Audit Authority ENI CBC MED Programme

Cross Border Cooperation within the European Neighbourhood Instrument

MEDITERRANEAN SEA BASIN PROGRAMME 2014-2020

Audit Manual

Version 2.2

Adopted by the Audit Authority with Decision No 1376 of 04th October 2023

List of versions

Version	Description of the changes made	Date of revision
Prima version		27/09/2018
Version 2.0	• Update resulting from: • fulfillment with the recommendations and observations expressed by the MEF-IGRUE in the follow-up of the AA designation procedure for the accounting period 2018-2019 (note of the 16.04.2020) • Audit Procedures Manual 2014-2020, version 6, adopted by the IGRUE on 12th July 2019 • TESIM updates of its audit guidances and tools • EGESIF 14-0011-02 (Guidance for Member • States on Audit Strategy) • EGESIF 14-0021-00 (Fraud Risk Assessment and Effective and Proportionate Anti-Fraud Measures) • EGESIF n. 16-0014-01 (Guidance on sampling methods for audit authorities Programming periods 2007-2013 and 2014-2020)	12/06/2020
Version 2.1	Update resulting from: • the movement of the AA from the “Direzione generale dei Servizi finanziari” to the “project unit” named “Ufficio dell’Autorità di Audit dei Programmi Operativi FESR e FSE” • need to update AA auditing tools; • updated version of the Description of the Management and Control System (DMCS), approved with decision n. 1138 of 13.05.2021	27/10/2021
Version 2.2	• General revision of the Manual • Revision of audit tools in accordance with the recommendations contained in the EC draft report - Audit N° DAC214TC1738 and with the results of the ECA’s audit CL-13569 • The new appointment of the ENI CBC MED Audit Authority to Dr. Vincenzo Pavone	04/10/2023

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Acronyms and abbreviations

AA	Audit Authority
AAR	Annual Audit Report
ANAC	Italian National Anti-Corruption Authority
AS	Audit Strategy
BO	Programme Branch Office
CBC	Cross-Border Cooperation
CCP	Control Contact Point(s)
CDR_480	Commission Delegated Regulation (EU) No 480/2014 of 03.03.2014 supplementing Regulation (EU) No 1303/2014 of the European Parliament and Council
COBIT	Control Objectives for Information and related Technology
COCOF	Coordination Committee of the Funds
CPR	Common Provisions Regulation (Reg. (EU) No 1303/2013 of the European Parliament and of the Council of 17.12.2013
CR	Control Risk
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	*Ispettorato Generale per i Rapporti con l'Unione Europea*, - Directorate-General within the MEF competent for checking AA
IIA	The Institute of Internal Auditors
INTOSAI	International Organization of Supreme Audit Institutions
IPPF	International Professional Practices Framework
IR	Implementing Regulation (EU) n. 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)
MED	Mediterranean Sea Basin
MEF	Italian Ministry of Economy and Finance
MPC	Mediterranean Partner Country or Countries
MSB	Mediterranean Sea Basin
MUS	Monetary Unit Sampling
NA	National Authority or Authorities
NCP	National Contact Point(s)
OP	Operational Program
PSC	Project Selection Committee
RAS	Regione Autonoma della Sardegna (Autonomous Region of Sardinia)
Reg.	Regulation
RTER	Residual Total Error Rate
RR	Residual Risk
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

Introduction

This Manual describes procedures of the Audit Authority for the Mediterranean Sea Basin (MSB) European Neighbourhood Instrument (ENI) Cross Border Cooperation (CBC) Joint Operational Programme (JOP) 2014-2020, adopted by the European Commission on 17 December 2015 with decision No. C(2015) 9133, in compliance with the EU Regulation No. 232/2014 of the European Parliament and the Council of 11 March 2014, establishing a European Neighbourhood Instrument, and the Commission Implementing Regulation (EU) No. 897/2014 of 18 August 2014 for the implementation of the CBC programmes.

According to the legal framework for the programming period 2014-2020, the Audit Authority shall:

- prepare a **report** and an **opinion** that assess the fulfilment by the **Managing Authority**, including the role of intermediate bodies therein, of the criteria relating to the internal control environment, risk management, management and control activities, information and communication and monitoring, set out in Annex I of Regulation 897/2014 in order to designate and monitor the designated bodies throughout the whole programming period;
- submit an **Audit Strategy** for the performance of audits to the Commission, to be updated annually until and including 2024;
- ensure that audits are carried out on the proper functioning of the Management and Control System (**System Audits**), on an appropriate sample of operations on the basis of the declared expenditure (**Audits of Operations**), taking account of internationally accepted audit standards;
- carry out the **audit of accounts** in respect of each accounting year for providing a reasonable assurance on the completeness, accuracy and veracity of the amounts declared in the accounts;
- draw up for each accounting year from 2016 until and including 2024 by 15 February of the following year: an **audit opinion on the annual accounts** for the preceding accounting year and an **annual audit report**.

This Audit Manual provides a description of the working procedures to be used by AA's staff and other auditors/ members of the GoA and includes audit tools such as check-lists and report templates.

The document will be known and accessible to all the AA and audit bodies staff and auditors The Manual will be reviewed in case of changes in the organizational contest, legal framework and on the basis of the results of the audit work.

1. Legal framework for the programming period 2014-2020

1.1. UE legal framework

The main EU regulations considered in the drawing up the present Audit Manual are listed in the tables below:

- Table 1 - EU Regulations and directives
- Table 2 - Guidelines drawn up by TESIM
- Table 3 - EC Indicative Guidelines on European Structural and Investment Funds
- Table 4 – Simplified Costs Options
- Table 5 – Public procurement

1.2. National and regional legal framework

The main national and regional legal framework considered in the drawing up the present Audit Manual are listed in the tables below:

- Table 6 – Italian National documents
- Table 7 – Acts of the Autonomous Region of Sardinia
- Table 8 – Programme documents

1.3. International standards for audit work

This Manual is also based on internationally recognized audit standards, the AA professional expertise as well as on the general experience gained during the previous programming period (Mediterranean Sea Basin (MSB) European Neighbourhood and Partnership Instrument (ENPI) Cross Border Cooperation (CBC) Programme 2007-2013.

The Audit Authority ensures that audit work takes into account the “internationally accepted audit standards”. More specifically, as far the professional ethics is concerned, the Audit Authority and the Group of Auditors – since they are public institutions (or proceed by public institutions law) – are bound by ISSAI (*International Standards of Supreme Audit Institutions*) 30 – Code of Ethics, issued by the International Organization of Supreme Audit Institutions and INTOSAI, as far as compatible with the characteristics of the AA functions according to the applicable legal framework. The *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants (IESBA) is also a source of inspiration.

The selected external providers are bound directly by the Code of Ethics for Professional Accountants.

Moreover, each auditor is bound by the code of ethics of his/her own institution, as far as it is stricter than other mentioned rules.

In carrying out the functions listed in the EU regulations, the AA, the GoA and the external providers also guarantee the respect of the principle of functions separation from the other programme authorities.

As far as the professional audit activity is concerned the Audit Authority and the Group of Auditors follow the ISSAI standards as applicable to the specific activities.

Beside Practice Notes to ISA are also kept into account, the most relevant are listed in **Table 9 – ISSAI standards**.

Should any national authority be involved in audit activity, it is to follow its own rules provided they comply with ISSAI.

External auditors supporting the AA in the implementation of the audits (i.e. system audit, accounts audit or project audit) are to respect ISA (International Standards on Auditing), issued by IFAC (International Federation of Accountants).

Main ISA regarding the audit work are listed in **Table 10 – ISA standards**.

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 audits is 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.

Table 11 provides the list of International Standards considered.

