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REGIONE AUTONOMA DELLA SARDEGNA



ANNUAL AUDIT REPORT

according to art. 28.6 (b) and 68.2 (d) Commission Implementing Regulation (EU) No 897/2014

Reference Period: 1 July 2019- 30 June 2020

Approved by the Audit Authority Decision n. 198 (prot.n. 6425) of 22th February 2021



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I. INTRODUCTION

I.1. Identification of the responsible Audit Authority and other bodies that have been involved in preparing the report

The Sardinian regional government, through decision no. 15/5 of 10 April 2015, has created a specific organisation, 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.

The project unit was effectively activated upon the arrival of the Director on 2 November 2016, followed by the appointment of one officer who had been working on the internal audit of the ENPI OP.

Decision n. 53/9 of 28 November 2017, effective since March 2018, 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 acts as structural funds Certification Authority; the two units are composed by separate staff and do not interoperate.

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

Moreover, decision 53/9 as mentioned has increased the Audit Authority staff model up to 6 officer, 5 devoted to the ENI CBC MSB OP and an additional one as ascribed to the ENPI CBC MED OP. 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”.

The Audit Authority governance and organisation model have been defined in compliance with the criteria required and verified during the endorsement procedure 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.

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;



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- Coordination of the work of other auditors.

The AA first efforts have mainly been directed towards internal staff recruitment among “Regione Autonoma della Sardegna (RAS)” civil servant employees.

Nowadays, the AA staff is composed by the Head of Unit, 5 full time officers and an IT Officer who assures the IT assistance even though he is not assigned anymore to the ENI CBC MED Audit Authority.

Increased efficiency has been generated, after much examination to which several directorates have contributed, moving the AA from the Presidenza della Regione into the Direzione generale dei Servizi finanziari, which has specific offices dedicated to horizontal functions such as staff administration, regional accounting office, document registration etc.

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

In particular, the Regional Unit of Statistics is ready to support the definition of the sampling methodology according to AA requests.

As far as legal assistance is concerned, the AA can rely on the support by “Direzione Generale Area Legale” while, as for public procurements, by the “Direzione Generale della Centrale Regionale di Committenza”, both included within the Presidency.

Having regard to the requirement of financial independence, 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;
- Audit of the projects expenses (on sample check) € 1.100.000,00;
- System audits € 750.000,00.

In order to carry out the 3 clusters of audit controls as assigned (namely: system audit, audit of accounts and audit of sample of projects), the AA will be supported by a technical assistance service, to be provided by a sub-contracted company. To this purpose, the AA has planned one open international tender in the meaning of EU directives for procurements. In this regard, the tender documents were completed in November 2020 and, with decision of 13 November, the AA delegated the Regional Central Purchasing Body to carry out the tender.

According to the AA working plan, this complex procedure is likely to be launched within 2021 and the winning provider is expected to be announced by the end of the same year.



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I.2. Identification of the operational Programme covered by the report and of its Managing Authority

The report covers the ENI CBC Mediterranean Sea Basin 2014-2020 Programme.

The core bodies taking part in the implementation of the Programme are the following:

- Managing Authority – Regione Autonoma della Sardegna- Presidenza- Ufficio Speciale all’Autorità di Gestione del Programma ENI CBC Bacino del Mediterraneo
- Audit Authority – Regione Autonoma della Sardegna- Direzione generale servizi finanziari - Servizio Autorità di Audit PO ENI CBC MED

I.3. Reference period

The annual audit report covers the period starting on **1 July 2019** and ending on **30 June 2020**.

I.4. Audit period

During the reporting period, the following audits have been carried out:

- Supplementary audit activities and drawing up of an updated Final Report on Audit on the Annual Accounts, Annual Audit Report as approved with AA Decision No. N. 23335/815 del 15/07/2020;
- System audit on MA concluded with the drawing up of the System Audit Final Report (adopted with AA Decision n. 118 of 16 February 2021);
- Audit on project concluded with the drawing up of the System Audit Final Report (adopted with AA Decision n. 185 of February 2021);
- Procedure on accounts concluded with the drawing up Final Report on Audit on the Annual accounts.



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I.5. Description of the steps taken to prepare the report and to draw the audit opinion

The Annual Audit Report contains the system audit activities carried out in the following periods:

- October 2020/February 2021 (Audit System on the MA);
- December 2020/February 2021 (Audit on projects);

and the audit on accounts activities carried out between:

- June/July 2020 (Supplementary audit activities and drawing up of an updated Final Report on Audit on the Annual Accounts, Annual Audit Report and Audit Opinion as approved with AA Decision No 23335/815 del 15/07/2020);
- November 2019/February 2020 (Final Report on Audit on the Annual Accounts, Annual Audit Report and Audit Opinion as approved with AA Decision No. xxxxxx of xxxx February 2021);

These activities are described in detail in paragraph IV.1, IV.2 and IV.3 of the present report.

Here below the activities and the documents taken into account for the drawn up of this report are listed in detail:

- European Commission DG Regio Note “Analysis of the technical part of the Annual Report and of the documents submitted under Article 68 of Commission Implementing Regulation (EU) No 897/2014” (Ares(2020)2761582 dated 28/05/2020);
- Updated Final Report on Audit on the Annual Accounts, Annual Audit Report and Audit Opinion as approved with AA Decision No. 815 of July 2020).
- System audit to ascertain the effective functioning of the ENI CBC MED 2014-2020 Management, Control, Certification and Monitoring System, with reference to the 2019-2020 accounting period MA from October 2020 to February 2021;
- Discussion with the MA in October 2018;
- Drawing up of the Provisional System audit report in January 2021;
- Discussion with the MA to solve certain issues raised in the Provisional Report;
- Examination of the MA observations and drawing up of the Final System audit report in February 2021;
- Audit on projects First Sampling December 2020/January 2021;
- Audit on projects Second Sampling January/February 2021;
- Audit on accounts started in January 2020;
- Drawing up of the Provisional Audit on accounts report in February 2021;
- Reception of MA observations/documental integrations in February 2021;



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- Drawing up of the Final Audit on accounts report in February 2021.

