EUROPEAN COMMISSION
INTERNAL AUDIT SERVICE

Audit in EU decentralised agencies and autonomous bodies

IAS Operations*

Annual Internal Audit Report for 2013

Under Article 72 (4) of the Framework Financial Regulation

Agency for the Cooperation of Energy Regulators (ACER)

ACER
Agency for the Cooperation
of Energy Regulators

4 March 2014

**This report is addressed to
the Administrative Board of ACER
Mr A. Pototschnig, Director, ACER**

1. INTRODUCTION

Article 72(4) of the Framework Financial Regulation that was in force in 2013 requires that *"the internal auditor shall submit to the Community body an annual internal audit report setting out, inter alia, the number and type of internal audits conducted, the recommendations made and the action taken on these recommendations"*. The function of the Internal Auditor of the Agency for the Cooperation of Energy Regulators is entrusted by the Financial Regulation to the Internal Auditor of the European Commission.

This report provides an overview of the audit activities conducted in 2013 in the Agency for the Cooperation of Energy Regulators (hereinafter referred to as "ACER" or "the Agency") by the Internal Audit Service (IAS) and highlights the key recommendations.

When establishing the Annual Activity Report and his annual declaration of assurance, the Director should consider the impact of the residual risks that are not yet mitigated (see Section 3 and 5).

No systemic problems were reported in 2013 by the Financial Irregularities Panel set up under Article 73(6) of the general Financial Regulation[1].

2. PROFESSIONAL ENVIRONMENT

The internal audit work in EU agencies and other bodies is performed by Directorate A of the Internal Audit Service in the Commission under responsibility of the Internal Auditor – Director General of the IAS. In 2013, the portfolio of EU agencies and other bodies comprised 41 entities: 31 decentralised EU agencies, 7 joint undertakings, 2 Institutions (EDPS and EEAS) and one inter-governmental organisation (the European Schools).

2.1. Purpose, authority and responsibility[2]

The purpose, authority and responsibility of the internal audit activity in ACER are formally defined in the Internal Audit Charter signed in 2011[3]. The Internal Auditor assesses that the Charter was adequate to accomplish the objectives in 2013; however, it will have to be revised in 2014 to reflect the new legal framework.

In view of the number of entities, the Internal Auditor was not able to meet all Boards in 2013. At the request of the Board, a representative of the Internal Auditor may present and discuss the audit work carried out as well as expectations towards the internal audit, or any other issue of interest for the Board.

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[1]   Regulation (EU, Euratom) no 966/2012 of the European Parliament and of the Council of 25/10/2012 on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002 (OJ L298 of 26/10/2012).

[2]   Standard 1000

[3]   Ares (2011)1117488

2.2.   Professional Framework[4]

The Internal Audit Service and the Charter recognise the mandatory nature of the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (the Standards) promulgated by the Institute of Internal Auditors, which together form the International Professional Practice Framework.

As certified by the 2011 external quality assessment, the internal audit activity in EU Agencies and Bodies performed by IAS.A is in conformance with the International Professional Practice Framework.

2.3.   Independence and objectivity[5]

The Internal Auditor confirms that in 2013:

-   He preserved the full organizational independence necessary to effectively carry out the responsibilities of the internal audit activity, in particular through the dual reporting relationship to the Board and Director and through direct and unrestricted access he has to senior management and the Board;

-   The internal audit work in ACER was free from interference in determining the scope of internal auditing, performing work; and

-   There was no impairment to individual objectivity, in particular through conflict of interest, scope limitations, restrictions on access to records, personnel, and properties, or resource limitations.

2.4.   Audit plan and resource management[6]

The IAS Strategic Audit Plan for ACER[7] lists the proposed audit topics for years 2013 - 2015. In 2013, the IAS carried out an audit on one of these audit topics.

The resources for the Internal Audit Service are provided by the European Commission. Within the resources available in 2013, the chief audit executive ensured that there was an appropriate mix of knowledge, skills and other competences and that the resources were effectively deployed to optimise the achievement of the approved internal audit plan.

3.   SUMMARY OF HIGH RISK AREAS IDENTIFIED IN RISK ASSESSMENT

The role of the IAS is to seek to provide re-assurance that control systems are adequate to manage material risks.

In the course of the risk analysis, the IAS identified certain processes of high inherent risk which could not be considered as auditable within the audit plan, as the controls were assessed as absent or insufficient.

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[4]   Standard 1010

[5]   Standards 1100 and 1110

[6]   Standards 2020 and 2030

[7]   Ares(2012)570045

The Agency's management submitted an action plan aimed at addressing these weaknesses. The actions undertaken by ACER for addressing these high risk areas will be followed up by the IAS during the next in-depth risk assessment.