2. The governance structure of the Programme and the Audit Authority

2.1. The Programme and the Management and Control System (MCS)

The 2014-2020 ENI CBC "**Mediterranean Sea Basin Programme**" brings together the coastal territories of 14 countries in view of fostering fair, equitable and sustainable development on both sides of the EU's external border of the Mediterranean. Through calls for proposals, ENI CBC MED finances cooperation projects for a more competitive, innovative, inclusive and sustainable Mediterranean area. The general objective of the Programme is to foster fair, equitable and sustainable economic, social and territorial development, which may advance cross-border integration and valorise participating countries' territories and values. The strategy is based on the following two overall objectives:

- Promote economic and social development
- Address common challenges in the environment

The **Management and Control System** of the ENI CBC MED is constituted by the following authorities/governance bodies:

- **Joint Monitoring Committee (JMC)**

  The JMC is composed by the national and regional representatives of the 14 countries involved in the Programme and the European Commission (with observer status) and is the decision-making body of the Programme. It has the main responsibility to follow the overall implementation of the Programme and of its strategy

- **Managing Authority (MA)**

  The MA is the Autonomous Region of Sardinia (Italy), which has its operational base in Cagliari (Italy) within the Presidency of the Sardinia Region. The MA sets up a Joint Technical Secretariat (JTS), which assists the MA in the day-to-day management of the Programme. The MA is responsible for managing the Programme in accordance with the principle of sound financial management, and for ensuring that decisions of the Joint Monitoring Committee (JMC) comply with the law, regulations and provisions in force. The MA also includes the **Accounting and Payment Unit** in charge of keeping the accounts of the Programme and managing the payments.

- **Joint Technical Secretariat (JTS)**

  The JTS is established by the MA. Its staff performs its tasks in Cagliari (Italy) and in the Programme area according to the specifications of the profiles approved by the JMC. The JTS is composed by international staff recruited through an external company contracted through an open call for tender, ensuring a non-discrimination and guaranteeing, as far as possible, a balanced representation of the participating countries. It assists the Managing Authority in the day-to-day management of funded projects, supports beneficiaries and partners in the implementation phase and processes technical and financial reports submitted by projects.

- **Branch Offices (BO)**

In the framework of the Programme two Branch Offices support the Managing Authority in carrying out specific functions have been established. In continuity with the previous programming period, the Programme has one branch office in Aqaba (Jordan) for the Eastern Mediterranean and another one in Valencia (Spain) for the Western Mediterranean. The hosting institutions for the Branch Offices are:

- Eastern Mediterranean - Aqaba Special Economic Zone Authority (ASEZA),
- Western Mediterranean - Autonomous Region of Valencia (Generalitat Valenciana), Directorate General of Relations with the European Union.

Each BO contribute to the definition of an annual work programme, developed in coordination with the MA and the relevant National Authorities and National Contact Points.

The BO is responsible for the organisation of events to be held in its own geographical area concerning the Programme launch and implementation, the promotion of calls for proposals, the support to project development and implementation (i.e. training and workshops).

The BOs also support the MA and the JTS in the organization and participation in Programme-wide events, such as capitalisation events, in Programme annual conferences etc.

- **Project Selection Committee (PSC)**

The PSC is nominated by the Joint Monitoring Committee and established to assess the proposals submitted withing each call for proposals launched by the Programme.

- **Audit Authority (AA)**

The Joint Operative Programme (JOP) has established that the ENI CBC MED (AA) is the Presidency of the Autonomous Region of Sardinia, in the “project unit” named “Ufficio della Autorità di Audit”.

The AA is in charge of the definition of the Audit Strategy and consequently of ensuring that audits are carried out on:

- the proper functioning of the management and control system of the JOP
- appropriate sample of operations on the basis of the declared expenditure,
- the accounts in respect of each accounting year.

Based on the above, the AA prepares the audit opinion and the Annual Audit Report.

- **Group Of Auditors (GoA)**

The Audit Authority is assisted by a Group of Auditors comprising a representative of each participating country in the Programme. Its members meet the criteria of independence and lack of conflicts of interest set up by international audit standards. They are appointed by the national institutions competent in audit indicated in the version in force of the JOP, namely:

- Cyprus: Internal Audit Service of the Republic of Cyprus;
- Egypt: Ministry of Finance;
- Greece: Ministry of Finance, State General Accounting Office, Financial Audit Committee (EDEL);
- France: Région Provence Alpes Côte d’Azur – Inspection générale;

- Israel: Ministry of Finance, Land, Housing and Interior Affairs Bureau;
- Italy: not needed since the Audit Authority is Italian;
- Jordan: Audit Bureau;
- Lebanon: Council of Development and Reconstruction;
- Malta: Internal Audit and Investigations Department within the Office of the Prime Minister;
- Palestine: State Audit & Administrative Audit Control Bureau;
- Portugal: IGF – Inspeção-geral de Finanças (Inspectorate General of Finance);
- Spain: “Intervención General de la Administración del Estado (IGAE)”. Ministry of Finance and Public Administration;
- Tunisia: Ministère des Finances - Contrôle Général des Finances (Ministry of Finance – General Control of Finances).

- **National Authorities (NA)**

The National Authority is the national institutional counterpart of the MA in each participating country and it is responsible for the implementation of the programme in its own territory. For Mediterranean Partner Countries, the NA is the ultimate responsible body when it comes to implementing the provisions set out in the financing agreement signed with the European Commission.

The following institutions have been appointed as NA for each participating country:

- Cyprus: Directorate General for European Programmes Coordination and Development.
- Egypt: Ministry of International Cooperation.
- Greece: Ministry of Economy, Infrastructure, Shipping and Tourism (Managing Authority of European Territorial Cooperation Programmes).
- France: Région Provence Alpes Côte d’Azur (Pôle Europe et International), Mission des Projets et Partenariats Méditerranéens (MPPM).
- Israel: Ministry of Foreign Affairs, Europe Division, Department for Multilateral European Institutions.
- Italy: Agenzia per la coesione territoriale (ACT).
- Jordan: Ministry of Planning and International Cooperation. EU Partnership and Programmes Division. International Cooperation Department.
- Lebanon: Presidency of the Council of Ministers.
- Malta: Programmes and Projects Directorate within the Funds and Programmes Division (FPD), under the Ministry for European Affairs and Implementation of the Electoral Manifesto.
- Palestine: Prime Minister's Office
- Portugal: Agência para o Desenvolvimento e Coesão I.P. (Cohesion and Development Agency)
- Spain: Ministry of Foreign Affairs and Cooperation - Directorate General for EU General Affairs (Head of Delegation within the JMC) and Ministry of Finance and Public Administration - Directorate General for European Funds – Management unit of the Deputy Directorate General for European

Territorial Cooperation and Urban Development.

- Tunisia: Ministry of development, Investment and international cooperation.

Mainly each National Authority takes responsibility for the establishment and effective functioning of management and control systems at national level, ensures smooth communication and information, and the overall coordination of the institutions involved at the national level in the Programme implementation, including, inter alia, the institutions acting as control contact points and as member of the group of auditors. It ensures the representation of the country in the Joint Monitoring Committee, in accordance with the national procedures.

- **National Contact Points (NCP)**

One NCP for each participating country is appointed by the relevant NA and is functionally independent from the Control Contact Point and the member of the Group of Auditors. The National Contact Point is in charge to support the National Authority in the implementation of part of its functions.

- **Control Contact Points (CCP)**

Each participating country appoints one or more CCPs which supports the MA in the control tasks linked to project expenditure verification. CCPs are functionally independent from – and if possible, belong to a different institution than – other bodies participating in Programme management and control. The updated list of the CCP is available at the Programme website.

