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REGIONE AUTÒNOMA DE SARDIGNA
REGIONE AUTONOMA DELLA SARDEGNA



Audit Authority ENI CBC MED Programme

Cross Border Cooperation within the European Neighbourhood Instrument
MEDITERRANEAN SEA BASIN PROGRAMME 2014-2020

Audit Strategy

According to art. 28.5 Regulation (EU) No 897/2014

Version 2.2

Adopted by the Audit Authority with Decision No 216 of 26th February 2021



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ENI
CBCMED
Cooperating across borders
in the Mediterranean

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ACRONYMS AND ABBREVIATIONS

AA	Audit Authority
AS	Audit Strategy
CBC	Cross-border cooperation
CCP	Control Contact points
COBIT	Control Objectives for Information and related Technology
COCOF	Coordination Committee of the funds
DMCS	Description of the management and control system(s)
EC	European Community or European Commission
ECA	European Court of Auditors
EGESIF	Expert Group on European Structural and Investment Funds
ENI	European Neighbourhood Instrument
ENPI	European Neighbourhood and Partnership Instrument
EU	European Union
GoA	Group of Auditors
IESBA	International Ethics Standards Board for Accountants
IFAC	International Federation of Accountants
IGRUE	<i>Ispettorato generale per i rapporti con l'Unione Europea</i> , the Directorate-General within the MEF competent for checking audit authorities
IIA	The Institute of Internal Auditors
INTOSAI	International Organization of Supreme Audit Institutions
IPPF	International professional practices framework
IR	Implementing Rules (Reg. 897/2014) or inherent risk
IS	Information system
ISA	International Standards for Auditing
ISACA	Information Systems Audit and Control Association
ISSAI	International Standards of Supreme Audit Institutions
ITAF	A Professional Practices Framework for IS Audit/Assurance
JOP	Joint Operational Programme (the ENI CBC MED Programme)
JTS	Joint Technical Secretariat
MA	Managing Authority or Master of Arts
MCS	Management and control system(s)
MEF	Italian Ministry of Economy and Finance
MPC	Mediterranean Partner Country or Countries
MUS	Monetary Unit Sampling
NA	National Authorities
NCP	National Contact Points
OP	Operational Program
PSC	Project Selection Committee



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RAS	Regione Autonoma della Sardegna (Autonomous Region of Sardinia)
Reg.	Regulation
TA	Technical assistance
TE	Tolerable error
TER	Tolerable error rate
TESIM	Technical Support to the Implementation and Management of ENI CBC Programmes
VAT	Value added tax



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MAIN REGULATIONS AND DOCUMENTS

The main EU regulations considered in the drawing up the present Audit Strategy are reported in the tables below.

Table 1 – EU Regulations and directives

	Reference	Title	Category	Date
1	Regulation (EU, Euratom) No 2018/1046 of the European Parliament and of the Council ¹	Establishing the financial rules applicable to the general budget of the Union	Financial Regulation	18/07/18
2	Reg. (EU) No 1299/2013 of the European Parliament and of the Council	Establishing specific provisions for the support from the European Regional Development Fund to the European territorial cooperation goal	European territorial cooperation Regulation	17/12/13
3	Reg. (EU) No 1303/2013 of the European Parliament and of the Council	Laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006	Regulation with common and general provisions	17/12/13
4	Reg.(EU) No 232/2014 of the European Parliament and of the Council	Establishing a European Neighbourhood	Regulation with general provisions	11/03/14
5	Reg. (EU) No 236/2014 of the European Parliament and of the Council	Laying down common rules and procedures for the implementation of the Union's instruments for financing external action	Regulation with common provisions	11/03/14
6	Commission Implementing Regulation (EU) No 897/2014	Laying down specific provisions for the implementation of cross-border cooperation programmes financed under Regulation (EU) No 232/2014 of the European Parliament and the Council establishing a European Neighbourhood Instrument	Regulation with specific provisions	18/08/14



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7	Commission Implementing Regulation (EU) No 2020/879	Amending Implementing Regulation (EU) No 897/2014 as regards specific provisions to align the provisions for the implementation of cross-border cooperation programmes financed under the European Neighbourhood Instrument with specific measures in response to the COVID-19 pandemic	Regulation with specific provisions	23/06/2020
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¹ Amending Regulations (EU) and repealing 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



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Table 2 - Guidelines drawn up by TESIM

	Title	Date
1	Guidance on the preparation of the Audit Strategy in ENI CBC programmes	12/2020
2	Guidance note on “Development of the description of the management and control system in ENI CBC programmes”	06/2017
3	Guidance for compliance assessment in ENI CBC Programmes	06/2017
4	Guide to developing Management and Information Systems in ENI CBC Programmes	06/2017
5	Guide on programme accounts, audit and reporting to EC in ENI CBC Programmes	12/2020
6	Adapted Key Requirements/assessment criteria for the management and control system audits	12/2020
7	Note on Audit Opinions	12/2020
8	Guidance for Management and Control System audits	12/2020

Table 3 – EC Indicative Guidelines on European Structural and Investment Funds

	Reference	Title	Date
Management and Control System			
1	EGESIF 14-0010-final	Guidance for the Commission and Member States on a common methodology for the assessment of management and control systems in the Member States	18/12/14
2	EGESIF 14-0012-02-final	Guidance for the Member States on management verifications	17/09/15
3	EGESIF 15-0017-02	Guidance for Member States on amounts withdrawn, recovered, to be recovered and irrecoverable amounts	25/01/16
4	EGESIF 15-0016-02 final	Guidance for Member States on Audit of Accounts	05/02/16
5	EGESIF 15-0018-02	Guidance for Member States on preparation, examination and acceptance of accounts	09/02/16
Audit Authority Procedures			
6	EGESIF_14-0013	Guidance for Member States and Programme Authorities on Designation Procedure	18/12/14
7	EGESIF 14-0011-02	Guidance for Member States on Audit Strategy	27/08/15



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	final		
8	EGESIF 15-0007-02 final	Updated Guidance for Member States on treatment of errors disclosed in the annual control reports.	09/10/15
9	EGESIF 15-0002-2015 final	Guidance for Member States on Annual Control Report and on Audit Opinion.	15/10/15
10	EGESIF 16-0014-01	Guidance on sampling methods for audit authorities - Programming periods 2007- 2013 and 2014-2020.	20/01/17
11	EGESIF_15-0008-05	Guidance for Member States on the Drawing of Management Declaration and Annual Summary.	03/12/18
12	EGESIF_15_0018-04	Guidance for Member States on Preparation, Examination and Acceptance of Accounts.	03/12/18
13	EGESIF_15-0002-04	Guidance for Member States on the Annual Control Report and Audit Opinion to be reported by audit authorities and on the treatment of errors detected by audit authorities in view of establishing and reporting reliable total residual error rates.	19/12/18
Fraud management			
14	EGESIF 14-0021-00	Fraud Risk Assessment and Effective and Proportionate Anti-Fraud Measures.	16/06/14
Beneficiaries guideline			
15	EGESIF 14-0025-00	How to effectively access and use the ESI Funds and exploit complementarities with other instruments of relevant Union policies.	16/07/14

Table 4 – International Standards

	Reference	Title
1	IIA 2200	Engagement Planning
2	IIA 2300	Performing the Engagement
3	IIA 2400	Communicating Results
4	IIA 2500	Monitoring Progress
5	INTOSAI 11	Planning and control
6	INTOSAI 12	Relevance and control risks
7	INTOSAI 13	Probatory elements and control methods
8	INTOSAI 21	Internal control assessment and control test
9	INTOSAI 23	Control sampling
10	IIA 2200, INTOSAI 11, ISA 200	Audit activity planning
11	IIA 2300, INTOSAI 11, ISA 200	Methodology set up to execute system audits
12	IIA 2200, INTOSAI 1 and 23, ISA 300	Risk assessment methodology set up to evaluate the reliability of the system and the sampling methodology
13	IIA 2300, INTOSAI 13	Methodology set up for operation controlling



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14	IIA 2500.A1	Follow-up procedures set up
15	IIA 2400, INTOSAI 21, ISA 700	Analysis modalities of the audit outcomes for the preparation of the annual Opinion and the annual control report
16	IPPF 1100	Practical guidance on “independence and objectivity”
17	ISA 300	Revisor responses to identified and evacuate risks
18	ISSAI 4100	Factors to be considered for relevance definition
19	ISSAI 1320	Materiality in Planning and Performing an Audit
20	ISSAI 1450	Evaluation of Misstatements Identified during the Audit

Table 5 – Management, control and audit

	Reference	Title	Date
1	EGESIF n. 18-0017-00	Charter on good practices promoted by the Audit Community (Commission and Member State's audit authorities) when carrying out audits under COHESION POLICY, EMFF and FEAD.	07/03/18
2	EGESIF n. 17-0012-01	Decommitment methodology (n+3) and process in 2014 – 2020.	30/08/17
3	EGESIF n. 17-0006-00	Questions and Answers regarding e-Cohesion.	06/04/17
4	EGESIF n. 16-0014-01	Guidance on sampling methods for audit authorities Programming periods 2007-2013 and 2014-2020	20/01/17
5	EGESIF n. 15_0018-02 final	Guidance for Member States on Preparation, Examination and Acceptance of Accounts.	09/02/16
6	EGESIF n. 15_0016-02 final	Guidance for Member States on Audit of Accounts.	05/02/16
7	EGESIF n. 15-0017-02 final	Guidance for Member States on Amounts Withdrawn, Recovered, to be Recovered and Irrecoverable Amounts.	25/01/16
8	EGESIF n. 15-0002-03 final	Guidance for Member States on the Annual Control Report and Audit Opinion.	09/10/15
9	EGESIF n. 15-0007-01 final	Updated Guidance for Member States on treatment of errors disclosed in the annual control reports (Programming Period 2007-2013)	09/10/15
10	EGESIF n. 14-0012-02 final	Guidance for Member States on Management verifications.	17/09/15
11	EGESIF n. 14-0011-02 final	Guidance for Member States on Audit Strategy.	27/08/15
12	EGESIF n. 15-0008-03	Guidance for Member States on the Drawing of Management Declaration and Annual Summary.	19/08/15
13	EGESIF n. 14-0010 final	Guidance for the Commission and Member States on a common methodology for the assessment of management and control systems	18/12/14



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		in the Member States.	
14	EGESIF n. 14-0013 final	Guidance for Member States on Designation Procedure.	18/12/14
15	EGESIF n. 14-0021-00	Fraud Risk Assessment and Effective and Proportionate Anti-Fraud Measures.	16/06/14

Table 6 – Italian National documents

	Title	
1	Partnership Agreement with European Union, adopted by Commission on 29/10/14 with decision C (2014) 8021 (in particular Annex II “Most important elements of management and control system (MCS) proposal”)	29/10/14
2	Circular No 47832 of 30/05/14 of the Italian Ministry of Economy and Finance - State General Accounting Department - General Inspectorate for Financial Relations with the European Union “Issue procedure of opinion on audit authority designation - programming period 2014-2020”.	30/05/14
3	Circular No 56513 of 03/07/14 of the Italian Ministry of Economy and Finance - State General Accounting Department - General Inspectorate for Financial Relations with the European Union (IGRUE) “Managing and audit bodies of EU Programmes 2014-2020”.	03/07/14
5	Italian Legislative Decree 118/2011 “Provisions on the harmonisation of accounting systems and financial statements of the Regions, local authorities and their bodies, pursuant to articles 1 and 2 of the Law n. 45 of 5/05/2009.	23/06/11

Table 7 – Acts of the Autonomous Region of Sardinia

	Title	Date
1	Regional Law n. 1 “Rules on the administrative organization of the Autonomous Region of Sardinia and on the competences of the Regional Council, the Presidency and the Regional Departments” and further modifications.	07/01/77
2	Regional Law n. 31 "Regulation of the regional personnel and organization of the offices of the Autonomous Region of Sardinia" and further modifications.	13/11/98

Table 8 – Programme documents

	Reference	Title	Date
1	Commission Implementing Decision	Joint Operational Programme Mediterranean Sea Basin 2014-2020 for the European Neighbourhood Instrument (ENI) Cross Border Cooperation for the year 2014-2020 to be financed from the general budget of the European Union.	17/12/15



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2	AA decision n. 12	Audit Strategy of the Mediterranean Sea Basin Programme 2014-2020 for the European Neighbourhood Instrument (ENI) Cross Border Cooperation.	20/09/17
3	DMCS in force	Description of the Management and Control Systems of the Mediterranean Sea Basin Programme 2014-2020.	04/02/21
4	AA decision n. 797	Audit Opinion referring to the Managing Authority compliance with the criteria established in the Annex to the Reg. (EU) 897/2014 European Neighbourhood Instrument (ENI) Cross Border Cooperation Mediterranean Sea Basin Programme 2014-2020.	29/10/18
5	AA decision n. 36	Annual Audit Report of the Audit Authority of the European Neighbourhood Instrument (ENI) Cross Border Cooperation Mediterranean Sea Basin Programme 2014-2020.	18/01/19
6	AA decision n. 111	Audit Strategy of the Mediterranean Sea Basin Programme 2014-2020 for the European Neighbourhood Instrument (ENI) Cross Border Cooperation - update.	14/02/19
7	AA decision n. 231	Annual Audit Report of the Audit Authority of the European Neighbourhood Instrument (ENI) Cross Border Cooperation Mediterranean Sea Basin Programme 2014-2020.	25/02/20
8	AA decision n. 253	Audit Strategy version 2.1 of the Mediterranean Sea Basin Programme 2014-2020 for the European Neighbourhood Instrument (ENI) Cross Border Cooperation - update.	27/02/20
9	AA decision n. 181	Syste audit Final Report n. 01/2021	16/02/21
10	AA decision n. 198	Annual Audit Report and Audit Opinion of the Audit Authority of the European Neighbourhood Instrument (ENI) Cross Border Cooperation Mediterranean Sea Basin Programme 2014-2020.	22/02/21

The above lists will be updated after the approval of both new EU provisions and new/updated TESIM or EGESIF guidelines.



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1. INTRODUCTION

This document explains the Audit Strategy (AS) for the Mediterranean Sea Basin Programme (ENI) 2014-2020 that was adopted by the European Commission on 17 December 2015, through decision no. C(2015) 9133 and is updated on the basis of the first official version of the Audit Strategy (AS) as approved with Audit Authority (AA) Decision n. 12 of 20th September 2017, the version 2.0 of the AS, approved with AA Decision n. 111 of 14th February 2019, and the version 2.1 of the AS, approved with AA Decision n. 253 of 27th February 2020.

The update is drafted by considering:

- *the establishment of the Group of Auditors (GoA) and the carrying out both of its first meeting (held in Cagliari on 14th and 15th October 2019) and its second meeting (held through videoconference on 10th October 2020, as local authorities forbade working transfers to and from other countries due to the COVID-19 pandemic);*
- *the transfer of competence from DG NEAR to DG REGIO of the European Commission starting from 1st January 2020, with the consequent need to enhance cooperation with Mediterranean Partner Countries of the Programme, in order to share tools, experiences and audit logics of the European Structural and Investment Funds (ESIF);*
- *the COVID-19 emergency which forced the AA to modify its activities and Work Plan (See Chapter 6 for further details), since the Italian Government and the Autonomous Region of Sardinia adopted a series of measures which substantially changed the way to perform the work activities (i.e. smart working, interdiction of face-to-face meetings and business trips to and from other countries, etc.);*
- *the follow up on the Programme Managing Authority designation process, System Audit and Audit on the Accounts, concluded with the issue of the Final Report on Audit on the Annual Accounts, the Annual Audit Report and the Audit Opinion, approved with the AA Decision n. 231 of 25.02.2020 and uploaded on the SFC 2014 System on 27.02.2020; the findings and recommendations listed in the EC DG Regio Note Ares(2020)2761582 of 28/05/2020, which requested the drawing up of an updated Final Report on Audit on the Annual Accounts and the Audit Opinion (Unqualified Opinion), approved with the AA Decision n. 809 of 15.07.2020, and the Annual Audit Report (version 2.0) approved with the AA Decision n. 815 of 15.07.2020 (See Chapter 2 for further details);*

The Strategy, based on the AA professional expertise, as well as on the general experience from the previous programming period, has been drafted by the AA internal staff. The AS takes also into accounts the operational and methodological documents drawn up by TESIM experts.

From 01.01.2020 the responsibility for the control of ENI programmes passed from DG Near to DG Regio.

This change resulted in significant modifications in the application of the regulations regarding the audit activities.



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One of the main modifications compared to what were reported in the previous versions of the AS consists in the verification of the Technical Assistance (TA) expenditures of the Programme.

According to the DG REGIO approach, confirmed during the meeting organized by TESIM for the ENI AAs held on 26.10.2020 and officially stated in the DG REGIO Note sent to the AA on 05.11.2020, the Technical Assistance expenditures of ENI programmes shall be audited in the context of the Audit on projects (operations) and not in the context of the audit on accounts as foreseen by DG NEAR and described in the previous version of the AS.

The AS covers the methodology for the risk assessment to be applied at the planning of the annual system audit, the audit approach and priorities applied for system audit and audit on projects, the audit methodology for the audit of annual accounts and management declarations, the audit work planned, and the necessary resources.

The Audit Strategy covers all tasks related to the programming period 2014-2020; thus, it determines directives regarding the audit activity to be performed by 2024.

Meanwhile, on 12th June 2020, the AA has approved the version 2.0 of its own Audit Manual procedures, which is a tool for the implementation of the Strategy, as compulsory document also requested by IGRUE. The manual includes audit tools such as check-lists, audit trails and report templates.

1.1 Identification of the operational Programme and period covered by the audit strategy

The Audit Strategy concerns the ENI CBC MED Programme 2014-2020, that was adopted by the European Commission on 17 December 2015, through decision no. C(2015) 9133.

It covers the accounting year July 1, 2020 – Jun 30, 2021 and provides general indications on the activities to be carried out by Audit Authority during the following 2 accounting periods (July 1, 2021 – Jun 30, 2022 and July 1, 2022 – Jun 30, 2023). It has been further enhanced during the 2nd GoA meeting, which was held on 10th October 2020 through videoconference, as local authorities forbade working transfers to and from other countries due to the COVID-19 pandemic.

1.2 Identification of the AA responsible for the Audit Strategy and the Group of Auditors, if it has contributed to the development of the strategy

The Joint Operative Programme (JOP) has established that the Audit Authority is the Autonomous Region of Sardinia (RAS).



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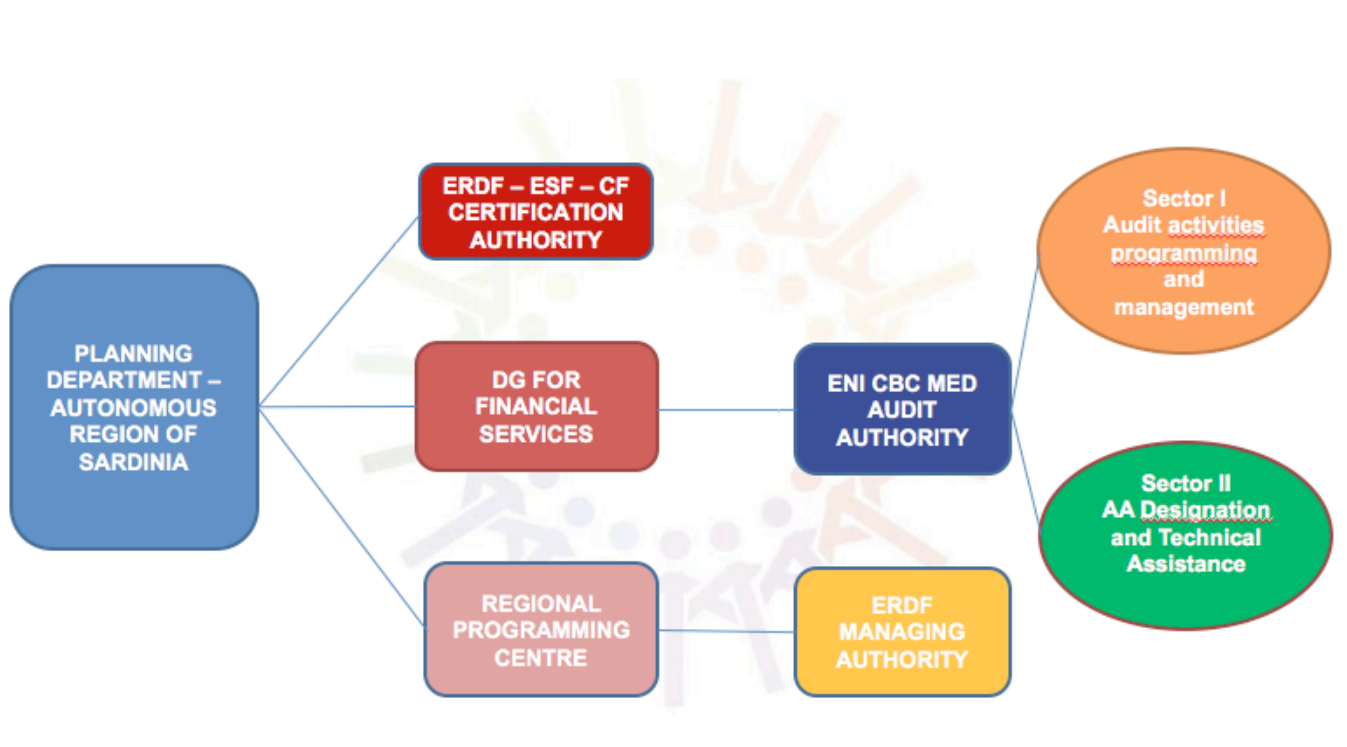


In this respect, the Sardinian regional government, through decision no. 15/5 of 10 April 2015, has created a specific organization, called “project unit”, within the Presidency, entrusted with the functions of ENI CBC MSB Programme Audit Authority and, through decision 8/9 of 19 February 2016, has transferred to that Unit the internal audit functions of the ENPI CBC MED Programme 2007-2013.

Moreover, through the Decision n. 53/9 of 28 November 2017, effective since March 2018, RAS government has placed the Audit Authority within the “Direzione generale dei Servizi Finanziari of the Assessorato della Programmazione, Bilancio, Credito e Assetto del territorio” in the Unit named “Certificazione PO FESR – FSE – FSC e Autorità di Audit PO ENI CBC MED”; this structure also acted as structural funds Certification Authority for current programme period; the two units have been composed by separate staff and do not interoperate.

Finally, through the Decree of the Planning Assessor n. 1/16396 of 21.05.2020 the Unit has been modified in its structure and named “Autorità di Audit PO ENI CBC MED” and, with the AA Decision n. 767 of 03.07.2020, it has been divided in two sectors: “Audit activities Programming and Management” and “AA Designation and Technical Assistance”.

AA new functional structure and tasks





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Thus, the AA is independent from the Programme managing functions, which are entrusted to the Managing Authority office within the Presidency.

For planning purpose, the AA takes into account the results of the designation audit, of system audits, audits on projects and of any audits performed by the European Commission and the European Court of Auditors (ECA).

1.3 Reference to the status of the AA (national, regional or local public body) and the body in which it is located

The tasks of AA are appointed to the “Direzione generale dei Servizi Finanziari dell’Assessorato della Programmazione, Bilancio, Credito e Assetto del territorio – Servizio Autorità di Audit PO ENI CBC MED” of the Autonomous Region of Sardinia, which is a regional public body.

Responsible body	Direzione generale dei Servizi Finanziari dell’Assessorato della Programmazione, Bilancio, Credito e Assetto del territorio – Servizio Autorità di Audit PO ENI CBC MED
Head of the AA	Enrica Argiolas
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E-mail	eni.audit@regione.sardegna.it
Certified e-mail	eni.audit@pec.regione.sardegna.it

1.4 Reference to the appointing decision (as per Article 20.2 of ENI CBC IR) of the Audit Authority and other bodies carrying out audits under its responsibility

Article 20.2 of Reg. (EU) 897/2014 states that "The participating countries shall appoint a national, regional or local public authority or body, functionally independent from the Managing Authority, as the single Audit Authority. The Audit Authority shall be situated in the Member State hosting the Managing Authority. The same Audit Authority may be appointed for more than one Programme."

The Audit Authority governance and organization model has been defined in compliance with the criteria required and verified during the endorsement procedure conducted by the Italian National Coordinating Body (Ministry of Finance, MEF-RGS-IGRUE), as defined in its explanatory notes No 47832 of 30/5/2014 and No 56513 of 3/7/2014.



