

DECISION No 17/2018

**OF THE ADMINISTRATIVE BOARD OF THE AGENCY FOR THE
COOPERATION OF ENERGY REGULATORS**

of 13 December 2018

on the Internal Control Framework of the Agency for the Cooperation of Energy Regulators repealing Decision No 10/2012 of the Administrative Board of the Agency for the Cooperation of Energy Regulators of 20 June 2012 on the adoption of the Internal Control Standards and repealing Decision AB No 09/2011

THE ADMINISTRATIVE BOARD OF THE AGENCY FOR THE COOPERATION OF ENERGY REGULATORS,

Having regard to Regulation (EC) No 713/2009 of the European Parliament and of the Council of 13 July 2009 establishing an Agency for the Cooperation of Energy Regulators¹,

Having regard to Regulation (EU, Euratom) 2018/146 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union², and, in particular, Article 74(2) thereof,

Having regard to Decision No 22/2013 of the Administrative Board of the Agency for the Cooperation of Energy Regulators on the adoption of the Financial Regulation of the Agency for the Cooperation of Energy Regulators of 12 December 2013, and, in particular, Article 30 thereof, ,

Whereas:

- (1) The Internal Control Framework of the European Commission has been revised in 2017³ and this new framework replaces the applicable internal control standards with internal control principles.
- (2) It is appropriate to align the Agency with the Internal Control Framework of the European Commission and therefore establish a similar Internal Control Framework, consisting of internal control principles, indicators and a methodology.
- (3) The revision aims to move from a compliance-based system to a principle-based system and ensure a more robust internal control framework through consistent assessment, while providing the necessary flexibility to enable the framework to be adapted to the specific characteristics and circumstances of the Agency.
- (4) For the sake of clarity and legal certainty, Decision No 10/2012 of the Administrative Board of the Agency for the Cooperation of Energy Regulators of 20 June 2012 on the

¹ OJ L211, 14.8.2009, p.1

² OJ-L 193/30.07.2018. p.1

³ Communication to the Commission: Revision of the Internal Control Framework, C(2017) 2373 final of 19.04.2017.

adoption of the Internal Control Standards and repealing Decision AB No 09/2011 should be repealed,

HAS ADOPTED THIS DECISION:

Article 1

The Internal Control Framework of the Agency, containing Internal Control Principles (Annex I), Internal Control Indicators (Annex II) and Internal Control Methodology (Annex III) is hereby adopted.

Article 2

Decision No 10/2012 of the Administrative Board of the Agency for the Cooperation of Energy Regulators of 20 June 2012 on the adoption of the Internal Control Standards and repealing Decision AB No 09/2011 is hereby repealed in its entirety.

Article 3

The Administrative Board invites the Agency to review the processes in place to align them to the Internal Control Framework where needed.

Article 4

This Decision shall enter into force on the date of its adoption.

Done at Ljubljana, 13 December 2018.

For the Administrative Board

The Chair

Dr. R. JORDAN

ANNEX I

INTERNAL CONTROL PRINCIPLES

Introduction

Internal control helps ACER (herein the Agency) to achieve its objectives and sustain operational and financial performance whilst respecting rules and regulations. Internal control supports sound decision-making by taking into account risks in the achievement of objectives and where necessary, reducing them to acceptable levels through cost-effective controls. Internal control applies to all activities, irrespective of whether they are financial or non-financial.

The internal control framework of the Agency is designed to provide reasonable assurance regarding the achievement of objectives, including the following:

- *Effectiveness, efficiency and economy of operations,*
- *Reliability of reporting and safeguarding of assets and information,*
- *Prevention, detection, correction and follow-up of fraud and irregularities, and*
- *Adequate management of the risks relating to the legality and regularity of the underlying transactions¹.*

The ACER Internal Control Framework is based on the Framework of the European Commission, which was revised in 2017 with a view to aligning Commission standards to the highest international standards set by the COSO framework².

The aim of the Commission was to move from a compliance-based system to a principle-based system and to ensure a more robust internal control framework through consistent assessment, while providing the necessary flexibility to enable the framework to be adapted to fit the specific characteristics and circumstances of the Commission³. In order to keep up with these recent changes in the international best practices and following the Commission's revision in 2017, it is appropriate for the Agency to adopt its Internal Control Framework. The framework consists of 5 components and 17 Internal Control Principles. Characteristics of each principle have been included to help to define the principles.

Components: The components are the building blocks that underpin the structure of the framework. They are interrelated and must be present and effective at all levels of the organisation for internal control over operations to be considered effective.