2.2. Tasks and role of the Audit Authority

According to the legal framework for programming period 2014-2020, the main tasks of the Audit Authority are as follows:

- **within two months of the formal decision** referred to the **selection of the Managing Authority**, prepare **a report and an opinion,** that assess the fulfilment by the **Managing Authority**, including the role of intermediate bodies therein, of the criteria relating to the internal control environment, risk management, management and control activities, information and communication and monitoring, set out in Annex I of Regulation 897/2014, concerning the designations and **monitors** the designated bodies throughout the whole programming period;
- **within nine months** of the signature of the **first financing agreement**, submits an **Audit Strategy** for performance of audits to the Commission, to be updated annually until and including 2024. The Audit Strategy sets out the audit methodology on the annual accounts and on projects, the sampling method for audits on projects and the planning of audits for the current accounting year and the two subsequent accounting years;
- ensure the **audits** on the proper functioning of the **Management and Control System** (**System Audits**);

- ensure that **audits on an appropriate sample of operations** (**Audits of Operations**), on the basis of the declared expenditures, is carried out. The declared expenditure is to be audited on a representative sample to be identified, mainly based on a statistical method. In duly justified cases and in any case where the number of operations for an accounting year is insufficient to allow the use of a statistical method, a non-statistical sampling method may be used provided that it covers at least 5% of operations for which expenditure has been declared and 10% of expenditure declared to the Commission during an accounting year. It is important to highlight that the AA, according to the Commissions indication, will apply a non - statistical sampling method only after excluding any possibility of obtaining a sufficient size of the population to allow the use of a statistical method. If a non - statistical sampling method is to be applied, the AA will keep into due consideration any and all indications provided by the Commission regarding the sample size and the consequent risks to be considered for the reliability of the audit conclusions drawn;
- carry out the **audit of accounts** in respect of each accounting year for providing a reasonable assurance on the completeness, accuracy and veracity of the amounts declared in the accounts;
- draw up the following documents for each accounting year from 2016 until and including 2024 by 15 February of the following year:
    - an **audit opinion** on the annual accounts for the preceding accounting year i) on the accounts on the expenditure incurred in the relevant reference period and submitted to the Commission for reimbursement, prepared by the Accounting and Payment Unit and confirmed by the MA ii) on the annual summary of the final audit reports and of controls carried out which includes an analysis of the nature and extent of errors and weaknesses identified in the systems as well as corrective action taken or planned. The audit opinion aims to establish whether the accounts give a true and fair view, whether expenditure for which reimbursement has been requested from the Commission is legal and regular, whether the control system put in place function properly as well as whether the audit work puts in doubt the assertions made in the management declaration drawn up by the MA. The deadline of 15 February may exceptionally be extended by the Commission to 1 March, upon communication.
    - an **annual audit report** setting out the main findings of the audits carried out, including findings concerning deficiencies found in the management and control systems, and the proposed and implemented corrective actions.

The AA ensures the **maintenance** check of the **MA designation requirements** for the purposes of art. 124 (5) CPR.

The AA also makes sure of international accepted audit standards to be taken into account on the audit work. 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).

2.3. Organisation of the Audit Authority

The ENI CBC MED Audit Authority has been identified within the Presidency of the Autonomous Region of Sardinia, in the “project unit” named “Ufficio della Autorità di Audit”.

The Audit Authority is independent, under both the hierarchical and functional profiles, from the ENI CBC MED Programme managing functions, which are entrusted to the Managing Authority office within the Presidency.

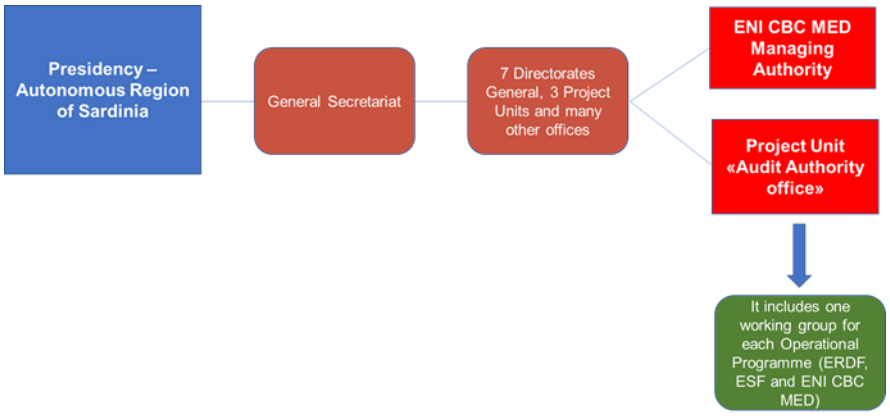


***Figure** 1 – AA functional structure and tasks*

Responsible structure	**Presidenza della Regione Autonoma della Sardegna – Unità di Progetto Autorità di Audit**
Responsible office	**Ufficio della Autorità di Audit**
Head of the AA	Vincenzo Pavone
Address	Via XXIX Novembre 1847, 23 – 09123 Cagliari (CA) - Italy
Telephone	(+39) 070 606 6442
Fax	(+39) 070 606 5979
E-mail	pres.ada@regione.sardegna.it - eni.audit@regione.sardegna.it – vpavone@regione.sardegna.it
Certified e-mail	audit@pec.regione.sardegna.it
Web-site	www.regione.sardegna.it

Figure 2 - Audit Authority contacts

Over time the AA has undergone several changes of position within the regional administration, as shown in **Table 12**.

At the same way different AA have followed one another over time, as shown in **Table 13** – AA appointment.

The AA functional chart approved with Decision n. 17 of 31.03.2023 is illustrated below:

ROLE	TASKS
Director	**As Audit Authority PO FESR, PO FSE and PO ENI CBC MED:** Coordinates audit activities and manages procedures pursuant to Reg. n.1303/2013, n. 480/2014 and no. 897/2014; Takes care of the obligations in compliance with art.124 of EU Reg 1303/2013 and formulates compliance opinions on the Managing Authority, Certifying Authority and on any Intermediate Bodies; Adopts and, if necessary, transmits to the European Commission the documents required by EU Reg. No. 1303/2013, EU Reg. No. 480/2014, EU Reg. 897/2014, Annex III to the Partnership Agreement and the IGRUE Manual (audit strategy, procedures manual and related checklists, audit opinion, annual audit report, system audit reports); Leads system audits on Programme actors, aimed at verifying the correct functioning of OP management and control systems; Coordinates the audit activities on the operations carried out by the dedicated working groups; Coordinates and supervises the activities carried out by external auditors; Coordinates the activities to be carried out for the annual audit on the accounts; Examines the audit reports of all the control activities performed (system, operations and audits on the accounts) before their transmission, ensuring proper communication of results; Convenes, coordinates and chairs the Group of Auditors (GOA), composed by delegates from each country participating in the Programme; Participates in coordination meetings and activities with the European Commission, with MEF-IGRUE and other Ministries dealing with the ESI funds, on issues concerning the structural funds, presenting own proposals on the matter; Defines the staff training plan; coordinates cross-cutting activities carried out by the Audit Authority administrative structure (such as personnel management, accounting, POC monitoring and reporting); Participate in meetings and activities related to the 2021/2027 Programming
Officer expert in statistics	Carries out all the activities necessary to define the level of reliability of the management and control systems; to draw the sampling report, to identify the population, to extract the sample of the operations to be audited for the ERDF, ESF and ENI CBC MED OPs. Carries out specific studies on EU legislation on sampling issues. Cooperates in the drafting and revision/update of the Audit Strategy and audit manual, with particular reference to sampling of operations issues. Cooperates in the audit of the operations and system audit activities, draws up the minutes/control reports, carries out the follow-up of the detected irregularities for the ESF and ERDF OPs. Cooperates in the fulfilment of the obligations connected to the drafting of the annual audit report. Partecipates in coordination meetings and activities with the European Commission, with MEF-IGRUE and other Ministries dealing with ESI funds. Participates in meetings and coordination activities with the European Commission, with the MEF-IGRUE and other Ministries leading the European Funds. Participates in the "sampling" working group within the Audit Authorities coordination activities.
Expert officer in administrative matters	Collaborates in performing the audit on project, audit on the accounts and system audits of the ENI CBC MED PO, draws up the minutes/control reports. Performs quality review on audit reports drawn up by external auditors of the ENI CBC MED PO. Supports the Audit Authority for the organization and management of the Group of Auditors (GOA). Collaborates in the preparation of the audit program and of the annual report for the ENI CBC MED OP 2014-2020 t and of the Audit Authority working tools (manuals, check lists). Responsible of the documentary archive of the Audit activities of the ENI CBC MED OP.
IT technical officer	Supports the Audit Authority in the analysis of ERDF, FSE and ENI CBC MED information systems, in issues related to data implementation and monitoring of information systems. Participates in system audits and in particular those of information systems. Carries out specialist technical in-depth sudies on data protection and IT security. Takes care of the formalities on the electronic market (MEPA) for the implementation of the interventions related to the Plan of activities related to the Complementary Operational Program financed by IGRUE. Contact person for privacy and anti-corruption matters. Supports the Audit Authority in the planning and implementation of organizational improvement activities and projects.
IT technical officer	Spports the Audit Authority in the analysis of ERDF, FSE and ENI CBC MED information systems, in issues related to data implementation and monitoring of information systems. It supports the Audit Authority in cross-cutting activities, in particular with the role of consignee of the Office.