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In particular, the requirements refer to the following areas of activity:

- organisational and functional independence;
- financial and instrumental independence;
- independence of AA components and respect of conflicts of interest rules;
- appropriateness and clearly defined allocation of functions;
- competence and expertise of the human resources;
- coordination of the work of other auditors.

The staff is assigned to the AA by the competent General Directorate for Personnel, based on skills as needed.

The AA first efforts have mainly been directed towards internal staff recruitment among the RAS civil servant employees.

In 2016, the AA was only assigned one staff member also in charge of the internal audit of the ENPI OP.

However, in 2017, a second officer was assigned. Nevertheless, the Audit Authority staff was still below the minimum level, necessary to carry out its tasks.

Thanks to the efforts made, all documents requested for endorsement by IGRUE, especially the ones dealing with AA structure design, such as the organization chart, the functioning chart and an internal organization notes, have been officially released. A complete application was then submitted to IGRUE on 19 December 2017.

The AA staff performed efforts has allowed IGRUE to express a positive opinion on 9 January 2018, by endorsing the structure as ENI CBC MSB Audit Authority.

At the beginning of October 2018, the AA has undergone a follow-up audit visit by IGRUE, in order to confirm all the above mentioned requirements.

A positive qualified opinion, including some recommendations was released on 18 October 2018.

Increased efficiency has been generated due to the movement of the AA from the “Presidenza della Regione” to the “Direzione generale dei Servizi finanziari”, which has specific offices dedicated to horizontal functions such as staff administration, regional accounting office, document registration etc. guaranteeing in this way the organizational and functional independence required for accreditation.

An IT officer has been eventually devoted to contribute with the Audit Unit for 50% of his working time, starting from May 2018 till October 2019 and, on the same month, a newly hired administrative officer has started to work in the Audit Unit.



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In order to better perform its duties, the AA has succeeded in acquiring two more officers, one in August and one in September 2018, meanwhile one of the previous assigned ones has left.

Furthermore, an officer expert on public procurements joined the AA staff on 13.05.2019 and an expert in statistics and cooperation project was recruited on 20.04.2020.

Therefore, at the moment the AA staff is composed of the Head of Unit, 5 full time officers and 2 more officers assigned to other DG Services, which support the AA on specific issues (First Level Control on AA expenses and the Programme Monitoring System). A new AA functional chart have been approved with Decision n. 597 of 22nd May 2020.

Enforcement of audit expertise and refresher courses for officers are planned yearly and realised through general training organised by RAS and Formez PA (a specialised agency for training, considered in-house to RAS, among others), specialised training organised by Italian Minister of Finance – IGRUE and training organised by TESIM as the European Commission technical assistance to ENI programmes.

As regards MEF-IGRUE follow-up of the AA designation procedure for the accounting period 2018-2019, and taking into account the MEF-IGRUE issues as described in its note of the 16.04.2020, the AA focused its activities on the fulfilment of all MEF requirements and on the compliance with all its observations and recommendations.

As a result of the AA staff work, a new version of the Audit Manual was issued, with fully revised sections for example on sampling, audit of projects, audit of the accounts, and with new and revised procedures and tools.

The Manual version 2.0, consisting of around 200 pages and 47 annexes, was approved by the AA with Decision No. 666 of 12 June 2020.

All required documents were then sent to the MEF-IGRUE with AA note n. 19379 of 15, June 2020.

With note 114351 of 6, July 2020, MEF-IGRUE issued an unqualified opinion, thus upgrading AA evaluation from level 3 to level 2, assessing that all observations and recommendations on audit Strategy, Audit Manual and AA staff requirements as regards workforce and organisation were duly fulfilled.

1.5 Confirmation by the audit authority about its functional independence, including other bodies that are carrying out audit work, if applicable

The Audit Authority, established within the Directorate General for Financial Services (Department of Planning) of the Autonomous Region of Sardinia, is independent of the ENI CBC MED Programme Management Authority, under both the hierarchical and functional profiles.

Regarding financial and instrumental independence, according to ENI CBC MED financial plan approved by the European Commission, AA have own resources for technical assistance entirely co-financed by the Programme.



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AA operate through RAS financial and accounting system, by inscribing incomes and expenses according to Italian Legislative Decree 118/2011, art. 51, par. 2, letter b. in specific chapters relating to the AA as Center of Responsibility.

The independence of the members of the AA is guaranteed by specific declarations of absence of conflict of interest which are issued each year based on the special format drawn up by the IGRUE. A specific declaration of absence of conflict of interest will also be requested, both to internal auditors and to any external auditors, before assigning the audit tasks.

Any conflicts of interest are governed by the anti-corruption legislation in force for the Region of Sardinia, and, by its Code of Conduct, according to which, the Director solve any conflict by raising the auditor from the specific position.

On the basis of the communication received by the employee, if the Director considers however, that no situations of conflict of interest exist, he properly motivates in an official note the reasons that allow the employee to perform the assigned task, informing, besides the employee, also the Office for disciplinary proceedings and the Director for the prevention of corruption.

External Auditors

As foreseen by the Programme, the AA has its own TA funds which can be used to support the AA in its tasks and duties. When the AA delegates its these functions are delegated to other audit bodies, the AA ensures that audit bodies have the necessary functional and organizational independence. The AA shall ensure that the other bodies which cooperate to carry out the audits own the necessary requirement of independence and autonomy according to the law and to the international audit standards.

With reference to the accounting year 2020/2021, the AA carried out the following activities so far:

- Drawn up the call a for tenders to award Technical Assistance (TA) services to the AA.

The TA will provide support to the AA, among other things, on the following issues:

- Risk analysis, statistics and sampling methods;
- System audit, audit on the accounts, audit on projects: tools and procedures;
- Drafting of audit reports and documents;
- Audit activities (desk analysis and on-the-spot verifications).

The external qualified external providers, coordinated and supervised by the AA, will be paid by the dedicated funds of the Programme for Technical Assistance (TA).



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The tender is foreseen to be launched by June 2021 and awarded by September 2021.

- Tender for the recruitment of an external senior auditor to perform the audit on operations.
Pursuant to art. 36 paragraph 2 lett. a) Legislative Decree. 50/2011, the AA launched also a tender for the recruitment of an external auditor to “perform the administrative-accounting checks and the certification of the costs incurred under the ENI CBC MED Programme 2014-2020” (AA Notice Prot. n. 44752 of 09.12.2020), in order to speed up the audit on projects and respect the ENI OP deadlines.
The external auditor (Dr. Maria Chiara Grasselli) signed the contract on 22.12.2020 and concluded her tasks on 16.02.2021, with the transmission of the Final Audit Report on the operations.
- Acquisition of hardware and software equipment to support institutional activities.
The AA awarded a direct assignment through the electronic market of public administrations (MEPA) 25.11.2020 (determ. 1347 / 25.11.2020) for the purchasing of 6 laptops for the AA staff.

When the AA delegates its these functions are delegated to other audit bodies, the AA ensures that audit bodies have the necessary functional and organizational independence. The AA shall ensure that the other bodies which cooperate to carry out the audits own the necessary requirement of independence and autonomy according to the law and to the international audit standards.

The AA can also stipulate specific agreements with other RAS structures in order to obtain specialized support.

In particular, as far as legal assistance is concerned, the AA can rely on the support of “Direzione Generale Area Legale” while, for public procurements above the EU threshold, of the “Direzione Generale della Centrale Regionale di Committenza”, both included within the RAS Presidency.

As far as concerned the clarity and adequacy requirements for the attribution of functions, the AA has its own function chart, which is regularly updated and a specific manual as well as a series of work tools.

The AA will ensure that the audit work, carried out by the sub-contracted companies, complies with internationally accepted audit standards. The respect of internationally recognized audit standards (hereafter “standards”) will be assured through a strict control system. In more detail:

- 1.1. standards will be included in the terms of reference for each tender procedure (system audit, project audit and account audit);
- 1.2. each auditor performing the activity will respect the standards;



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1.3. the coordinator of the working group set up by each provider will be responsible for monitoring all results, also respecting the standards;

1.4. the AA officer in charge of each line of activity (system audit, project audit and account audit) will have to assess and state the quality of the work provided by the audit firm, also respecting the standards;

1.5. the AA coordinator will monitor the officers' work and ultimately certify the work provided by the audit firms, also with respect to the standards, in order to authorize payments.

Providers will be required to organize specific training in order to stress the importance of audit standards.

Specific check-lists will be drawn, in order to continuously assess respect of the standards in each step of the process and to allow re-performance of each step by other auditors or monitors if needed.

Respect of standards will be considered in attesting to the regular execution of external providers' work.

Providers shall submit an audit methodology, including audit tools (manual, check-list, report template, etc.) for audits assigned to them.

The AA, after consulting the GoA and discussing the methodology with the provider itself, approves each methodology, in order to ensure effectiveness, efficiency and respect of the audit standards.

All final audit reports and opinions are acts of the AA, which is the sole responsible body for them. External audit provisions and related activity processes are described in more detail in the Manual of the procedures and will be stated in the procurement terms of reference.

Providers will be entrusted with the execution of system audits, account audits and project audits in order to have homogeneous methods in all participating countries. Providers will also prepare the draft annual and final control reports, annual opinions and closure declarations according to the models to be approved by the AA. Providers shall gather all audit evidence to support their findings and audit opinions and justify their conclusions.

Specific control procedures and check-lists for quality review are going to be established for supervising external auditors' work.

The independence of the members of the AA is guaranteed by specific declarations of absence of conflict of interest that the members issue each year on the basis of the special format drawn up by the IGRUE. A specific declaration of absence of conflict of interest will also be requested, both to internal auditors and to any external auditors, following the extraction of each sample before one of the assignments relating to the various audits to be carried out.



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Any conflicts of interest are governed by the anti-corruption legislation in force for the Region of Sardinia, and, in particular, by the Code of Conduct, according to which the Manager, as a rule, resolves the conflict by raising the auditor from the specific position.

On the basis of the communication received, if the manager considers however, that there are no situations of conflict of interest that integrate the condition for the application of the obligation to the abstention referred to in this article, motivates the reasons that allow the same employee to perform the task anyway and make it known to the employee with appropriate communication, taking care to also inform the Office for disciplinary proceedings and the Manager for the prevention of corruption of the results of the assessment carried out.

Specific audit trails for activities and check-lists for each audit are going to be established for internal and external auditors, who have to follow internationally recognised audit standards. Specific control procedures and check-lists for quality review are going to be established for supervising external auditors' work, while internal auditors' work is going to be supervised through discussion of check-lists for quality review and audit reports.

AA shall assume the entire responsibility of all activities performed by internal and external auditors by signing all documents with external consequences.

2. MA DESIGNATION

2.1. Introduction

In accordance with article 25 of the ENI CBC Implementing Rules, MA that has been selected by the participating countries of the Programme undergoes a designation procedure. The designation procedure shall be based on a report and an opinion of an independent audit body that assesses the compliance of the management and control systems. AA takes responsibility for the audit on the designation after proving the effective functional and organizational independence.

For the ENI CBC MED Programme, the procedure has been conducted since June to October 2018.

2.2. Tools

Tools for the work on the designation process have been mainly the documents provided by TESIM, the European Commission Technical support project, with particular reference to the "Compliance assessment in ENI CBC programmes - Guidance on methodology, designation criteria and audit opinion (update June 2017)", which includes a detailed check-list.



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TESIM guidance note has been built using as legal base and guidance the Financial Regulation (EU, Euratom) 966/2012, art. 32 (later repealed during the designation process) and the annex to ENI implementing rules, Commission implementing Regulation (EU) 897/2014.

Moreover, the following legal documents and guidance notes have been used by TESIM as a source of inspiration:

- Common Provisions of Structural Funds, Regulation (EU) 1303/2013, art. 125.5 and annex XIII Designation criteria;
- “ToR for pillar assessments contracted by entities requesting to be entrusted with implementation of the EU budget under indirect management - guidance note”. DEVCO.R2 Audit and Control;
- EGESIF_14-0013 “Guidance for Member States and Programme Authorities - Designation Procedure (under Articles 123 and 124 of Regulation (EU) No 1303/2013 and Article 21 of the Regulation (EU) No 1299/2013)”, especially the check list for assessing compliance of MCS;
- EGESIF_14-0010 “Guidance on a common methodology for the assessment of management and control systems in the Member States”;

and, for some elements of the internal control:

- INTOSAI GOV. 9100 - “Guidelines for Internal Control Standards for the Public Sector”;
- INTOSAI GOV. 9110 - “Guidance for Reporting on the Effectiveness of Internal Controls: SAI Experiences in Implementing and Evaluating Internal Controls”;
- “Executive Summary of Internal Control - Integrated Framework” by COSO (Committee of Sponsoring Organizations of the Treadway Commission).

AA has also considered in the analysis the new Financial Regulation (EU, Euratom) 2018/1046, art. 36, taking into consideration that it was not yet in effect when the MCS has been organised.

OLAF Regulation (EU, Euratom) 883/2013, art. 3.4 has been considered for compliance assessment on procedures for irregularities and recoveries.

TESIM check-list has also been cross-checked with the one provided by Ministero dell’Economia e Finanze - IGRUE, the Italian national audit coordinating body, attached to the guidelines *Evaluation of the designation criteria of the MA* (for ESIF), in order to integrate any point of control deriving from the latter and missing in the template. EGESIF_14-0013 has also been cross-checked with in specific cases.



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Several recommendations expressed in the previous ENPI CBC MED 2007/2013 Operational Programme could not be solved at the time, due to the state of implementation of the Programme and they were therefore postponed to the present ENI CBC MED 2014/2020 Operational Programme.

Therefore, in the check-list AA added specific checks relating to these pending recommendations to other verifications performed for the designation.

Some specific tool has been used when relevant, such as EGESIF_14-0021-00 guidance on Fraud Risk Assessment and Effective and Proportionate Anti-Fraud Measures, including an adapted version of the attached tool for the Assessment of exposure to specific fraud risks.

Assessment on the criterion 3 (v), *Procedures for establishing a system to collect, record and store electronically data on each project and for ensuring that the IT systems are secured in line with internationally accepted standards*, has been conducted through SOGEI, an Information Technology company controlled by MEF, the Italian Ministero dell'Economia e delle Finanze.

2.3. Activity

As far as the designation process is concerned, a first initial draft of the ENI CBC MSB Description of the Management and Control System (DMCS) relating to project selection has been sent from the MA on 18 December 2017. Another draft about functions, internal organisation and resources for Programme management bodies has been submitted on 19 February 2018.

Those drafts have been analysed by the Audit Authority and a meeting with the MA was held on 7 March 2018 in order to share issues detected at that point.

The first official version of the DMCS has been officially approved by the Managing Authority on 8 June 2018 and its full analysis by the AA has started afterwards, as part of the designation process.

Besides national and internal guidelines/tools, documents as provided by TESIM, the European Commission Technical support initiative for ENI CBC programmes, were used by the AA as a reference (e.g. "Compliance assessment in ENI CBC programmes - Guidance on methodology, designation criteria and audit opinion - update June 2017").

DMCS and connected relevant documents have been assessed in accordance with criteria laid down in the Annex of the Regulation (EU) No 897/2014, dealing with five components of internal control, namely:



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- 1) internal control environment;
- 2) risk management;
- 3) management and control activities;
- 4) information and communication;
- 5) monitoring.

Assessment of the IT system (MIS) has been carried out with the support of SOGEI, a specialised public company owned by the Italian Ministry of Finance.

At the end of the verifications on Managing and Control System, including the analysis of all the acquired documents, along with the interviews with the MA staff, the Audit Authority has officially sent to the MA its check list draft with letter Reg. n. 35649/2018 of 23.10.2018, in order to express its final opinion.

The MA provided clarifications and integrations accordingly and committed itself to solve detected issues within fixed deadlines.

On 25 October 2018, with Notice n. 2811/2018, the MA sent:

- i) an updated version of the DMCS;
- ii) the AA compliance check list with its own replies;
- iii) an explicative note;
- iv) a timetable for the MIS implementation;
- v) an annual progress report check list.

The AA has examined the received documents, prepared the final versions of its check-lists, the audit report and the audit opinion, and officially adopted them on 29 October 2018. In addition, the above mentioned documents have been sent to the President of the RAS. The AA expressed an Unqualified Opinion, with emphasis of matter including a detailed action plan to implement. Based on those documents, Sardinia regional government, as national competent body, has officially designated the Managing Authority of the ENI CBC MSB Programme through Decision 53/1 of 29 October 2018.

Moreover, according to Article 25.4 of the Regulation (EU) No 897/2014, the designation process as a whole has been audited by the European Commission (EC). In particular, a five days inspection (from 10 to 15 December 2018) involving both the MA and the AA staff has been performed by Ernest and Young as winning provider of the EC tender. The related follow up occurred in December 2019 even though the Audit Authority was not involved in. Besides the cooperation due, it is worth to mention that both the AA and the MA received precious suggestions to further improve their efforts towards the Programme implementation.



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On February 25, 2020 the AA released the Final Report on Audit on Programme Accounts and provided it to MA on February 27, 2020 for the uploading in the SFC 2014 system.

On May 28, 2020 the MA forwarded to the AA the EC DG Regio Note Ares(2020)2761582 of 28/05/2020 which:

- informed both authorities that, in line with Article 69 of Commission Implementing Regulation (EU) No 897/2014 (CIR), the Commission services examined the quality of the submitted documents, highlighting their observations on versions as provided, as well as their recommendations for future reports;
- confirmed that the Commission services were unable to conclude that the accounts of the Programme as provided were complete, accurate and true and were thus unable to accept them.

Accordingly, by July 15, 2020 the AA was asked, among others:

1. either to carry out additional work or explain the quality review and supervision carried out on the work of the internal control offices, in order to provide an opinion in line with article 68(4) of the CIR and inform the Commission on the result of this work;
2. to submit on SFC 2014 system (through the MA) a revised Annual Audit Report and Audit Opinion once amended, in compliance with the EC note as mentioned;
3. to finalize the System audit on ENI JO Bodies performed in Jordan started with the AA Notice n. 39246 of 18th November 2019.

With reference to the above-mentioned points 1 and 2, after informal consultation with the General Director and Accounting Unit Director of the MA, TESIM (Technical Support to the Implementation and Management of ENI CBC Programmes by the EC) experts and Sardinian Region experts on ESI funds, the AA decided for the Quality review option, by formalizing and explaining the quality review and supervision as carried out on the work of the internal control offices.

In this respect, on 25th June 2020 the AA opened a supplementary audit of the accounts, in order to complete the quality review process on the verification of the expenditures included in the accounts.

The MA was requested to carry out additional work in order to provide evidences for a reasonable assurance that adequate controls were made on both MA and AA TA expenditures, namely external supplies and procurement, personnel, travel and subsistence expenditures, and that those controls were made by third party offices with respect to the ENI OP, providing suitable guarantees, due to the high qualification and independency of their personnel.

On 07 July 2020, the MA provided all required information and documentations.

Subsequently the AA carried out the QR activities on MA and AA TA expenditures, which did not highlight any irregularities and were closed with a positive result.

On the 13.7.2020 the new Provisional Report on Audit on the Annual Accounts referred to the accounting period 01.01.2018 – 30-06-2019 was issued by the AA, describing the main findings as detected in supplementary Audit



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activities, and on the 14.07.2020 the Final Report on Audit on the Annual Accounts (vers. 2.0) was adopted, after MA assessment of the Provisional Report issues and taking into account its counter-arguments and observations. New QR checklists to be annexed to the Audit Manual were issued and then formally adopted.

With reference to the above-mentioned point 3, in June – July 2020 the AA staff worked on the finalization of the system audit performed, with reference to the 2018-2019 accounting period, on the ENI OP Bodies in Jordan, namely:

- National Contact Point – Ministry of Planning and International Cooperation;
- National Authority – Ministry of Planning and International Cooperation;
- Control Contact Point – Ministry of Finance;
- Branch Office of the MA in Jordan – Aqaba Special Economic Zone Authority.

The Provisional System Audit Report and its related annexes on the Jordan Programme Bodies was issued on 16 January 2020 but, as the AA received most of the requested additional documents beyond the assigned deadline (Jordan BO integrations has been sent on 10.02.2020, while those of the NA on 24.06.2020), the Final System Audit Report on Jordan, including the last version of checklists, has been released only on 08.07.2020.

On the abovementioned audit the AA executed a quality review (QR) activity, aimed at ensuring the reliability of the checks as performed.

The QR was carried out following the specific procedure and tools as stated in the Audit Manual Version 2.0, approved by the AA with Decision No. 666 of 12th June 2020, and then formalized in special checklists.

The QR performed did not highlight any irregularities and was closed with a positive result.

On 14.07.2020, taking into account of the results of the audit activities described in point 1, 2 and 3, an Unqualified Opinion was issued by the AA with decision n. 809, and on 15.7.2020 the version 2.0 of the Audit Annual Report was adopted by the AA with decision 815 of 15.07.2020.

As a conclusion of the abovementioned activities, with Note n. 23355 of 15/07/2020, the AA sent to the MA a letter addressed to DG REGIO, providing all requested information and documents, to be forwarded to the EC through the EC SFC 2014 Information System. The MA sent all documents with note n. 1365 of 15, July 2020.

With Notices n. 34555 of 14th October 2020, the AA launched the system audit on the Managing Authority.

The main objectives of this audit have been the following:

- ensure the effective functioning of the management and control systems of the ENI CBC MED Programme, with reference to the **2019-2020** accounting period;



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- carry out the follow-up of both the overall assessment of the system's degree of reliability and the implementation of the Action Plan annexed to the Follow up Final Report on the System Audit (n. 01/2020) adopted by the AA Decision n. 204 of 19th February 2020;
- carry out the follow up of the Ernst & Young Report on MA designation (Ref. Ares(2020)2481988 - 11/05/2020), as requested by the DG REGIO with Notice (Ref. Ares(2020)2761582) of 28th May 2020;
- carry out the follow up of the system audit in Jordan and the implementation of the Action Plan annexed to the System Audit Final Report, adopted by the AA with Decision n. 776 of 08.07.2020;
- carry out the follow up of the audit on accounts and the implementation of the recommendations listed in the Final Report on Audit on the Annual Accounts adopted by the AA with Decision n. 809 of 14.07.2020.

On the basis of the above-mentioned system audit carried out on the Management and Control System of the JOP ENI CBC MED 2014 – 2020, the AA released the Final System Audit Report n. 01/2021 with AA Decision n. 181 of 16.02.2021.

In this Report, The AA collocated the Management and Control System in “Category 2. Works, but some improvement(s) are needed” and detailed, for the 13 analysed Key Requirements (KR), the necessary corrective measures that the MA shall implement in order to overcome the criticalities within the assigned deadlines (see Action Plan annexed to the Final System Audit Report n. 01/2021)

The AA reserves the right to verify the effective implementation of the corrective actions.

The results of the above-mentioned follow ups were included in the Annual Audit Report approved by the AA Decision n. 198 (Prot. n. 6425) of 22.02.2021, sent to the European Commission by 01.03.2021 (the MA sent an official request to the EC on 29.01.2021, with the aim at extending the deadline set out in paragraph 1 of Article 77 of Commission Implementing Regulation (EU) N° 897/2014, as amended by Commission Implementing Regulation (EU) N° 2020/879. This request has been accepted by the EC with Notice Ares(2021)937848 of 03.02.2021).



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3. RISK ASSESSMENT

3.1. Explanation of the risk assessment method

When setting up the overall risk assessment method for prioritising the system audit work on the measures, bodies and key requirements, the AA consider the relevant risk factors, set a quantification grid from low to high risk, ensuring a balanced weighting of risk scoring, and apply them to all priorities and bodies relating to the Programme covered by the Audit Strategy.

As a best practice, the results of the AA's risk assessment are reported in a table where the programmes and the main bodies involved in the MCS are classified by risk level. This table is adapted and complemented by the AA, as the case may be, with the risk factors that it considers the relevant ones for the Programme.

Thus, based on the results of the risk assessment, the AA can prioritize the system audits of Programme bodies for which the detection risk is higher over the audit period.

The timing and scope of the audits is also be influenced both by its peculiarities following the related legal basis and by the implementation rate of the Programme, e.g., the (expected) late timing of declaration of expenditure to European Commission would mean that not all key requirements might be "auditable" at the same point in time.

According to art. 28.1 of Reg. 897/2014, the Audit Authority (AA) shall ensure that audits are carried out on the Management and Control Systems (MCS), on an appropriate sample of projects (based on claimed expenses) and on the annual accounts of the Programme.