Principles: Each component consists of several principles. Working with these principles helps to provide reasonable assurance that the Agency's objectives have been met. The principles specify the actions required for internal control to be effective.

¹ Art. 30 Internal Control of Budget Implementation, Financial Regulation of ACER, Decision AB No 22/2013.

² The full text of the Internal Control-Integrated Framework is available at www.coso.org.

³ Communication to the Commission: Revision of the Internal Control Framework, C(2017) 2373 of 17.04.2017.

Characteristics of each principle: The characteristics are based on those of the Commission, but have been defined in such a way as to take into account the specific governance arrangements and the specific situation of the Agency. There is no requirement for the Agency to assess whether each individual characteristic is in place. The characteristics have been defined to assist management in implementing internal control procedures and in assessing whether the principles are present and functioning.

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| <p>Component I. Control Environment</p> <p>Internal Control Principles 1-5</p> |
| <ol style="list-style-type: none"> 1. <i>Demonstrates commitment to integrity and ethical values</i> 2. <i>Exercises oversight responsibility</i> 3. <i>Establishes structure, authority and responsibility</i> 4. <i>Demonstrates commitment to competence</i> 5. <i>Enforces accountability</i> |

The **control environment** is the set of standards of conduct, processes, and structures that provide the basis for carrying out internal control across the Agency. The Management Team set the tone at the top with respect to the importance of internal control, including expected standards of conduct.

1. We demonstrate a commitment to integrity and ethical values

Characteristics:

- **Tone at the top.** The Director and all management levels respect integrity and ethical values in their instructions, actions and behaviour.
- **Standards of conduct.** The Agency's expectations on integrity and ethical values are set out in ACER values and understood at all levels of the organisation and its partners.
- **Alignment with standards.** Processes are in place to assess whether individuals and departments are aligned with the Agency's expected standards of conduct and to address deviations in a timely manner.

2. Management exercises oversight of the development and performance of internal control.

Characteristics:

- **In his capacity as Authorising Officer, the Director** provides a Declaration of Assurance on the appropriate allocation of resources and their use for their intended purpose and in accordance with the principles of sound financial management, as well as on the adequacy of the control procedures in place
- **Each manager oversees the internal control systems within their department.** Each manager oversees the development and performance of internal control and are advised,

as/when necessary, by the staff in charge of internal control coordination and risk management.

3. Management establishes structures, reporting lines, and appropriate responsibilities in the pursuit of objectives.

Characteristics:

- **Management structures are comprehensive.** The design and implementation of management and supervision structures cover all policies and activities to support the achievement of operational and control objectives.
- **Responsibilities.** The Director, as appropriate, delegates authority and use of appropriate processes and technology to assign responsibility and segregate duties as necessary at the various levels of the Agency.
- **Reporting lines.** The Agency designs and evaluates reporting lines within departments and units to enable the execution of authority, fulfilment of responsibilities and flow of information.
- **Deputising arrangements** for operational activities and financial transactions are in place to ensure continuity of operations.

4. We demonstrate commitment to attracting, developing and retaining competent individuals in alignment with objectives.

Characteristics:

- **Selection procedures.** The Agency publishes as widely as possible its vacancies, describing clearly core and technical skills needed and job profile in order to attract relevant and competent individuals
- **Staff skills.** The Agency defines core and technical skills necessary to support the achievement of objectives and regularly evaluates them, in particular through the appraisal of performance, taking action to address shortcomings where necessary.
- **Learning and development.** The Agency provides learning and development activities needed to develop and retain a sufficient number of competent staff in alignment with objectives and needs.

5. We hold individuals accountable for their internal control responsibilities in the pursuit of objectives.

Characteristics:

- **Enforcing accountability.** The Agency defines clear roles and responsibilities and holds individuals accountable for the performance of internal control responsibilities across the organisation and for the implementation of corrective action as necessary.

- **Staff appraisal.** Staff efficiency, abilities and conduct in the service are assessed annually against set objectives and cases of underperformance are appropriately addressed.

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| <p>Component II. Risk Assessment</p> <p>Internal Control Principles 6-9</p> |
| <p>6. <i>Specifies suitable objectives</i></p> <p>7. <i>Identifies and analyses risk</i></p> <p>8. <i>Assesses fraud risk</i></p> <p>9. <i>Identifies and analyses significant change</i></p> |

Risk assessment is a dynamic and iterative process for identifying and assessing risks which could affect the achievement of objectives, and for determining how such risks should be managed.

6. We define objectives with sufficient clarity to enable the identification and assessment of risks relating to the achievement of objectives.