This report has been drafted taking into account the results of the above mentioned activities, particularly:

- DMCS (November 2020 and February 2021);
- Results of the system audit activities;
- Results of the audit on the accounts, including the Annual Summary of Controls and the Management Declaration;

II. SIGNIFICANT CHANGES IN THE MANAGEMENT AND CONTROL SYSTEM

The following main significant and positive changes, which substantially improved the Management and Control System, have been made:

- Updated DMCS (November 2020);
- Updated DMCS (February 2021);
- External Auditor in charge for TA MA and AA staff and travel cost;
- JTS staff in charge.

III. CHANGES TO THE AUDIT STRATEGY

The ENI CBC Mediterranean Sea Basin Programme Audit Strategy has been updated by the Audit Authority, according to Article 28.5 of Regulation (EU) No. 897/2014, taking into account the “Guidance on the preparation of the audit strategy in ENI CBC Programmes” provided by TESIM - Technical support to the implementation and management of ENI CBC Programmes and EGESIF Guidance on Audit Strategy (14-0011-02), both as a source of inspiration only.

The Strategy covers the methodology for the risk assessment to be applied at the planning of the annual system audits, the audit approach and priorities applied for system audits and audits 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 considers all tasks related to the programming period 2014-2020; thus, it provides specific directives regarding the audit activity to be performed till the programme ending.

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The AA has eventually approved the updated version of the Audit Strategy (Version 2.1) with decision No 253 of 27 February 2020 and transmitted it to the European Commission as foreseen by Art. 28 of the Reg. (EU) No 897/2014.

- the risk analysis methodology, acquired through the support of a selected consultancy company;
- the updated functional chart of the Audit Authority,
- the time schedule concerning the audit activities for the 2020/2022 period.

Such new updated version has been shared with the GoA (see par. V).

Meanwhile, on July 2020, the AA finalised an updated version of the Audit Manual (Version 2.0), which is a tool that implements the Strategy, as compulsory document also requested for the by IGRUE. The manual includes audit tools such as check-lists for the different types of control and controlled Bodies, audit trails and report templates.

The updated version of the Manual and the checklists have been subjected to the assessment of the IGRUE, as requirement for the maintenance of the accreditation, in compliance with the indications contained in both the EGESIF Note No. 15-0002-04 of 19/12/2018 and the INTOSAI Guideline No. 23, as well as on the basis of the IGRUE Manual. The Version 2.0 of the Audit Manual allowed to overcome the findings listed in the IGRUE opinion issued on 18.10.2018 and the assessment criterion 14.4 "Audit Authority Procedures and Manual" has been rated as Category 2 (IGRUE Opinion Prot. N. 114351 issued on 06.07.2020).

Furthermore, during the drawing up of an updated Final Report on Audit on the Annual Accounts, Annual Audit Report, as approved with AA Decision No. N. 23335/815 del 15/07/2020, the AA, with Notice Prot. n. 23179 rep. 808 of 14.07.2021, updated the version 2.0 of the Audit Manual with the adoption of the checklists related to the Quality Review (QR) (see Audit Manual Annexes 5.2a, 5.2b, 5.2c, 5.2d, 5.2e, 5.2f, 5.2g, 5.2h, 5.2i, 5.2l, 5.2m, 5.2n, 5.2o).

version 2.2 of the Audit Strategy, expected by 01.03.2021, the AA will draw up a new revision of the Audit Manual.

Following the dispute with DG Regio about TA expenditures audit methodology, it would have been necessary a full revision of all ENI CBC MED AA planning and working documents, in order to comply with Regio recommendations and requirements, but as the controversy was solved only at the end of October 2020, the AA decided to perform audit on projects for the accounting period 2019-2020 following the new approach as established by DG Regio, and to postpone the required revision of documents after the audit activities for the accounting period 2019-2020 are over, by the end of February 2021.



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A new audit on project and sampling methodology was drafted by the AA and shared with DG Regio with email of 30.11.2020. DG Regio agreed on the AA proposal with email of 10.12.2020, so the AA formally adopted, with determination n. 1475/46927 of 16/12/2020, the new methodology, which will be integrated into the new AA Audit Strategy and Audit Manual version.

IV. SUMMARY OF AUDITS CARRIED OUT

IV.1. System audits

The AA started a system audit on 14 October 2020 (AA Notice No 345555) in order to ascertain the effective functioning of the ENI CBC MED 2014-2020 Management, Control, Certification and Monitoring System, with reference to the 2019-2020 accounting period.

The main objectives of this audit are 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;
- 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.

The system audit concerned the Managing Authority and has been carried out on the basis of the audit calendar communicated with the AA Notices n. 34555 of 14th October 2020 and the official email sent to the MA on 14th October 2020, with which the date for a deskmodality interview was communicated (21.10.2020 at h. 10.30).

On the basis of the documents acquired and information gathered, an assessment on the reliability of the Programme Management and Control System adopted by the MA was carried out.

This evaluation was performed according to the standard step-by-step assessment methodology envisaged by the European Commission and based on four reliability assessment categories of the Management and Control System, as explained in the AA Audit Strategy 2.1 and in compliance with



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EGESIF_14-0010-final 18/12/2014 “Guidance for the Commission and Member States on a common methodology for the assessment of management and control systems in the Member States”.

The necessary documentary proof has been acquired, in order to both understand the functioning of the system and obtain a reasonable security with regard to its application.

For each Key Requirement, the responsible AA officer organized separated Skype or web interviews with the correspondent MA responsables, in compliance with the Sardinian Region provisions in force, related to Sars-Covid 2 emergency.

As no interim report was submitted by Beneficiaries within 30.6.2020, it was not possible to perform audit on projects expenditures in the context of audit on projects. The AA thus decided to carry out a reperforming of the prefinancing procedure in the context of the system audit 2019-2020, in order to verify the only projects-related costs for this accounting period.

The test was carried out on a sample basis.