Furthermore, in compliance with the relevant methodology as set in the guidance note on Audit Strategy N. EGESIF_14-0011-02, risk assessment is used by AA to detect risky areas and identify structures and processes which are more exposed to risk.

The identification and the assessment of risk factors by the AA are key elements in order to ensure the proper functioning of the MCS of the Programme.

Actually, the definition of a risk assessment method allows to set the priorities of system audits and audits of operations.

In the context of the Audit Strategy and its updates, the AA reports the identified risk factors and, in the light of the results of the assessment of these risks, identifies a priority order among the bodies, processes, controls and, as well as transversal aspects to be audited.



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With reference to the first version and 1st updating of the Audit Strategy, the risks analysis has been drawn up taking into account the evidence deriving from the previous 2007-2013 programming period, while for the second update as released on February 27, 2020, the AA has acquired, as part of the Technical Assistance funds, a service to provide support and assistance in the designing of a risk analysis methodology. This service, entrusted in accordance with Italian procurement regulations to a well-known consultancy and assistance company for Public Administrations, consisted of a series of training/mentoring meetings aimed at transferring of skills and competencies to the AA staff and ended up with the elaboration of a methodological note on analysis and risk management for planning the future activities.

In this occasion, the risks deriving from the previous programming period were taken into account in the designation process and in the system audits carried out in the 2018-2019 accounting year, by providing specific control points as monitored in the designation follow-up.

Keeping the same methodology, based on evidence and knowledge as acquired from the results of AA activities performed, for the 2019-2020 accounting period the AA staff updated the risk assessment analysis as detailed hereinafter.

In particular, previous ENPI CBC MED OP further risk areas could be resumed as follow:

- definition of functions among the various bodies involved in Programme management and control (especially between MA and JTS generating uncertainty and length in procedures),
- exhaustiveness of Monitoring and Information System: there is lack of information about the technical assistance procedures and expenses,
- project auditors reliability: the detected error rate is higher than any tolerable threshold (the deviation rate from the positive hypothesis of project auditor full reliability reaches 54,1%. It is a rate higher than the tolerable deviation rate, fixed at 20%,
- project payment procedures: the timing for checking and paying project reported expenses is double than the foreseen one.

Moreover, new relevant risk factors, related to ENI new rules with respect to previous ENPI system, could be mentioned as follow:

- a more active role played by all participating countries, through NA, CCP, NCP and BO etc. with a high number of actors involved at Programme level and different operational schemes.
- additional control functions by the MA: in ENI, the MA explicitly has new specific duties to perform, such as the yearly plan of on-the-spot checks.



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Therefore, as for this updating referring to the 2020 – 2021 accounting year, keeping safe the abovementioned methodology, AA approach focused on 3 main enhancement areas as follow:

- Financial risk updates due to the finalization of the Programme call for strategic projects,
- Completion of the Control risk matrix (see Annex 2) by including 5 additional Key Requirements criteria (KR) and consequent weighting revision,
- Mitigation scores to be revised according to audits results as performed (by the AA or external bodies) in the reference period.

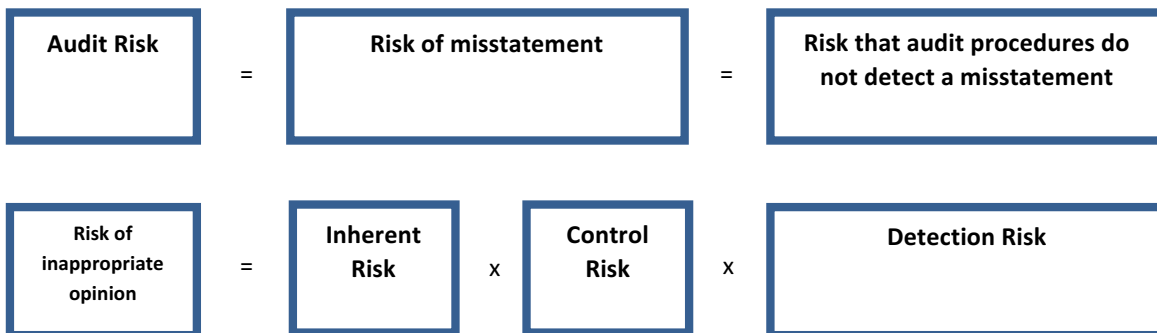
3.2. Identifying the risk factors

Risk is an inherent concept to the Audit Activity. In fact, the International Standard on Auditing 200, at the paragraph “Inherent Limitations of an Audit” states that “[t]he auditor is not expected to, and cannot, reduce audit risk to zero and cannot therefore obtain absolute assurance that the financial statements are free from material misstatement due to fraud or error.

This is because there are inherent limitations of an audit, which result in most of the audit evidence on which the auditor draws conclusions and bases the auditor’s opinion being persuasive rather than conclusive.”

On the basis of this international standard of auditing, the auditing work of the AA is subjected to a risk model which could be represented as in Figure 1.

Figure 1 - Risk Model



For this risk model, the following definitions have been adopted in the standards ISA Italia 200:



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Audit Risk – the risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated. Audit risk is a function of the risks of material misstatement and detection risk.

Risk of material misstatement – the risk that the financial statements are materially misstated prior to audit. This consists of two components, described as follows at the assertion level:

1. **Inherent Risk** - The susceptibility of an assertion about a class of transaction, account balance or disclosure to contain a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls;
2. **Control Risk** - The risk that a misstatement that could occur in an assertion about a class of transaction, account balance or disclosure and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity's internal control.
3. **Detection Risk** - The risk that the procedures performed by the auditor to reduce audit risk to an acceptably low level will not detect a misstatement that exists and that could be material, either individually or when aggregated with other misstatements.

For a given level of audit risk, the acceptable level of detection risk bears an inverse relationship to the assessed risks of material misstatement at the assertion level. For example, the greater the risks of material misstatement the auditor believes exists, the less the detection risk that can be accepted and, accordingly, the more persuasive the audit evidence required by the auditor.

Therefore, should the Audit Risk be contained to an acceptable low level (conventionally equal to 5%), the assessment of risk of misstatement level influences the value of the Detection Risk which the auditor is willing to take and, consequently, the extent of the audit work.

Taking account of the documents mentioned above and of the detailed information of procedures of Management and Control System, the risk assessment provides to detect the related risk factors, as shown in the subdivision in Figure 2.



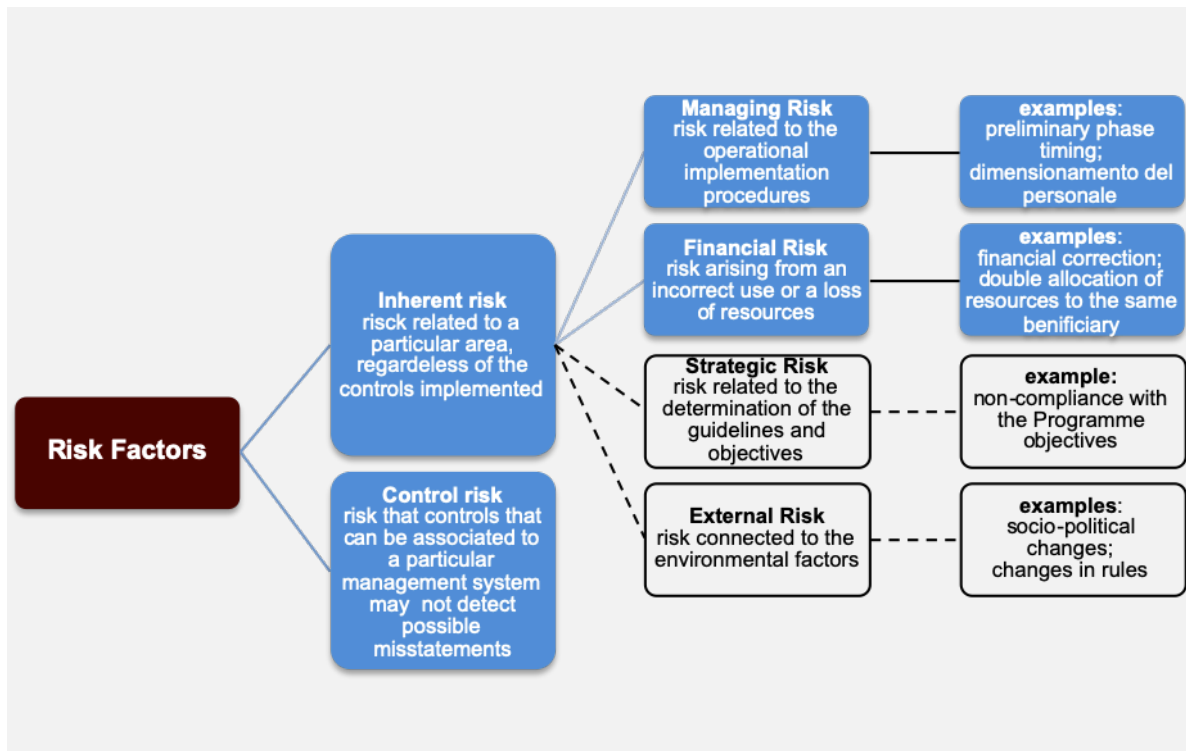
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Figure 2 – Representation of the types of risk



It can be useful to state that *strategic* and *external risks* are not considered because they are not relevant whether planning audit activities. Nevertheless, the latter may be recovered to be included as part of AA set of risk indicators by considering:

- Changes as for the applicable EU regulation (i.e., Reg (EU) 2020/879 of 23 June 2020 amending Implementing Regulation (EU) No 897/2014 as regards specific provisions to align the provisions for the implementation of cross-border cooperation programmes financed under the European Neighbourhood Instrument with specific measures in response to the COVID-19 pandemic),
- Operational Programme documents major/minor changes, including those affecting AA assignments.

Inherent (managing and financial risks) and control risks deserve instead further examination, therefore, the main elements are described below.

Figure 3 describe the contents of the inherent risk indicating the main factors which could influence it and some examples of the implementation procedures of the operations.



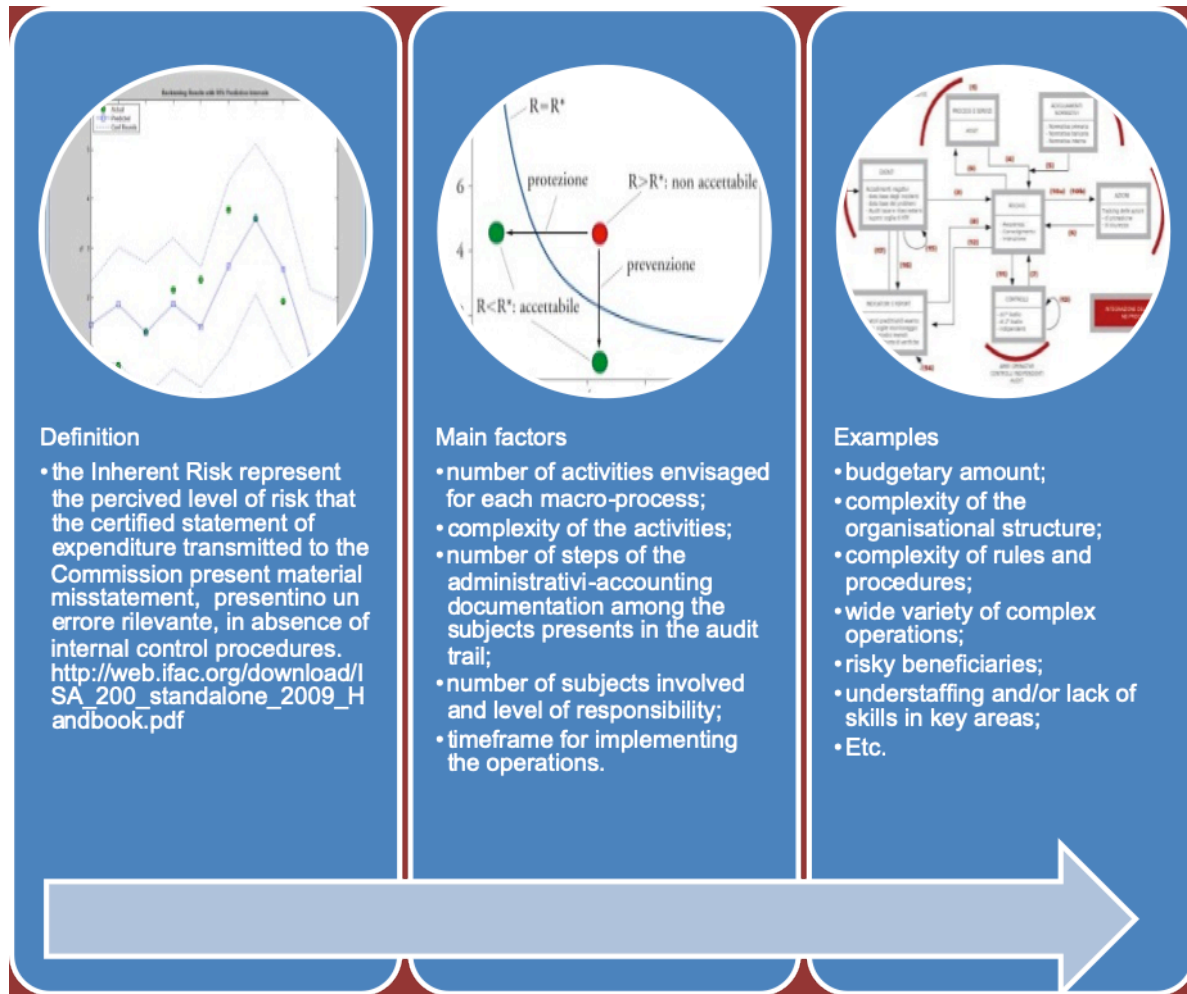
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Figure 3 – Representation of the standard Inherent Risk ISA 200



The figure below (Figure 4) describes the contents of the **Control Risk**, indicating the main factors which could influence it and some examples of the implementation procedures of the operations.



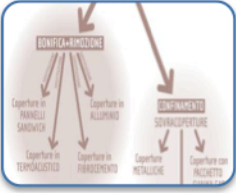
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Figure 4 - Representation of the standard Control Risk ISA 200



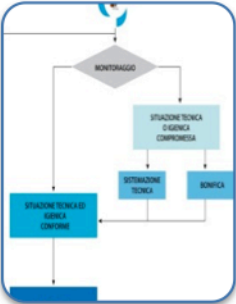
Definition

- The Risk of internal Control is the risk that internal control activities did not prevented or detected promptly possible errors or anomalies in the financial managing. http://web.ifac.org/download/ISA_200_standalone_2009_Handbook.pdf



Main factors

- Structure of the control organisation and degree of preparation of the participating people and bodies;
- the presence of all the Control Points provided by the control trail;
- information inferable from the first level controls (in particular from the check-list attached to the expenditure Declaration of the Office Competent for Operation and the Managing Authority);
- information inferable from independent controls implemented by the Certification Authority.



Examples

- **available assessment on the key requirement adequacy of the management audit**
 - category 1: as low risk;
 - category 2: as medium-low risk;
 - category 3: as medium-high risk;
 - category 4: as high risk.
- **changes of the management and control system**
- **assessment coming from issue an opinion about the designation**
- **Etc.**

The individual risk factors that could be considered by the Audit Authority, as well as the qualification method of the risk factors is detailed hereinafter.

In particular, in order to **assess the inherent risk**, the AA makes reference to the setting as provided for by Annex III of the guidance EGESIF 14-0011-02 final of del 27/08/2015, which are listed below:

1. budgetary amount for each body,
2. complexity of the organisational structure,
3. complexity of rules and procedures,
4. wide variety of complex operations,
5. risky beneficiaries,



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6. understaffing and/or lack of skills in key areas.

Similarly, as far as the **Control Risk assessment**, the Audit Authority consider the following factors which are recommended in the same document, namely:

1. Degree of change 2007-2013,

2. Key orientation requirements (12 out of 13) for the MCS assessment in Member States indicated in Annex IV of the Note EGESIF_14-0010-final of 18/12/2014 and 1 additional key requirement raised by Annex of Reg (EU) 894/2014, and referring to internal controls, namely:

- KR1 - separation of functions and adequate systems for reporting and monitoring where the responsible authority entrusts execution of tasks to another body,
- KR2 - selection of operations,
- KR3 - information to beneficiaries,
- KR4 - management verifications,
- KR5 - effective system in place to ensure that all documents regarding expenditure and audits are held to ensure an adequate audit trail,
- KR6 - reliable system for collecting, recording, and storing data for monitoring, evaluation, financial, management, verification and audit purposes, including links with electronic data exchange systems with beneficiaries,
- KR7 - effective implementation of proportionate anti-fraud measures,
- KR8 - procedures for drawing up the management declaration and annual summary of the final audit reports and of controls carried out,
- HKR - appropriate procedures to ascertain that the components of internal control exist and function,
- KR10 - appropriate procedures for drawing-up and submitting payment applications,
- KR11 - appropriate computerised records of expenditure declared and of the corresponding public contribution are maintained,
- KR12 - appropriate and complete account of amounts recoverable, recovered and withdrawn,
- KR13 - appropriate procedures for drawing up and certifying the completeness, accuracy and veracity of the accounts.

In this respect indications included in in the Guidelines by TESIM “*Adapted key requirements/assessment criteria for the management and control system audits*” – December 2020 have been considered as a reference source for the adaptation of key requirements laid down in the abovementioned Note EGESIF Note.



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3.3. Analysis of the risk level of the significant processes and the related controls

Once risks and controls connected to the activities of the different processes are determined and summarized, it moves to the central phase of risk assessment: the analysis of the risk level.

The risk types identified can be classified by the 2nd level auditor in order to quantify the extent of it.

The analysis process of the risk level includes the analysis of the inherent risk level and the analysis of the control risk level.

The two parameters should be assessed independently from each other, in order to evaluate them as analytically and precisely as possible.

The **inherent risk level** is measured in terms of both impact on the achievement of the objectives of the intervention and frequency of the risk itself.

Table 9 – Impact of the inherent risk

Impact of the risk	The impact or severity of the risk is the level with which the arising of risk may influence the achievement of the intervention objectives.	
Level	Meaning	Examples
SEVERE	Significant impact on the achievement of the strategic objectives of the intervention	<ul style="list-style-type: none"> – Irregular reporting to the European Commission; – frauds/ systematic irregularities; – judicial problems; – loss of funds.
MODERATE	Inefficiency in normal operation with a limited effect on the achievement of the strategy and objectives	<ul style="list-style-type: none"> – interruptions or significant inefficiencies of processes; – temporary problems of quality/service; – inefficiency in the flows and in the Operations; – individual irregularities.
IRRELEVANT	No concrete impact on the strategy and objectives of the body	

Table 10 – Assessment of the probability of the inherent risk

Assessment of the risk probability	Assessment of the probability or the frequency of the arising of the risk. The best assessment of the frequency should be based on the experience and the sense of judgement.	
Level	Meaning	Examples



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HIGH	It is very likely that the risk arises more than once during the implementation of the Operation.	<ul style="list-style-type: none"> – Preliminary phase timing too long; – Misalignment between assessment criteria when choosing final Beneficiaries.
MEDIUM	There is the possibility that risk arises occasionally during the implementation of the Operation.	<ul style="list-style-type: none"> – Loss of image in respect of the beneficiaries during the preliminary phase; – Non-compliance with rules of public procurement.
LOW	It is unlikely that the risk arises during the implementation of the Operation.	<ul style="list-style-type: none"> – Non-compliance with duties on disclosure of ranking; – Non-compliance with the legislation on equal opportunities.

The combination of the impact of the risk and the assessment of the risk probability allows to give a detailed analysis of the inherent risk.

Since November 2016, as National Italian body of coordination of the Audit Authority, the MEF-IGRUE has implemented the IT platform called “MyAudit”, in order to support Audit Authorities in every phase of the Audit activity, namely: the programming, the risk management, the extraction of the sample, the drafting of official documents prepared for the control implementing activities, as well as the drafting of the Annual Control Report (Annual Audit Report as for ENI) as part of the reliability package to be sent to the European Commission.

Even if the AA is not using such IT platform due to ENI Programme peculiarities, in order to perform the risk assessment for the quantification of the individual risk factors, the AA decided to adopt the same scale of value as best practice, which are resumed below:

Table 11 - Quantification of inherent risk

Level of inherent risk	Quantification of risk
H - High	100.00%
M/H – Medium/High	80.00%
M – Medium	60.00%
M/L – Medium/Low	45.00%
L - Low	30.00%



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The individual risk factors are weighted so that the overall values of the individual factors should guarantee a maximum score for the inherent risk of 100%: therefore, since 6 factors are considered, the maximum weight percentage value per factor is 16.67%. The following table illustrate the scale of the scores awarded to risk factors:

Table 12 - Scale of the scores awarded to inherent risk factors

Level of inherent risk	Quantification of risk (A)	Weight (B)	Quantification of the weighted risk (AxB)
H - High	100.00%	16.67%	16.67%
M/H – Medium/High	80.00%	16.67%	13.34%
M – Medium	60.00%	16.67%	10.00%
M/L – Medium/Low	45.00%	16.67%	7.50%
L - Low	30.00%	16.67%	5.00%

As for the control risk assessment, the Audit Authority considers the following factors as recommended in the Annex III of the guidelines EGESIF_14-0011-02 final of 27/08/2015:

1. Degree of change 2007-2013;
2. Key orientation requirements (12 out of 13) for the MCS assessment in Member States as indicated in Annex IV of the Note EGESIF_14-0010-final of 18/12/2014 and 1 additional key requirement raised by Annex of Reg. (EU) 894/2014, and referring to internal controls.

Likewise, the Inherent risk evaluation, for the quantification of each risk factors, the Audit Authority adopts the same scale of value used by the application “MyAudit”, which is detailed below:



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Table 13 - Quantification of control risk

Level of control risk	Quantification of risk
H - High	100.00%
M/H – Medium/High	80.00%
M/L – Medium/Low	45.00%
L - Low	30.00%

As for the individual factors, a maximum percentage value (weight) is given so that the sum of the values of the individual factors should guarantee a maximum score for the control risk of 100%. In particular, the Degree of change 2007-2013 and the key requirements are assessed separately. As for the Managing Authority, taking into consideration the degree of changes from the 2007-2013 period which still could potentially still have a relevant impact but lower than previous accounting year (i.e., 20%), a maximum percentage value (weight) which correspond at 9% is given, while as for the weight for the assessment of the 13 key requirements of the MA a maximum percentage value (weight) of 7% is given so that the sum of the weights attributable to the key requirements is 91%. The following table illustrate the scale of the scores awarded to the degree of change 2007-2013:

Table 14 - Scale of the scores awarded to control risk factor degree of changes from the 2007-2013

Level of control risk	Quantification of risk (A)	Weight (B)	Quantification of the weighted risk (AxB)
H - High	100.00%	9.00%	9.00%
M/H – Medium/High	80.00%	90.00%	7.20%
M/L – Medium/Low	45.00%	9.00%	4.05%
L - Low	30.00%	9.00%	2,70%

The following table illustrate the scale attributable to the 13 key requirements:



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Table 15 - Scale to the 13 key requirements

H - High	100.00%	7.00%	7.00%
M/H – Medium/High	80.00%	7.00%	5.60%
M/L – Medium/Low	45.00%	7.00%	3.15%
L - Low	30.00%	7.00%	2.10%

The assessment of the level of the inherent risk (IR) and control risk (CR) is performed with reference to each risk factor present in each Authority for each participating Country of the Programme. From multiplying IR by CR results the Material Misstatement Risk (RES) for each Authority and for each Country under audit (IRxCR = RES). Moreover, as application of the methodology used by the application “MyAudit” made available by IGRUE, it is adopted an additional factor “Number of Audit Risk” (AR) aimed to mitigate the Material Misstatement Risk in relation to the number of audits performed in the previous accounting periods, according to the following formula:

$$AR = (1 - (0,1 * NAC)) * 100$$

where NAC = number of the audits closed.

From the multiplication RESxAR it results the Material Misstatement Risk score, for each Authority, for each Country.

The analysis of the Risk of the Management and Control System is implemented by a specific analysis of the Management and Control processes.

The investigation tools are listed below:

- on-spot visits to the services responsible of specific processes,
- interviews,
- tests,;
- checks of the control trails.