Characteristics:

- **Mission.** The Agency has up-to-date mission statement that is aligned across all hierarchical levels, down to the tasks and objectives assigned to individual staff members.
- **Objectives are set at every level.** The Agency's objectives are clearly set and updated when necessary (e.g. significant changes in priorities, activities and/or the organigramme). They are consistently filtered down from the level of the Director to the various levels of the organisation, and are communicated and understood by management and staff.
- **Indicators measure the achievement of ACER objectives.** Objectives and indicators cover the Agency's most significant activities that contribute to the delivery of ACER priorities. Setting objectives and performance indicators make it possible to monitor progress towards their achievement.
- **Objectives form the basis for committing resources.** The Agency uses the objectives set as a basis for allocating available resources as needed to achieve, operational and financial performance goals.
- **Financial reporting objectives.** Financial reporting objectives are consistent with the accounting principles applicable in the Agency.
- **Non-financial reporting objectives.** Non-financial reporting provides management with accurate and complete information needed to manage the organisation.

7. We identify risks related to the achievement of objectives across the organization and assess risks as a basis for determining how the risks should be managed.

Characteristics:

- **Risk identification.** The Agency identifies and assesses risks while analysing internal and external factors. Management and staff are involved in the process at the appropriate level.
- **Risk assessment.** The Agency estimates the significance of the risks identified and determines how to respond to significant risks considering how each one should be managed.
- **Risk identification and risk assessment** are integrated into the annual activity planning and are regularly monitored.

8. We consider the potential for fraud in assessing risks related to the achievement of objectives.

Characteristics:

- **Risk of fraud.** The identification and assessment of the risk of fraud is part of ACER risk management process.
- **Anti-fraud strategy.** The Agency sets up and implements proportional measures to counter fraud and any illegal activities affecting the financial interests of the EU. The Agency does this by putting in place a sound anti-fraud strategy to improve the prevention, detection and conditions for investigating fraud.

9. We identify and assess changes that could significantly impact the internal control system.

Characteristics:

- **Assess changes.** The risk identification process considers changes in the internal and external environment, in policies and operational priorities, as well as in management's attitude towards the internal control system.

Component III. Control Activities

Internal Control Principles 10-12

- 10. Selects and develops control activities*
- 11. Selects and develops general control over technology*
- 12. Deploys through policies and procedures*

Control activities ensure the mitigation of risks related to the achievement of policy, operational and internal control objectives. They are performed at all levels of the organisation, at various stages of business processes, and across the technology environment. They may be preventive or detective and encompass a range of manual and automated activities as well as segregation of duties.

10. We select and develop control activities that contribute to the mitigation of risks to the achievement of objectives.

Characteristics:

- **Control activities** are performed to mitigate the identified risks and are cost effective. They are tailored to the specific activities and risks of each department and their intensity is proportional to the underlying risks.
- **ACER processes and procedures include** a variety of checks, including supervision arrangements, and where appropriate, should include a balance of approaches to mitigate risks, considering manual and automated controls, and preventive and detective controls.
- **Segregation of duties.** When putting in place control measures, management considers whether duties are correctly divided between staff members to reduce risks of error and inappropriate or fraudulent actions.
- **Business continuity plans** are in place, up-to-date and used by trained staff to ensure that the Agency is able to continue working to the extent possible in case of a major disruption. Where necessary, business continuity plans must include coordinated and agreed disaster recovery plans for time-sensitive supporting infrastructure (e.g. IT systems).

11. We select and develop general control activities over technology to support the achievement of objectives.

Characteristics:

- **Control over technology.** In order to ensure that technology used in business processes, including automated controls is reliable and takes into account the overall corporate processes, the Agency management selects and develops control activities over the acquisition, development and maintenance of technology and related infrastructure.
- **Security of IT systems.** The Agency applies appropriate controls to ensure the security of IT systems of which they are the system owners.

12. We deploy control activities through corporate policies that establish what is expected and through procedures that put policies in action.

Characteristics:

- **Appropriate control procedures ensure that objectives are achieved.** The control procedures assign responsibility for control activities to the department or individual responsible for the risk in question.
- **Exception reporting** is one of the management tools used to draw conclusions about the effectiveness of internal control and/or the changes needed in the internal control system. A system is in place to ensure that all instances of overriding controls or deviations from

established processes and procedures are documented in exception reports. All instances must be justified and approved before action is taken, and logged centrally.

- **The impact assessment and evaluation of ACER activities** are performed in accordance with the guiding principles of the Commission’s better regulation guidelines.