ROLE	TASKS
Officer expert in European and international cooperation programs	Collaborates in performing the audits on project, audit on the accounts and system audits of the ENI CBC MED PO, draws up the minutes/control reports. Performs quality review on audit activities carried out from external auditors of the ENI CBC MED PO. Supports the Audit Authority for the organization and management of the Group of Auditors (GOA). Collaborates in the preparation of the audit program and the annual report for the ENI CBC MED OP 2014-2020 and in the development and implementation of the Audit Authority working tools (manuals, check lists, etc.). Supports the Audit Authority in the fulfillment relating to the launch of the Interreg next med Programme. Participates in the CTE Working Group in the context of the Audit Authorities national coordination activities.
Officer expert in international cooperation	Collaborates in performing the audits on project, audit on the accounts and system audits of the ENI CBC MED PO, draws up the minutes/control reports. Supports the Audit Authority in the MA designation of the PO ENI CBC MED 2014-2020 and related follow-up. Performs quality review on audit activities carried out from external auditors of the ENI CBC MED PO. Supports the Audit Authority for the organization and management of the Group of Auditors (GOA). Collaborates in the preparation of the audit program and the annual report for the ENI CBC MED OP 2014-2020 and in the development and implementation of the Audit Authority working tools (manuals, check lists, etc.). Carries out functions of verifying the regular execution for the TA contract of the ENI CBC MED Programme. Supports the Audit Authority in organizing GOA meetings. Supports the Audit Authority in the fulfillment relating to the launch of the Interreg next med Programme. Participates in the CTE Working Group in the context of the Audit Authorities national coordination activities.
ENI CBC MED working group coordinator	Performs referral functions. Supports the Audit Authority in the MA designation of the PO ENI CBC MED 2014-2020 and related follow-up. Collaborates in performing the audits on project, audit on the accounts and system audits of the ENI CBC MED PO, draws up the minutes/control reports. Performs quality review on audit activities carried out from external auditors of the ENI CBC MED PO. Supports the Audit Authority for the organization and management of the Group of Auditors (GOA) and for the activities related the updating the ENI CBC MED PO Strategy. Supports the Audit Authority in relations with the European Commission and with the National Authorities and other bodies of the participating countries. Collaborates in the preparation of the audit program and the annual report for the ENI CBC MED OP 2014-2020 and in the development and implementation of the Audit Authority working tools (manuals, check lists, etc.). Supports the Audit Authority in the fulfillment relating to the launch of the Interreg next med Programme. Participates in the CTE Working Group in the context of the Audit Authorities national coordination activities.
Officer expert in complex programs (FSC) and in international cooperation programs	Collaborates in performing the audits on project, audit on the accounts and system audits of the ENI CBC MED PO, draws up the minutes/control reports. Performs quality review on audit activities carried out from external auditors of the ENI CBC MED PO. Supports the Audit Authority for the organization and management of the Group of Auditors (GOA). Collaborates in the preparation of the audit program and the annual report for the ENI CBC MED OP 2014-2020 and in the development and implementation of the Audit Authority working tools (manuals, check lists, etc.). Supports the Audit Authority in the fulfillment relating to the launch of the Interreg next med Programme. Participates in the CTE Working Group in the context of the Audit Authorities national coordination activities.
Expert officer in legal/administrative matters	Supports the Audit Authority, in legal matters, tenders and contracts. Collaborates in carrying out the audits on the OP ERDF operations, draws up the minutes/control reports, monitors the follow-up of the irregularities. Support the Audit Authority for system audits on the OP bodies to verify the correct functioning of the management and control systems. Collaborates in carrying out the audits of the ERDF-ESF accounts. Supports the Audit Authority in the planning and implementation activities related to projects for organizational improvement. Performs function of director for the Contract execution (DEC) of the ENI CBC MED technical assistance tender. Participates in the CTE Working Group in the context of the Audit Authorities national coordination activities.

Figure 3 – AA functional chart

HUMAN RESOURCES	% DEDICATED TIME			
	FSE	FESR	ENI CBC MED	SUPPORT
Director	30	30	30	10
Category D Officer - Administrative/accountant expert	10	70	0	20
Category D Officer IT expert	25	25	20	30
Category D Officer Administrative/accountant expert	0	70	10	20
Category D Officer ESF working group coordinator	90	10	0	0
Category D Officer Administrative/accountant expert	20	80	0	0
Category D Officer Administrative Officer	90	10	0	0
Official - Category D ERDF working group coordinator	10	90	0	0
Category D Officer Administrative officer	0	0	100	0
Category D Officer Expert in international cooperation programs	0	0	100	0
Category D Officer IT expert	20	20	20	40
Category D Officer Legal/Administrative Expert	60	10	0	30
Category D Officer Contact Person for the ENI CBC MED Working Group – Interreg next med	0	0	100	0
Category D Officer Expert in international cooperation programs	0	0	80	20
Category D Officer Legal/Administrative Expert	90	10	0	0
Category D Officer Statistical expert	20	70	10	0
Category D Officer Expert in technical subjects	80	20	0	0
Category D Officer Expert in international cooperation programs	0	0	100	0
Category D Officer Administrative/accountant expert	80	20	0	0
Category D Officer Administrative expert	10	90	0	0
Administrative Instructor Category C	0	0	0	100
Administrative Instructor Category C	0	0	0	100
Operator - Category A	0	0	0	100

***Figure** 4 – AA Human resources and time devoted to audit per OP*

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 (see Annex 2.7 to this Manual).

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

Based on the communication received by the employee, if the Director considers however, that no situations of conflict of interest exist, a prompt official note listing the reasons that allow the employee to perform the assigned task is issued. The director informs of the above decision, documented in the note, the employee, the Office for disciplinary proceedings and the Director for the prevention of corruption.

The AA in carrying out its activities is supported by:

- Group of Auditors.

- External Auditors.

2.3.1. Group of Auditors (GoA)

According to ENI IR art.28.2, the Audit Authority (AA) is to be assisted by a Group of Auditors comprising a representative of each participating country in the Programme.

The Group ordinarily meets once a year 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 and its annual update for performance of Programme audits,
- establishment of any directives and criteria for audits,
- definition of criteria for the selection of external providers of audit services,
- discussion of any report issued by the audit providers and of conclusions of any audit,
- support to AA in the drafting of the Annual Audit Reports and Audit Opinion.

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 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 procedures set up in this Manual, respecting relevant legislation of each country and modalities agreed upon with them.

Therefore, when AA conducts on-the-spot visits for system audits, the assistance by the GoA is to always consist in the participation of the appointed GoA delegate for the country in which the audited subject is based, except when not allowed due to logistic reasons. Other GoA delegates could attend as well, according to the provisions of the present Manual, the Audit Strategy and the GoA Rules of Procedure.

The AA collects the opinions of the GoA delegates, as expressed, and employs them for its activity, as the case may be.

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

Accordingly, they are to 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 temporarily – the concerned GoA delegate informs the AA immediately, to allow for necessary countermeasures.

CV and declarations about independence, engagement incompatibility and lack of conflicts of interest have been acquired or updated during the 1st GoA meeting in Cagliari on October 14th and 15th, 2019, to give evidence of the experience and impartiality of the panel. An update of these documents is due whenever requested by the AA and at least once a year.

The GoA Rules of Procedure has been adopted on 24th October 2019 and regulates summons, development and follow-up of Group meetings in presence and by communication tools, decision making process 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.

2.3.2. External Auditors

The AA makes use of an external firm with advisory and technical assistance functions, contracted through a public procurement for technical assistance.

The company in charge of the technical assistance is BDO Italia S.p.A. and the contract has been signed on 03/05/2023.

The technical assistance will be entrusted with the execution of system audits, account audits and project audits, to assure equal treatment in all participating countries. Providers will also support the AA in the preparation of the draft annual and final audit reports, annual opinions, and closure declarations according to the models to be approved by the AA. Providers are to gather all audit evidence to support their findings and audit opinions and justify their conclusions.

The technical assistance carries out its tasks according to the procedures and tools of this Manual and to the internationally recognized standards.

