrote, welcomed representatives of the Contracting Parties to the meeting and asked for comments on the draft agenda. As no comments were received agenda of the meeting was approved.

### **2. Budget Utilization Report 2014**

- 2.1. The Director has presented current status of budget utilisation (Annex 1). Outlook of major expenses was made, in particular in relation to the funds related to the studies and refunding (see forecast of year-end expenses, Annex 1). In the discussion it was suggested that refunding as budget item is additionally explained to what it relates.
- 2.2. In conclusion the Director informed that two of the Contracting Parties have not yet paid their contributions (Ukraine, Montenegro) to the EnC budget 2014, subject to follow-up in the 2<sup>nd</sup> half of 2014.

### **3. Audit Services 2014-2015**

- 3.1. Mr. Kopac, in his capacity of Director of the Energy Community Secretariat, has elaborated on the process of selecting the audit company for the years 2014-2015, where six companies were invited to participate in the tender. As a result, three offers passed the minimum required technical score of 80 points and were considered for evaluation (E&Y, KPMG and PriceWaterhouseCoopers).
- 3.2. Based on results of the evaluation as well as looking at the aspects of continuity for the sake of process effectiveness, the Director proposes to continue the engagement of KPMG for another 2 years under the discussed terms of reference for the auditing of Energy Community accounts in the years 2014-2015.
- 3.3. Following short exchange of views, Budget Committee members have approved the proposal for designation of KPMG as external auditors for 2014-2015.

### **4. Financial Reporting to the Ministerial Council**

- 4.1. In reference with the reporting obligations towards the Ministerial Council, the Director presented Annual Budget Utilisation Report for 2013 pursuant to Art. 75 of the Treaty, in particular its structure and conclusions referred therein (see Annex 3 of meeting's documents). Particular focus in the presentation was put on the budget amendments and transfers in 2013 as well as repayment obligations of the Energy Community towards the Parties. Following this



presentation the Chair invited the Parties to comment on the report. In conclusion of the discussion, it was decided to introduce the following amendments into the current version of the Report: 1) a narration note shall be added to explain the difference in the unspent budget amount of EUR 291.772,- and the amount due to repayment to the Parties of EUR 260.021,-; 2) A declaration of assurance by the Director shall be added at the end of the Report with the following text proposal: "I have reasonable assurance that the resources assigned to the activities described in this report have been used for their intended purpose and in accordance with the principles of sound financial management, and that the control procedures put in place give the necessary guarantees concerning the legality and regularity of the underlying transactions. This reasonable assurance is based on my own judgement and on the information at my disposal, internal controls and the work of the external audit. I Confirm that I am not aware of anything not reported here which could harm the interests of the Energy Community"; 3) a short explanation on the institutional budget will be provided by the Secretariat. With these three adaptations the Report was supported for the endorsement by the PHLG group in June and subsequently for submission to the Ministerial Council.

- 4.2. Further, Budget Committee' Report on Audit 2013 was in short referred to (Annex 4). The report was approved for the submission to the MC.
- 4.3. In conclusion, members of the Budget Committee discussed its Annual Activity Report for 2013 (Annex 5) as proposed by the Secretariat. It was agreed that the report shall be submitted for information to the PHLG in June 2014 as required under the Internal Rules of Procedure of the Budget Committee in its point III.3.
- 4.4. Based on the Audit Report 2013 and presented Director's Report on budget utilisation for 2013, budget committee proposes the discharge of the Director from his management and administrative responsibility for the year 2013 to the MC of EnC for respective decision.