Component IV. Information & Communication

Internal Control Principles 13-15

- 13. Uses relevant information*
- 14. Communicates internally*
- 15. Communicates externally*

Information and Communication are necessary for the organisation to carry out internal control and to support the achievement of objectives. There is external and internal communication. External communication provides the public and stakeholders with information on the Agency’s objectives and actions. Internal communication provides staff with the information it needs to achieve its objectives and to carry out day-to-day controls.

13. We obtain or generate and use relevant, quality information to support the functioning of internal control.

Characteristics:

- **Information and document management.** The Agency identifies the information required to support the functioning of the internal control system and the achievement of the Agency’s objectives. Information systems process relevant data, captured from both internal and external sources, to obtain the required and expected quality information, in compliance with applicable security, document management and data protection rules.

14. We communicate information internally, including objectives and responsibilities for internal control, necessary to support the function of internal control.

Characteristics:

- **Internal communication.** The Agency and the management communicate internally about their objectives, challenges, actions taken and results achieved, including but not limited to the objectives and responsibilities of internal control.

15. We communicate with external parties about matters affecting the functioning of internal control.

Characteristics:

- **External communication.** All managers ensure that their external communication is consistent, relevant to the audience being targeted, and cost-effective. The Agency establishes clear responsibilities to align ACER's communication activities with the priorities and narrative of the institution.
- **Communication on internal control.** The Agency communicates with external parties on the functioning of the components of internal control. Relevant and timely information is communicated externally, taking into account the timing, audience, and nature of the communication, as well as legal, regulatory, and fiduciary requirements.

Component V. Monitoring Activities

Internal Control Principles 16-17

16. Conducts ongoing and/or separate assessments

17. Assesses and communicates deficiencies

Monitoring Activities: continuous and specific assessments are used to ascertain whether each of the five components of internal control is present and functioning. Continuous assessments, built into business processes at different levels of the organisation, provide timely information on any deficiencies. Findings are assessed and deficiencies are communicated and corrected in a timely manner, with serious matters reported as appropriate.

16. We select, develop and perform ongoing and/or separate assessments to ascertain whether the components of internal control are present and functioning.

Characteristics:

- **Continuous and specific assessments.** The Agency continuously monitors the performance of the internal control system with tools that make it possible to identify internal control deficiencies, register and assess the results of controls, and control deviations and exceptions. In addition, when necessary, the Agency carries out specific assessments, taking into account changes in the control environment. Ongoing assessments are built into business processes and adjusted to changing conditions. Both kinds of assessment must be based on the qualitative and quantitative assessment criteria to be measured through clearly defined indicators.
- **Sufficient knowledge and information.** Staff performing ongoing or separate assessments has sufficient knowledge and information to do this, specifically on the scope and completeness of the results of controls, control deviations and exceptions.

- **Risk-based and periodical assessments.** The Agency varies the scope and frequency of specific assessments depending on the identified risks. Specific assessments are performed periodically to provide objective feedback.

17. We assess and communicate internal control deficiencies in a timely manner to those parties responsible for corrective action, including senior management as appropriate.

Characteristics:

- **Deficiencies.** With the support of the designated staff in charge of risk management and internal control, the Agency considers the results of the assessments of how the internal control system is functioning within the Agency. Deficiencies are communicated to management and to the departments responsible for taking corrective action. They are reported in the Annual Activity Reports and to the Administrative Board, as appropriate. The term ‘internal control deficiency’ means a shortcoming in a component or components and relevant principle(s) that reduces the likelihood of the Agency achieving its objectives. There is a major deficiency in the internal control system if management determines that a component and one or more relevant principles are not present or functioning or that components are not working together. When a major deficiency exists, the Director cannot conclude that it has met the requirements of an effective system of internal control.
- **Remedial action.** Corrective action is taken in a timely manner by the staff member(s) in charge of the processes concerned, under the supervision of their management. With the support of staff in charge of risk management and internal control, the Director monitors and takes responsibility for the timely implementation of corrective action.

INTERNAL CONTROL INDICATORS

Introduction

Internal control helps ACER (herein the Agency) to achieve its objectives and sustain operational and financial performance whilst respecting rules and regulations. Internal control supports sound decision-making by taking into account risks in the achievement of objectives and, where necessary, reducing them to acceptable levels through cost-effective controls. Internal control applies to all activities, irrespective of whether they are financial or non-financial.