A specific declaration of absence of conflict of interest is requested to any external auditors, before assigning the audit tasks.

The AA retains anyway full responsibility for the work of these external auditors and their independence, in accordance with the principles set out in Articles. 72 and 127 of the Regulation (EU) n. 1303/2013.

The AA ensures that the activities carried out by these auditors comply with internationally recognized standards, the Audit Strategy and the EU reference legislation, and that these activities can be useful and valid for the preparation of the Opinion and of the Annual Audit Report. Specific control procedures and check-lists for quality review are established for supervising external auditors work. The AA steers the work of the technical assistance (TA) and the GoA delegates may assist the AA in such activity.

GoA representatives are also entitled to observe the audit conducted by the TA in the relevant Partner State. The external auditors are in charge of preparing specific audit reports for system and operational checks. The above reports are to be submitted to the auditee, and to the GoA delegate (when deemed necessary by the AA) for feedback. In case that findings and contradictory issues cannot be solved, the report submitted to the AA for consultation may be discussed within the GoA.

In carrying out the audit work the AA shall acquire an independent opinion by an expert of ESI funds chosen among the regional officer in the event that a situation of conflict of interest emerges. If a compliance test or an audit of the project of the Technical Assistant Core involves expenditures incurred by the Audit Authority itself, the AA will ask for an opinion on compliance with EC and program rules to a functionally independent department officer. The independent opinion will be included in the Audit Authority's report.

2.3.3. Training

The AA staff can rely on a series of different training opportunities both at regional/national and transnational level.

The AA also promotes, when possible, specific internal training initiatives and encourages on the job training.

With regard to the specific internal training activities, the AA organizes and promotes:

- constant cooperation between all staff members and between the staff and the external TA to assure constant learning by doing and on the job training approach. Issues and challenges faced during the implementation of the audit functions, as well as observations formulated by external authorities (EC, ECA etc.) are discussed and addressed through formal and informal meetings and working groups.
- identification of a specific training plan based on the needs expressed by the staff and promoted with the support of the TA (when necessary)
- the organization of short internal training sessions/working groups/information exchange sessions that might also involve the GoA delegates to promote the dissemination of good practices and internal procedures.

Concerning the training opportunities at regional and nation level the AA staff participates at the general training and information sessions organized within the framework of the Administrative Development Plan (PRA) and within the supplementary Programme for the governance of the MCSs 2014-2020, approved with CIPE Act n. 114 of 23 December 2015 by IGRUE. The aim of the latter is to strengthen the governance skills and the technical capabilities of the administrations involved to improve the effectiveness and transparency of the MCSs of public investment. Among the funded actions, there are training and retraining of auditors based on the needs identified. The training includes both general activities concerning all AAs and specialized courses focused on specific AA. Thematic trainings, such as trainings on State Aid, Procurements, use of Arachne are also included. Among the available training activities at national and regional level the AA staff can also rely on the initiatives organized by the National School of Administration.

In the framework of the transnational training opportunities the AA staff follows the initiatives promoted by TESIM, INTERACT the EC.

2.4. Objectives, content, and timing of the audit

According to art. 32 of the IR (EU) n. 897/2014 of 18.08.2014, the AA 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.

The objectives and content of the audit activity can be graphically divided into four phases:

1. planning,
2. implementation,

3. annual closure,

4. program closure.

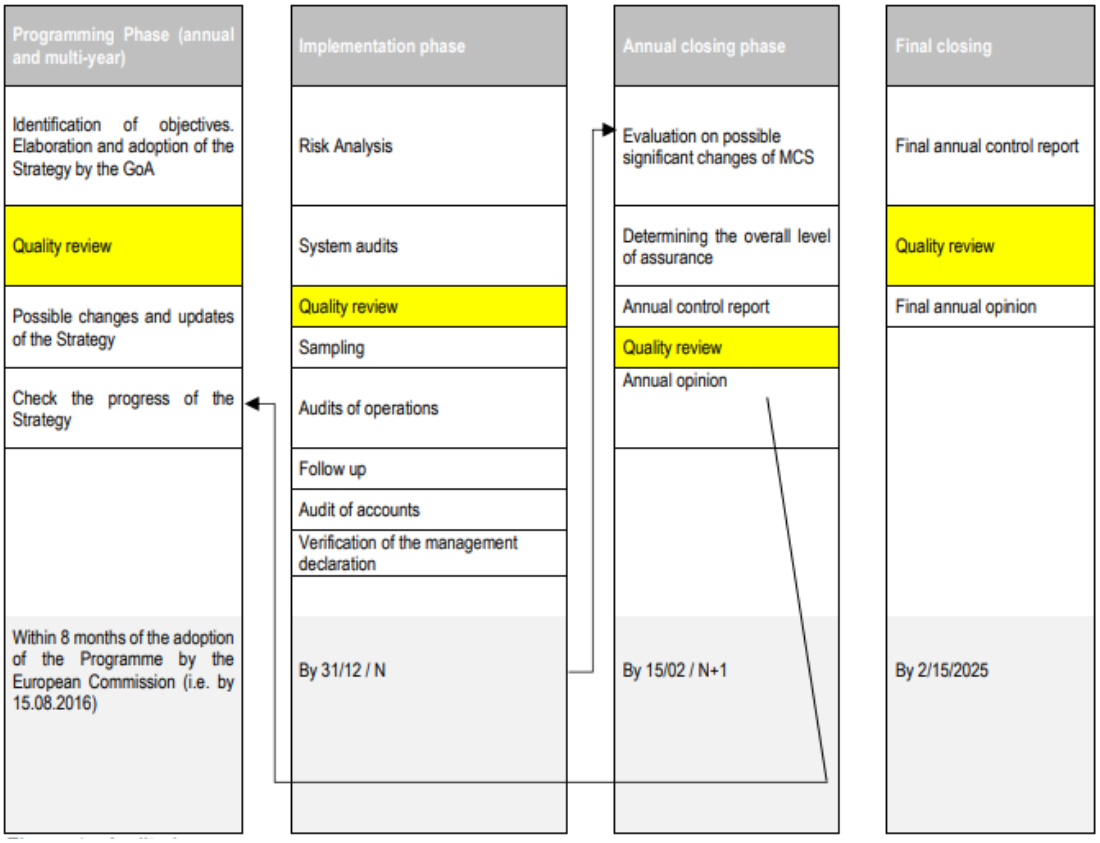


Figure 5 – Audit phases

The **first phase** of the audit began with the adoption of the Cooperation Programme by the European Commission. There are two main formal requirements of the regulations:

1) the establishment of the Group of Auditors within three months of the designation of the Managing Authority - DGR n. 53/1 del 29.10.2018 (art. 32.3 of the Reg. (EU) n. 897/2014);
2) approval of Audit Strategy within nine months of the signature of the first financial agreement (art. 28.5 of the Reg. (EU) n. 897/2014).

The GoA was set up on 14th and 15th October 2019 and the Audit Strategy was approved on 20th September 2017.

The Strategy defines the planning of the audit activities in relation to the current accounting period and the two following accounting periods. The Strategy is updated every year until 2024.

The **second phase** is the implementation phase, during which the control activities programmed according to the Strategy are carried out. It is cyclical, it lasts until 2024 and it covers the accounting period between 1

July and 30 June of the following year.

The objectives of this phase are:

- ensuring that audits are carried out to verify the effective functioning of the MCS of the operational Programme,
- ensuring that audits on operations are carried out on an adequate sample of transactions,
- ensuring that the accounts represent a true picture, that the expenses for which a request for reimbursement has been presented to the Commission are legal and regular and that the control systems are functioning properly.

The **third phase** must be closed by 15/02/n+1 (in exceptional and justified cases by 1 March), it regards closure of annual audit activities (accounting period 01/07/n-1 – 30/06/n) with the submission of the Annual Audit Report and Audit Opinion by the AA. Since the AA requires inputs from the MA, the compliance with this deadline depends on coordination with the MA. The coordination between the authorities is crucial. The IR (EU) n. 897/2014 only stipulates:

- art. 2(t): start and end of the accounting year (01/07/N-1 and 30/06/N);
- art. 68.2: deadline for submission by the AA of Audit Opinion and Annual Audit Report (15/02/N+1)

The latter is also a deadline for the MA, for the submission to the Commission of the Management Declaration, Annual Summary and accounts.