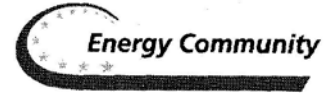
## 5. Miscellaneous

- 5.1. As a follow-up of the discussions related to the amendments of the Energy Community Procedures for the Establishment and Implementation of the Budget, Auditing and Inspection Chair informed about the status quo of inter-service consultation within Commission.
- 5.2. Upon invitation of the Chair, Mr. Kopac informed about the follow up in relation with the claim of the entitlements by the former staff member, Mrs. Divic as follows: after having obtained a legal opinion on the case, the Director has come to the conclusion that the legal situation is in favour of the Secretariat. Thus, he withdrew the original proposal to approve extraordinary costs and proposed not to enter into an agreement with Mrs. Divic at this stage.
- 5.3. In the context of the accession of Georgia to the Energy Community, the Director recalled the financial obligation of the future Contracting Party to pay its contribution to the EnC budgets as of, as estimated<sup>1</sup>, 2015. In this relation Annex IV of the Treaty shall require respective amendment. It was agreed that such proposal on the amendment will be forwarded to the MC for decision in Sep 2014, subject to acceptance of Georgia as Contracting Party in 2014.
- 5.4. On behalf of the Budget Committee members, the Chair thanked to Mr. El-Ameli, who will start a new position soon, for his valuable contribution to the Budget Committee activities in the past.
- 5.5. Mr Kopac informed the BC members about request of the Austrian Real Estate Agency to empty the current premises, what would cause substantial costs and about his engagement of

<sup>1</sup> At a level of 0.10-0.12%, subject to further confirmed calculation;

Minutes of the meeting

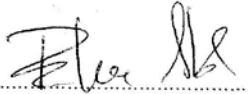
22nd Budget Committee



Austrian Federal Ministry of Europe, Integration and Foreign Affairs and Federal Ministry of Science, Research and Economy. The outcome of the discussion is not predictable yet.

5.6. Chair thanked all participants for the participation and closed the meeting.

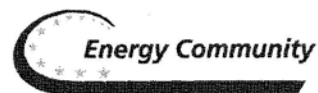
**Chair of the Budget Committee**

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Signature and date 31/07/2014

Minutes of the meeting

22nd Budget Committee



**List of participants:**

1. Mrs. Paloma Aba-Garrote – Chair, European Commission
2. Mr. Abdel-Ilah El-Ameli – European Commission
3. Mrs. Borjana Shaka – Albania, Ministry of Energy and Industry
4. Mr. Admir Softic - Bosnia & Herzegovina, Ministry of Foreign Trade and Economic Relations
5. Mrs. Razmena Cekic Durovic – former Yugoslav Republic of Macedonia, Ministry of Economy
6. Mrs. Natalija Lukovic – Serbia, Ministry of Energy, Development and Environment Protection
- 7.
- 8.
9. Mr. Janez Kopac – ECS, Director
10. Mrs. Agata Muellner – ECS, Assistant
11. Mr. Vladimir Nikiforov – ECS, Finance Assistant

## ***23<sup>rd</sup> meeting of the Budget Committee***

*Location: Energy Community Secretariat, Vienna  
Date and time: 16 December 2014, 14:00 – 15:30*

### ***1. Opening of the meeting: Welcome and agenda approval***

- 1.1. Chair of the Budget Committee, Mrs. Paloma Aba-Garrote, welcomed representatives of the Contracting Parties to the meeting and asked for comments on the draft agenda. As no comments were received agenda of the meeting was approved.

### ***2. Budget Utilization Report 2014***

- 2.1. The Secretariat has presented an update of the budget utilisation for the period ending 15 December 2014. Major expenditures of the year, like studies and outsourced services related have been explained in details. In this context Secretariat provided also an estimation of required transfers of budget appropriations within the overall budget of the year. The transfers have been caused by higher than initially budgeted expenditures for studies and consulting as well as by the outsourced services related to the accounting duties.
- 2.2. In response to the question regarding applied methodology of technical amendments (budget transfers), it was concluded that transfers have to be made before entering into commitments higher than the budget of the respective budget line/position. Reporting on the transfers shall be from the beginning of 2015 part of the monthly/quarterly reporting, depending on how the transfer need appeared.
- 2.3. In relation with the discussion on payment of budget appropriations to budget 2014, Ukraine explained that the outstanding amount of budget 2014 shall be paid together with the contribution 2015. Other Parties were informed about the due budget contributions for 2015 as well as about the amounts to be paid back by the Secretariat out of the not used budget 2013. Secretariat recalled its request to confirm the bank account details of represented institutions.