A total of 41 projects were approved under the first call for standard projects and all of them received a prefinancing within 30.6.2020, so this was considered as the population to be sampled. This low number of operations did not allow for statistical sampling so a non statistical random sampling method was applied. Following EGESIF_14-0010 of 18/12/2014 and EGESIF_16-0014-01 20/01/2017 guides, and considering 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 2020, as amended in July 2020), the AA decided to audit 10% of the operations, so 4 projects were selected from the population of 41 projects.

As the abovementioned 4 projects amounted to 8,3% of the total prefinancing, on the 22 January the AA decided to extend the sample of projects to another one, in order to ensure the reperforming on 10% of certified expenses.

To carry out the reperforming activity the AA analysed the prefinancing process, starting from the list of the approved projects as published in the Autonomous Region of Sardinia website (after PSC selection and JMC approval), and ending with the payment of the prefinancing to the LB.

All steps were reviewed and all verifications carried out by the MA were carried out a second time by the AA.

MA check lists used for projects verifications (Annex 6 to DMCS, "Check List Progetti" of the Operational and Authorising Unit) were assessed and used as a guide to reperform the required controls.

Each control point of the check lists was verified and supporting documents assessed.

The reperforming activity enlightened **the correctness of the prefinancing process.**



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Anyway, the AA recommends for the future that the MA draws up a report for each verification activity carried out, explaining the procedure followed, the checks carried out, any particular conditions or considerations as emerged during verifications and the final assessment and results of the activity.

The AA drawn up the Provisional Audit report and prepared a detailed overall checklist which was annexed to the Provisional Report. The Report has been sent to the MA with AA Notice 3177 of 28.01.2021.

MA has been asked to send its observations/comments/integrations both on the System Audit Provisional Report and on the concerned checklist no later than 4 of February 2021

The Final System Audit Report, has been released on 4 of February 2021. (AA. Decision n.. 5570).

The audit work carried out by the AA highlights that further additional corrective measures are needed concerning the followings topics:

- 1) the Programme MIS completion;
- 2) although significant implementations were made on procedures and tools, further updating of the DMCS in force and the reorganization and formal adoption of manuals and tools (i.e., checklists, etc.) is needed. In addition, it is also requested that minor implementations are made on the description of the first level controls carried out for all financial items (projects, MA&BO TA, AA TA) and revision of the “on the spot checks procedure” (Annex 4 DMCS) to better define controls, category of operations to be controlled, methodology for each control, etc. Moreover, statistical methodology for the selection of the operations to be controlled, as per EGESIF_16-0014-01 20/01/2017 guide, should be further defined;
- 3) the efficient and effective implementation of Programme Internal Control System as described, ensuring a proper involvement of all Programme bodies;
- 4) the efficient and effective implementation of anti-fraud measures as planned;
- 5) lack of proper organisation for all MA documents: documents must be properly organised and stored in separate files and folders, so that they can be found and delivered upon request in a quick, efficient and complete way (project files, checklists in use, audit trail, etc.; an index of each annex to the DMCS should be implemented, to facilitate control activities).

It is worth highlighting that the deficiencies found in points 1, 2 and 5 caused delays in the performance of the AA activities.

Following the system audit carried out, in accordance with i) the scope of the control and the objectives, ii) the assessments expressed, and the corrective actions defined in this report, it was possible to ascertain that the procedures of the Managing Authority of the ENI CBC MED JOP, require important corrective measures.

The found shortcomings have impact on the functioning of the key designation requirements and on the Management and Control System as a whole.



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In conclusion, following the system audit carried out and the interviews with the controlled Authority, it was decided to evaluate the system as **“Category 2. Works, but some improvement(s) are needed”**.

Recommendations have been formulated which the audited body must implement.

IV.3. Audits of projects

Pursuant to art. 28 of the ENI IR, the Audit Authority (AA) will ensure that audits are carried out on an appropriate **sample of projects** (operations), in compliance with internationally accepted auditing standards.

For the previous accounting period 2018-2019, as no interim reports were submitted by beneficiaries, the AA didn't carry out audit on projects, as technical assistance expenditures were audited in the context of the audit on the accounts. This approach was based both on the ENI Regulations, with particular reference to the IR (EU) 897/2014 (artt. 35 and 38), that makes 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, and on Tesim (Technical Support to the Implementation and Management of ENI CBC programs) guidance, drawn up in agreement with Commission DG Near.

At the beginning of year 2020, when ENI Programme control transitioned from DG Near to DG Regio, the abovementioned 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 the 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 expenditures. 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).



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The AA thus performed audit on projects for the accounting period 2019-2020 following the new approach as established by DG Regio.

IV.3.1. Details of the bodies (including the audit authority) that have carried out audits on the appropriate sample of projects (as foreseen in article 28.1 of Regulation (EU) No 897/2014).

Due to the considerable delay consequent to the dispute with DG Regio on TA expenditures audit, and considering the other audit activities in place for the accounting period 2019-2020, the AA decided to outsource the audit on projects activities.

On 18.12.2020 the AA formally entrusted a qualified, external and independent auditor to carry out audit activities on a sample of projects (operations) for the accounting year 2019-2020.

The AA of the ENI CBC MED carried out all sampling activities, quality review and final evaluation of audit activities results.

IV.3.2. Description of the sampling methodology applied and information whether the methodology is in accordance with the audit strategy. Justification of the appropriateness of the sample chosen:

Following the dispute with DG Regio, as already explained in the above section, it became clear that it was necessary a full revision of all ENI CBC MED AA planning and working documents, in order to comply with Regio recommendations and requirements.

Taking into consideration that this revision would imply a lot of time and efforts, as Audit Strategy, Audit Manual, procedures and many check lists and audit tools were to be amended, while AA audit activities for the accounting year 2019-2020 needed to be carried out as soon as possible, the AA decided to perform audit on projects for the accounting period 2019-2020 following the new approach as established by DG Regio, and to postpone the required revision of documents after the audit activities for the accounting period 2019-2020 are over, by the end of February 2021.