The on-spot visits (not allowed in Italy since March 2020 onwards because of the Covid_19 pandemic) give the opportunity to directly observe the development of the activities connected to the Management and Control System and to collect the elements attesting the smooth functioning of the controls. These visits should be



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necessarily planned. If it will be necessary to attain a higher degree of detail or to obtain specific clarifications, targeted interviews will be conducted. For a comprehensive view of the System, it is possible to conduct tests of compliance throughout selecting a sample of operations. For this sample, non-statistic and not particularly large, it will be sufficient a limited number of cases, but it will be essential to perform the risk analysis that this sample could allow a significant view of the processes. The control trails must guarantee that the correctness, regularity, and eligibility of the expenditure should be closely monitored. The analysis of the control trails and the implementing processes represented in them shall verify the reliability of these latter and to allow a judgment regarding existing risks and controls.

This analysis aimed to describe and represent the flows of activities, identifying risks and controls connected, to allow a more efficient allocation of human resources that will perform the controls considering the level of risk identified.

At the end of the specific analysis of the processes of the Management and Control, the risk assessment will be updated based on the related results and the number of audits carried out.

With reference to the **Managing Authority (for the 4 Thematic Objectives and the Technical Assistance)**, the following paragraphs illustrate the elements considered to perform the assessment of the **Inherent Risks** listed in the previous Table of risk assessment.

With reference to the **Inherent Risk “Budgetary Amount”**, the evaluation to give to this risk factor should be “High” for the Thematic Objectives 1 and 4, which have a budgetary amount more than significant, and “Medium/High” for the Thematic Objectives 2 and 3 and for the Technical Assistance, which have a lower budgetary amount.

As for the **Inherent Risks “Complexity of the Organisational Structure”** and **“Complexity of the rules and procedures”** the evaluation to give to these risk factors should be “High” for all the Thematic Objectives and the Technical Assistance.

With reference to the **Inherent Risk “Wide variety of complex operations”**, the evaluation to give to this risk factor should be “High” for all the Thematic Objectives and “Medium/High” for the Technical Assistance.

As for the **Inherent Risks “Risky Beneficiaries”**, the following factors are considered, taking into consideration data of the 2 calls for proposals as assigned (for standards and strategic projects):

- the predominant participation of private subjects and public bodies
- the numerousness of the operations activated (as illustrated in the following chart).



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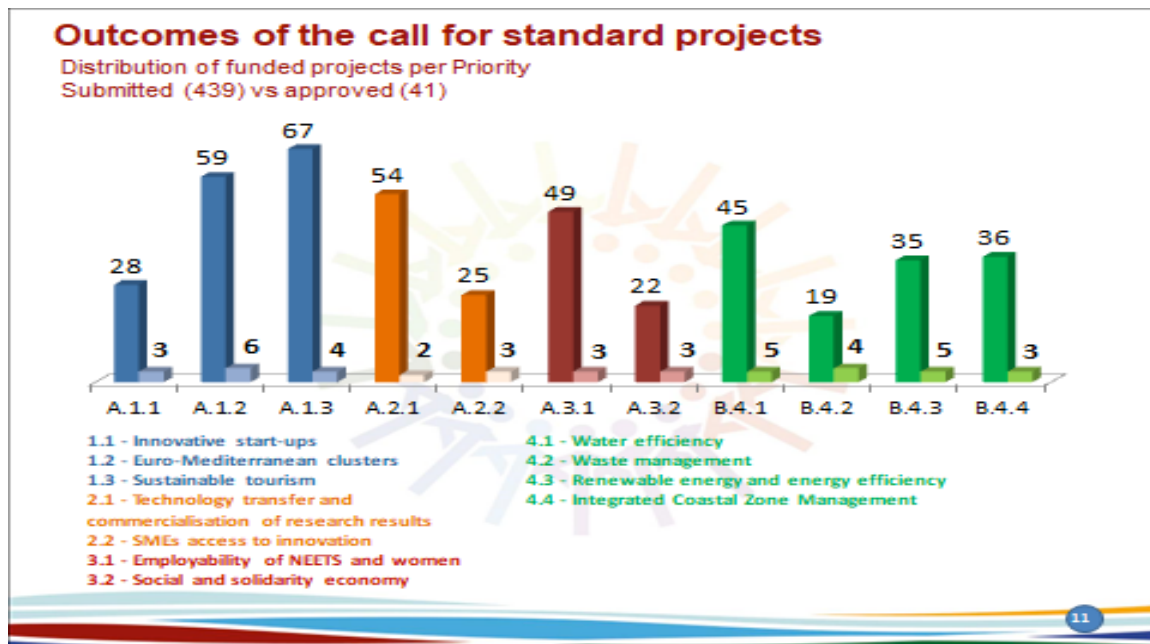


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Therefore, the evaluation to give to this risk factor should be “High” for the Thematic Objective 1, which has a predominant participation of private subjects and a high number of whole operations activated (as illustrated in the following chart), “Medium/High” for the Thematic Objective 2, which has a predominant participation of private subjects and a low number of operations activated, “Medium” for the Thematic Objective 3 which has a predominant participation of public bodies and a low number of operations activated, and “Medium/High” for the Thematic Objective 4, which has a predominant participation of public bodies and the highest number of operations activated, and “Medium” for the Technical Assistance which is to the benefit of the public or bodies governed by public laws subjects only.

Figure 5.1 – Distribution of funded projects per Priority (standard call)





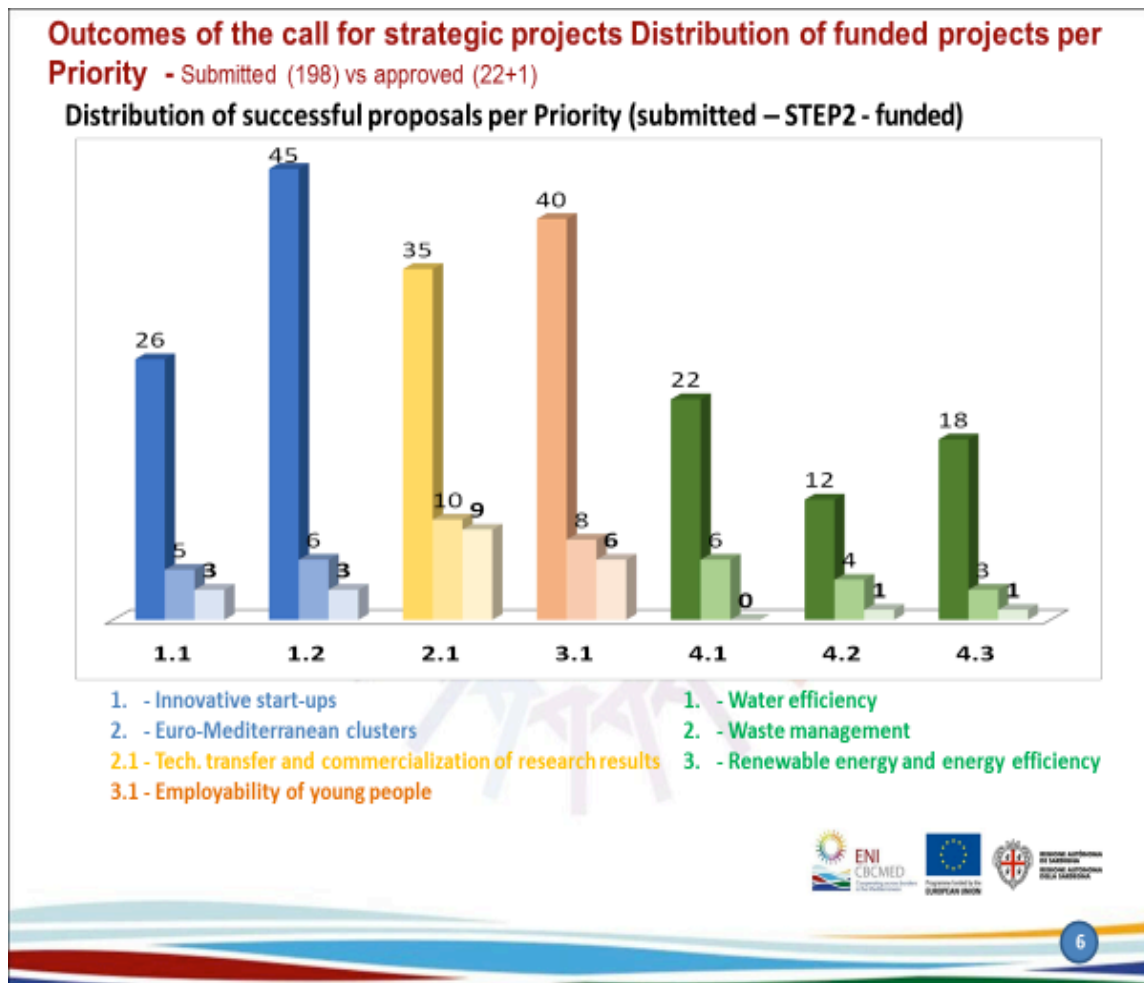
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Figure 5.2 – Distribution of funded projects per Priority (strategic call)



In order to assess the factor of inherent risk “**Understaffing and/or lack of skills in key areas**” the information laid down in Decision No. 1308/133 of 28/08/2019 are listed below:

- as for the Director Office: 5 officers Category D (1 out of 5 is temporary assigned to another public body); 1 assistant Category C;
- as for the Authorizing and Operational Management Section: 1 executive; 5 officer Category D;
- as for to the Accounting and Payment Section: 1 executive; 2 officers Category D; 1 assistant Category C.



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Based on what describe above, the evaluation to the factor of inherent risk **“Understaffing and/or lack of skills in key areas”** should be “High” for all the 4 Thematic Objectives, and “Medium/High” for the Technical Assistance.

Still with reference to the **Managing Authority (for the 4 Thematic Objectives and the Technical Assistance)**, the elements considered to perform the **Control Risks** Assessment listed in the table of risk assessment, are reported below.

With reference to the Control Risk **“Degree of change 2007/2013”**, considered the list of still open recommendation for the previous Programme ENPI CBC MED, which remain valid for the Programme ENI CBC MED, but lower impact than previous accounting year (i.e. 20%), a maximum percentage value (weight) which correspond at 9% is assigned corresponding to “High” evaluation rate.

With reference to the Control Risk **“Quality of the internal control”** (key requirements of orientation for the assessment of the MCS in the Member States), the Audit Authority considers the results of both the follow-up of System Audit performed for the accounting period 1st July 2018 – 30th June 2019 and for the accounting period 1st July 2019 – 30th June 2020 as well, for each criterion of designation associating these results to the key requirements of the System Audit through the Table of correlation between the key requirements and the designation criteria laid down in the Annex IV of the Note EGESIF_14-0010-final 18/12/2014.

Accordingly, ”, the evaluation of the factor of inherent control risk has been rated as follow:

- as for KR1 “Separation of the functions and monitoring of the tasks delegated to other bodies” is “Medium/High”, considering that the Document describing the Management and Control System still needs further updates,
- as for KR2 “Selection of operations” is “Medium/High” for all the Thematic Objectives (from 1 to 4) and “Medium/Low” for the Technical Assistance,
- as for KR3 “Information provided to beneficiaries” is “Medium/Low” for all the Thematic Objectives (from 1 to 4) and “Low” for the Technical Assistance,
- as for KR4 “Management assessment” is “High”,
- as for KR5 “Control trail” is “High”,
- as for KR6 “Information system of collect, recording and storage of data” is “Medium/Low”for projects but “High” for TA due to serious deficiencies and missing section or data as for Technical Assistance expenditures as well as the for one which should be devoted to the AA,



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- as for KR7 “Implementation of the anti-fraud measures” is “Medium/High”, even considering that the Managing Authority approved, with Decision No. 1821/215 of 25.11.2019, the Risk Management Plan of 21st November 2019, but the efficiency and effectiveness of procedures and tools as set is not proved yet
- as for KR8 “Preparation of the management declaration and the annual report of the implemented control” is “Medium/High”, .
- as for HKR “Appropriate procedures to ascertain that the components of internal control exist and function” is “High”,
- as for KR 10 “Appropriate procedures for drawing-up and submitting payment applications” is “Medium/High”,
- as for KR 11 “Appropriate computerised records of expenditure declared and of the corresponding public contribution are maintained” is “Medium/Low”,
- as for KR 12 “Appropriate and complete account of amounts recoverable, recovered and withdrawn” is “Medium/Low”,

as for KR 13 “Appropriate procedures for drawing up and certifying the completeness, accuracy and veracity of the accounts” is “Medium/High”, mainly because of significant delays in providing the AA with the OP Annual Accounts. As for the “**Number of audits performed in the previous periods**”, for all the Thematic Objectives and the Technical Assistance, the rate as given considered those performed in previous and current accounting year, namely:

- System Audit for the accounting period 1st July 2018 – 30th June 2019,
- Audit on Programme Annual Accounts in February 2020,
- Follow up on the 1st system audit as mentioned, in February 2020,
- An additional audit on Programme accounts following DG Region request by Note Ares(2020)2761582 - 28/05/2020, in July 2020,
- System audit on Jordanian Programme bodies (NA, NCP, CCP, BO) in December 2019-June 2020,
- System Audit for the accounting period 1st July 2019 – 30th June 2020 adopted with AA Decision n. 181 of 16.02.2021,
- Audit on sample of Projects (operation) n. 01/2021, adopted with AA Decision n. 6424 of 22.02.2021,
- Audit on sample of Projects (operation) n. 02/2021, adopted with AA Decision n. 5790 of 17.02.2021,
- Audit on Programme Annual Accounts n. 01/2021, adopted with AA Decision n. 6425 of 22.02.2021.

Having regard to **National Authorities, National Contact Points, Control Contact Points** and , where applicable, for the two Programme **Branch Offices**, the elements considered for the assessment of the **Inherent Risks as country level** are reported below.



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With reference to the Inherent Risk “**Budgetary Amount**”, the financial data of the projects funded by the calls for standard and strategic projects are considered in order to perform the assessment.

In this respect the following rate based on budgetary amount apply:

- for amounts below € 5,000,000 – Low,
- for amounts from € 5,000,001 up to € 15,000,000 – Medium/Low,
- for amounts from € 15,000,001 up to € 25,000,000 – Medium,
- for amounts from € 25,000,001 up to € 40,000,000 – Medium/High,
- for amounts more than € 40,000,001 – High.

Based on data as extracted from the Monitoring System of the OP in February 2021 and reported in the following Table the risk per country summary is described below accordingly.

Table 16 – Risk budgetary amount

Country	Project Cost for Country * (standard and strategic calls)	Risk “Budgetary amount”
Cyprus	€ 1,854,528,52	“Low”
Egypt	€ 10,724,034,46	“Medium/Low”
Greece	€ 15,490,488.84	“Medium”
France	€ 4,343,525,51	“Low”
Israel	€ 4,026,803.64	“Low”
Jordan	€ 21,547,682.91	“Medium”
Lebanon	€ 23,947,233,34	“Medium”
Malta	€ 957,767,70	“Low”
Palestine	€ 12,659,583.77	“Medium/Low”
Portugal	€ 576,349.35	“Low”
Spain	€ 26,359,980.44	“Medium/High”
Tunisia	€ 27,418,352.69	“Medium/High”
Italy	€ 40,588,032,71	“High”
TOTAL	€ 190,494,364.08	

*figures as mentioned do not include the contingency reserve for granted projects

As for the Inherent Risk of “**Complexity of the organisational structure**”, the rate to be given to these risk factors should be “High” for Spain, Jordan and the Countries hosting the Branches, and “Medium/High” for the other Countries.



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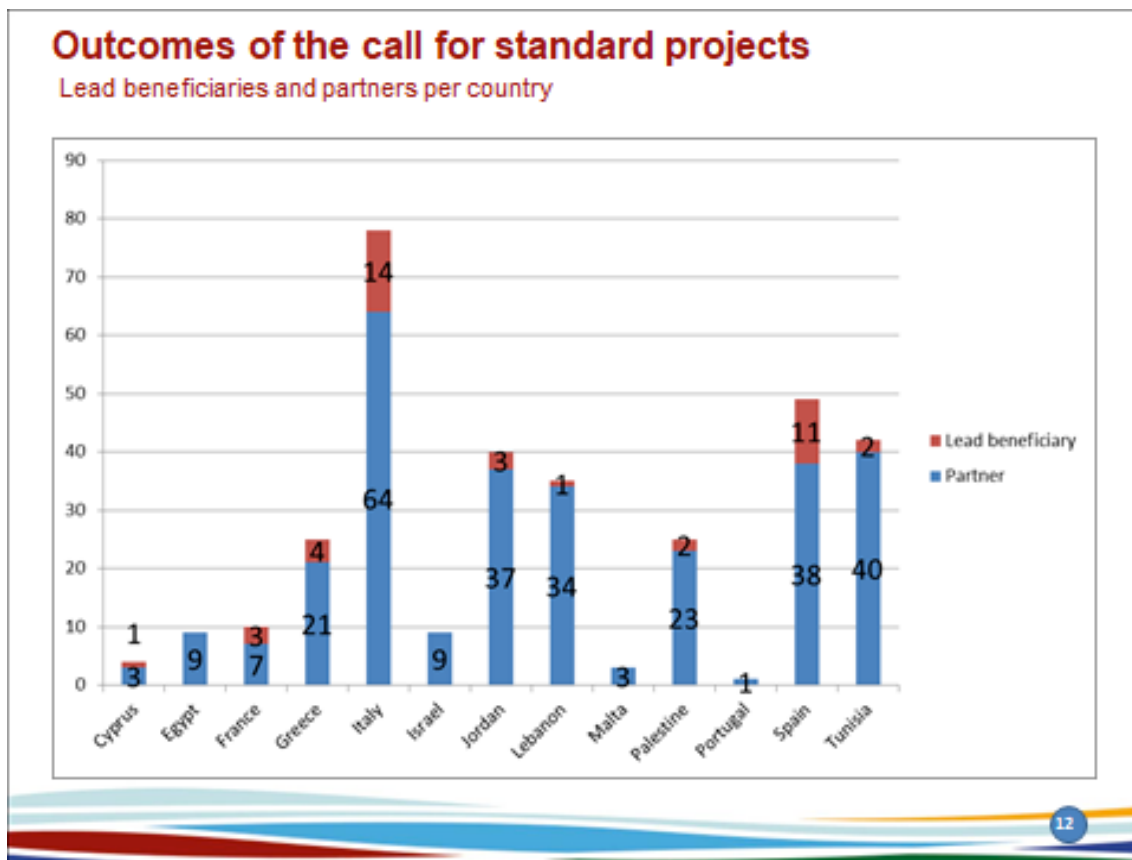
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As for the Inherent Risks “**Complexity of rules and procedures**” and “**Wide variety of complex operations**”, the rate to be given to these risk factors should be “High” for all the Countries.

As for the Inherent Risk “**Risky Beneficiaries**”, the rate to be given to these risk factors consider the data related to the number and type of beneficiaries involved in the project funded by the calls for standard and strategic projects as represented by the Managing Authority during the Joint Monitoring Committee respectively in Cairo (January 2019) and Amman (December 2019), as listed in the figure below.

Figure 6.1 – Lead beneficiaries and partners per country (standard call)





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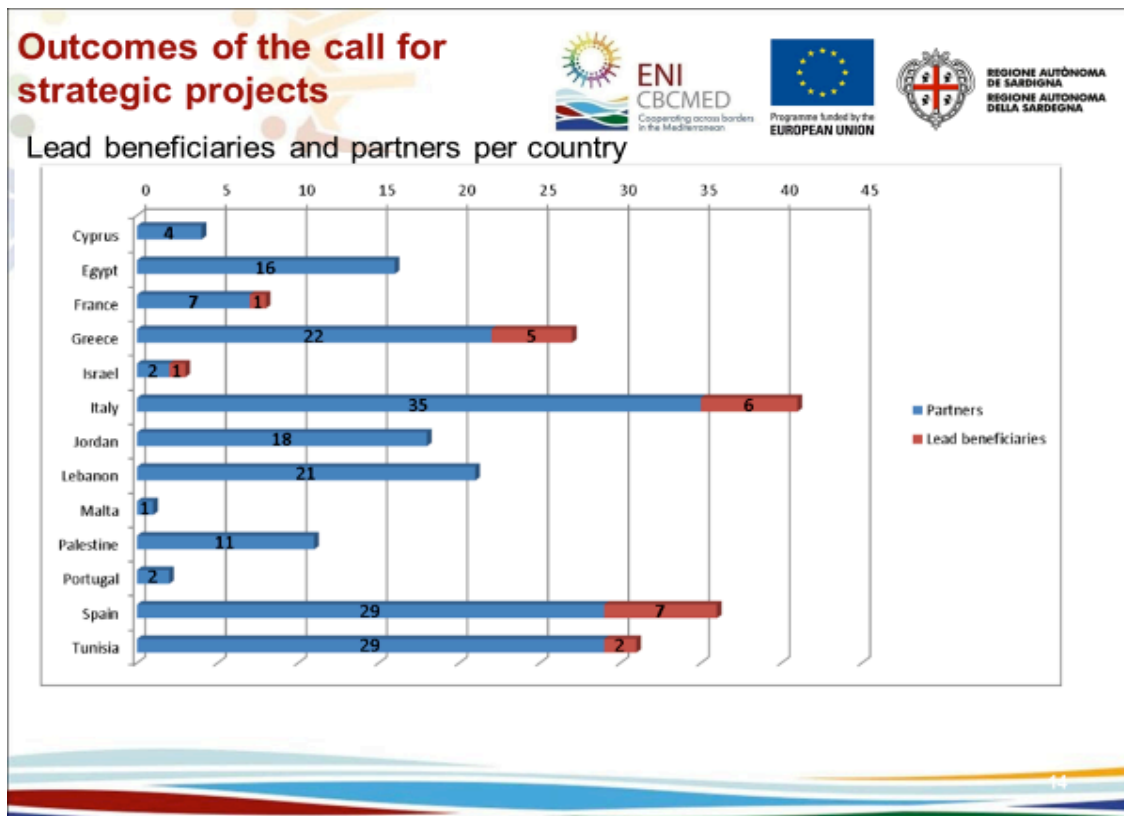


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Figure 6.2 – Lead beneficiaries and partners per country (strategic call)



In this respect the following rate based on number of beneficiaries apply:

- for beneficiaries below 10 – Low,
- for beneficiaries from 11 up to 30 – Medium/Low,
- for beneficiaries from 31 up to 50 – Medium,
- for beneficiaries from 51 up to 70 – Medium/High,
- for beneficiaries with more than 70 – High.

On the basis of these data, it is reasonable to consider that the evaluation of this risk factor should be “High” when the beneficiaries are more than 70 (Italy, Spain and Tunisia). “Medium/High” when the beneficiaries are between 51 and 70 (Greece, Jordan, and Lebanon), “Medium” between 31 and 50 (Palestine), “Medium/Low” between 11 and 30 (France, Egypt, and Israel) and “Low” when the beneficiaries are less than 10 (Cyprus, Malta and Portugal).



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In order to assess the factor of Inherent Risk “**Understaffing and/or lack of skills in key areas**”, the rate to be given to these risk factors should be “High”.

For each Country, with reference to the **National Authorities**, the **National Contact Points**, the **Control Contact Points** and the two Programme **Branches**, the elements considered for the assessment of the **Control Risks**, listed in the previous table of the risk assessment, are reported below.

With reference to the control risk “**Degree of change 2007/2013**”, by considering the list of still open recommendation from the previous Programme ENPI CBC MED, as reminded in the designation procedure report adopted by the Audit Authority with Decision No. 797 of 29th October 2018, mostly confirmed by the final Report of the System Audits for the accounting period 1st July 2018 – 30th June 2019 and 1st July 2019 – 30th June 2020 , the rate to be given to this control risk factor should be “High”.

With reference to the Control Risk “**Quality of the internal control**” (key requirements of orientation for the assessment of the MCS in the Member States), the Audit Authority considers the results of both the follow-up of System Audit performed for the accounting period 1st July 2018 – 30th June 2019 and for the accounting period 1st July 2019 – 30th June 2020 as well, for each criterion of designation associating these results to the key requirements of the System Audit through the Table of correlation between the key requirements and the designation criteria laid down in the Annex IV of the Note EGESIF_14-0010-final 18/12/2014.