Additional guidelines for setting up the reliability package can be found in the EGESIF 14-0011-02 guidelines that set 31/12/N as deadline for the final version of the documents to be received from MA. The need to coordinate and liaise with another Audit body (GoA), means that AA has to share, inside the GoA, the Audit Opinion and the Audit Report, with the result that time needed to prepare these documents may be further shortened.

The AA therefore promotes meetings with the MA to coordinate relevant activities properly, including possibly early deadlines compared to proposals from EGESIF.

The **fourth phase** begins on July 1, 2023 (beginning of the last financial year according to the rule N+3) and ends February 15, 2025, the date of submission of the Final Annual Audit Report and the Final Annual Opinion. For the period 1 July 2023 – 30 June 2024 the AA is in charge of carrying out the planned audit activities (system audits, audits of operations, audit of annual accounts) for the preparation and submission to the Commission of the accounts referred to in point a) and b) of paragraph 5, art. 63 of the Financial Regulation and the audit opinion and annual control report in accordance with Annex VIII and IX of Reg. (EU) No. 207/2015 and the guidelines EGESIF 15-0002-04 final “Guidance for Member States on Annual Control Report and Audit Opinion”.

The AA pays particular attention to verifying whether there are aspects which, during the Programme implementation have not been the subject of in-depth audits, to cover these, regardless of the partial results

of risk evaluation. This is necessary to give the Commission as exhaustive a picture as possible on the functioning of MCS.

The charts below, taken from the guidelines EGESIF 14-0001-02 final “Guidance for Member States on Audit Strategy”, show the activity flows useful to plan properly the submission of the documents required under article 63 of the Financial Regulation. The dates suggested by the guidelines (chapter V) should be officially agreed among the Programme Authorities.

Figure 6 - Programme workflow timeline

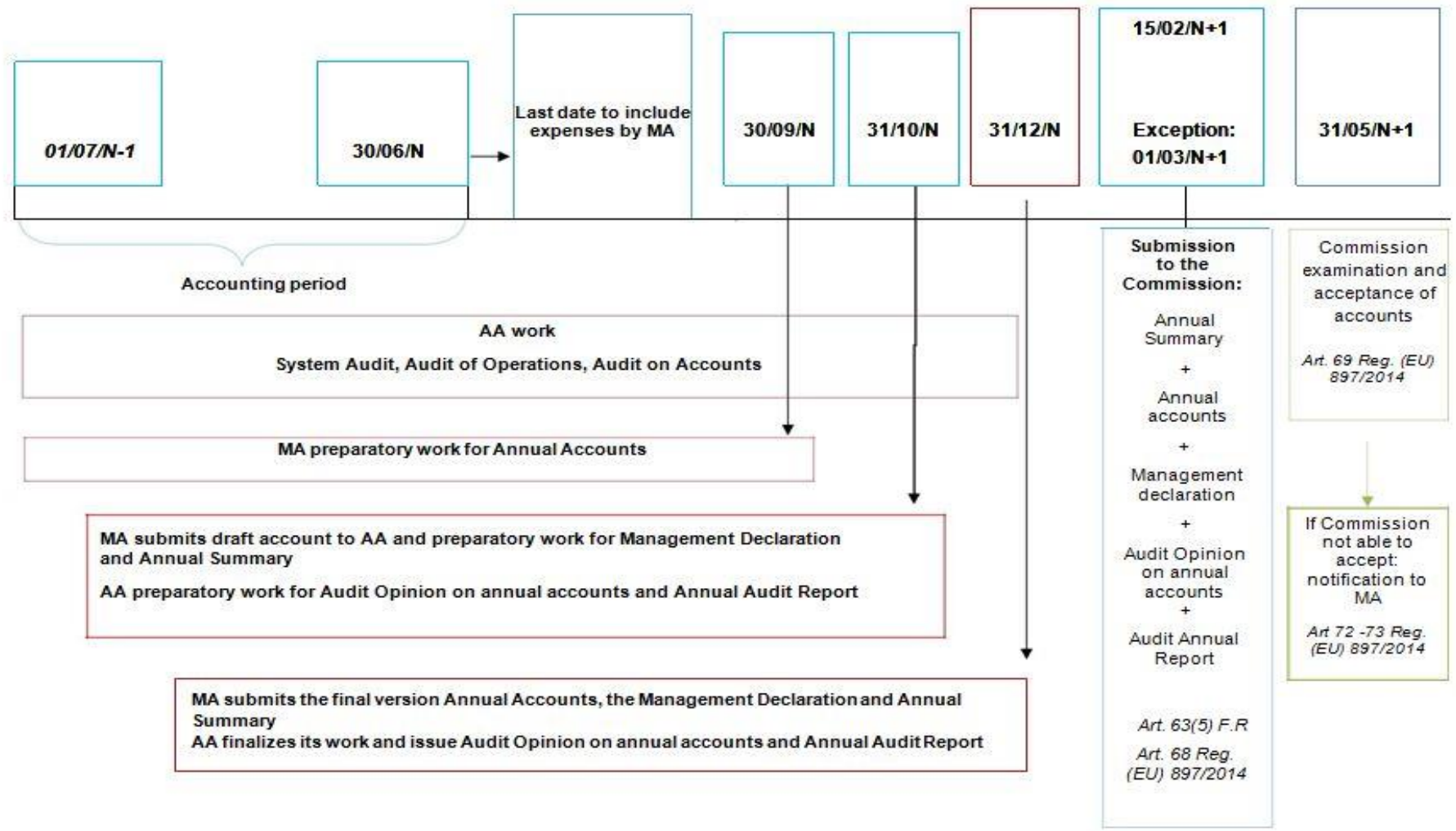
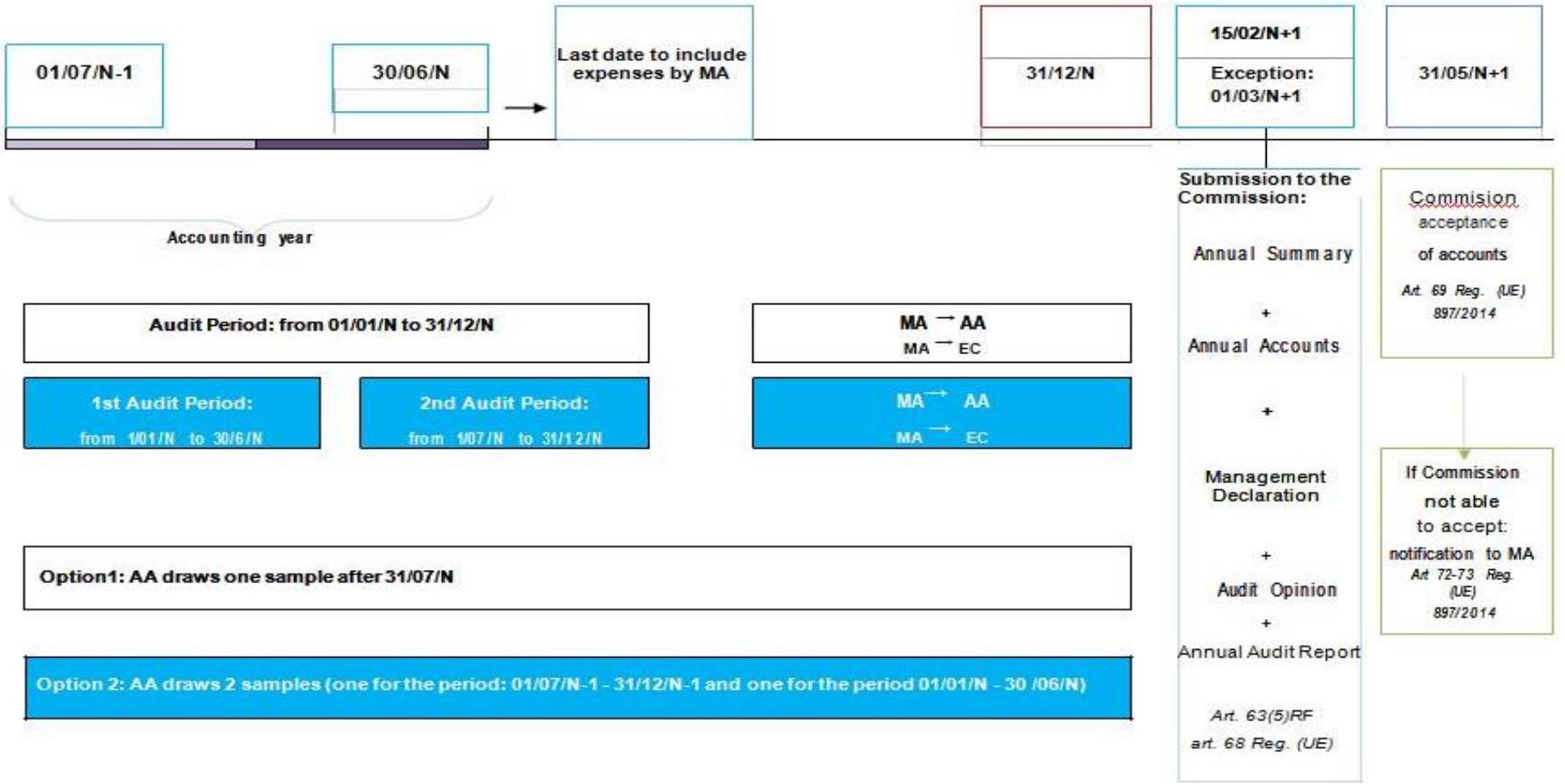