The internal control framework of the Agency is designed to provide reasonable assurance regarding the achievement of objectives, including the following:

- *Effectiveness, efficiency and economy of operations,*
- *Reliability of reporting and safeguarding of assets and information,*
- *Prevention, detection, correction and follow-up of fraud and irregularities, and*
- *Adequate management of the risks relating to the legality and regularity of the underlying transactions¹.*

The ACER Internal Control Framework is based on the framework of the European Commission, which was revised in 2017 with a view to aligning Commission standards to the highest international standards set by the COSO framework². In order to keep up with these recent changes in the international best practices and following the Commission's revision in 2017, it is appropriate for the Agency to adapt its Internal Control Framework. The framework consists of 5 components and 17 Internal Control Principles. The level of implementation of each principle is measured through indicators. The monitoring of the Internal Control Indicators is done annually in the Annual Activity Report.

Abbreviations:

| | |
|------|--|
| AAR | Annual Activity Report |
| AD | Administration Department |
| AWP | Annual Work Programme (as part of the SPD) |
| BCP | Business Continuity Plan |
| BUDG | Budget Team |
| COM | Communications Team |
| DIR | Director |
| DO | Director's Office |
| HRM | Human Resources Management Team |
| IT | Information Technology Team |
| JRC | Joint Reclassification Committee |
| KPI | Key Performance Indicator |
| SPD | Single Programming Document |

¹ Art. 30 Internal Control of Budget Implementation, Financial Regulation of ACER, Decision AB No 22/2013.

² The full text of the Internal Control-Integrated Framework is available at www.coso.org.

LIST OF INTERNAL CONTROL INDICATORS

COMPONENT I. Control Environment (Principles 1-5)

| ICP Owner | ICP | ICP Description | ICP Indicators | Evidence | Target | Indicator Owner |
|-----------|--|--|---|--|--------------------------|-----------------|
| AD | 1. Demonstrates commitment to integrity and ethical values | We demonstrate a commitment to integrity and ethical values. | 1.1 Number of annual awareness raising initiatives in ACER on ethics, integrity and conflict of interest and/or fraud (target: at least 1 per year in one or more areas). | Awareness raising material | 1 per year | AD/HRM |
| | | | 1.2 % of newcomers who take part in the induction programme on ethics, integrity and conflict of interest. | List of attendance | 90% | AD/HRM |
| | | | 1.3 Managers are promoting a fair, flexible and respectful workplace. | Staff Engagement Survey | 70% of respondents agree | DO |
| | | | 1.4 Staff meetings with the Director | Invitations | 1/year | DO |
| DO | 2. Exercises oversight responsibility | Management exercises oversight of the development and performance of internal control. | 2.1 (Y/N) The ACER Annual Activity Report (AAR) includes the Declaration of Assurance of the Director. | AAR | Yes | DO |
| | | | 2.2 Regular reporting on the status of follow-up to IAS recommendations. | Progress Reports | Yes | AD |
| AD | 3. Establishes structure, authority and responsibility | Management establishes structures, reporting lines, and appropriate responsibilities in the pursuit of objectives. | 3.1 (Y/N) ACER has clear rules of procedure in place. | Standard Operating Procedures | Yes | AD |
| | | | 3.2 (Y/N) Financial circuits: roles and tasks are clearly defined. | Guidelines on financial circuits and segregation of duties | Yes | AD/BUDG |

| | | | | | | |
|----|--|--|---|---|---|--|
| | | | 3.3 (Y/N) Deputising and reporting arrangements for administrative and operational activities are in place. | Implementation of Director's Decision on Deputising in Sysper 2 | Yes | AD |
| AD | 4. Demonstrates commitment to competence | We demonstrate a commitment to attracting, developing, and retaining competent individuals in alignment with objectives. | 4.1 Satisfaction rate with the ACER training policy. 4.2 % of authorized posts of the annual establishment plan filled at end of year. 4.3 (Y/N) ACER has a Competency Framework in place. 4.4 Percentage of Selection Notices (SN) advertised on different media. | Staff Engagement Survey Establishment Plan Director's Decision Publication and advertisement notices | 75% of respondents satisfied 95% Yes 90% of SN advertised on at least 2 media channels | AD/HRM AD/HRM AD/HRM AD/HRM |
| AD | 5. Enforces accountability | We hold individuals accountable for their internal control responsibilities in the pursuit of objectives. | 5.1 Appraisal reports concluded in accordance with the applicable rules and appraisal standards. | Data from HR Tool JRC Report | 100% | AD/HRM |