In particular, , the evaluation of the factor of inherent control risk is expected to be:

- as for KR1 “Separation of the functions and monitoring of the tasks delegated to other bodies” is “Medium/High”, considering that the Document describing the Management and Control System still needs further updates,
- as for KR2 “Selection of operations” is “Medium/Low” for all countries but Spain and Jordan (Medium/High),
- as for KR3 “Information provided to beneficiaries” is is “Medium/Low” for all countries but Spain and Jordan (Medium/High),
- as for KR4 “Management assessment” is “High” for all countries,
- as for KR5 “Control trail” is “Medium/Low” for all countries,
- as for KR6 “Information system of collect, recording and storage of data” is “Medium/Low” for all countries but Spain and Jordan (Medium/High),
- as for KR7 “Implementation of the anti-fraud measures” is “Medium/High”, even considering that the Managing Authority approved, with Decision No. 1821/215 of 25.11.2019, the Risk Management Plan of 21st November 2019, but the efficiency and effectiveness of procedures and tools as set is not proved yet,



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- as for KR8 “Preparation of the management declaration and the annual report of the implemented control” is “Low”,
- as for HKR “Appropriate procedures to ascertain that the components of internal control exist and function” is “High”,
- as for KR 10 “Appropriate procedures for drawing-up and submitting payment applications” is “Low”,
- as for KR 11 “Appropriate computerised records of expenditure declared and of the corresponding public contribution are maintained” is “Low”,
- as for KR 12 “Appropriate and complete account of amounts recoverable, recovered and withdrawn” is “Low,”
- as for KR 13 “Appropriate procedures for drawing up and certifying the completeness, accuracy and veracity of the accounts” is “Medium/Low” for all countries but Spain and Jordan (Medium/High).

As for the “**Number of audits performed in the previous periods**”, for Jordan it is indicated 1 because on the 4th and 5th December 2019 the Audit Authority started a System Audit for the accounting period 1st July 2018 – 30th June 2019, which ended in June 2020. For all the other Countries it is indicated 0, because no System Audit has been performed.

3.4. Judgement about risks and controls in place and planning of audit activities

According to the approach as mentioned, it is possible to express an opinion on the severity of the risk and the effectiveness of the monitoring, as well as on the ability of the control to reduce/contain the risk profile. The general assessment of the risk level is the synthesis of the assessments carried out for each risk. The summary assessment for each area considers the different weighting as assigned to the individual Inherent Risks and the individual Control Risks.

By considering the peculiarities of ENI CBC MED Programme, it should be noted that having regards to planning of Audit activities in terms of bodies and/or topics to be audited, in case of equal value of the overall risk score the following criteria apply when prioritizing:

- AA planning could be revised, even on short term notice, following the limitations for travels per country because of the Covid_19 pandemic,
- at country level, priority is given to those ones hosting also the Programme Branch Offices (namely Jordan and Spain),
- 50% as Programme "golden rule" shall be granted as well for AA activities per accounting year (i.e., one non-EU country per each EU country verified in the same accounting period),



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- Programme events as planned by the MA to which the AA staff is requested to attend may be considered to ensure more efficient verifications on national systems of participating countries.

3.5. Internal procedure for updating the risk assessment

The risk analysis is a continuous exercise and, therefore, must be reviewed at least on an annual basis, as well as in any case in which events occur that could produce a relevant change in the Audit Strategy of the Programme.

This is for example the case when changes occurred in the MCS do not influence the Audit Strategy for a given accounting period but are considered significant for programming the single audit mission, and it is therefore deemed necessary to perform a specific update of the risk assessment.

All assessments, aimed at revising and /or updating the risk analysis, will be reported in a specific AA document of the risk assessment methodology that will be prepared each year during the preparatory phase of the system audit (see chapter 4.2).

The responsibility of an annual update of the risk assessment process lies within the AA.

If risk factors will be reconsidered during the compliance assessment or by concrete audits, the risk factors will be rescheduled. An annual update of the risk assessment will be provided by the AA accordingly.



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4. AUDIT METHODOLOGY

4.1 Overview

4.1.1 Methodological approach

Audit methodology respects international standards, ensures that main bodies involved are subject to audit and, as far as possible, foresees a continuous audit work throughout the whole Programme period.

Furthermore, since audit methodology should stimulate continuous improvement as concerns both the adequacy of management and control systems and the reliability of the expenditure reports, special attention is paid to getting audit issues back and analysing related recommendations (follow-up).

Specific audit objectives include the following actions.

1. Audit activity planning. In this phase, information is gathered about the correct functioning of the Programme MCS, in order to correctly perform the audit activity itself.
2. Risk assessment. Main steps are:
 - selecting inherent and control risk factors;
 - risk analysis and assessment;
 - spotting audit priorities with respect to assessed risks;
 - defining of audit scope and methodology;
 - identifying necessary resources (auditors, technicians and specialists, travels, timing, costs);
 - approval of audit activities plan (procedures, timing, purpose, sample size).
3. System audit:
 - verification of monitoring of projects, accounting and information systems, organisational structure and procedures; special attention shall be given to MA monitoring internal control and risk management since they are newly explicitly stated functions for the MA. System audit is carried out through desk analysis, interviews with the audited body staff and control tests on key requirements, on a sample basis;
 - sampling for control tests on requirements in the annex of ENI CBC IR, based on judgmental selection that considers administrative and financial data and any information about involved actors, according to the methodology of the EGESIF note 14-0010 of 18.12.2014, “Guidance on a



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common methodology for the assessment of management and control systems in the Member States”;

- assessment of system reliability: the conclusions are going to serve also for the size and representativeness of project sample.

4. Sample audit on projects:

- sampling: sample size and definition depends on the confidence level, fixed according to the assessment of management and control system reliability;
- audit implementation on a sample of projects suitable for the verification of claimed expenses; this phase includes also any additional audit needed to best define error rates.
- analysis of irregularities: whether they are systemic, what their causes are, which preventive and corrective measures are to be recommended.

5. Audit on annual accounts according to Art. 28.1 and 68.4 of Reg. 897. This audit is performed by the Audit Authority with reference to each accounting period. It provides a reasonable assurance on truth, completeness, accuracy and regularity of amounts claimed in accounts; the Audit Authority especially considers outcomes of system audits and audits on projects.

6. Monitoring: follow-up and corrective measures:

- verification of corrective measures adopted by the Managing Authority to solve identified weaknesses;
- deadlines for answering to audit reports, evaluation of observations or counter-deductions and follow-up activation where relevant (or formal acceptance of risk by the Managing Authority).

AA tools include manuals of procedures, check-lists, reports and tables of critical issues and irregularities and differentiate for system audit and project audit.

When implementing verifications on designation requirements, the Audit Authority uses, as far as possible, tools provided by Italian National Coordinating Body (IGRUE, Ministry of Finance), adapted to ENI CBC MED Programme, and dedicated check-lists following TESIM templates.

As for projects audit, the manual and templates will be proposed by the audit providers and approved by the Audit Authority; they can be modified and adapted during the Programme implementation upon AA request, in order to ensure that they keep responding to actual needs.



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4.1.2 Audit standards

The audit work respects international standards on audit.

More specifically, as far the professional ethics is concerned, the Audit Authority and the Group of Auditors – since they are (or proceed by) public institutions for which audit is a statutory function – are bound by ISSAI (*International Standards of Supreme Audit Institutions*) 30 – Code of Ethics, issued by the International Organization of Supreme Audit Institutions, INTOSAI; as far as compatible with the above mentioned one, the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants (IESBA) is also a source of inspiration; moreover, each auditor is bound to the code of ethics of his/her own institution, as far as it is stricter than other mentioned rules. As far as the selected external providers are concerned, they shall be bound directly by the *Code of Ethics for Professional Accountants*.

As far as professional audit activity is concerned the Audit Authority and the Group of auditors follow the ISSAI standards.

Beside Practice Notes to ISA as detailed hereafter, the most relevant could be mentioned as follow:

ISSAI 3000	Standards for performance auditing
ISSAI 3200	Guidelines for performance auditing process
ISSAI 4000	Compliance audit standard
ISSAI 5300	Guidelines on IT audit

External auditors working on all Programme audits (i.e. system audit, accounts audit or project audit) will be bound by ISA (International Standards on Auditing), issued by IFAC (International Federation of Accountants). Should any national authority be involved in audit activity, it will follow its own rules provided they comply with ISSAI.

Main ISA regarding the audit work are the following:

ISA 200	Overall objective of audit
ISA 220	Quality control for audit work
ISA 230	Audit documentation
ISA 240	The auditor's responsibility to consider fraud in an audit of financial statements
ISA 250	Consideration of laws and regulations in an audit of financial statement
ISA 300	Planning an audit of financial statements
ISA 315	Understanding the entity and its environment and assessing the risk of material
ISA 320	Materiality in planning and performing an audit
ISA 450	Evaluation of misstatements identified during the audit
ISA 500	Audit evidence
ISA 530	Audit sampling
ISA 600	The use of the work of other auditors
ISA 620	Using the work of an Auditor's Expert
ISA 700	Forming an audit opinion
ISA 705	Modifications to the opinion in the independent auditor's report



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ISA 706	Emphasis of matter paragraphs and other matter paragraphs in the independent
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In system audits, IPPF (*International Professional Practices Framework*) as issued by the IIA (The Institute of Internal Auditors), will also apply, as far as compatible with ISSAI.

The respect of the standards is monitored through a strict control system, as described in the Joint Operational Programme, par. 3.2.5.

As far as audit work by providers is concerned: standards will be included in the terms of reference for each tender procedure; each auditor performing the activity is due to respect the standards; the coordinator of the working group set up by the providers shall be responsible for monitoring all results, also respecting the standards; the officer in charge of project audit has to assess and state the quality of the providers' work, also regarding the respect of standards; the Audit Authority coordinator shall monitor the officers' work and ultimately certify the work provided by the audit firms, also with respect to the standards, in order to authorise payments.

4.1.3 Group of Auditors

According to ENI IR art. 28.2, the Audit Authority (AA) shall be assisted by a Group of Auditors comprising a representative of each participating country in the Programme. Therefore, the Group of Auditors (GoA) is an advisory body whose function consists in assisting the Audit Authority in the fulfilment of its tasks.

As per JOP - Section 3.2.5, the Group ordinarily meets once a year in order to discuss planning of audit activity and main audit results, providing the AA highly qualified expertise on the following tasks as assigned:

- elaboration of the audit strategy for performance of Programme audits;
- establishment of any directives and criteria for audits;
- definition of criteria for the selection of audit providers;
- discussion of any report issued by the audit providers and of conclusions of any audit;
- drafting of the annual reports.

The Group can operate through direct participation of members or written consultation. In both modalities, Group members can express their expertise in opinions and, for procedural matters, votes. The GoA Rules of Procedure (RoP) have been discussed during the GoA 1st meeting held in Cagliari on 14th and 15th October 2019 and approved on 24th October 2019 (AA Decision n. 900 of 29th July 2020). Therefore, any official consultation with the Group started from that moment onwards.



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The Group has an important role in audit systems: the AA is authorised to carry out directly its duties on the whole Programme territory, according to the modalities set up in this strategy, respecting relevant legislation of each country and modalities agreed upon with them.

Therefore, when AA will conduct on-the-spot visits for system audits, the assistance by the Group shall always consist in the participation of the member appointed by the country in which the audited subject is based, except when not allowed due to logistical reasons. Other Group members could attend as well, according to this strategy and the GoA Rules of Procedure.

The AA collects opinion as expressed and employs them for its activity, as the case may be.

Any GoA member, appointed by the national competent institutions, meets criteria of independence and lack of conflicts of interest set up by international audit standards.

Accordingly, they shall submit a certificate of independence to the AA, in which they declare that they perform their tasks independently from bodies involved in the management of the Programme as well as from all beneficiaries (see Annex 2.8 to this Manual). If independence is not ensured – even if temporarily –, the concerned member inform the AA immediately, in order to allow for necessary countermeasures.

When drafting the Audit Manual update, CV and declarations about independence, engagement incompatibility and lack of conflicts of interest have been updated during the GoA second meeting (held through videoconference on 10th October 2020, as local authorities forbade working transfers to and from other countries due to the COVID-19 pandemic), in order to give evidence of the experience and impartiality of the panel. An update of documents as such is due whenever requested by the AA and at least once a year.

;

Art. 32.3 of ENI IR states that:

- the GoA shall be set up within three months of the designation of the Managing Authority
- it shall draw up its own rules of procedures and it shall be chaired by the Audit Authority.

The GoA rules of procedures regulate summons, development and follow-up of Group meetings in presence and by communicating tools, decision system for procedural matters, specific modalities of assistance to the Audit Authority and participation to its processes, modalities for checking and assuring independence and any other matter deemed useful.

4.2 Audits on management and control systems

According to Reg. (EU) 897/2014, art. 28.1.1 “The Audit Authority of the Programme shall ensure that audits are carried out on the management and control systems...”.



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The objective of system audits is the comprehensive examination of the regular, efficient and effective functioning of the systems involved in the use of ENI funds as assigned, especially the management, implementation, reporting and control.

The evaluation of the system audits is the basis for the summarizing conclusion of the functioning and the execution of proceedings and will be used to update the risk assessment as well as the audit strategy. It also influences the determination of the scope of audit on accounts and on operations.

Besides, system audit also includes the check of whether the changes in the management and control systems are in line with relevant legislation and internal regulations, and whether the recommendations made in relation to previous audits are appropriately fulfilled.

When drafting the Audit Strategy update the AA activity has been mainly oriented to the compliance of the respect of criteria for MA designation and the assessment on the DMCS Forthcoming System audits conducted by the AA will be carried out on a regular yearly basis throughout the entire Programme period.

As per JOP, "the Audit Authority is authorised to carry out directly, or through its sub contracted audit company its duties on the whole Programme territory, according to the specific modalities to be agreed upon with the AA and the relevant legislation".

Moreover, the AA reserves the possibility to cooperate with any respective member of the Group of auditors in carrying out on-the-spot verification for system audits.

For planning the system audit work the AA follows:

- The International Standards for the Professional Practice of Internal Auditing;
- The requirements described in ISA 300, ISA 315, ISA 330 and ISA 500 in order to ensure the harmonization of audit results.
- Guidance on a common methodology for the assessment of management and control systems in the Member States", EGESIF 14-0010_final of 18.12.2014
- Guidance for Member States on Audit Strategy, EGESIF_14-0011-02 of 27.8.2015.

During site work of system audit, the auditor shall obtain sufficient and reliable evidence that the MCS in place functions effectively and as described. The aim of the audits is to verify whether the audited elements and processes of the MCS provide for the legal and regular use of funds in line with the funding objectives. Test of



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controls shall apply, including walkthrough tests of the relevant documents held by the authorities concerned, interviews with relevant staff and examination of a sample of transactions.

The methodology used for determining the sample size for tests of controls should be in line with internationally accepted audit standards listed at par. 4.3.1 of this document and to the Commission Guideline on sampling techniques for system audits.

The results of these tests combined with other qualitative elements and audit procedures form the basis for the assessment of the system. The AA auditors will draw their conclusions first for each assessment criterion, then for each key requirement, then for each authority.

In case of occurring errors it must a clear segregation between random errors, which occur although a functional MCS is in place and systematic errors that occur due to deficiencies of the MCS is assured.

The detailed list of the system audit activities planned for the reference period of this AS is presented in the Annex 1 of the strategy and has been prepared with logic that all high risk key components of internal control with high risk will be audited first, beginning from 2019.

4.2.1 Indication of the bodies to be audited and the related key requirements (in the context of system audits)

The list of the bodies/processes that will be audited during the management and control system audits is in line with the risk assessment explained in chapter 3 and presented in the Annex 1 of the AS.

The GoA will support the AA in carrying out System audits in the territory of participating country, represented by the GoA members.

When planning the system audit in the above-mentioned period, the audits of the MCS carried out in the period 2007-2013 are used as reference point, particularly concerning the risk assessment.

By the end of the programming period the management and control system audits will cover:

- **Key components of internal control as set in Annex of Commission Regulation No 897/2014, namely:**
 - Internal control environment;
 - Risk management;



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- Management and control activities;
- Information and communication;
- Monitoring.

During the process, the following factors serve as the basis of classification:

- examination of the selected components of internal control and assessment criteria and effectiveness evaluation based on test elements; assessment of changes in the MCS and the relating regulations in the audited period;
- follow-up of previous audit findings relating to each component of internal control and assessment criterion;
- mitigating factors and compensatory controls.

The assessment of a component of internal control is not merely relying on test element results. The final classification of a system is established taking into account any mitigating factors and compensatory controls, and AA professional judgment.

- **Programme authorities, structures and bodies as follow:**

- Managing Authority (MA)
- Joint Technical Secretariat (JTS)
- Aqaba and Valencia branch offices (BO)
- Project Selection Committee (PSC)
- National Authorities (NAs)
- National Contact Points (NCPs)
- Control Contact points (CCP)

The risk assessment is the basis for the selection of bodies and key components of internal control, functions and thematic areas for the management and control system audits. However, the exact scope (including the bodies to be audited) of management and control system audits can be modified and specified during the risk assessment that is carried out during the audit planning stage.

The overall threshold for determining the materiality as a result of testing in the management and control system audits is described in the table below:



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Table 17 – Threshold

Category 1_ Works well Only minor improvements are needed	Category 2_ Works but some improvements are needed	Category 3_ Works partially, substantial improvements are needed	Category 4_ Essentially does not work
Less than 10% errors found in tested controls	Less than 25% errors found in tested controls	Less than 40% errors found in tested controls	More than 40% errors found in tested controls
There are no deficiencies or only minor deficiencies found. These deficiencies have no, or minor impact on the functioning of the assessed components of internal control/authorities/system.	Some deficiencies were found. These deficiencies have a moderate impact on the functioning of the assessed components of internal control / authorities/system. Recommendations have been formulated for implementation by the audited body.	Substantial improvement(s) are needed. Serious deficiencies were found that expose the Funds to irregularities. The impact on the effective functioning of the components of internal control/authorities/system is significant.	Numerous serious and/or wide-ranging deficiencies were found which expose the Funds to irregularities. The impact on the effective functioning of the assessed key requirements/ authorities/system is significant – the assessed components of internal control /authorities/ system function poorly or do not function at all.

Moreover, the qualitative aspects as identified by AA professional judgment are also considered and taken into an account when determining the final level of materiality.

4.2.2 Indication of system audits to target specific areas (including procedures established under Article 26 of ENI CBC IR)

The AA can plan thematic audits (concerning e.g. public procurement rules, state aid requirements and equal opportunities, IT and data security, documentation, compliance with regulations, publicity etc.) if considered necessary.

The frequency and coverage of the on-the-spot verifications will be organized proportionately to the amount of public support to an operation and to the level of risk identified in the risk assessment. System audits itself always will cover the on the spot visit and interviews with responsible personnel.

Specific system audits may be carried out with the assistance of member of GoA on request of the AA.

The AA, in co-operation with the members of GoA, shall establish whether any problems encountered on specific areas are of a systemic character. If so, suggestions on financial corrections or amendments to the management and control system in general shall be made and the necessary preventive and corrective action shall be taken by the relevant national and Programme authorities.



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Regarding the system audits on the functioning of IT systems, standards related to information technology will be used. In addition to the guidelines on IT Audit (ISSAI 5300) and the Information System Security Review Methodology (ISSAI 5310) issued by INTOSAI, TESIM guidance documents and checklist are considered as main reference documents. Moreover the AA will also take into account related national standards like "Misure minime di sicurezza ICT per le pubbliche amministrazioni" issued by AGID ("Agenzia Italiana per il Digitale"). Finally, COBIT (Control Objectives for Information and related Technology) framework, internationally accepted standards for information security, including the ISO/IEC standard 27001 and the ISO/IEC 27002, could be used as a source of inspiration.

Implementation of effective and proportionate anti-fraud measures as well as a fraud risk assessment in line with Article 26(5c) of Regulation (EU) No 897/2014 will be checked according to the EC Guidance on "Fraud Risk Assessment and Effective and Proportionate Anti-Fraud Measures" (EGESIF_14-0021-00).

Taking into account the principle of independence, the AA does not audit management and control systems of itself. These audits are carried out by the services of the European Commission.

4.3 Audits on a sample of projects and sampling method

4.3.2 Introduction

The experience of previous 2007/2013 programming period (ENPI OP) showed that, when considering the project consolidated report as the sampling unit, the number of projects could not allow for a statistical sampling, especially in the first years.

Indeed, in the framework of the ENPI CBC MED OP, 95 projects were selected and financed overall through three calls for proposal, with about 200 project interim and final reports (155 reports until 31.12.2016). Since the chosen sampling unit was the consolidated report submitted by the project lead beneficiary, statistical sampling was not possible. On the contrary, had the auditors been allowed to consider the 798 partners/beneficiaries involved in projects as sampling units, reports would have been more than 1200, allowing a statistical sampling since the 4th project implementing year, with more than 150 units.

Therefore, for the new programming period 2014-2020 ENI CBC MED OP, which is similar to the previous ENPI OP as for resources granted by the Commission, for participating countries and for managing structures, the Audit Authority intends to use **reports submitted by each partner and certified by the MA as sampling units**, in order to apply a statistical sampling method and to extend audit results to the entire population.

Moreover, considering the territorial distribution of the projects, the Audit Authority intends to ensure that in the whole Programme duration, beneficiaries of all participating countries are audited. Therefore, since the 3rd



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sampling year, a cluster shall be created for a supplementary sample, made of reports submitted by beneficiaries from countries not selected in previous samplings.

According to the population and its distribution, more stratification could also be needed; subpopulations with similar characteristics (such as the risk level or the error rate) or high value reports shall then constitute specific clusters.

The AA will also assure that thematic objectives/priorities of ENI CBC MED Programme are properly represented in the chosen sample of projects (possibly by additional sampling/stratification, actions to be furtherly evaluated and defined with the technical assistance service).

Following the recent directions by the EU DG Regio, technical assistance expenditures (namely, expenses made by the AA, the MA and its structures for the functioning of the Programme) will also be audited in the context of the audit on projects.

The general aim of the audit on projects is to perform audits on a sample of at least 5% of projects and 10% of claimed expenses in the whole ENI CBC MED Programme.

The AA will ensure that all sampling activities are carefully planned, with particular reference to sampling parameters, calculation on sample dimension and selection of operations to be audited, in order to demonstrate the appropriateness of the followed procedure.

The AA will also periodically reassess the coverage of the chosen sample, in the light of irregularities possibly detected by audit activities.

In addition to the explanations provided in the “Audit Strategy”, the AA will keep a record of the documentation and professional judgment used to establish the sampling methods, covering the planning, selection, testing and evaluation stages, in order to demonstrate that the established method is suitable.

For all statistic and sampling issues, the AA will be supported by a **technical assistance service (TA)**, provided by senior professionals/consultants with specific competence in the abovementioned subjects. A dedicated call for tenders is being issued by the AA in the first part of 2021.

The technical assistance to the AA will provide support, among other things, on the following activities:

- Define risk model;
- Choose sampling methods on the basis of the risk model and of the population characteristics;
- Select sample of operations to be audited;
- Project results on the population;
- Evaluate results;
- Evaluate need for sub-sampling, complementary sampling, additional sampling.

Therefore, when technical assistance service is awarded, this section of the Audit Strategy referring to sampling will be further implemented.



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Pending TA entrustment, hereafter are described the procedures and the general principles the AA intends to comply to, in order to assure proper sampling methods are applied when performing audits on operations; the use of AA professional judgement to choose sampling methods will be also explained.

4.3.3 General Legal Framework

As stated in art. 28 of the Regulation (EU) 897/2014 (ENI IR), the Audit Authority of the programme shall ensure that audits are carried out on the management and control systems, on an **appropriate sample of projects** and on the annual accounts of the programme, on the basis of the declared expenditure.

Audits on the declared expenditure are made through a **representative sample** and, as a general rule, using **statistical sampling methods**, pursuant to articles 28, 32 and 73 of the Regulation (EU) n. 897/2014 (ENI IR) and to article 127 of the Regulation (EU) n. 1303/2013 (CPR, applied by analogy to ENI OP).

In this regard, it shall be noted that, due to COVID emergency, Regulation (EU) 879/2020 amended the abovementioned Article 28 of the Regulation (EU) n. 897/2014, inserting the following paragraph: “For the purposes of paragraph 1, the COVID-19 pandemic shall constitute a duly justified case that the audit authority may invoke based on their professional judgement to use a non-statistical sampling method for the accounting year from 1 July 2019 to 30 June 2020”.

Since the beginning of the ENI CBC MED OP, no project expenditures were reported by beneficiaries and certified by the MA (last certified accounting period was 1 July 2019 - 30 June 2020), and thus no audit procedures have been carried out so far on such expenses.

When data about financial statements submitted by project beneficiaries and related expenditures certified by the MA for the accounting year 2020-2021 will be available, it will be possible to assess the real consequences of the COVID-19 outbreak at programme level and decide, according to AA professional judgment and to Regulation (EU) 879/2020, whether conditions to use non-statistical sampling for the 2020-2021 accounting period apply.

The AA will therefore comply to this new provision, as the case may be.