A new audit on project and sampling methodology was drafted by the AA and shared with DG Regio with email of 30.11.2020. DG Regio agreed on the AA proposal with email of 10.12.2020, so the AA formally adopted, with determination n. 1475/46927 of 16/12/2020, the new methodology, which will be integrated into the new AA Audit Strategy and Audit Manual version.



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This new methodology was used to carry out audit on projects for the accounting year 2019-2020, and was based on the following phases:

1. Define the population
2. Define the sampling method
3. 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
4. Determine the sample size
5. Select the sample and perform the audit
6. Project results, calculate precision and draw conclusion.

Following the abovementioned phases, the AA carried out sampling activities as described in the following paragraphs.

Population

To choose the most appropriate sampling method, it was firstly necessary to identify and analyse the population of expenditures to be audited on a sample basis.

The AA started this task by analysing the provisional annual accounts sent by the Managing Authority (MA) with note n. 2084 of 4.11.2020, as further implemented with email of 18.11.2020.

According to this report:

- As regards **“projects”**, for the accounting year 2019-2020 no project expenditures were reported by beneficiaries, the only certified costs as regards projects were the prefinancing to 41 of them, all submitted under the first call for standard projects, for a total of € 38.459.489,28. After discussing the issue with Tesim and IGRUE experts, the AA decided that prefinancing costs cannot be considered “operations”, as they are not related to any expenditure reports by beneficiaries so that it is not possible to verify whether the costs declared can be considered as real, accurately recorded and eligible. So the AA audited projects selection and contract award procedures in the context of system audit on a non-statistical sample basis and provided accounting reconciliation between prefinancing and annual accounts in the context of audit on the accounts.
- As regards **“TA”** expenditures of the programme, incurred by the AA, the MA and its two BO of Valencia and Aqaba for a total of 3.728.972,60, they consisted of the following categories:
 - staff costs € 1.910.124,01 (around 50% of TA total costs);
 - travel and subsistence € 160.697,96 (around 4% of TA total costs);



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- equipment and supplies 2.862,12 (around 0,08% of TA total costs);
- administrative costs 7.029,15 (around 0,19% of TA total costs);
- subcontracted costs 1.648.125,79 (around 45% of TA total costs);
- other costs 133,57 (bank transfer costs from BO Aqaba) (not relevant as compared to TA total costs).

As no “projects” expenditures were reported, the population to be audited in the context of the of the audit on projects for the accounting period 2019-2020 was constituted by the abovementioned technical assistance expenditures.

Afterward, the AA had to identify the sampling units of the population, in order to carry out sampling procedures and choose the operations to be audited. As data from the MA reports were not homogeneous, based on its professional judgement, the AA decided to define which will be considered as the sampling unit (i.e. the “**operation**”) for each category of the population, as follows:

- 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;

The AA aggregated consequently data for each of the TA expenditures categories from MA accounts (Full description of the applied method can be find in the annex 3 to the AA sampling report of 14.12.2020).

This led to the identification of a population of 661 units (operations) related to the different audited bodies AA, MA and BOs as follows:

Cost category	Sampling Units (operations)				Total
	AA	BO AQABA	BO VALENCIA	MA	
Administrative costs - AC		1			1
Equipment and supplies - ES				1	1



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Other costs - OC		1			1
Staff costs - ST	63	48	98	181	390
Subcontracted costs - SUB	4	4	16	91	115
Travel and subsistence - TS	12	8	47	86	153
Total	79	62	161	359	661

Sampling method

The size of population, as described in the above section, allowed for a statistical sampling method. The population units were similar in nature and amount, did not include a few quite high-value items as regards all the others and the level of error (misstatement) was not expected to be different for different units in the population (low variability).

For all the above mentioned reasons, based on its professional judgement and on the EGESIF_16-0014-01 20/01/2017 guide, the AA chose the **simple random sampling with no stratification** as the method to select the operations.

Population parameters and sample size

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 standard formula:

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

where:

- n is the sample size;
- N is the population size;
- z is a parameter from the normal distribution related to the confidence level determined from system audits
- σ_e is the standard-deviation of errors in the population
- TE is the maximum tolerable error admissible by the regulation;
- AE is the anticipated error



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For the purpose of ENI CBC MED audit on projects for the accounting period 2019-2020, 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 2020, as amended in July 2020), the parameters needed to define sample size were set as follows:

- $N = 661$
- $z = 1,036$, 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

As regards the parameters σ_e and AE , they 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 no historical data were available, (no audit on projects carried out so far for ENI CBC MED programme, and no historical data available from previous programming period ENPI), the AA, following EGESIF_16-0014-01 20/01/2017 advice, decided to select a pilot sample of size=30 (recommended minimum sample size, as per the abovementioned EGESIF guide) 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 would then be used to calculate the final sample size, n , applying the abovementioned formula. The pilot sample would be used as a part of the final sample.

On 14.12.2020 the AA extracted the pilot sample of 30 operations (Microsoft Excel function “Random”). A sampling report was issued by the AA, explaining sampling procedure and displaying the sampled operations.

The audit on the pilot sample of operations was closed on 2.2.2021 with no errors found, exception made for a clerical error to be removed from the 2019-2020 accounts and correctly ascribed to the next accounting period.

As no errors were found in the pilot sample (clerical errors are “*not considered an error for the calculation of the TER*”, as per EGESIF_15-0002-04 19/12/2018), it was not possible to obtain an estimate of the parameters σ_e and AE of the population from the audit on the pilot sample, as originally planned.

Therefore, based on its professional judgement and adopting a prudential approach, since the level of reliability of the management and control system of the Programme was assessed in Category 2 in the last system audit, the AA decided to extract a new sample of operations to be



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audited, setting the size of the final sample to be audited (including operations from the pilot sample) equal to 10% of the TA expenses and to at least 5% of the operations, applying by analogy the same recommended coverage for a non statistical random sampling (cfr. EGESIF_16-0014-01 20/01//2017).