COMPONENT II. Risk Assessment (Principles 6-9)

| ICP Owner | ICP | ICP Description | ICP Indicators | Evidence | Target | Indicator Owner |
|-----------|----------------------------------|--|--|--|--|---------------------------------|
| AD | 6. Specifies suitable objectives | We define objectives with sufficient clarity to enable the identification and assessment of risks relating to the achievement of objectives. | 6.1 (Y/N) Risk management in ACER is embedded in the planning process and is assessed at all levels of ACER (department and activity level) 6.2 Staff have a clear understanding of their work-related objectives and how their work contributes to achieving ACER's objectives. 6.3 ACER KPI 10 (Commitment Appropriation | Progress reports, AAR, SPD Risk register Staff Engagement Survey Budget Execution Reports | Yes 70% of respondents agree 95% | DO AD/HRM AD/BUDG |

| | | | | | | |
|----|---------------------------------|---|--|--|----------------------------------|-----------------------------------|
| | | | <p>Execution Rate, (%) of implementation of Commitment Appropriations)</p> <p>6.4 ACER KPI 11 (Payment Appropriations Execution Rate, (%) of Payment Appropriations)</p> | Budget Execution Reports | 75% | AD/BUDG |
| | | | 6.5 ACER KPI 12 (Payment Appropriations Cancellation Rate, (%) of cancellation of Payment Appropriations) | Budget Execution Reports | <5% | AD/BUDG |
| DO | 7. Identifies and analyses risk | We identify risks in relation to the achievement of objectives across the organisation and assess risks as a basis for determining how the risks should be managed. | <p>7.1 (Y/N) A risk management exercise is conducted at least once a year as part of the AWP process.</p> <p>7.2 (Y/N) Risks are followed-up in the AAR.</p> | <p>AWP (as part of SPD), Risk register</p> <p>AAR</p> | <p>Yes</p> <p>Yes</p> | <p>DO</p> <p>DO</p> |
| DO | 8. Assesses fraud risk | We consider the potential for fraud in assessing risks related to the achievement of objectives. | <p>8.1 (Y/N) Annual fraud risk assessment is performed as part of the annual risk assessment exercise.</p> <p>8.2 (Y/N) ACER has an up to date anti-fraud strategy (not older than 3 years).</p> <p>8.3 (Y/N) The assessment of absence of conflict of interest (CoI) is done for selection and reclassification procedures.</p> | <p>AAR</p> <p>AAR</p> <p>Guidelines on prevention and management of CoI concerning staff involved in selection, recruitment or reclassification procedures</p> | <p>Yes</p> <p>Yes</p> <p>Yes</p> | <p>DO</p> <p>AD</p> <p>AD/HRM</p> |

| | | | | | | |
|----|---|---|--|-----|-----|----|
| DO | 9. Identifies and analyses significant change | We identify and assess changes that could significantly impact the internal control system. | 9.1 (Y/N) The preparation of the AWP includes an assessment of risks that could have an impact on the internal control system. Assessment of risks is done also on ad-hoc basis, as necessary. | AWP | Yes | DO |
|----|---|---|--|-----|-----|----|

COMPONENT III. Control Activities (Principles 10-12)

| ICP Owner | | ICP | ICP Indicators | Evidence | Target | Indicator Owner |
|-----------|--|--|---|---|------------------------------|-----------------|
| AD | 10. Selects and develops control activities | We select and develop control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels. | 10.1 (Y/N) Business continuity arrangements identified in the ACER Business Continuity Plan are tested regularly. | BCP | Yes 1 test every year | DO |
| | | | 10.2 (Y/N) 4 eyes principle has been ensured in all financial workflows | Guidelines on financial circuits and segregation of duties | Yes | AD/BUDG |
| | | | 10.3 (Y/N) The segregation of duties among financial actors is clearly defined. | Guidelines on financial circuits and segregation of duties | Yes | AD/BUDG |
| | | | 10.4 (Y/N) Ex-ante legal checks are performed on procurement procedures. | Procurement Guidelines for Project Managers | Yes | AD |
| | | | 10.5 (Y/N) Delegations and nominations of financial actors are in place for every budgetary year. | Delegations register, Art. 40 of the Financial Regulation of ACER | Yes | AD |
| AD | 11. Selects and develops general control over technology | We select and develop general control activities over technology to support the achievement of objectives. | 11.1 (Y/N) ACER has an up to date ICT Strategy in place (not older than 3 years). | ICT Strategy | Yes | AD/IT |
| | | | 11.2 Number of information security breaches/incidents. | Information Security Policy | 0 | DO |
| | | | 11.3 (Y/N) The ICT Steering Committee is exercising control over | Director's Decision on Establishing | Yes | AD/IT |

| | | | | | | |
|----|---|--|--|--|-----|----|
| | | | technology and the implementation of the ICT Strategy. | the ICT Steering Committee | | |
| AD | 12. Deploys through policies and procedures | We deploy control activities through corporate policies that establish what is expected and in procedures that put policies into action. | 12.1 (Y/N) Exceptions and incidents reported have been reviewed and registered every year. | AAR, Register of exceptions, Register of incidents | Yes | AD |