The methodology for the selection of the sample to be audited in the context of the audit of projects complies to the guidelines of the European Commission; the last official document over this subject is the “Guidance on sampling methods for audit authorities - Programming periods 2007-2013 and 2014-2020” (EGESIF_16-0014-01 20/01/2017).

In the drafting of the sampling methodology to be used by the AA, the following documents were also taken into account:

- EGESIF_15-0007 final of 09 October 2015 “Updated Guidance for Member States on treatment of errors disclosed in the annual control reports”;
- EGESIF_14-0011-02 final of 27 August 2015 “Guidance for Member States on Audit Strategy



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(Programming period 2014-2020);

- EGESIF_14-0010-final of 18 December 2014 “Guidance for the Commission and Member States on a common methodology for the assessment of management and control systems in the Member States”;
- EGESIF_15-0002-02 final of 9 October 2015 “Guidance for Member States on the Annual Control Report and Audit Opinion (Programming period 2014-2020)”;
- REGULATION (EU) No 1303/2013 of 17 December 2013 (applied by analogy to ENI OP);
- REGULATION (EU) No 480/2014 of 3 March 2014 (applied by analogy to ENI OP);
- REGULATION (EU) No 886/2019 of 12 February 2019, amending and correcting Regulation (EU) No 480/2014 (applied by analogy to ENI OP);
- REGULATION (EU) No 879/2020 of 23 June 2020, amending Implementing Regulation (EU) No 897/2014;
- IGRUE document “Audit Procedure Manual (Article 127 of Regulation No 1303/2013) – Programming period 2014-2020”, 12 July 2019, Rev. 6;
- Ares note (2016)1658902 - 07/04/2016.

For ENI CBC MED Programme it should also be remembered that:

- AA is assisted by the GoA;
- each Member State has its own representative in the GoA and is responsible for audits carried out in its territory;
- representative from each Member State is responsible for providing the factual elements relating to expenditure on its territory that are required by the AA in order to perform its assessment.

4.3.4 DG Near-DG Regio handover and related issues

In the drafting of the updated version of the Audit Strategy, a major issue was related to the dispute with DG Regio on the audit on projects methodology.

The ENI Regulations, with particular reference to the IR (EU) 897/2014 (artt. 35 and 38), make a clear distinction between the expenditures incurred for projects implemented in the 13 countries of the Programme, and the technical assistance (TA) expenditure incurred for the functioning of the Programme.

Following this distinction and in agreement with Commission DG Near, who was initially in charge of ENI Projects, Tesim (Technical Support to the Implementation and Management of ENI CBC programs) drew up a guidance taking into consideration the above-mentioned approach, i.e. the distinction between the expenses related to the projects and the expenses related to the TA (“Guidance on the preparation of the audit strategy in ENI CBC programs”, in its section referring to Audit on Projects).



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The training activity addressed to the ENI AAs, along with Tesim Questions & answers document on audit matters (with ref. to January 2019 version, as sent to the Commission DG NEAR) have been carried out following this approach.

As a consequence, ENI CBC MED Audit Authority (AA) built its planning and working documents (Audit Strategy, Audit Manual, check lists and tools) following these initial instructions given by NEAR and Tesim, thus foreseeing the control of the TA expenditures in the context of the Audit on annual accounts, according to different and specific procedures. This view was deemed correct both by EU DG Near and by Tesim.

When ENI Programme control transitioned from DG Near to DG Regio, at the beginning of year 2020, this approach was not accepted any more and DG Regio opened a dispute with all ENI AAs about how to carry out audit on TA expenditures.

This dispute finally ended on 26 October 2020 when, during the 4th network ENI meeting on audit issues organised by Tesim through web conference, DG Regio made it clear that TA expenditures should be part of the audit on projects.

Moreover, with a note of 5.11.2020, Regio provided the ENI CBC MED AA with its official point of view on the matter and with further information and advice on sampling methodology and procedures to audit TA expenditure. According to DG Regio, there is not really a distinction in the EU Regulation when it comes to gaining assurance on the legality and regularity of TA and projects and thus both TA and projects related expenditures should be part of audits of projects. TA expenditure should form a part of the total population, it should be audited under the audits of projects and it should be taken into account for the computation of a Total Error Rate (TER) and Residual Total Error Rate (RTER).

This changed position led to the need for a full revision of all ENI CBC MED AA planning and working documents, in order to comply with Regio recommendations and requirements.

As a consequence of this dispute, AA audit activities for the accounting year 2019-2020 suffered a considerable delay, which has not allowed to carry out an update of the strategy before February 2021.

Pending Audit Strategy updating, audit on projects activities for the accounting period 2019-2020 were carried out by the AA following the new approach as established by DG Regio.

The new procedure and methodology to carry out audit on projects will be explained in the following paragraphs.

4.3.5 Statistical methodology to audit project expenditures (operations) on a sample basis.

Introduction

As per art. 32 (1) of ENI CBC IR the audit on the sample of projects aims at examining the expenditure declared by the beneficiary in support of a payment request, to obtain assurance that the costs declared and the revenue



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generated by the project are verified and can be considered as real, accurately recorded and eligible in accordance with the grant contract signed between the Managing Authority and the lead beneficiary.

The audit on projects will be carried out on the expenditures declared by the beneficiaries (for projects) and by authorities/organisations (for technical assistance) and already paid by the MA. This means that audit on projects will check not only eligibility of costs, but it will also verify whether the Monitoring and Control System (MCS) is properly functioning, whether procedures of the Programme are effective, (for example, payment procedure timing and respect of set deadlines), the control being extended to every aspect of each audited operation.

The audit will be carried out on a sample of operations and the level of error (misstatement) observed in the sample will be used to estimate the unknown value of the whole population. This process will allow to conclude whether the population is materially misstated or not and, if so, by how much (error amount).

When carrying out the audit on projects, the AA intends to apply the following procedure:

- A. Define the population
- B. Define the sampling method
- C. Define population parameters, namely the confidence level (taking into account the audit risk model), the materiality level, the anticipated error and a measure of population variability
- D. Determine the sample size
- E. Select the sample and perform the audit
- F. Project results, calculate precision and draw conclusion.

This procedure will be fully explained in the sections hereafter.

A. Population, sampling unit and sampling method

To start with the audit on projects, first of all it is necessary to identify the population to be audited.

As already explained in the above section, DG Regio requires that projects expenditures and TA expenditures are audited in the context of the audit on projects, therefore such expenses will constitute the population.

TA expenditures: they consists of the expenses incurred by the AA, the MA and its two BO of Valencia and Aqaba, divided into the following categories:

- staff costs
- travel and subsistence
- equipment and supplies
- administrative costs
- subcontracted costs
- other cost



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For each category, based on previous sampling experiences and on the AA professional judgement, the population units will be:

- staff costs: monthly cost/person;
- travel and subsistence: travel+subsistence/single travel/person;
- equipment and supplies: invoice/single contract;
- administrative costs: given the very low amount of these costs, they will constitute 1 single unit;
- subcontracted costs: invoice/single contract;
- other costs: given the very low amount of these costs, they will constitute 1 single unit;

Projects expenditures: they consist of the expenses incurred by beneficiaries and project partners in carrying out planned project activities. As already mentioned, in order to have a significant size of the population, allowing for a statistical sampling method, the AA will use reports submitted by each partner and certified by the MA as sampling units.

B. Sampling method

As regards the sampling method, considering that the level of error (misstatement) is not expected to be different for different units in the population (low variability), and based on its professional judgement, the AA intends to apply a simple random sampling method to select the operations.

When real data on the population to be audited will be available, the AA will decide whether to apply any corrections to this method, for example by stratifying population in order to account for high-value items or other significant characteristics of the population, also based on the risk assessment carried out for type of expenditure, country, amount of awarded grant, different objectives and priorities of projects, etc.

Based on population characteristics, the AA may also decide to divide the final population to be audited into two groups, 1 for TA expenditures, 1 for projects expenditures, draw a sample from each one, carry out separate audits and then calculate a final TER and RTER for the population as a whole.

In any cases, the AA will refer to the EGESIF_16-0014-01 20/01/2017.

C. Population parameters, sample size, sample selection

As per the EGESIF_16-0014-01 20/01/2017 "Guidance on sampling methods for audit authorities - Programming periods 2007-2013 and 2014-2020", computing sample size within the framework of simple random sampling method relies on the following information:

- Population size N



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- Confidence level determined from systems audit and the related coefficient z from a normal distribution
- Maximum tolerable error TE
- Anticipated error AE
- Standard deviation σ_e of the errors.

Once those parameters are correctly defined, sample size n is computed as follows:

$$n = \left(\frac{N \times z \times \sigma_e}{TE - AE} \right)^2$$

For the purpose of ENI CBC MED audit on projects, and starting from an evaluation on the management and control systems equal to “2 - Works. Some improvements needed”, as obtained from the last system audit (see assurance package of February 2021), the parameters needed to define sample size are set as follows:

N = (to be defined when data are available)

$z = 1,036$, as the confidence level is 70%, corresponding to an evaluation of the MCS equal to 2 – Average

TE = maximum tolerable error admissible by the regulation, that is, 2% of the total expenditure declared to the Commission

The other parameters, σ_e and AE , should be set by the Audit Authority relying on historical data (standard-deviation of the errors and error rate for the population in the past period).

As regards historical data, it should be noted that:

- no data are available for past programming period ENPI, because no statistical sampling could be applied to project expenditures due to the low number of operations, so no error rate or standard deviation of errors could be calculated for the population;
- in the new programming period ENI, since 30 June 2019 no audit on projects had been carried out as no projects expenditures reports were submitted by beneficiaries and as TA expenditures had been verified in the context of the audit on the accounts, as explained in the above section;
- first audit on projects carried out in the context of ENI CBC MED OP for the accounting period 2019-2020 resulted in no errors found in the sample of operations, consisting of TA expenditures only, as no projects expenditures reports were submitted by the 30.6.2020; so no error rate or standard deviation of errors could be calculated for the population.

For all the abovementioned reasons, as no historical data are available, the AA will select a pilot sample of size=30 (recommended minimum sample size, as per EGESIF_16-0014-01 20/01/2017) on which to perform the audit and calculate a preliminary estimate of the variance of errors and of the anticipated error of the population, σ_e and AE .

The parameters will then be used to calculate the final sample size, n , applying the abovementioned formula.



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A final sample of such n size will then be chosen, on which to perform the audit on projects. The pilot sample will be used as a part of the final sample, so that during this step the audit activities will be performed only on the additional units of the final sample, as the units of the pilot sample were already audited.

This two-stage procedure will be used for the accounting period 2020-2021, in order to obtain historical data to be applied when calculating sample size for following programming periods.

D. Audit on projects

When the sampling procedures are over, the AA will carry out the audit activities on the sampled operations.

This phase will be fully described in the following section 4.3.5.

E. Audit results and treatment of errors.

At the end of the audit on projects on the final sample, the Audit Authority will evaluate the errors detected in the sample, which may be random, systemic, known or, in exceptional circumstances, anomalous.

The AA will then project the results from the audit on a sample of projects to the population, using one of the two possible methods:

- Mean-per-unit estimation (absolute errors): results are obtained by multiplying the average error per operation observed in the sample by the number of operations in the population
- Ratio estimation (error rates): results are obtained by multiplying the average error rate observed in the sample by the book value at the level of the population

The choice on the extrapolation method will be made after the audit on the final sample is finished, because it depends on the level of association between errors and expenditure, and that can only be assessed after the sample is selected and audited.

All errors found in the context of the random sample used for the audits of projects will be taken into account for the calculation of the Total Error (TE) for the population.

The calculation of the TE will thus reflect the analysis done by the AA in regard to the different types of errors, and will be obtained as the sum of the relevant components of the error, i.e.: projected random errors, well delimited systemic errors and any uncorrected anomalous errors. The amount of the total error thus obtained will then be divided by the amount of expenditure in the population of the reference accounting year to obtain the Total Error Rate (TER).

The AA will then compare the TER with the materiality threshold of 2% and the ULE (ULE= upper limit of error, calculated as the sum of the projected error (EE) and the precision (SE), which is a measure of the uncertainty associated with the projection, i.e. the sampling error,) for an assessment of the population misstatement:

- If TER is larger than the materiality threshold of 2%, then the AA concludes that there is material error;



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- If TER is lower than 2% and the ULE2 is lower than 2%, the AA concludes that the population is not misstated by more than 2% at the specified level of sampling risk;
- If TER is lower than 2% but the ULE is larger than 2%, the AA concludes that additional work is needed.

After assessment, the AA will correct all detected errors, including the random, systemic, known and anomalous errors.

The AA will then calculate the RTER (i.e. the remaining error in the population of expenditure included in the certified accounts after the relevant financial corrections resulting from the AA's audits were applied).

If after taking into account all relevant corrections already implemented the RTER remains above the materiality level of 2%, this indicates a remaining material level of error in the programme's expenditure and the AA will issue a qualified or adverse audit opinion, in relation to legality and regularity of expenditure but most probably also in relation to the proper functioning of the MCS.

In this case, additional (in particular extrapolated) financial corrections are to be applied, before submission of the assurance package, to bring the material residual risk (i.e. RTER) to 2% or below; this is the condition to allow for an unqualified opinion on the legality and regularity of the expenditure certified in the programme accounts.

For error assessment and treatment, the AA will refer to the EGESIF_15-0002-04 19/12/2018 "Guidance for Member States on the Annual Control Report and Audit Opinion to be reported by audit authorities and on the treatment of errors detected by audit authorities in view of establishing and reporting reliable total residual error rates".

4.3.6 Audit on projects (operations)

As already mentioned, the AA decided to contract a qualified audit company/service/consultant (call for tenders in progress) with the aim to obtain support in fulfilling its legal obligations regarding the audits on the sample of projects, although the AA will be ultimately responsible.

The contractor will help the AA with sampling procedures and the selection of the sample of projects to be audited, and it will also assist the AA with the following tasks:

- draw up of the audit plan;
- set up audit procedures;
- develop the templates and documents that are needed to carry out the designated tasks, (i.e. the announcement letter, the document request template from the beneficiaries for document examinations, the checklists and report templates, etc.),
- perform audit on projects;
- draw up audit reports;
- draw up summary conclusions regarding the audit results of all beneficiaries audited;



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- assess the reporting system, and the control measures set up on the beneficiary level;
- analyze the potential systemic/systematic errors and irregularities.

The general procedure for the audit on projects (to be further implemented when TA service to AA is awarded) can be described as follows:

- 1) selection of the sample of projects to be audited
- 2) planning
- 3) analysis of documents
- 4) on-the-spot checks
- 5) audit reports and follow up

Hereinafter is a description of each phase.

1. Selection of the sample of projects to be audited

The selection of the sample of projects to be audited will be carried out in accordance with principles and methodologies already described in the above section 4.3.4.

It can shortly be remembered that sampling choice will strongly depend on the findings of the AA during the system audits. Indeed sample size is strongly dependent on the level of assurance from the system audits, because the confidence level for the sampling will depend from the level of assurance from the system audits (the systems with low error rate mostly will have high assurance, thus auditors can accept lower confidence level (via smaller sample) needed from audits on projects; and vice versa).

In the selection of sample of project to be audited, the AA:

- will be helped by a technical assistance service;
- will be supported by the GoA;
- will assure that at least one project per each country member is audited during Programme period;
- will assure that projects are properly represented as regards thematic objectives/priorities of ENI CBC MED Programme.

2. Planning

To carry out audits on projects, a specific engagement programme will be prepared, namely an audit mission plan. Such programme will take into proper account the reference context (Programme; category of operations concerned, the type of management and Beneficiary, national legislation, etc.) and will consist, among others, of the following topics:

- the list of operations to be checked;
- the timing of desk checks execution for each operation;
- the name of the auditor responsible for the analysis;



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- the timing of on the spot checks execution for each operation;
- the name of the auditor responsible for the on the spot checks and analysis;
- the names of the other auditors for the analysis performance;
- any documents to be acquired after the desk checks execution;
- the supporting documents analysis results, that make up the audit trail related to the selected operation;

The engagement programme, practically, will constitute the operation guide that the auditor or auditors are expected to follow during the audit.

Prior to the activity, a meeting will be convened with all the people charged to the audit activities, with the presence of the responsible of the quality review, in order to clarify the essential aspects such as:

- the prepared engagement programme contents;
- the workload assigned to each auditor;
- the objectives to be achieved and the operating methods;
- the timing to be respected;
- the methods of documentation acquisition;
- how to review the work done.

The auditor will ensure the following activities:

- - coordinate the audit activities;
- - prepare the audit start-up notification;
- - draft the operational control checklist (detailed);
- - detect any critical issues to be analysed during the on-the-spot verification;
- - ensure the storage, in paper and electronic form, of the control documentation (file).

For each audit, a dossier will therefore be prepared to retain all the documentation gathered and checked during audit activities, including the on-the-spot documentation, communications with the MA and the Beneficiary, the operational control checklist (detailed), the verifications minutes if present and the operation audit report.

The operational control checklist is the essential document for audit purposes and can be adapted and developed even during the work, in presence of unforeseen or unforeseeable elements, in the early audits stages planning.

After audit planning, written notices to the Authority(ies)/ Body(ies) /Partner(s) to be audited will be sent, containing a short information on the purpose of the document examination and a list of the documents needed.

3. Analysis of documents

The analysis phase of the supporting documents, which make up the audit trail related to the selected operation, consists of the administrative and accounting records check, kept by the pertinent office responsible for operation management, in order to verify the legitimacy and regularity of the expenses.

The AA will ensure the following controls:



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- Check of the correct procedure for informing potential beneficiaries in accordance with the cooperation Programme rules and provisions (for projects);
- Check of an appropriate procedure for the acquisition and logging of the applications for assistance (for projects);
- Check the appropriate organisation of the evaluation of applications (i.e. the appointment of the Project Selection Committee) and its compliance with EU regulations and with the arrangements planned for the cooperation Programme (for projects);
- Check of the proper implementation of selection and evaluation criteria, in accordance with both the national and EU rules (with particular reference to those regarding public contracts and procurement), as well as the compliance of adopted criteria with the ones resulting from the cooperation Programme for projects);
- Check the supporting expenditure documentation completeness and consistency (receipted invoices or accounting documents of equivalent probative value) in accordance with national and EU rules, the cooperation Programme, the selection notice/call for tender, the contract/convention and its possible variants;
- Check the correctness of expenditure supporting evidence from the regulatory point of view (statutory/civil code and fiscal);
- Check the eligibility of expenditure incurred during the period allowed by the cooperation Programme, the selection/tender notice, the contract/agreement and its possible variants;
- Check of expenditure eligibility related to the spending types allowed jointly by national and EU rules, cooperation Programme, selection/tender notice, contract/agreement and its possible variants;
- Check of compliance with allowable spending limits contribution under EU and national regulatory frameworks (i.e. by the aid scheme which it refers), the cooperation Programme, the selection announcement/invitation to tender, the contract/agreement and its possible variants;
- Check the traceability of expenditure incurred (and exactly reported) to the Beneficiary requiring the assistance provision, and the operation subject to aid;
- Check that requested assistance does not overlap with other not cumulative contributions;
- Check the existence of a separate accounting inside the beneficiary accounting system for expenses incurred for the operation/project of the cooperation Programme;
- Check that the works, goods or services covered by the co-financing fund comply with the EU and national legislation requirements, the cooperation Programme, the call/public notice for operation selection and the agreement/contract between MA and Beneficiary;
- Check of information obligations fulfillment under EU regulations, cooperation Programme and the specific Communication Plan in relation to the operation/project co-financed;



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- Check of the compliance with national and EU rules on equal opportunities and environment and data protection (GDPR).

4. On-the-spot checks of the selected operations

After analysis of documents is over, on-the –spot checks will be carried out.

This audit phase assumes particular relevance in that it will allow to verify as much as possible the actual execution of the operation with all plausible evidence.

The on-site verification of the physical implementation is compulsory, except for the cases in which such verification is impossible (e.g. for reasons of security of access to the site where the intervention is performed, or for COVID issue)

When the on-the-spot verification of the implementation of the operation is not possible, the auditors will need to obtain evidence of implementation of the intervention and on the objectives met through the supporting documents that constitute the audit trail.

To start an on-the spot audit, an announcement letter will be sent to the auditee.

The announcement letter will contain:

- a short information on the purpose of the on-the-spot check;
- the name of the foreseen auditor, the time/time frame for the audit;
- a list of documents needed;
- a request that persons responsible for the project and the project accounting are available during the on-the-spot check;
- information that missing information or missing documents are considered as an error and cannot be accepted after the on-the-spot check has been completed.

For projects, the GoA will be included in the copy of the announcement letter. The GoA member representing the auditee's country will assist the AA during on-the spot checks performed, providing assistance throughout all the audit process. He/she will help with the planning of on-the-spot visits and controls, with drawing up specific checklists with regards the country and the auditee, with providing and analysing documents, with communications with the auditee, and with everything needed to assure proper audit is performed.

For each audit, the dossier already prepared during document analysis and retaining all the documentation gathered and checked during audit activities, will be implemented to include the on-the-spot documentation, such as checklists, the verifications minutes if present and the audit report. The operational control checklist are an essential document for audit purposes and will be adapted and developed even during the work, in presence of unforeseen or unforeseeable elements in the early audits stages planning.

When executing the on-the-spot checks, the AA will complete the following worksteps:

- opening meeting with the auditee;



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- performance of audit work and documentation on the spot;
- closing meeting with the auditee.

The auditor will carry out a short opening meeting with the auditee at the beginning of the on-the-spot check. The aim is to inform the auditee on the nature and purpose of the on-the-spot check, to get an introduction to the project and the documents available at the auditees premises as well as to identify relevant personnel of the auditee. In addition, the auditor will inform the auditee about the next steps of the audit process and deadlines of the contradictory procedure. He/she shall make clear that the audit must be completed on the spot, including the audit of all supporting documents, and that the contradictory procedure serves only the purpose of ensuring a common understanding of the audit results, giving the auditee the opportunity to present his/her point of view.

The desk analysis provides clear guidance on the items to be investigated on site. Such a study is carried out through interviews with the previously identified relevant actors and may have an open structure, i.e. it may be not be tied in advance to a specific path. These interviews aim to complete the checklist already partially compiled during the desk phase.

During the visit, all information deemed necessary should be gathered to obtain a consistent and documented overall assessment of the MCS.

All activities will be recorded through specific checklists. The Auditor will also draw a minute of on-the-spot verifications, containing all information on the auditee, date of audit, auditor, checked operations, checked documents, missing documents if case may be, causes which might have limited access to documents if case may be.

The auditor will do a short closing meeting with the auditee in order to inform him/her on the immediate results of the on-the-spot check and in order to clarify any open issue, and for the signature of the minutes of the visit.

5. Audit Reports and follow up

The auditors responsible for auditing of operations will record the results of the activity carried out.

The reporting process accompanies the various control stages and ensures proper recording of information relevant to each phase, through the use of different tools, for example: minutes, interim reports and final reports.

The audit reports represent a complete description of the activity carried out and will clearly contain the conclusions indicating if irregularities have been revealed, and that possible corrective measures have been taken. In the case of operations audits, the report will also disclose the amounts subject to control and any amounts deemed inadmissible.

The presence of irregularities or the need for further investigation will determine the drafting of a Provisional Report that allows also the formulation of counterclaims by the audited bodies within 15 days from the reception of the Provisional Report and the possible opening of *inter partes* proceedings. These comparisons will allow the



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recipient to integrate the missing documentation and to present their own arguments against the observations raised within the time allowed.

At the end of the proceedings, a Final Audit Report on projects will be drafted and, if it contains errors or irregularities, it will be submitted to the responsible Authorities/Bodies with the request for preventive and/or corrective measures. Simultaneously with the sending of the final report, the AA initiates the follow-up and monitoring process aimed at verifying the effective and proper implementation of the requested measures.

The processing of any irregularities will be carried out in accordance with EU guidelines, more precisely in accordance with EGESIF_15-0007-02 final of 09.10.2015 entitled “Updated Guidance for Member States on treatment of errors disclosed in the annual control reports” (see above section, letter E).

4.4 Audits on annual accounts of the Programme and verification of the management declaration

4.4.1 Audit on annual accounts of the Programme

Audit of accounts is the responsibility of the Audit Authority according to art. 28.6.a, 68.2.d and 68.4 of Reg. 897 (ENI implementing rules) and art. 59.5 of Reg. 966/2012 (financial regulation). It aims at obtaining reasonable assurance on the truth, completeness, accuracy and eligibility of the amounts declared in the accounts. As an output issue of this activity, the Audit Authority shall issue an audit opinion establishing whether the accounts give a true and fair view, whether claimed expenditure is legal and regular, and whether the control systems put in place function properly; the opinion shall also state whether the audit work puts in doubt the assertions made in the management declaration.