As in the counterarguments phase of the audit on the pilot sample of operations the MA sent a new file of Programme provisional accounts for the 2019-2020 accounting year, correcting some items and deleting 15 cost items as well (corresponding to 13 population sampling units), bringing the total number of statistical units of the population to 648 (see audit on the account section for a detailed explanation on the subject) and the total amount of TA expenditures to € 3.593.257,31, the AA made the consequent changes in the file used to select the pilot sample of operations and draw up a new list of statistical units to be retested, consisting of 619 statistical units, excluding those already extracted in the pilot sample (661 units in the initial population, minus 13 units deleted from MA, of which 1 included in the pilot sample, minus the other 29 units from pilot sample=661-13-29=619).

Considering that the total amount of the new provisional accounts sent by the MA was equal to € 3.593,257.31, that the total book value of the pilot sample consisting of 30 transactions was € 86,224.55 and that MA deleted one of the 30 transactions sampled, for a total of € 4,574.69, bringing the verified pilot sample to 29 units accounting for € 81,649.86, the objective of the new AA sampling was to randomly select a number of statistical units ensuring 10% of the total amount of the accounts, i.e. an additional € 277,675.87.

The abovementioned calculations are shown in the following table:

Item	Book value (€)	%
TA total expenditures	3.593.257,31	100,00%
TA expenditures to be audited (final sample)	359.325,73	10,00%
TA expenditures already audited (pilot sample) (29 units, as 1 out of 30 was deleted by MA)	81.649,86	2,27%
TA expenditures to be audited (second sample) (final sample – pilot sample)	277.675,87	7,73%



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On 4.2.2021, starting from the new list of operations as described above, a new sampling of technical assistance expenditures took place, to select the second sample of operations to be verified as part of the audit on projects of ENI CBC MED Operational Programme for the 2019-2020 accounting year.

To obtain the 10% of TA expenditures amount, a total of 55 operations was selected through random sampling (Microsoft Excel function "Random"), accounting for a total of € 288.093,33. A sampling report was issued by the AA on the same day, explaining sampling procedure and displaying the sampled operations.

The following table shows that the final sample to be audited respects the recommended size as described in the above paragraphs:

Item	N. operations	Book value
Pilot sample (a)	29	81.649,86
Second sample (b)	55	288.093,33
Final sample (a+b)	84	369.743,19
Total TA expenditures	648	3.593.257,31
Final sample coverage (%)	12,96 %	10,29 %

IV.3.3. Reconciliation between the total expenditure declared in euro to the Commission in respect of the accounting year and the population from which the sample was drawn.

Not relevant, as no error was detected in the sample of operations.

The total expenditure which will be declared to the Commission in the Annual Accounts of the Programme, is equal to the book value of the population from which the sample was drawn, i.e. € 3.593.257,31.



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IV.3.4. Analysis of the principal results of the audits of projects, describing the number of sample items audited, the respective amount and types of errors by project, the nature of errors found, main deficiencies or irregularities, root causes, corrective measures proposed (including those intending to avoid these errors in subsequent request) and the impact on the audit opinion.

Phase 1: Pilot sample extracted on the 14.12.2020: 30 operations out of 661, book value € 86,224.55 out of 3.728.972,60 (see section IV.3.2. for further details).

The pilot sample was constituted by the operations as shown in the above table:

Organisation	Cost category			Total
	Staff costs	Subcontracted costs	Travel & Subsistence costs	
AA	2	1	1	4
BO AQABA	2		1	3
BO VALENCIA	6	1	5	12
MA	5	2	4	11
Total	15	4	11	30
Total book value	58.000,27	16.413,64	11.810,64	86,224.55

On 22.12.2020 the audit on projects for the accounting period 2019-2020 formally started by sending to MA the opening letter including the list of operations extracted.

On 27.1.2021 the external auditor in charge sent her provisional audit report to the AA, highlighting a specific cut-off issue related to the accounting imputation of an operation out of the 30 verified.

The issue was related to a monthly pay slip (September 2019) of € 4,574.70 (Staff costs category). This cost was considered as non-eligible for the accounting period 01/07/2019-30/06/2020, depending on its actual date of disbursement, which occurred on 21/10/2020 and therefore outside the accounting period as mentioned.

By considering the external auditor report, first informally anticipated on 24.1.2021, and then



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formally sent on 27.1.2021, with regards to the criticality found, the AA performed an extensive examination of the issue, also shared with IGRUE and Tesim experts. The following considerations can be made:

- according to the ENI legal framework, the Managing Authority does not submit periodic payments applications to the European Union, as is the case for ESIF programmes, because expenses are incurred in advance by the Sardinia Region and subsequently reimbursed by the Commission, upon presentation and approval of the Programme annual accounts. Thus, only at that time misstatements as detected may become irregularities, i.e. affecting the budget of the European Union;
- for the accounting year 2019-2020, the annual accounts have not yet been submitted to the European Commission and therefore no prejudice to the EU budget occurred so far;
- the Sardinia Region actually incurred the cost related to the monthly payment of September 2019, which is fully eligible according to REG (UE) 897/2014 rules. Thus, the cost as declared shall only be correctly re-booked to the right accounting period 2020-2021;
- EGESIF_15-0002-04 Guide of 19/12/2018 defines the error as follows: "*an error/misstatement is a quantifiable overstatement of the Expenditure declared to the Commission due to an irregularity*".
- Regulation (EU) No 897/2014 of 18 August 2014, art.2, lett. m) defines the irregularity as follows: "*irregularities" means any infringement of a financing agreement, a contract or of applicable law resulting from an act or omission by an economic operator involved in the implementation of the programme, which has, or would have, the effect of prejudicing the budget of the Union by charging an unjustified item of Expenditure to the budget of the Union*".

From the above, the expenditure in question should not constitute an error within the time limits set out in the aforementioned EGESIF_15-0002-04 Guide 19/12/2018 and therefore cannot contribute to determining the sample error rate, as the same guide states in par. 2, point 2.1, p. 42: "*The overstatement of Expenditure not related to irregularities (such as clerical mistakes made for example when copying or writing information manually) is not considered an error for the calculation of the TER.*"

Accordingly, the AA considered that the criticality found by the external auditor should be considered as a mere administrative error (**clerical error**) and not as an irregularity affecting the sample error rate and having to be projected onto the final population.