COMPONENT IV. Information and Communication (Principles 13-15)

| ICP Owner | ICP | ICP Description | ICP Indicators | Evidence | Target | Indicator Owner |
|-----------|-------------------------------|---|---|--|----------------|-----------------|
| AD | 13. Uses relevant information | We obtain or generate and use relevant, quality information to support the functioning of internal control. | 13.1 (Y/N) A Share Point tool is used for collecting information regarding KPI monitoring and reporting which provides input towards the progress reports. Also, Business Intelligence tools are used to provide accurate data to support management decisions. | Progress Reports, KPI Monitoring Tool, Business Intelligence reports | Yes | AD |
| AD | 14. Communicates internally | We communicate information internally, including objectives and responsibilities for internal control necessary to support the functioning of internal control. | 14.2 (Y/N) ACER has a whistleblowing policy in place which is easily accessible to all staff (published on intranet). 14.3 (Y/N) Staff members are aware of the ICPs. | Whistleblowing policy Published on Intranet | Yes Yes | HRM AD |
| DO | 15. Communicates externally | We communicate with external parties about matters affecting the functioning of internal control. | 15.1 (Y/N) Changes and developments in the internal control system are clearly communicated and reported. | AAR | Yes | DO |

COMPONENT V. Monitoring Activities (Principles 16-17)

| ICP Owner | ICP | ICP Description | ICP Indicators | Evidence | Target | Indicator Owner |
|------------------|--|---|--|-------------------|---------------|------------------------|
| AD | 16. Conducts ongoing and/or separate assessments | We select, develop, and perform ongoing and/or separate assessments to ascertain whether the components of internal control are present and functioning. | 16.1 (Y/N) The risk assessment performed by IAS is duly taken into account, the Director defines risk responses and endorses the related action plans. | Audit Action Plan | Yes | AD |
| | | | 16.2 (Y/N) The results of the regular monitoring and annual assessment of internal controls in ACER are integrated and followed-up in the AAR. | AAR | Yes | AD |
| AD | 17. Assesses and communicates deficiencies | We assess and communicate internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management as appropriate. | 17.1 (Y/N) The results of the continuous and specific assessments have been properly disclosed in the Annual Activity Report (AAR). | AAR | Yes | AD |
| | | | 17.2 KPI 14 (budget implementation and audit) rate (%) of accepted internal audit recommendations implemented within agreed deadlines. | AAR | 80% | AD |

ANNEX III

ACER INTERNAL CONTROL METHODOLOGY

Introduction

Internal control helps ACER (herein the Agency) to achieve its objectives and sustain operational and financial performance whilst respecting rules and regulations. Internal control supports sound decision-making by taking into account risks in the achievement of objectives and, where necessary, reducing them to acceptable levels through cost-effective controls. Internal control applies to all activities, irrespective of whether they are financial or non-financial.

The internal control framework of the Agency is designed to provide reasonable assurance regarding the achievement of objectives, including the following:

- *Effectiveness, efficiency and economy of operations,*
- *Reliability of reporting and safeguarding of assets and information,*
- *Prevention, detection, correction and follow-up of fraud and irregularities, and*
- *Adequate management of the risks relating to the legality and regularity of the underlying transactions¹.*

The ACER internal control framework is based on the framework of the European Commission, which was revised in 2017 with a view to aligning Commission standards to the highest international standards set by the COSO framework².

The framework consists of 5 Components clustering 17 Internal Control Principles.

Roles and responsibilities in internal control in ACER

The roles and responsibilities of internal control actors in the Agency are indicated in the table below:

| Role | Responsibility |
|------------------------------------|--|
| Director / Authorising Officer | Overall responsibility for the functioning of the internal control system in ACER. Signs a declaration of assurance on the functioning of the ACER's Internal Control System annexed to the Annual Activity Report. |
| Authorising Officers by Delegation | Each Authorising Officer by Delegation is responsible for the functioning of the internal control system in the areas under their delegated responsibility. |
| Internal Control Coordinator | Supports the Director in overseeing and monitoring the implementation of internal control in ACER. |

¹ Art. 30 Internal Control of Budget Implementation, Financial Regulation of ACER, Decision AB No 22/2013.