This activity shall be conducted for each accounting year, i.e. covering each period since 1 July of year N-1 to 30 June of year N. The audit report and audit opinion shall be sent to the European Commission within the 15 February of year N+1, attached to the Managing Authority annual report that needs to be approved by the Joint Monitoring Committee.

Therefore, the Audit Authority is going to agree with the Managing Authority for appropriate deadlines to allow the latter to draft accounts and the previous to audit them, also by foreseeing submissions of a provisional version of accounts.

For the elaboration of the methodology for the annual audit of accounts, the AA complies with provisions of Regulation (EU) No. 897/2014, and TESIM “Guide to Programme accounts, audit and reporting to the EC in ENI CBC programmes”; moreover, it considers the Guidance No. EGESIF_15_0016 and its updates, in order to make sure that the audits adequately cover each element of the accounts.



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According to the approach on the audit of accounts, the AA shall perform the following main tasks in order to make sure that it has reasonable assurance to form an opinion on the truth, completeness, accuracy and veracity of the amounts declared in the accounts:

- Summary overview and follow-up of the recommendations of system audits relating to the accounting year which is subject of the accounts, paying special attention to the errors and deficiencies revealed in relation to the MA and to the follow-up of the implementation of any relating corrective measures. Audit of whether the recommendations made for the audited organisations have been fulfilled based on the available evidence, with the content required by the audit; and accordingly, what impact they have on the assurance level stemming from the management and control system.

With this respect, at the beginning of the programming period, a crucial factor are system audit findings made on the “procedures for drawing up the accounts ensure that they are true, complete and accurate and that the expenditures complies with applicable rules” (no. 3.viii of Annex to Reg. 897), because errors and shortcomings detected in this area have a direct and major impact on the reliability of the declaration.

- Analysis of the errors and irregularities found during audits on projects. The accuracy and veracity of the declared amounts as well as the functioning of first level control is already assessed as part of the audits on projects.

Audits on projects are also followed up by the AA. In this respect, it is important to check whether any established irregularities have been excluded from the accounts, and whether each revealed case have been appropriately indicated in the w+r records (waived and recoveries) and in appendices of the accounts.

- Study of the relevant reports by the EC and the ECA. Check of whether these reports contain any findings relating to the drawing-up of the accounts or any errors, deficiencies or anomalous cases relating to the functioning of the system, and follow-up of the measures taken in order to correct the errors and irregularities revealed by the EC and ECA. Also in this case does the follow-up cover the check of whether the established irregularities form part of the accounts, and whether they are appropriately included in the w+r records.
- Audit on the accounts submitted by the MA. Check of whether the documentation has been compiled in line with applicable provisions on form and content, with the content required by the MA methodology and within the defined deadlines.
- If it required based on professional judgment, testing may be carried out for the purposes of the audit of accounts submitted by the MA. The AA carries out a desk based audit on expenditure items selected



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randomly – taking the principles laid down in the EC guidance on sampling into account –, to establish whether the data included in the submitted accounts are in harmony with the content of the IT system and with the records of the organisations in the MCS. It also assesses whether follow-up is made possible and whether there is a complete audit trail. In case there are discrepancies, AA shall assess what causes the difference, whether the explanation is indicated in the document and whether it is justifiable and acceptable in the auditor's opinion.

- Check of whether the accounts are in line with the final interim payment application submitted for the accounting year at priority level. In case there are discrepancies, it shall be assessed what causes the difference, whether the explanation is indicated in the accounts (also taking into consideration the information included in the annual summary) and whether it is justifiable and acceptable in the audit's opinion.
- Test based check of the amounts withdrawn, recovered, to be recovered and irrecoverable. Desk based review of randomly selected items (primarily irregularity decisions), check of whether the data in the IT system is in line with those in the submitted accounts and whether they can be followed up in the records of the organisations in the MCS Assessment of the completeness of the audit trail.
- Test based check of whether the expenditure affected by ongoing irregularity procedures does not form part of the accounts.
- Examination of the main findings established in relation to the management declaration and the annual summary of the MA, which may have an influence on the completeness, accuracy and veracity of the accounts.

From the above listed tasks, the AA starts its assessment with the follow-up of closed system audits and audits on projects. However, the scheduling of the audit of accounts shall be in line with the deadlines included in the ENI CBC Regulations and depends on those established in an internal protocol with MA. Based on this first version of the document, the AA starts the comparison of the accounts to the interim payment applications and to the w+r records. Based on findings finalised afterwards, and also taking the results of the audit and reconciliations on the first draft accounts, the MA compiles the final accounts.

Any difference between the first draft and the final accounts shall be verified by the AA.

4.4.2 Verification of the management declaration

In accordance with art.68 Regulation (EU) No. 897/2014, the Managing Authority draws up the annual summary and the management declaration confirming that the information is properly presented, complete and accurate, the expenditure was used for its intended purpose and the control systems put in place give the necessary



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guarantees concerning the legality of the underlying transactions. The management declaration and the annual summary are referred to in points (a) and (b) of Article 59(5) of the Financial Regulation.

Based on the proposed internal protocol the first draft of the documents shall be submitted to the Audit Authority within the agreed deadlines.

In the interest of a soundly based assessment, the Audit Authority applies the following criteria, having regard to the content of the Commission Guidance No. EGESIF_15-0008-01 on the management declaration as far as compatible with ENI CBC:

- audit of the form and content of the management declaration: examination of whether the documentation was compiled in line with relevant requirements on form and content, containing the data required by the methodology of the MA and within the required deadline;
- the Audit Authority should obtain adequate assurance that the methodologies and procedures of the Managing Authority for drawing up the management declaration provide a sound basis for issuing the document. To achieve this, the AA needs to assess whether the relevant procedures were developed within the required deadline, in accordance with applicable regulations, in adequate detail and quality; this procedure shall be included in the framework of the system audit of the first year when auditing the component of internal control no. 3.viii “procedures for drawing up the accounts ensure that they are true, complete and accurate and that the expenditures complies with applicable rules” (annex to ENI IR). When carrying out the follow up, the Audit Authority shall confirm the fulfillment of recommendations regarding any identified deficiencies or errors, and assess the satisfactory implementation of corrective actions prior to drawing up the first draft of the management declaration. In the following years the requirement to follow up any open findings and assess changes affecting the component of internal control shall continue to apply.

Based on the content of the management declaration, the assessment of deficiencies, errors and corrective actions identified during administrative and on-the-spot verifications is crucial, considering that first level controls provide the source of information for the Managing Authority on the regular use of expenditure included in the accounts. Furthermore, the assessment of the adequacy of procedures used to exclude ongoing irregularities and the examination of databases and IT queries used for this purpose should also be emphasised. In the framework of system audits, AA shall also verify, adequacy of MA procedures for implementing anti-fraud measures, monitoring Programme implementation, and compiling aggregate results, which are necessary for a soundly based management declaration.

The tasks of the Audit Authority related to the annual summary attached to the management declaration are the following:



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- audit on the annual summary submitted by the Managing Authority: examination of whether the documentation contains the data required by the methodology of the MA and within the required deadline;
- check of whether all relevant audits, main findings and connected actions have been included in the document;
- examination of whether the irregularities found by the Audit Authority and other irregularities, as well as the relevant corrective actions, are truthfully described in the annual summary, and whether they can be supported by documents;
- furthermore, it is necessary to compare irregularities described in the annual summary with the cases included in the accounts, and check coherence between documents.

The first draft of the management declaration and the annual summary incorporates the information on audits closed and on audits where draft reports have been issued up until the date of issuance of the documents, as well as connected corrective actions. However, in view of the fact that the completion of all audits on projects, the finalisation of audit results, and the preparation of the annual summary takes place afterwards, it is necessary to review the second draft of the management declaration, which is drawn up after these deadlines, and which takes into account and assesses the content of the above documents.

5. ANNUAL REPORT AND AUDIT OPINION

According to art. 68 “Presentation of accounts” of Reg. 897, the Audit Annual Report is attached to the MA annual report and transmitted to the Commission by 15 February N+1, together with the audit opinion on annual accounts and other documents foreseen by the same article.

According to art. 77, by 15 February the Managing Authority shall also submit to the Commission an annual report approved by the Joint Monitoring Committee. The annual report shall include one technical and one financial part, covering preceding account year. In order to correctly elaborate the annual audit report and release the opinion, after the starting phase the Audit Authority foresees the following steps:

- system audit for the evaluation of the reliability of the MCS;
- sampling activity;
- audit on projects;



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- analysis, within the 31 October of every year or in the terms that as arranged between the Programme Authorities, of:
 - the first draft of the accounts;
 - the preparatory work for the management declaration;
- preparatory work for the elaboration of the Annual Audit Report and the Audit Opinion on the accounts;
- acquisition, every year, in the terms arranged between the Authorities, of:
 - the final version of the accounts predisposed by the MA with incorporated the most recent results of AA audits;
 - the management declaration;
- audit of the accounts and examination of the management declaration.

The terms for the acquisition of documents have been reported in the internal agreement for the “preparation and transmission of the Reliability Package to the EU Commission and on the information flows of the ENI CBC MED OP” signed by the AA and the MA on 05.10.2020 and which establishes the timing of the annual accounts submission procedure.

The Annual Audit Report contains the elements specified in the art. 68.2.e of the Reg. 897 and other relevant information to assess the reliability level and to express the audit opinion; among this information, for instance, any reported frauds or any suspicious element emerging after presentation of the accounts can be encountered.

Moreover, it includes the Audit Strategy updated every year up to 2024 included, the Audit Opinion on the annual accounts and any details on the results of the system and projects audits and calculations for the selection of the sample and the determination of the total error rate, if deemed opportune by the Audit Authority.

In turn, the Audit Opinion verifies if the accounts provide a fair view, if the operations related to the accounts were legitimate and regular and if control's systems opportunely predisposed work; besides it specifies if audit puts in doubt the assertions made in the management declaration, information are correctly introduced, complete and exact, the expenses have been effected for the foreseen purposes and the control systems put in place assure that the related transactions are legal and regular.

In order to issue the Audit Opinion, to conclude that the accounts furnish a fair view, the Audit Authority verifies that all the elements prescribed by the article 68 (3) of the Reg. (EU) 897/2014 are correctly included in the accounts and find correspondence in the bookkeeping documents kept by the MA and by the Beneficiaries.



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For the elaboration of the Annual Audit Report and the Audit Opinion, IT procedures to support the audit activities will also be used. To such aim, the Programme information system, not available yet when this Strategy is being written, contributes to the audit processes by providing necessary data.

The following table shows the content of the audit opinion on the correct operation of the MCS and on the legality and regularity of the expense according to the results of the audits:

Table 18 - Audit opinion according to audit results

Audit opinion on legality and regularity of expenditure and proper functioning of MCS	AA assessment on		
	Functioning of MCS (results of system audits)	TER (results from audits of projects, TA operations and accounts)	Implementation of the required corrective measures
1-Unqualified	Category 1 or 2	and TER ≤ 2%	Corrections (e.g. errors in the sample) implemented.
2-Qualified (qualifications have a limited impact)	Category 2	and/or 2% < TER ≤ 5%	Except if adequate corrective measures (including extrapolated financial corrections) are implemented to bring the RTER below or equal to 2% (unqualified opinion possible)
3- Qualified (qualifications have a significant impact)	Category 3	and/or 5% < TER ≤ 10%	Corrective measures not fully implemented (including if extrapolated financial corrections are implemented to bring the RTER below or equal to 2% but system deficiencies remain).
4-Adverse	Category 4	and/or TER > 10%	Corrective measures not fully implemented (including if extrapolated financial corrections are implemented to bring the RTER below or equal to 2% but system deficiencies remain).

All activities described in this AS, including the annual report and Audit Opinion, can be subject for cooperation with the European Commission on audits, according to Art. 29 of Reg. (EU) 897.



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6. AUDIT WORK PLAN

Article 28.5 requires that the AA presents the “planning of audits for the current accounting year and the two subsequent accounting years”.

Standard tasks relating to the audits to be carried out during the reference period are presented in the table below.

The selection of items to be audited and the scheduling is performed as part of the yearly planning process of the AA.

The ENI CBC MED Audit Authority has adopted its Work Plan for the year 2020, with Decision Prot. No. 7865 Rep. No. 290 of 05/03/2020.

However, unexpected circumstances occurred immediately after the approval of the aforementioned document, which required a sudden adaptation and the consequent rescheduling of many of the planned activities.

First of all, it should be remembered that, following the Sars-Covid 2 emergency, the Sardinia Region has adopted a series of measures which have substantially changed the way in which regional staff work is performed.

In particular, with the Notices of the General Direction of the management and organization of the personnel of the Autonomous Region of Sardinia n. 8814 of 09.03.2020 "Operational provisions for regional offices in relation to the COVID-19 emergency" and n. 9342 of 13.03.2020 "Proactive measures against the diffusion of the COVID-19 disease. Smart working. Urgent provisions to ensure the performance of work services and limit the physical presence in the offices", the "smart working modality" has been applied for the regional personnel, including the AA staff, and physical meetings and business trips have been banned starting from 09.03.2020.

This new operational approach has led to a significant slowdown in the planned activities, especially in the initial implementation phase, during the launch of all measures aimed at ensuring the correct performance of the AA activity according to the smart working modality (i.e. setting and management of remote connections, provision of necessary remote working tools, use of shared meeting platforms, etc.).

Furthermore, the following unexpected fulfilments influenced the implementation of the above-mentioned AA Work Plan:

- the launch of the verification for the maintenance of the AA designation requirements (Key Requirement 14 as in the EGESIF Note n. 14-0010) by MEF-IGRUE, which started on 16.04.2020 and was concluded on 06.07.2020, with the release of a positive opinion (from Category 3 to Category 2);
- the elaboration and transmission of documentations in response to the Notice received from DG REGIO (Ref.



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Ares (2020) 2761582) of 28/05/2020, aimed at requesting clarifications and re-elaboration of documents referred to the accounting year 01/07/2018-30/06/2019.

Both unexpected tasks required a great effort from the AA staff in order to draw up the necessary documentations to successfully conclude both proceedings.

For all the above-mentioned reasons, an updated AA Work Plan has been drawn up and approved with AA Decision n. 953 of 07.08.2020 (See Annex 1 – AA Work Plan).

Furthermore, the AA drawn up and approved the Audit Planning Memorandum for the accounting year 01.07.2020 – 30.06.2021 with AA Decision n. 1409 (Prot. n. 44582) of 04.12.2020.

Figure 7 - Programme workflow timeline

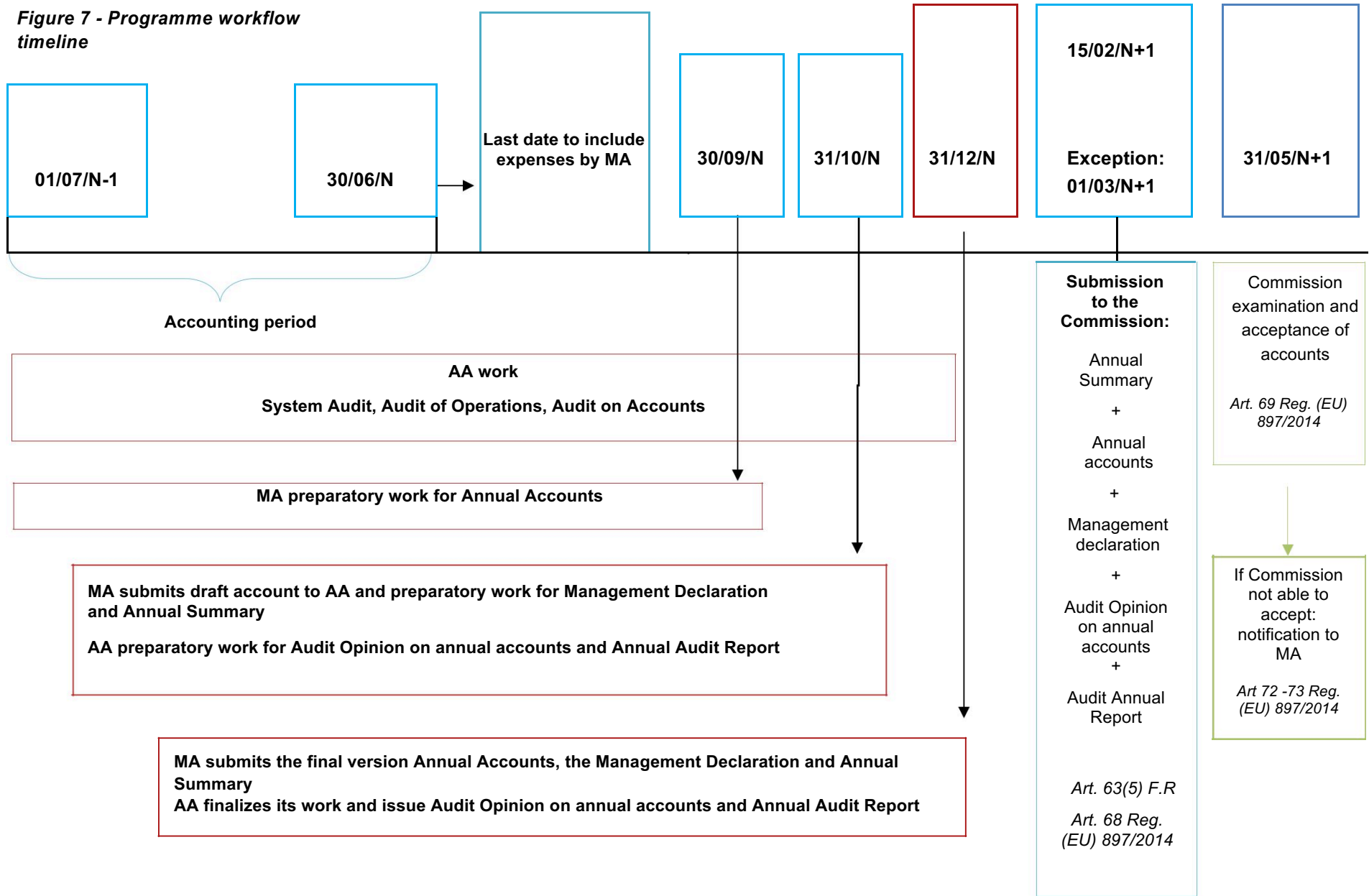
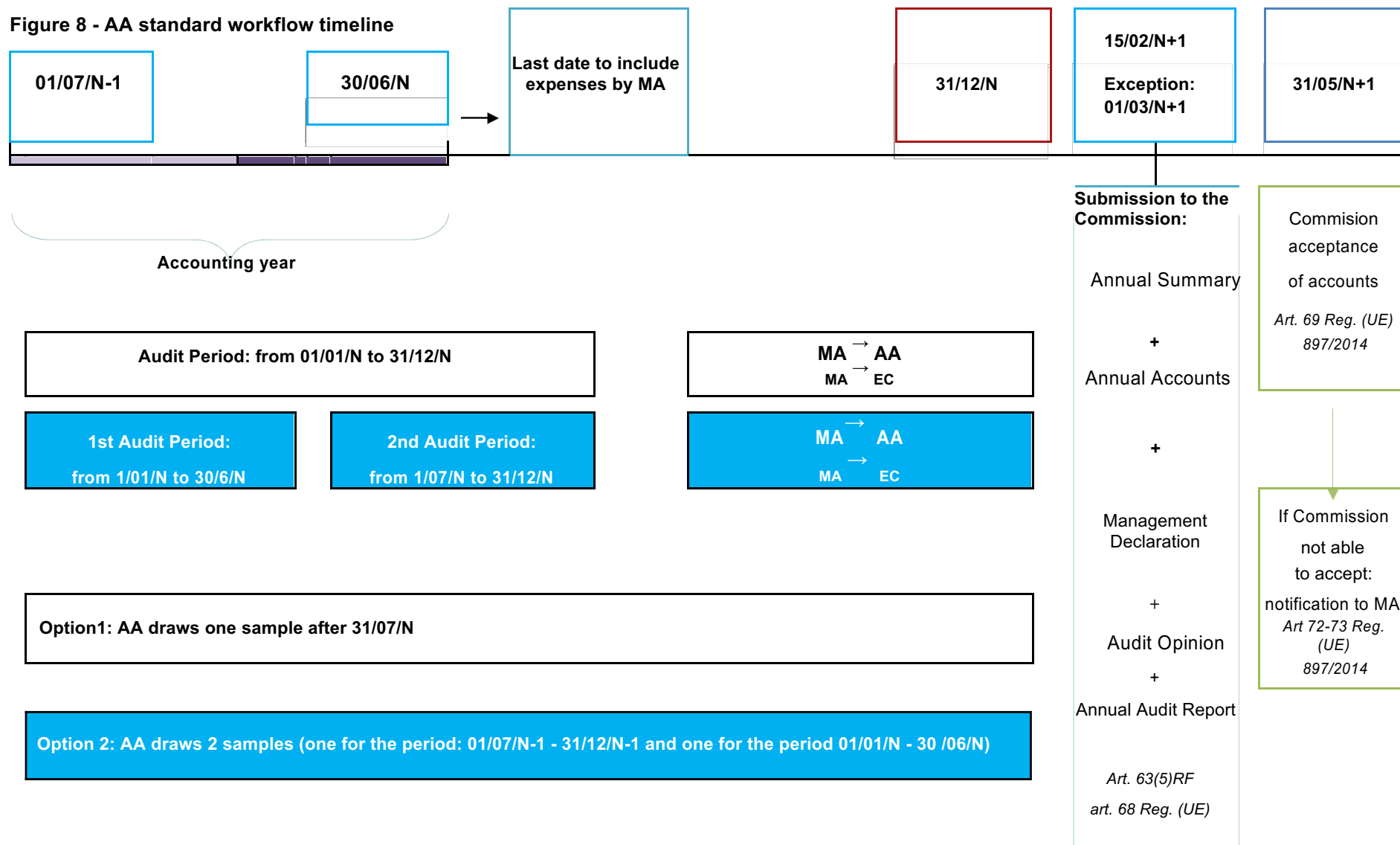


Figure 8 - AA standard workflow timeline





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7. AUDIT RESOURCES

The Audit Authority, established within the Directorate General for Financial Services (Department of Planning) of the Autonomous Region of Sardinia, is independent of the ENI CBC MED Programme Management Authority, under both the hierarchical and functional profiles.

The activity carried out by the Audit Authority is performed by internal staff with full time permanent contracts. As for specific expertise not available within the office, the AA is activating cooperation with other regional offices in order to benefit from their specialised staff.

Specific coaching is being introduced starting from 2017 and for the whole programming period, together with a training plan for staff professional growth.

The office has been also entrusted with ENPI MED Programme 2007/2013 internal audit activity until the Programme ending.

All audits are carried out by the Audit Authority, according to JOP par. 3.2.5; it can ask members of the Group of Auditors to assist itself, according to GoA rules of procedures.

When drafting this Strategy update, the total working force available for carrying out the audit activity corresponds to the Head of Unit, 5 full time officers and 2 more officers assigned to other DG Services, which support the AA on specific issues (First Level Control on AA expenses and the Programme Monitoring System). A new AA functional chart have been approved with Decision n. 597 of 22nd May 2020 (see Table 21).

Customized cooperation with other regional offices on specific expertise (e.g. on statistics, information technology and bookkeeping recording) are available upon request.

In particular, as for IT issue on Programme MIS, a constant support to the Audit Authority is granted by one IT Manager as assigned by the Director General of the hosting body.

As for the financial side, according to ENI CBC MSB OP financial plan as approved by the European Commission, for the execution of the entrusted tasks, the Audit Authority is assigned a quota of technical assistance (TA) funds as specified below (VAT included):

- Group of Auditors (travel and subsistence costs for its meetings) € 301.933,02;
- Audit Authority travel and functioning costs € 212.647,18;
- Audit on MA expenses for TA and of payments to projects € 340.000,00;



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- Audit of the projects expenses (on sample check) € 1.100.000,00;
- System audits € 750.000,00.

Following tables details the internal AA structure, roles and functions as mentioned.