On 1.2.2021, following a request from the AA to provide further information on the nature of the



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findings, the external auditor sent an implemented audit report¹, confirming the AA observations as mentioned by sending an implemented version of the provisional audit report, which precises that: *“La spesa non ammissibile individuata risulta di incerta ascrivibilità alle irregolarità di cui all’art.2, lett. m) del REG (EU) 897/2014: condizione che non permette allo stato di determinare i parametri necessari a calcolare l’ampiezza del campione finale”.*

Based on the result of the abovementioned provisional report on projects, which concerned a pilot sample, and following its analysis on detected errors, on 2.2.2021 the AA performed a quality review on the audit on project on a sample of operations. AA officer in charge of the Quality Review assessed the regularity of the audit process and proposed the following recommendations to be addressed to the Managing Authority:

- to correct the accounting imputation of the expenditure in question, by removing it from the 2019-2020 accounts and correctly ascribing it to the next accounting period;
- to give reasonable assurance that all other similar transactions by nature are correctly booked in the proper accounting period.

On 2.2.2021 with note n. 3836 the Audit Authority (AA) sent to the Managing Authority (MA) of the ENI CBC MED Programme the provisional report of the audit on projects on the pilot sample of technical assistance expenditures and its annexed check list, with the abovementioned recommendations.

In the counterarguments phase, with prot. n. 220 of 3.2.2021 the MA sent a new file of Programme provisional accounts for the 2019-2020 accounting year, correcting some items and deleting 15 cost items as well (corresponding to 13 population sampling units), bringing the total number of statistical units of the population to 648 (see audit on the account section for a detailed explanation of the subject) and the total amount of the TA expenditures to € 3.593.257,31.

Phase 2: Second sample extracted on the 4.2.2021: 55 operations out of 619, book value € 288.093,33 out of 3.593.257,31 (see section IV.3.2. for further details).

On 04.02.2021 the results of the new sampling procedure, the list of the selected operations and the starting of the second phase of the audit on projects was notified to the MA and all information sent to the external auditor to carry out audit activities in analogy with what already done for the pilot sample.

¹ On 22 February 2021 the external auditor, upon AA request, sent ad Errata corrige of such report, amending table at page 3 because, for a mere clerical error, it reported the wrong book value for the Staff cost category. This error doesn't affect overall report conclusions and its main findings.



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The external auditor carried out all audit activities, through documentary exchange and requests for clarification to the MA., and concluded its activities on 15.02.2021.

On 16.2.2021, at the end of the verifications carried out, the external auditor in charge sent to the AA the audit report for the second sample of operations, **concluded with positive results as no irregularities were found.**

On 16.2.2021 a quality review was carried out by the AA on the external auditor activity, in order to assess the regularity of the audit procedure.

Based on the external auditor activities and arguments, the AA officer in charge of the QR issued the following recommendation to the Managing Authority:

“To overcome the lack of proper organisation for all MA documents: documents must be properly organised and stored in separate files and folders, so that they can be found and delivered upon request in a quick, efficient, and complete way (project files, checklists in use, audit trail, etc.) to facilitate control activities”.

With note n. 5618 of 16.2.2021 the AA sent to MA the Provisional report n. 2/2021 of the audit on projects on the second sample and its annexed check list, including the abovementioned recommendation and setting a deadline for any counterarguments.

On 17.2.2021 the MA sent a note n. 346/2021, accepting the Provisional report conclusions with no counterarguments.

On the same day, the AA drafted the Final audit on projects Report, accepting the Provisional Report 2/2021 with no modifications. A quality review on the final report was then carried out by the AA officer in charge, with positive conclusion.

The AA adopted the Final report on the audit on projects with decision 185/5790 of 17.2.2021 (subsequently amended for mere clerical error with decision n. 189/5996 of 18.2.2021).

Conclusions:

On a two-stage sampling process, a total of 84 out of 661 operations were audited (12,96%) accounting for a book value of € 369.743,19 out of € 3.593.257,31 (10,29%)

No irregularities were detected, apart from a clerical error due to the ascription of an eligible cost to the wrong accounting period (2019-2020 instead of 2020-2021), which was duly rectified.



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As clerical errors don't affect the calculation on Total Error Rate (as per EGESIF_15-0002-04 of 19.12.2018, par. 2, point 2.1, p. 42), TER for the final sample of audited operations is equal to 0, and the same is therefore true for the entire population.

IV.3.5. Explanations concerning the financial corrections relating to the accounting year and implemented by the managing authority before submitting the accounts to the Commission, and resulting from the audits of projects.

Not relevant.

IV.3.6. Details of whether any problems identified would not allow to conclude that the related transactions are legal and regular, and the measures taken, including a quantification of the irregular expenditure and any related financial corrections.

Not relevant.

IV.3.7. Information on the follow-up of audits of projects carried out in previous years, in particular on serious deficiencies (as above).

Not relevant.

IV.3.8. Conclusions drawn from the overall results of the audits of projects with regard to the effectiveness of the control systems and whether it can be concluded that the related transactions are legal and regular.

From the audit activities carried out on projects expenditures (operations) for the accounting period 2019-2020 the AA can conclude that control system are effective and the related transactions are legal and regular.

A minor recommendation is issued:

“To overcome the lack of proper organisation for all MA documents: documents must be properly organised and stored in separate files and folders, so that they can be found and delivered upon request in a quick, efficient, and complete way (project files, checklists in use, audit trail, etc.) to facilitate control activities”.



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IV.4. Audit of accounts

IV.4.1. Indication of the authorities/bodies that have carried out audits of accounts.

The audit on accounts has been carried out by the ENI CBC MED Audit Authority.

IV.4.2. Description of audit approach used to verify the elements of the accounts defined in Article 68 of Regulation (EU) No 897/2014.