² The full text of the Internal Control-Integrated Framework is available at www.coso.org.

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| | Ensures the awareness and understanding of the ACER Internal Control Framework by all staff, in particular through training, information and support activities. |
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Methodology for monitoring and assessment

According to Internal Control Principle 16, "*We select, develop and perform ongoing and/or separate assessments to ascertain whether the components of internal control are present and functioning*", ACER regularly monitors the implementation of Internal Control Principles and carries out an annual assessment on the effectiveness of internal controls. Both are closely linked and form an integral part of the monitoring and reporting cycle. On the one hand, deficiencies identified in the context of regular monitoring are important elements to be taken into account in the overall assessment of the functioning and effectiveness of the internal control system. On the other hand, any shortcomings identified during the overall assessment are addressed and improvement actions are integrated in the Annual Activity Report and followed-up upon.

Regular monitoring

The Internal Control Coordinator monitors the implementation of the Internal Control Principles at least once per year (Q4) through the indicators corresponding to each Internal Control Principle. The results are communicated to the Director's Office, which is coordinating the input for the progress reports that are presented to the Administrative Board. Any weakness identified during the regular monitoring is included in the annual review and assessment of internal controls. This enables the Agency to react to changing conditions and to correct any weaknesses identified or any deviations from intended performance in a timely manner. If necessary, internal control issues related to financial and human resources will be discussed in ad-hoc meetings.

Annual assessments

Each year the Agency carries out an annual review and self-assessment of the compliance and effectiveness of internal control. This provides a global overview of the state of play of internal control and aims to provide reasonable assurance of the correct functioning and effectiveness of internal control in ACER. The results of the assessment are incorporated in the Annual Activity Report.

The annual assessment is carried-out following a three-step approach:

Step 1: Definition of the internal control assessment criteria

The ACER Internal Control Indicators are intended to facilitate monitoring of the Internal Control Principles, Components and Internal Control System overall. A proportional approach has been used to define ACER Indicators. An owner has been assigned to the Internal Control Principle and to each Indicator.

Step 2: Identification of internal control strengths and deficiencies

An internal control deficiency is an issue that requires the attention of management. It may include conflicts of interest, internal control weaknesses, errors, fraud, illegal acts, ineffectiveness, and inefficiency. A severe deficiency reduces the likelihood of achieving ACER's objectives.

To identify internal control strengths and deficiencies, ACER uses available information sources such as:

- Internal assessments

- Improvement actions / internal control strengths and weaknesses reported by staff
- Analysis of risks
- Risk Register
- Exceptions registered in the register of exceptions
- ECA, IAS and outsourced audit findings and recommendations

ACER aims to identify both the internal control strengths and deficiencies and assesses the severity of the identified deficiencies as follows:

- **Minor deficiency:** minor impact on the presence and/or functioning of the principle. The principle is in place and functions well, only minor improvements are needed.
- **Moderate deficiency:** moderate impact on the presence and/or functioning of the principle. The principle is in place and functions but some improvements are needed.
- **Major deficiency:** significant impact on the presence and/or functioning of the principle, but the principle is partially effective. With such a deficiency, the principle is partially in place and/or is partially functioning; substantial improvements are needed.
- **Critical deficiency:** fundamental impact on the presence and/or functioning of the principle and the principle is not effective. With such a deficiency, the principle is not in place and/or essentially does not function as intended.

Step 3: Assessment of the Internal Control System

The assessment of the Internal Control System is carried out at three levels:

- at the level of the principles (based on the analysis of the detected strengths and deficiencies),
- at the level of the components (based on an analysis of the results at principle level),
- at the level of the internal control system as a whole (based on an analysis of the results at component level).

For each level assessed, ACER concludes the following:

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| Effective internal control system | No internal control weakness or deficiency identified. The principle is present and functioning well, only minor improvements needed. |
| Partially effective internal control system (minor weakness) | Minor deficiency or combination of minor/moderate deficiencies identified. The principle control system is present and functioning but some improvements are needed. |
| Partially effective internal control system (major weakness) | Major deficiency or combination of moderate deficiencies identified. The principle control system is present and functioning but a lot of improvements are needed. |
| Ineffective internal control system | The principle is not present and functioning. A critical internal control deficiency or combination of several major deficiencies determines that the principle in general is not effective. |

The Agency will then assess the overall level of effectiveness of internal control. This overall conclusion will take into consideration the functioning of the Agency's internal control components in an integrated manner.