Structure	Profile	Education	Specialized expertise	Experience in activities relates to European Programmes (planning/management/control/report/audit/ monitoring) – more than:	Time dedicated to ENI MED 2014/2020 OP (%)	Total	Years of activity
Audit Authority of ENI CBC MED Programme	permanent director	post MA level	Registered accountant; member of the national official register of auditors	20 years	100%	100%	I-II-III
	permanent officer	post MA level	ESIF Certification	10 years	100%	100%	I-II-III
	permanent officer	post MA level	Legal /procurement	1 year	100%	100%	I-II-III
	permanent officer	post MA level	ESIF Finance	15 years	100%	100%	I-II-III
	permanent officer	post MA level	ESIF Finance	15 years	100%	100%	I-II-III
	permanent officer	post MA level	ESIF Finance	15 years	100%	100%	I-II-III



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Financial Analysis and Monitoring Unit	permanent officer	post MA level	Computer science	15 years	On AA demand	On AA demand	I-II-III
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Table 19 – AA staff matrix

Table 20 – AA functional chart (Annex to the Decision n. 597 of 22.05.2020)

NAME AND SURNAME	ROLE	TASKS
Enrica Argiolas (Director)	Director of OP ERDF, ESF, FSC Certifying Authority and OP ENI CBC MED Audit Authority	1. As ERDF, ESF and FSC Certifying Authority, she coordinates and manages the procedures of the Certifying Unit procedures, namely: <ul style="list-style-type: none"> • supervises activities demanded to the Certifying Authority and management of the procedures in accordance with the Reg. No. 1303/2013; • ensures preparation and submission of annual financial statements and reporting incurred expenditures to EU Commission for OP ERDF, ESF, FSC, and to National Authority for OP FSC ;



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		<ul style="list-style-type: none"> • adopts procedures for guaranteeing that accounting data are properly kept in order to ensure an adequate audit trail; • adopts procedures manual and related check lists and working tools; • manages audit from Audit Authority and EU Commission; • coordinates activities for establishing a proper information system, to ensure adequate acquisition of information procedures related to performed verifications, in order to prepare and submit the payment request to the European Commission. <p>2. As ENI CBC MED Audit Authority, she coordinates and manages Audit Unit procedures, namely:</p> <ul style="list-style-type: none"> • ensures audit on management and control system, handles tasks and expresses compliance opinions for the designation of the Managing Authority; • prepares an audit strategy and updates it annually; • adopts procedures manual and related check lists and working tools; • adopts and - when required - transmits documents listed in the Ministry of Finance (IGRUE) Manual (audit strategy, procedures manual and related check lists, audit opinion, annual audit report, system audit reports) to the European Commission; • supervises compliance with MEF-IGRUE requirements for accreditation; • leads system audits on Programme actors aimed at verifying the correct functioning of management and control systems set up for implementation; • supervises audit on system, accounts and projects activities, performed by both internal auditors and external contractors; • supervises all quality reviews on both audit activities and audit reports, for both internal and external auditors; • verifies and certifies reports of all performed audits (system, operations and on accounts) before their transmission and handles the outputs communication; • defines staff training plan; • manages technical assistance funds assigned to the Audit Authority; • participates to coordination meetings and activities with the European Commission, with the Ministry of Finance (IGRUE), with the Managing Authority and with the other Programme bodies and also formulates suggestions; • convenes and chairs the Group of Auditors.
Raffaella Melis (Full Time)	Expert in administrative and legal subjects	<ul style="list-style-type: none"> • performs system audits; • performs audits on the accounts which are preparatory to the adoption of the Opinion; • supports audits related to the designation process and to the consequent follow-up; • performs quality review on audit reports from both internal and external auditors, as per director's assignment;



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		<ul style="list-style-type: none"> • supports the Audit Authority in: <ul style="list-style-type: none"> – activities related to the Ministry of Finance (IGRUE) accreditation; – administrative and accounting activities; • collaborates in: <ul style="list-style-type: none"> – the preparation of the audit program and the annual report; – the preparation of the working tools of the Audit Authority (manuals, check lists, etc.).
Severino Ostorero (Full Time)	Expert in international cooperation programs	<ul style="list-style-type: none"> • performs system audits; • supports audits related to the designation process and to the consequent follow-up; • performs quality review on audit reports from both internal and external auditors, as per director's assignment; • performs audits on the accounts which are preparatory to the adoption of the Opinion; • draws up financial plans and accounting reports; • supports the Audit Authority in the management of external relationships with the EU Commission, with National Authorities and other bodies of participating Countries; • supports the Audit Authority in the audit on projects; • supports the Audit Authority in the risk analysis and assessment and in the audit strategy annual update; • collaborates in: <ul style="list-style-type: none"> – the preparation of the audit program and the annual report; – the preparation of the working tools of the Audit Authority (manuals, check lists, etc.).
Marcello Lubino (Full Time)	Expert in international cooperation programs	<ul style="list-style-type: none"> • performs system audits; • supports the Audit Authority in the audit on projects; • supports audits related to the designation process and to the consequent follow-up; • performs quality review on audit reports from both internal and external auditors, as per director's assignment; • supports the Audit Authority in the risk analysis and assessment and in the audit strategy annual update; • collaborates in: <ul style="list-style-type: none"> – the preparation of the audit program and the annual report; – preparation of the working tools of the Audit Authority (manuals, check lists, etc.).
Dario Fois (Full Time)	Expert in legal affairs and tenders	<ul style="list-style-type: none"> • prepares documents for tenders below the EU threshold, carrying out, when designated, the functions of the RUP (Responsible for the procedure); • manages the legal aspects of contracts; • performs system audit with particular regard to public procurement; • performs quality review on audit reports from both internal and external auditors, as per director's assignment; • supports the Audit Authority in the fulfillment of the anti-corruption law and the obligations related to transparency;



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		<ul style="list-style-type: none"> • collaborates in: <ul style="list-style-type: none"> – the risk analysis and assessment and in the audit strategy annual update; – the preparation of the audit program and the annual report; – the preparation of the working tools of the Audit Authority (manuals, check lists, etc.).
Linda Gorini (Full Time)	Expert in international cooperation programs, financial accounting and statistics	<ul style="list-style-type: none"> • performs system audits; • supports audits related to the designation process and to the consequent follow-up; • performs audits on the accounts which are preparatory to the adoption of the Opinion; • performs quality review on audit reports from both internal and external auditors, as per director's assignment; • supports the Audit Authority in: <ul style="list-style-type: none"> • the organization and management of the Group of Auditors (GOA); • administrative and accounting activities; • activities related to statistics and sampling • collaborates in: <ul style="list-style-type: none"> – the risk analysis and assessment and in the audit strategy annual update; – the preparation of the audit program and the annual report; – the preparation of the working tools of the Audit Authority (manuals, check lists, etc.).
Massimiliano Farris (External Support)	Expert in information system	<ul style="list-style-type: none"> • monitors the time schedule for the implementation of the MIS (information system) and checks at the agreed deadlines; • supports for the implementation of the working area of the Audit Authority; • supports system audits with regard to MIS.



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8. APPROVAL AND ENTRY INTO FORCE

The updated Audit Strategy (version 2.2) has been adopted by the AA on 26/02/2021 with AA Decision n. 216 (Prot. n. 7415). According to art. 77.4 (a) of the Regulation (EU) No 897/2014, it shall be part of the Annual Reports package which should have been provided to the European Commission by the MA within 15 February, 2021.

This update Audit Strategy will be formally transmitted as well to the IGRUE, to all GoA members, to all internal AA staff, whatever their role, and to external audit providers involved in the Programme audits, soon after establishing the working group or upon the appointment of each resource.

Audit Authority ENI CBC MED Programme

Head of the Audit Authority: Enrica Argiolas

Audit officers: Linda Gorini, Marcello Lubino, Severino Ostorero

Annex 1 – Audit Authority Work Plan

Authorities/bodies to be audited	(July 2020- June 2021)	(July 2021- June 2022)	(July 2022- June 2023)
<p>Managing Authority</p> <p>Joint Technical Secretariat</p> <p>Branch Offices</p> <p>Project Selection Committee</p> <p>National Contact points</p> <p>Control Contact Points</p>	<p>1. SYSTEM AUDIT + FOLLOW-UP (CARRIED OUT ONLY IN DESK MODALITY DUE TO THE COVID-19 EMERGENCY)</p> <ul style="list-style-type: none"> - Follow-up of both the overall assessment of the system's degree of reliability and the implementation of the Action Plan annexed to the Follow up Final Report on the System Audit (n. 01/2020) adopted by the AA Decision n. 204 of 19th February 2020 - Follow up of the Ernst & Young Report on MA designation (Ref. Ares(2020)2481988 - 11/05/2020), as requested by the DG REGIO with Notice (Ref. Ares(2020)2761582) of 28th May 2020 - Follow up of the system audit carried out in the Programme Bodies located in Jordan (Aqaba Branch Office, NA, NCP and CCP) and the implementation of the Action Plan annexed to the System Audit Final Report, adopted by the AA with Decision n. 776 of 08.07.2020 - System audit on the MA and release of the System audit Final Report adopted by the AA Decision n. 181 of 16.02.2021 - Follow up of the Action Plan annexed to the System audit Final Report adopted by the AA Decision n. 181 of 16.02.2021 - System audit on the Project Selection Committee (PSC) and on the methods of selection and evaluation of the Projects - Starting of the system Audit addressed to Programme NA, NCP and CCP located in the EU Mediterranean Countries and in the MPC (except Jordan). Priority is given to Spain as BO hosting country <p>2. AUDIT TOOLS MANUALS OF PROCEDURES,</p>	<p>1. SYSTEM AUDIT + FOLLOW-UP</p> <ul style="list-style-type: none"> - Managing Authority and JTS - MIS - Follow up System audit on Programme NA, NCP and CCP <p>2. AUDIT TOOLS MANUALS OF PROCEDURES, CHECK-LISTS, REPORTS</p> <p>3. AUDIT STRATEGY 2022-2024 AND UPDATES</p> <ul style="list-style-type: none"> - Update of the Audit Strategy (version 2.3) with the GoA support <p>4. 3rd GOA MEETING</p> <ul style="list-style-type: none"> - Organisation of the GoA annual meeting in Italy or through videoconference (on the basis of the COVID-19 pandemic evolution) <p>5. AA TECHNICAL ASSISTANCE</p> <ul style="list-style-type: none"> - External auditors (system audit, audit on accounts and audit on projects) procurement <p>6. AUDIT ON PROJECTS</p> <ul style="list-style-type: none"> - sampling of expenditure reported by project beneficiaries and certified by MA - Audits on the sampled reports at the beneficiaries 	<p>1. SYSTEM AUDIT+FOLLOW-UP</p> <ul style="list-style-type: none"> - Managing Authority - Follow up System audit on Programme NA, NCF and CCP <p>2. AUDIT TOOLS MANUALS OF PROCEDURES, CHECK-LISTS, REPORTS</p> <p>3. AUDIT STRATEGY 2022-2024 AND UPDATES</p> <ul style="list-style-type: none"> - Update of the Audit Strategy (version 2.4) with the GoA support <p>4. 4th GOA MEETING</p> <ul style="list-style-type: none"> - organisation of the GoA annual meeting in Italy or through videoconference (on the basis of the COVID-19 pandemic evolution) <p>5. AA TECHNICAL ASSISTANCE</p> <ul style="list-style-type: none"> - GoA meeting and travel provider procurement <p>6. AUDIT ON PROJECTS</p> <ul style="list-style-type: none"> - sampling of expenditure reported by project beneficiaries and certified by MA - Audits on the sampled reports at the beneficiaries premises (on the basis of the COVID-19 pandemic evolution)

Authorities/bodies to be audited	(July 2020- June 2021)	(July 2021- June 2022)	(July 2022- June 2023)
	<p>CHECK-LISTS, REPORTS</p> <ul style="list-style-type: none"> - Drawing up and formal adoption of the Check-lists used for the System Audit on Programme Bodies (NA, NCP, CCP and PSC) - Update the version 2.0 of the Audit Manual with the adoption of the checklists related to the Quality Review (QR) - Internal agreement between the AA and the MA for the "preparation and transmission of the Reliability Package to the EU Commission and on the information flows of the ENI CBC MED OP" - Revision of the Internal Agreement between AA and MA <p>3. AUDIT STRATEGY 2021-2023 AND UPDATES</p> <ul style="list-style-type: none"> - Update of the AA (version 2.2) with the GoA support <p>4. 2nd GoA MEETING (VIDEOCONFERENCE MODALITY)</p> <ul style="list-style-type: none"> - Organisation of the GoA annual meeting in a videoconference modality due to the COVID-19 emergency <p>5. AA TECHNICAL ASSISTANCE</p> <ul style="list-style-type: none"> - acquisition of an external provider to support the AA in system audits, audits on accounts and audits on projects - acquisition of an external senior auditor to perform the audit in operations 	<p>premises (on the basis of the COVID-19 pandemic evolution)</p> <p>7. AUDIT ON ACCOUNTS</p> <p>8. ANNUAL AUDIT REPORT AND AUDIT OPINION</p>	<p>7. AUDIT ON ANNUAL ACCOUNTS</p> <p>8. ANNUAL AUDIT REPORT AND AUDIT OPINION</p>

Authorities/bodies to be audited	(July 2020- June 2021)	(July 2021- June 2022)	(July 2022- June 2023)
	<ul style="list-style-type: none"> - acquisition of hardware equipment to support institutional activities - specialist support in the context of the risk assessment <p>6. AUDIT ON PROJECTS</p> <ul style="list-style-type: none"> - sampling of expenditures reported by project beneficiaries and certified by MA <p>7. AUDIT ON ACCOUNTS</p> <ul style="list-style-type: none"> - Follow up of the audit on accounts and the implementation of the recommendations listed in the Final Report on Audit on the Annual Accounts adopted by the AA with Decision n. 809 of 14.07.2020 - Final Report on Audit on Annual Accounts adopted by the AA with Decision n. 198 (Prot. n. 6425) of 22.02.2020 <p>8. ANNUAL AUDIT REPORT AND AUDIT OPINION</p> <ul style="list-style-type: none"> - Audit Opinion and Annual Audit Report adopted by the AA with Decision n. 198 (Prot. n. 6425) of 22.02.2020 		

nnex 2 – Audit Authority Risk Analysis Table (to be update according to the new setting on control risks and AA analysis completion)

Programme Body	Budgetary amount (euro) Mediterranean Sea Basin Programme (ENI) 2014-2020 OP - European Commission decision C(2015) 9133 17 December 2015	Factors of Inherent Risk (IR) [1]						Total score for the Inherent Risk	Factors of Control Risk (CR) [2] [9] Quality of internal controls (key requirements of orientation for the assessment of MCS in the Member States)													Total score for the Control Risk (Maximum: 100%) [3]	Total risk score (Inherent Risk * Control Risk) (RES)	Number of audits performed in the previous periods	Number of audits performed in the previous periods corrective factor	Score for the number of Audit Risk (1-(0,1xnumber of audit performed)) Risk score with audit	Risk score with audit	System Audit 2021**	System Audit 2022	System Audit 2023	
		Budgetary amount	Complexity of the organisational structure [4]	Complexity of rules and procedures	Wide variety of complex operations [5]	Risky beneficiaries [6]	Understaffing and/or lack of skills in key areas [7]		Degree of change 2007-2013[8]	KR1	KR2	KR3	KR4	KR5	KR6	KR7	KR8	HKR	KR10	KR11	KR12										KR13
MA/JTS/PSC TO 1	€ 50.173.874,88	16,67%	16,67%	16,67%	16,67%	16,67%	16,67%	100,02%	9,00%	5,60%	5,60%	3,15%	7,00%	7,00%	3,15%	5,60%	5,60%	7,00%	5,60%	3,15%	3,15%	5,60%	76,20%	76,22%	1	0,2	80	60,97219	X		
MA/JTS/PSC TO 2	€ 37.630.406,16	13,34%	16,67%	16,67%	16,67%	13,34%	16,67%	93,36%	9,00%	5,60%	5,60%	3,15%	7,00%	7,00%	3,15%	5,60%	5,60%	7,00%	5,60%	3,15%	3,15%	5,60%	76,20%	71,14%	1	0,2	80	56,91226		X	
MA/JTS/PSC TO 3	€ 37.630.406,16	13,34%	16,67%	16,67%	16,67%	10,00%	16,67%	90,02%	9,00%	5,60%	5,60%	3,15%	7,00%	7,00%	3,15%	5,60%	5,60%	7,00%	5,60%	3,15%	3,15%	5,60%	76,20%	68,60%	1	0,2	80	54,87619			X
MA/JTS/PSC TO 4	€ 83.623.124,80	16,67%	16,67%	16,67%	16,67%	13,34%	16,67%	96,69%	9,00%	5,60%	5,60%	3,15%	7,00%	7,00%	3,15%	5,60%	5,60%	7,00%	5,60%	3,15%	3,15%	5,60%	76,20%	73,68%	1	0,2	80	58,94222		X	
M/AAATA	€ 25.491.746,23	13,34%	16,67%	16,67%	13,34%	10,00%	13,34%	83,36%	9,00%	5,60%	3,15%	2,10%	7,00%	7,00%	7,00%	5,60%	5,60%	7,00%	5,60%	3,15%	3,15%	5,60%	74,45%	62,06%	1	0,1	90	55,85537			X
Cyprus (NA, NCP, CCP)	€ 1.854.528,52	5,00%	13,34%	16,67%	16,67%	5,00%	16,67%	73,35%	9,00%	5,60%	3,15%	3,15%	7,00%	3,15%	3,15%	5,60%	2,10%	7,00%	2,10%	2,10%	2,10%	3,15%	55,20%	40,49%	0	0	100	40,4892			
Egypt (NA, NCP, CCP)	€ 10.724.034,46	7,50%	13,34%	16,67%	16,67%	7,50%	16,67%	78,35%	9,00%	5,60%	3,15%	3,15%	7,00%	3,15%	3,15%	5,60%	2,10%	7,00%	2,10%	2,10%	2,10%	3,15%	55,20%	43,25%	0	0	100	43,2492			
Greece (NA, NCP, CCP)	€ 15.490.488,84	10,00%	13,34%	16,67%	16,67%	13,34%	16,67%	86,69%	9,00%	5,60%	3,15%	3,15%	7,00%	3,15%	3,15%	5,60%	2,10%	7,00%	2,10%	2,10%	2,10%	3,15%	55,20%	47,85%	0	0	100	47,85288			X
France (NA, NCP, CCP)	€ 4.343.525,51	5,00%	13,34%	16,67%	16,67%	7,50%	16,67%	75,85%	9,00%	5,60%	3,15%	3,15%	7,00%	3,15%	3,15%	5,60%	2,10%	7,00%	2,10%	2,10%	2,10%	3,15%	55,20%	41,87%	0	0	100	41,8692			
Israel (NA, NCP, CCP)	€ 4.026.803,64	5,00%	13,34%	16,67%	16,67%	7,50%	16,67%	75,85%	9,00%	5,60%	3,15%	3,15%	7,00%	3,15%	3,15%	5,60%	2,10%	7,00%	2,10%	2,10%	2,10%	3,15%	55,20%	41,87%	0	0	100	41,8692			
Jordan (NA, NCP, CCP; BO)	€ 21.547.682,91	10,00%	16,67%	16,67%	16,67%	13,34%	16,67%	90,02%	9,00%	5,60%	5,60%	5,60%	7,00%	3,15%	5,60%	5,60%	2,10%	7,00%	2,10%	2,10%	2,10%	3,15%	62,55%	56,31%	1	0,1	90	50,67676		X	
Lebanon (NA, NCP, CCP)	€ 23.947.233,34	10,00%	13,34%	16,67%	16,67%	13,34%	16,67%	86,69%	9,00%	5,60%	3,15%	3,15%	7,00%	3,15%	3,15%	5,60%	2,10%	7,00%	2,10%	2,10%	2,10%	3,15%	55,20%	47,85%	0	0	100	47,85288			X
Malta (NA, NCP, CCP)	€ 957.767,70	5,00%	13,34%	16,67%	16,67%	5,00%	16,67%	73,35%	9,00%	5,60%	3,15%	3,15%	7,00%	3,15%	3,15%	5,60%	2,10%	7,00%	2,10%	2,10%	2,10%	3,15%	55,20%	40,49%	0	0	100	40,4892			
Palestine (NA, NCP, CCP)	€ 12.659.583,77	7,50%	13,34%	16,67%	16,67%	10,00%	16,67%	80,85%	9,00%	5,60%	3,15%	3,15%	7,00%	3,15%	3,15%	5,60%	2,10%	7,00%	2,10%	2,10%	2,10%	3,15%	55,20%	44,63%	0	0	100	44,6292			
Portugal (NA, NCP, CCP)	€ 576.349,35	5,00%	13,34%	16,67%	16,67%	5,00%	16,67%	73,35%	9,00%	5,60%	3,15%	3,15%	7,00%	3,15%	3,15%	5,60%	2,10%	7,00%	2,10%	2,10%	2,10%	3,15%	55,20%	40,49%	0	0	100	40,4892			
Spain (NA, NCP, CCP; BO)	€ 26.359.980,44	13,34%	16,67%	16,67%	16,67%	16,67%	16,67%	96,69%	9,00%	5,60%	5,60%	5,60%	7,00%	3,15%	5,60%	5,60%	2,10%	7,00%	2,10%	2,10%	2,10%	3,15%	62,55%	60,48%	0	0	100	60,4796	X		
Tunisia (NA, NCP, CCP)	€ 27.418.352,69	13,34%	13,34%	16,67%	16,67%	16,67%	16,67%	93,36%	9,00%	5,60%	3,15%	3,15%	7,00%	3,15%	3,15%	5,60%	2,10%	7,00%	2,10%	2,10%	2,10%	3,15%	55,20%	51,53%	0	0	100	51,53472	X		
Italy (NCP, CCP)	€ 40.588.032,71	16,67%	13,34%	16,67%	16,67%	16,67%	16,67%	96,69%	9,00%	5,60%	3,15%	3,15%	7,00%	3,15%	3,15%	5,60%	2,10%	7,00%	2,10%	2,10%	2,10%	3,15%	55,20%	53,37%	0	0	100	53,37288		X	

Explanatory Note:

1 For each factor, the risk has been rated through a scale which guarantees a maximum score for the inherent risk of 100%. In this case, there are 6 risk factors, therefore, the scale is the following: High=16.67%, Medium/High=13.34%, Medium=10.00%, Medium/Low=7.50%, Low=5.00%.

2 For each factor, the risk has been rated through a scale which guarantees a maximum score for the control risk of 100%. In this case, there are 14 risk factors, for detail see note n.8 and n.9.

3 The total score for the control risk is the sum of the values of each of the factors of control risk.

4 The complexity may be due to the number of subjects involved.

5 The complexity of the operations may be related to public procurement, to State Aid, and to the high number of subjects involved in the operations.

6 Beneficiaries with no experience with the Funds Regulations and/or beneficiaries of Funds with high rates of errors in the previous audit.

7 The specific situation related to the human resources allocated to the Authority of the Programme.

8 In this case, the scale is the following: High=9%, Medium/High=7,2%, Medium/Low=4,05%, Low=2,7%.

9 As for KR's, the assessment is performed on the basis of the results of the audits in relation with the previous accounting period. In this case, the scale is the following: High=7%, Medium/High=5,6%, Medium/Low=3,15%, Low=2,1%.

Acronyms:

KR1 Adequate separation of functions and adequate systems for reporting and monitoring where the responsible authority entrusts execution of tasks to another body.

KR2 Appropriate selection of operations

KR3 Adequate information to beneficiaries

KR4 Adequate management verifications

KR5 Effective system in place to ensure that all documents regarding expenditure and audits are held to ensure an adequate audit trail.

KR6 Reliable system for collecting, recording and storing data for monitoring, evaluation, financial management, verification and audit purposes, including links with electronic data exchange systems with beneficiaries.

KR7 Effective implementation of proportionate anti-fraud measures

KR8 Appropriate procedures for drawing up the management declaration and annual summary of the final audit reports and of controls carried out.

HKR Documented procedures, verifications and evaluations performed to ascertain that the components of internal control exist and function.

KR10 Appropriate procedures for drawing up and submitting payment applications.

KR11 Appropriate computerised records of expenditure declared and of the corresponding public contribution are maintained.

KR12 Appropriate and complete account of amounts recoverable, recovered and withdrawn.

KR13 Appropriate procedures for drawing up and certifying the completeness, accuracy, and veracity of the accounts.

AA Audit Authority

BO Branch Office

CCP Control Contact Point

JTS Joint Technical Secretariat

MA Managing Authority

NA National Authority
NCP National Contact Point
PSC Project Selection Committee
TA Technical Assistance funds
****** To be performed in compliance with restrictions and travel limitation due to COVID-2019 pandemic.