Table 1 provides an overview of high risk processes identified in the Strategic Audit Plan 2013 – 2015.

Table 1

Strategic Audit Plan 2013 – 2015

Sub-process	Original Action Plan Target Date
(1, 3, 4) Planning and Monitoring	2013
(14) Performance appraisal, Career development.	2012
(20, 36) Document Management and Data management.	2012
(22) Facility Management, logistics, security.	2013
(26-28) Stakeholder relations & Communication.	2013
(d1, d2) Monitoring of the internal market.	2012
(b1, b2) NRA cooperation	Not specified
(c3) Monitoring of the implementation of network codes	2014

4. THE INTERNAL AUDIT ACTIVITY IN 2013

4.1. Audit on Planning, Budgeting and Monitoring[8]

Objective and Scope

The objective of the audit was to provide independent assurance on the adequacy and effectiveness of the internal control system related to planning, budgeting and monitoring in ACER. In particular, the audit assessed whether the internal controls for planning, budgeting and monitoring processes provide reasonable assurance regarding:

- Compliance with the Agency's mandate and the applicable legal basis;
- Design adequacy and effective application of the processes subject to the audit; and
- Reliability of information provided by the tools for operational and financial planning, as well as for monitoring of the budget and the AWP implementation.

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[8] Excerpts of the Executive Summary of the final report

The scope of the audit covered the following:

- Annual planning process supporting the establishment of the 2013 AWP, including the improvements made in the 2014 planning cycle.
- Process for the establishment of the budget for 2013 and 2014.
- Monitoring of the Agency's activities, AWP implementation, and budget execution in 2012 and 2013.

Audit Opinion and Major Findings

Based on the results of the audit as described in the objective and scope of the audit engagement, the IAS believes that the internal control system put in place by ACER provides reasonable assurance regarding the achievement of the objectives established for planning, budgeting and monitoring except for the following issues and the related very important recommendations:

(1) **Improve the structure, enhance the contents and ensure completeness of the AWP:** The key elements of performance measurement system[9] are not clearly defined in the Agency's AWP, thus providing incomplete picture to the Agency's stakeholders regarding the activities to be carried out, related objectives and expected performance. The existing performance measurement system of the Agency should be therefore enhanced by clearly spelling out all the activities and by building the other elements around these activities.

(2) **Strengthen the monitoring of procurement activities:** Currently, ACER does not have an appropriate tool for monitoring the status of procurement procedures, nor for monitoring of contracts implementation. The procurement monitoring is disconnected from the monitoring of budget implementation. Therefore, the Agency should develop a systematic approach to monitoring of the procurement activities, supported by an appropriate tool. It should also clearly allocate the responsibilities for monitoring of the contracts implementation.

(3) **Reinforce operational and budget implementation monitoring:** Several weaknesses were noted in the monitoring of operational activities, AWP implementation monitoring, and budget execution monitoring. In order for the senior management to be able to effectively monitor the progress in achieving the Agency's objectives, the reporting package for monitoring of operational activities should be further developed. It should also contain an established mechanism for follow-up actions to address any identified delays or underperformance. The existing budget execution reports should be complemented by a forecasting component linked with the procurement planning.

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[9] Adequately defined activities, SMART objectives, performance indicators, and targets related to indicators.

Agency's action plan following the IAS recommendations

Following the audit, the Agency prepared an action plan. The IAS considers that it adequately addresses the risks and will mitigate them if implemented as planned.

4.2.   Follow-up of earlier recommendations

In 2013, the IAS followed up the implementation of its earlier recommendations through a desk review of the information provided by the Agency on the status of important or desirable recommendations[10]. Section 5 below presents the very important and critical recommendations that remain open.

5.   OPEN RECOMMENDATIONS[11]

No critical recommendations were open as at 31/12/2013.

The implementation of three very important recommendations was on track:

2013 Audit on Planning, Budgeting and Monitoring

- *Rec. 3:* Improve the structure, enhance the contents and ensure completeness of the AWP (agreed upon implementation date: 30/06/2014)

- *Rec. 6*: Strengthen planning and monitoring of procurement (agreed upon implementation date: 31/03/2014)

- *Rec. 11*: Reinforce operational and budget implementation monitoring (agreed upon implementation date: 30/06/2014)

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[10]   In GRC – Issue Track (an interactive IT reporting tool available to the Agency)

[11]   The important and desirable recommendations are not included in this report.