Figure 7 – AA standard workflow timelin



2.5. Quality review

2.5.1. Purpose and objectives

The Audit Authority can be thought as a specific internal auditor of an Administration holder of a EU co-funded Programme whose mission is to verify the correct functioning of the MCS of that Programme.

As such, the Audit Authority is subject to precise obligations in terms of optimising the quality of its activities according to recommendations of internationally accepted audit standards as listed in its the Audit Strategy.

Three different types of internationally accepted audit standards give useful information on the system designed to ensure the audit work quality:

1. International Standards for the Professional Practice of Internal Audit (IIA) drawn up by The Institute of Internal Auditors;
2. International Standards of Supreme Audit Institutions (ISSAI) drawn up by the International Organization of Supreme Audit Institutions (INTOSAI);
3. International Standards on Auditing (ISA) drawn up by the International Federation of Accountants (IFAC).

The IIA Standard 1300 provides that chief audit executive must develop and maintain a quality assurance and improvement program covering all aspects of the internal audit activity, which is to conform with the Definition of Internal Auditing and the Standards. The programme also assesses the efficiency and effectiveness of the audit activity and identify opportunities for improvement.

Elements of this Programme include processes for:

a. appropriate supervision of the work;
b. periodic internal verifications;
c. ongoing monitoring of quality control;
d. periodic external assessments.

The three different types of internationally accepted audit standards depict a quality control system based on the elements referred to Figure 8 below:

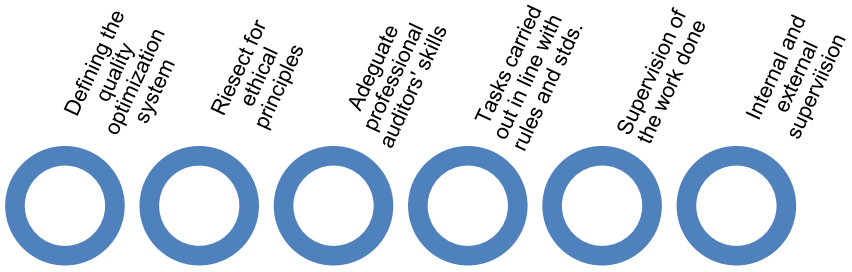


Figure 8 – Quality control system

Based on the provisions of the ISSAI 40 Standard (Quality Control for Supreme Audit Institutions) the AA quality control system is based on the following six points.

1. Attribution of the responsibility of the quality to the head of the AA.

   The Head of the AA has the task of establishing procedures aimed at promoting an internal culture that recognizes that quality is essential for the performance of the tasks. These procedures are established by the Head of the AA that has overall responsibility for the quality control system.

2. Relevant ethical requirements.

   The AA establishes procedures designed to reasonably ensure that the AA, including all personnel, members of the GoA as well as the external firm appointed to perform the task, complies with the relevant ethical requirements.

3. Acceptance and continuation of audit tasks.

   The AA establishes procedures designed to reasonably ensure that audits and other tasks are carried out, exclusively when the personnel/GoA delegate/external firm expert assigned to said task:

   - is competent for the execution of the work and own the skills[i], including time and resources, to complete it;
   - can comply with the relevant ethical requirements;
   - has considered the integrity of the audited entity and assessed how to deal with quality risks.

   The procedures reflect the scope of the work performed by the AA. The auditors shall have little discretion regarding the work they do. The AA performs tasks that fall into three broad categories:

   1. duties required by means of a specific mandate, for which they have no choice regarding their execution;
   2. tasks required by means of a specific mandate, for which they have discretionary margins with reference to the time frame of execution, scope or nature of the assignment;
   3. tasks for which they can decide on their execution.

4. Human resources.

   The AA establishes procedures aimed at ensuring reasonably that it has enough resources (personnel and, where relevant, other resources specifically contracted to perform the task) with the competence, skills and

commitment to respect for ethical principles for:

- carry out the task in compliance with the applicable reference standards and regulatory requirements;
- allow the AA to produce reports appropriate to the circumstances.

5. Performing audits and other obligations.

   The AA establishes procedures designed to reasonably ensure that its audits and other formalities are carried out in compliance with applicable standards and regulatory requirements and that it produces appropriate reports to the circumstances. These procedures include:

   - aspects of promoting consistency in ensuring the quality of the work carried out;
   - responsibilities related to job supervision;
   - responsibilities related to the verification of work.

6. Monitoring

   The procedures designed by the AA reasonably ensures that the quality assurance system is relevant and appropriate and operates effectively. The monitoring process:

   - include a continuous consideration and assessment of the quality control system of the AA, including the verification of a sample of tasks completed within the range of tasks performed by the AA itself;
   - provide that the responsibility for the monitoring process is assigned to an individual or individuals with sufficient and adequate experience and authority within the AA, such as to be able to assume such responsibility;
   - to provide that those who carry out the verification activities are independent (i.e., have not taken part in the work or other forms of quality control of the work).

The quality assurance system is to consider the characteristics of the specific Audit Authority, with reference to:

- the organization of the Audit Authority, including relations with the external firm and with the GoA;
- the objectives and types of audits and related implementation processes;
- the types and methods of production of the outputs of the audit activities;
- the tools and support systems adopted.

Quality assurance is then ensured by the AA through an internal supervision on the works carried out, as the case may be, by the external firm in accordance with the Audit Strategy set in place by the AA and GoA and under their supervision. Activities carried out by the external firm, are checked by the AA trough a specifically designed checklist.

As far as quality controls, the IIA 1311-1 (Internal Evaluations Assessment), explicitly proposes the use of appropriate checklists aimed at internally evaluating the quality of the audit work carried out.

In this regard, checklists for quality control of audit work are available in Annex 5.2 to this Manual. It is divided into sections relating to the different quality control activities corresponding to the various phases of the work typically

carried out by the Audit Authority.

3. Designation of the Managing Authority

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.

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";
- Annex IV to CDR_480;

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.

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.

3.1. Designation procedure of the Managing Authority

3.1.1. General process

The designation procedure, based upon TESIM *Guidance on methodology, designation criteria and audit opinion*, complies with Article 36 of the Financial Regulation (Regulation 1046/2018) and ENI CBC Implementing Rules, including the Annex with the designation criteria (Regulation 897/2014) and takes into consideration the dispositions of:

a) Annex XIII – designation criteria – of Commission Regulation 1303/2013 (Common Provisions of Structural Funds);
b) 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;
c) 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;
d) EGESIF_14-0010 Guidance on a common methodology for the assessment of management and control systems in the Member States.

The fundamental **legal base for the designation** is the ENI CBC IR Article 25: c. 1-4.

The Joint Operational Programme describes the designation procedure. The independent audit body responsible

for issuing the report is the Audit Authority and the national institution designating the MA is the President of the Autonomous Region of Sardinia.