In order to verify the MA accounts in conformity with art. 68.4 of the Reg. (EU) No 897/2014, the AA applied the methodology as described in the 2.1 Version Audit Strategy of the Programme and its update as well as the Audit Manual (Version 2.0) as adopted. This methodology was defined to confirm that :

- the information is properly presented, complete and accurate;
- the expenditure was used for its intended purpose;
- the control systems put in place give the necessary guarantees concerning the legality of the underlying transactions.

On February 25, 2020 AA released the Final Report on Audit on Programme Accounts –Accounting period 2018 – 2019 and provided it to MA on February 27, 2020 for the uploading in SFC 2014 system.

On May 28, 2020 the MA forwarded to the AA the EC_DG Regio Note Ares(2020)2761582 - 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. In July 2020 the AA.

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



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- 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.
- 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.

The AA issued the Final Report on Audit on the Annual Accounts referred to the accounting period 01.01.2018 – 30-06-2019 on 14 July 2020 (Prot. No. 809 of 14.07.2020).

For the accounting year 2019-2020 no project expenditures have been reported by beneficiaries, the only certified costs as regards projects are the prefinancing to 41 of them, all submitted under the first call for standard projects.

For these reasons, the audit on prefinancing will be carried out in this way:

- Projects selection and contract award procedures will be audited in the context of system audit;
- Contracts with beneficiaries will be audited in the context of system audit, on a nonstatistical sample of projects (given the assurance level from the system audit equal to 2, we will choose at least 4 items, equal to 10% of total number of prefinancing, and in any case at least 10% of expenditure. The risk analysis as carried out and assessed in the last ENI CBC MED Audit Strategy will also be taken into account when sampling units to be audited.);
- Accounting reconciliation between prefinancing and annual accounts will be carried out in the context of audit on the accounts.

Therefore, as no projects expenditure reports were submitted, for the only accounting period 2019-2020, the audit on projects will be carried out just on the technical assistance expenditure”.

DG Regio agreed on the AA proposal with email of 10.12.2020, and “shared the proposed strategy to audit the TA expenditure by applying a statistical sampling method, including a pilot sample, and making use of the support of an external auditor.

Furthermore, the DG Regio considered also reasonable the proposed audit strategy to audit the pre-financing”.

As a consequence of the DG Regio approval, the AA formally adopted, with determination n. 1475/46927 of 16/12/2020, the new methodology, which will subsequently be integrated into the Audit Manual.

This new methodology was used to carry out audit on projects for the accounting year 2019- 2020.

Given the absence of an agreement between the Audit Authority and the Managing Authority which establishes the timing relating to the Audit on the annual accounts, the AA started the procedure for submitting the annual accounts relating to the accounting year 2019 / 2020 with Notice Prot. N. 29096 of 08/09/2020 “Accounting year 2019 - 2020. Presentation of annual accounts. Financial data



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request", with which the documents relating to the annual accounts referred to the accounting year 2019 - 2020 were formally requested, with an indication of the respective deadlines.

The 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, concerning the timing of the annual accounts submission procedure was signed on 5 October 2020.

The MA sent different versions of the annual accounts between October 2020 and February 2021 as explained in detail in the Audit on accounts Report.

In response to the provisional audit report on operations, and following the documentation sent on November 4, 2020 prot. n. 2084/2020 and already amended and integrated with the first level control report sent on January 4, 2021 prot. 6/2021, the MA, with Notice Prot. n. 220 of 03.02.2021, sent the rectified provisional accounts relating to the Technical Assistance expenses of the ENI CBC MED Programme and the modified first-level control report relating to "staff" and "travel" expenses.

The following documents have been attached to the MA Notice:

- Annex 1_ENICBC_Report_from 07-2019 to 06-2020
- Annex 2_ENI CBC_Financial report Accounting year 2019-2020_signed
- Attachment 3 checklist
- Annex 4_Reviewed report with evidence of declared ineligible expenditures
- Annex 4_ENI CBC_Financial report Accounting year 2019-2020.

The AA, via email sent on 15.02.2021, requested the MA to receive an Explanatory Note accompanying the Annual Accounts which duly describes, for each version of the annual accounts transmitted to the AA, the reasons for which the MA changed the previous version and the differences compared to the previous one.

In particular, as already requested with AA Notice dated 12/01/2021 in response to the MA official Notice (Prot. n. 6/2021 of 04.01.2021), the Explanatory Note shall immediately identify the sole changes that occurred between the different versions of the accounts transmitted, with respect to the following elements:

- initial value of the rectified expense item;
- correction made;
- final value;
- reason for the correction.



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Following the suggestion of the AA, the MA, with the official Notice (Prot. n. 364 of 18.02.2021), sent the final complete provisional annual accounts of the ENI CBC MED Programme for the accounting year 01.07.2019-30.06.2020. The accounts have been accompanied by:

- an Explanatory Note which highlighted all the rectifications occurred between the different versions of the accounts transmitted so far (see point 15);
- draft of the Annual Summary of controls;
- draft of the Management Declaration.

The Provisional Report on Audit on the Annual Accounts, has been released to the MA of the 19 February 2021 for observation if any.

By considering the limited time for transmission of the Final Report to the Joint Monitoring Committee (JMC) of the ENI CBC MED Programme, the AA requested the MA to submit the counter-deductions to the AA remarks and recommendations as mentioned within 22 February 2021.

On 22 February 2021 the MA sent an updated version of the Financial Report, Summary of controls and management declaration.

The documents taken into account the recommendations from AA on Audit on Projects .

The issue was related to a monthly pay slip (September 2019) of € 4,574.70. This cost was considered as non-eligible for the accounting period 01/07/2019-30/06/2020, depending on its actual date of disbursement, which occurred on 21/10/2020 and therefore outside the accounting period as mentioned..

The AA recommended:

- to correct the accounting imputation of the expenditure in question, by removing it from the 2019-2020 accounts and correctly ascribing it to the next accounting period;
- to give reasonable assurance that all other similar transactions by nature are correctly booked in the proper accounting period.