### ***3. Budgeting 2016-2017 in the context of the proposals of the High Level Reflection Group***

- 3.1. Chair invited Secretariat to explain in brief the approach of budget to be prepared for the upcoming biennium 2016-2017. Secretariat explained that the principles of budgeting shall remain the same, planning of expenditures shall be oriented on the actual values of expenditures of the year 2014. In this context, budget of several budget lines/positions shall be increased to reflect the experience as well as budget needs in future. The overall budget shall be increased to consider the proposals by the High Level Reflection Group (HLRG) that require more financial resources, like strengthening technical assistance to the Contracting Parties in different areas of work.
- 3.2. Further, Director informed about the HLRG proposal on possible changes in the system of the calculation of the budget contributions to the Energy Community Budget.



- 3.3. As far as the overall timeline is concerned, Commission expects Secretariat's proposal early 2015 that shall be further discussed within Commission. This will be followed by procedure of approval by the Ministerial Council in October 2015.

#### 4. Misc.

- 4.1. In reference with *Internal Rules of Procedures* of the Budget Committee, Secretariat proposed to the Budget Committee changes related to the decision making process referred to in Art. IV.3. The proposal calls for the change of the required quorum from 'at least two-third' to 'half of members', where the presence of the representatives from the Commission shall be compulsory. Following short discussion, Budget Committee agreed on the amendment of the existing version of the *Internal Rules of Procedure* of 30 January 2008, as follows:

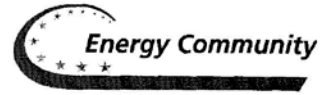
*"The adoption of a decision shall require the presence of at least half of members, provided at least one representative from the Commission is present. When the Budget Committee lacks a quorum and action is imperative and urgent, the Chairperson shall be authorized to provide guidance to the Secretariat on behalf of the Budget Committee. In this case, the guidance provided shall replace a decision. The Chairperson shall circulate the guidance provided to all Budget Committee members as soon as practicable".*

Secretariat will circulate asap the amended document for reference purposes.


- 4.2. Chair invited the Secretariat to inform about the planned audit of year-end accounts for 2014. The process and timeline shall be similar to the previous years 2012 and 2013 as the same responsible audit company, KPMG, will lead the process. It is planned that audit commences in the week starting 16 February 2015 with presenting the overall results in the 1<sup>st</sup> meeting of the Budget Committee in 2015.
- 4.3. Director presented the concept of outsourcing the accounting duties as of now (by Deloitte) as well as for the future. Respective cost-benefit-analysis was done, based on which it was concluded that the most economic way of continuing is to outsource the service to a third party provider. Respective procurement procedure of service is planned for the 1<sup>st</sup> quarter 2015.
- 4.4. Director asked for preliminary agreement on the transfers of budget appropriations concerning human resources budget line 2014 and 2015. As far as the year 2014 is concerned available human resources budget (not used due to not occupied accountant position as of May 2014) is needed to finance the activities under the costs of outsourced services. In 2015, Director proposed to use the budget foreseen for employment of an accountant (amount of approx. EUR 60k) for the short terms assignments like internship and secondment. Respective justification was provided to the participants of the meeting, based on which Budget Committee agreed with the Director's proposal and following the provisions of the *Budgetary Procedures* provided its preliminary agreement.
- 4.5. The Secretariat proposed the dates for the meetings of the Budget Committee in 2015, as follows: 19 March, 23 June and 16 December.
- 4.6. Chair thanked all participants for the participation and closed the meeting.

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23rd Budget Committee



**Chair of the Budget Committee**

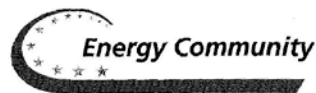


Signature and date

18/12/2014

Minutes of the meeting

23rd Budget Committee



**List of participants:**

1. Mrs. Paloma Aba-Garrote – Chair, European Commission
2. Mrs. Borjana Shaka – Albania, Ministry of Energy and Industry
3. Mr. Admir Softic - Bosnia & Herzegovina, Ministry of Foreign Trade and Economic Relations
4. Mrs. Vesna Ostojic-Bracanovic – Montenegro, Ministry of Economy
5. Mrs. Natalia Lukovic – Serbia, Ministry of Energy, Development and Environment Protection
6. Mr. Oleg Shevchenko – Ukraine
7. Mr. Janez Kopac – ECS, Director
8. Mrs. Bozena Mazur – ECS, Head of Financial and Administrative Unit