The AA issued the Final Report on Audit on the Annual Accounts referred to the accounting period 01.01.2019 – 30-06-2020 on 22 February 2021.

The performed audit work allows the AA to affirm that, despite the necessity of implementation of some improvement actions:

- the accounts give a true and fair view, as established by Article 68(4) of Regulation (EU) No 897/2014;



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- the expenditure in the accounts, for which the clearing has been requested in the amount of 40.983.862,16 Euro from the Commission is legal and regular.

In this respect, according to the audit on Programme Annual Account carried out, by considering the related scope and objectives defined in the previous sections of this Report, an *Unqualified opinion is expressed on the accounts.*

IV.4.3. Indication of the conclusions drawn from the results of the audits in regard to the completeness, accuracy and veracity of the accounts, including an indication on the financial corrections made and reflected in the accounts as a follow-up to the results of the system audits and/or audit on projects.

Desk analysis has been performed by the Audit Authority officers in charge, in compliance with the Sardinian Region provisions in force related to Sars-Covid 2 emergency.

In this respect, it is worth to mention that, in compliance with article 68.2 (e) of the Reg. (EU) 897/2014, the AA opinion as released, is not based on a pure financial check of the accounts only, but takes into consideration the results (either final or provisional) or evidence of any systems audits or audits on Programme annual accounts as conducted within the date of this report.

Checks as carried out on the Programme accounts drawn up by the MA mainly concerned:

- compliance with the deadline for the preparation and transmission of the accounts to the AA, in order to guarantee their presentation to the Commission within 01.03.2021;
- level of detail and aggregation of the data indicated in the accounts;
- correct preparation of the accounts according to the model set out by the EC;
- completeness of the data contained in the accounts;
- adequate conservation of the documents used for the preparation of the accounts;
- accuracy and truthfulness of the data contained in the accounts;
- complete and correct consideration, within the accounts, of the corrections requested by the AA or by other subjects, including the European Commission and the European Court of Auditors if applicable;
- adequacy of the information and documentation available from the MA and Programme bodies as concerned.



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As referred above, for the accounting year 2019-2020 no project expenditures have been reported by beneficiaries, the only certified costs as regards projects were the prefinancing to 41 of them, all submitted under the first call for standard projects.

After discussing the issue with Tesim experts, the AA agreed that prefinancing costs cannot be considered “operations”, as they are not related to any expenditure reports by beneficiaries so that it is not possible to verify whether the costs declared can be considered as real, accurately recorded and eligible.

Moreover, with the 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 expenditures. According to DG Regio approach, 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).

For these reasons, the audit on prefinancings has been carried out as follow:

- Projects selection and contract award procedures were audited in the context of system audit.
- Contracts with beneficiaries were audited in the context of system audit, on a nonstatistical sample of projects (given the assurance level from the system audit equal to 2, we will choose at least 4 items, equal to 10% of total number of prefinancing, and in any case at least 10% of expenditure.
- Accounting reconciliation between prefinancing and annual accounts were carried out in the context of audit on the accounts upon administrative verification).

Accordingly, Technical Assistance expenditures were audited in the framework of audit project on a sample basis.

IV.4.4. Indication of whether any problems identified were considered to be systemic in nature, and the measures taken.

No problems have been considered to be systemic in nature.

IV.4.5. Conclusion whether the accounts give a true and fair view.

The audit carried out on the accounts allows to state that:



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- the accounts give a true and fair view and the related transactions are legal and regular according to Art. 68 of the Reg. (EU) 897/2014.

For the above mentioned reasons, an unqualified audit opinion is expressed on the Programme accounts with emphasis on matter paragraph.

V. COORDINATION BETWEEN AUDIT BODIES AND SUPERVISORY WORK OF THE AUDIT AUTHORITY

According to Article 28.2 of the Regulation (EU) No 897/2014, the Audit Authority 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 supporting the AA, especially in the update of the Audit Strategy, in the definition of the criteria for selecting external audit providers, in establishing directives and criteria for audits, in the discussion of main audit results and in drafting the annual reports.

All CV and declarations about independence, engagement incompatibility and lack of conflicts of interest have been acquired too, in order to give evidence of the experience and impartiality of the panel.

With reference to the tender for the organization of 3 GoA meetings, it has been finally launched in June and awarded at the end of July 2019.

As a consequence, the body has been officially established during its first meeting, occurred on 14 and 15 October 2019, and the related Rules of Procedures (RoP) have been approved by its members.

The 2nd GoA meeting was held through videoconference on 10.11.2020, as local authorities forbade working transfers to and from other countries due to the COVID-19.

VI. OTHER INFORMATION

Not relevant.

VII. OVERALL LEVEL OF ASSURANCE



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VII. 1. Indication of the overall level of assurance on the proper functioning of the management and control system, and explanation of how such level was obtained from the combination of the results of the system audits, audits of projects and audits on accounts. Where relevant, the audit authority shall take also account of the results of other national or EU audit work carried out in relation to the accounting year.

The level of reliability of the Management and Control System is determined on the basis of the Table included in the EGESIF 15-0002-04 “Guidance for member States on the Annual Control Report and Audit Opinion to be reported by audit authorities”. Particularly, the following elements are reported:

1. MA System audit: the Management and Control System is rated **Category 2 – it works but some improvements are needed**;

Audit of projects: From the audit activities carried out on projects expenditures (operations) for the accounting period 2019-2020 the AA can conclude that control system are effective and the related transactions are legal and regular.

A minor recommendation is issued:

“To overcome the lack of proper organisation for all MA documents: documents must be properly organised and stored in separate files and folders, so that they can be found and delivered upon request in a quick, efficient, and complete way (project files, checklists in use, audit trail, etc.) to facilitate control activities”.

Audit on accounts: An unqualified opinion is expressed.

VII.2. Assessment of any mitigating actions implemented, such as financial corrections and assess the need for any additional corrective measures necessary, both from a system and financial perspective.

Not relevant

Cagliari, 22th February 2021

The Audit Authority

Enrica Argiolas