In accordance with the above-mentioned article 25 of the ENI CBC Implementing Regulation, to obtain the designation of the Managing Authority, once the Programme is adopted, the following steps take place, taking into account that the observations by EC are optional:

- Managing Authority: development of the Description of the Management and Control System (DMCS);
- Audit Authority: assessment of the compliance and issue of report and Opinion;
- Member State: formal decision;
- European Commission: observations (optional);
- Managing Authority or Audit Authority: revision of DMCS (if requested); revision of Report and/or Opinion (if requested);
- European Commission: notification of no further observations.

Criteria for the assessment of the functioning of the MCS refer to TESIM Guidance. The non-compliance with these criteria implies system deficiencies and thus a risk of irregular expenditure being certified to the European Commission and of over-financing made to the participating countries.

The AA should have adequate time to complete the entire process of assessing compliance with the designation criteria, which includes the following phases:

- Receipt of the description of the functions and procedures in place for the MA and gathering other relevant documents;
- Analysis of data gathered, examination of the documents and performance of the audit work required, including where considered appropriate interviews with staff;
- Preparation of the report and opinion and contradictory procedure, including validation of the findings and conclusions.

The AA plans and organises the work to be performed, taking into account the existence of common systems for different programmes, the time and resources available for carrying out the assessment and any risks identified for particular programmes, authorities or other bodies, which should include the following elements:

- an **examination of the systems description** which should be in final form when the designation-related audit work starts. As setting up the systems and preparing the system description can sometimes be complex and lengthy, the AA may decide to start its work on available parts of the description before finalization of the entire document;

- the **examination of relevant documents** concerning the systems, such as code of ethics, job descriptions or manuals of procedure, including when relevant those of the institutions hosting the programme bodies;
- **verification of the consistency** between the systems description and the explanations obtained in the course of the work carried out.

The AA describes in the report the extent and scope of the work performed and the methodology applied to reach its conclusions as a whole, including any interviews with the staff in the main bodies. The AA will indicate in the report the extent to which they performed interviews and specify the criteria for the selection of the interviewees.

The assessment foresees the following steps:

1. Evaluation of the designation criteria;
2. Conclusion by designation criterion;
3. Overall conclusions;
4. Issue of draft report and opinion;
5. Contradictory procedure including revision of DMCS, if needed;
6. Issue of final report and Opinion.

3.2. Designation criteria

The designation criteria are stipulated in the annex of the ENI CBC Implementing Rules, divided in the five components of internal control:

A) Internal control environment:

(i) An organisational structure covering the functions of managing authority and the allocation of functions between and within each body as described in Chapter 2 of Title IV of Part Two, ensuring that the principle of segregation of functions, where appropriate, is respected.

(ii) If delegation of tasks to intermediate bodies, a framework for ensuring the definition of their respective responsibilities and obligations, verification of their capacities to carry out delegated tasks and the existence of reporting procedures.

(iii) Reporting and monitoring procedures for preventing, detecting and correcting irregularities and for recovering amounts unduly paid.

(iv) Plan for allocation of appropriate human resources with necessary skills, at different levels and for different functions in the organisation.

B) Risk management

Taking into account the principle of proportionality, a system for ensuring that an appropriate risk management

exercise is conducted at least once per year, and in particular, in the event of major modifications of the activities.

C) Management and control activities

Project selection procedures, ensuring the principles of transparency, equal treatment, non-discrimination, objectivity and fair competition. With a view to respect these principles:

- the projects shall be selected and awarded on the basis of pre-announced selection and award criteria which are defined in the evaluation grid. The selection criteria serve to assess the applicant's ability to complete the proposed action or work Programme. The award criteria are used to assess the quality of the project's proposal against the set objectives and priorities;
- the grants shall be subject to ex ante and ex post publicity rules;
- the applicants shall be informed in writing about the evaluation results. If the grant requested is not awarded, the Managing Authority shall provide the reasons for the rejection of the application with reference to the selection and award criteria that are not met by the application; any conflict of interest shall be avoided;
- the same rules and conditions shall be applied to all applicants.

D) Information and communication

(i) The Managing Authority obtains or generates and uses relevant information to support the functioning of other components of the internal control;

(ii) The Managing Authority internally disseminates information, including objectives and responsibilities for internal control, necessary to support the functioning of other components of the internal control;

(iii) The Managing Authority communicates with external parties regarding matters affecting the functioning of other components of internal control.

E) Monitoring

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

The evaluation of the designation criteria is the base for the report and opinion by the AA. Based on the international standards previously mentioned, the assessment responds to the following key questions for each component of the internal control:

1. Verification of the completeness of the documents submitted to the AA

Key questions A & B

A (EGESIF_14-0013) Has the Member State hosting the MA submitted to the AA the Description of the Management and Control Systems (DMCS)?

B (TESIM) Is the DMCS complemented with other documents, such as manuals of procedure, job descriptions, code of ethics, etc., which are referenced throughout the document?

2. Internal control environment

Key question

Does the control environment of the Managing Authority provide an adequate basis for carrying out internal control across the organisation?

3. Risk Management

Key question

Does the MA identify risks to the achievement of its objectives across the organisation? Are risks analysed as a basis for determining how they should be managed?

4. Management and control

Key question

Does the MA deploy effective and efficient management and control activities?

5. Information and communication

Key question

Does the MA have controls and procedures in place which ensure reliable information – both internal and external (inbound and outbound) – in line with the applicable requirements and standards?

The final result of the audit work should lead to the answer to the following global key question:

Has the Managing Authority set up of an effective and efficient internal control system, in accordance with the criteria set by the European Commission in the Financial Regulation and the Implementing Rules and ensured its functioning in all material respects?

Moreover, the compliance with the criteria for each component on MCS is assessed through the all checks listed in the check-list attached (annex I), which can be integrated according to actual assessment need, included any recommendations deriving from the previous programming period.

3.3. Report and Opinion on the designation and designation ending

Under Article 124(2) CPR, the AA draws up the report and opinion on the compliance of the designated authorities with the designation criteria. Models for the AA's report and audit opinion are set out in Annexes IV and V of CIR (EU) No 1011/2014. The model report has three sections namely (i) an introduction, (ii) a section describing the methodology and scope of the work performed and (iii) the results of assessment for each authority/body/system.

The AA bases the report on the relevant conclusions of each part of the designation assessment checklist and the overall conclusion serves as the basis for the opinion.

Adequate time is allocated to this stage to allow the authorities assessed to respond to any observations and to enable the AA to provide an unqualified opinion.

The AA exercises professional judgement to assess the results and the seriousness of any shortcomings identified in order to provide an appropriate audit opinion, taking into account the following guidance:

- non-compliance with one or more designation criteria relating to key requirements of the system shall lead to either a qualified or an adverse opinion;
- in case of partial compliance with one or more designation criteria relating to key requirements of the system, the seriousness and extent of these shortcomings is assessed by the AA, which decides whether a qualified opinion or an adverse opinion has to be formulated.

An adverse opinion is issued where the AA considers that the number and seriousness of shortcomings with regard to the key requirements of the MCS result in wide-ranging non-compliance with the requirements CPR and in particular Articles 72, 125 and 126.

In accordance with internationally accepted auditing standards, the AA may include an emphasis of matter paragraph in its audit opinion, without qualifying its opinion in respect of this matter.

↗ **Adverse or qualified** →The Member State should not designate that body

Where the AA's opinion on the MA and/or CA is

↘ **Unqualified** → The Member State should designate the body/ies

3.4. Ongoing monitoring of maintenance criteria for designation

The AA monitors throughout the Programme duration the MA's continuous compliance with the designation criteria laid down in the Annex of the Reg. (EU) 897/2014. This monitoring is carried out during the system audits, taking into account the correlation between the key criteria for system audits and the designation criteria as specified in Annex IV of EGESIF 14-0010 final.

In case on non-compliance with the designation criteria, the AA defines the necessary corrective actions, communicating the circumstance to the Presidency of the Autonomous Region of Sardinia (RAS) and to IGRUE. According to the third paragraph of Article 125 (5), the Commission must be informed - through IGRUE - that an authority is subject to trial period and, at the end of it, on the outcome.

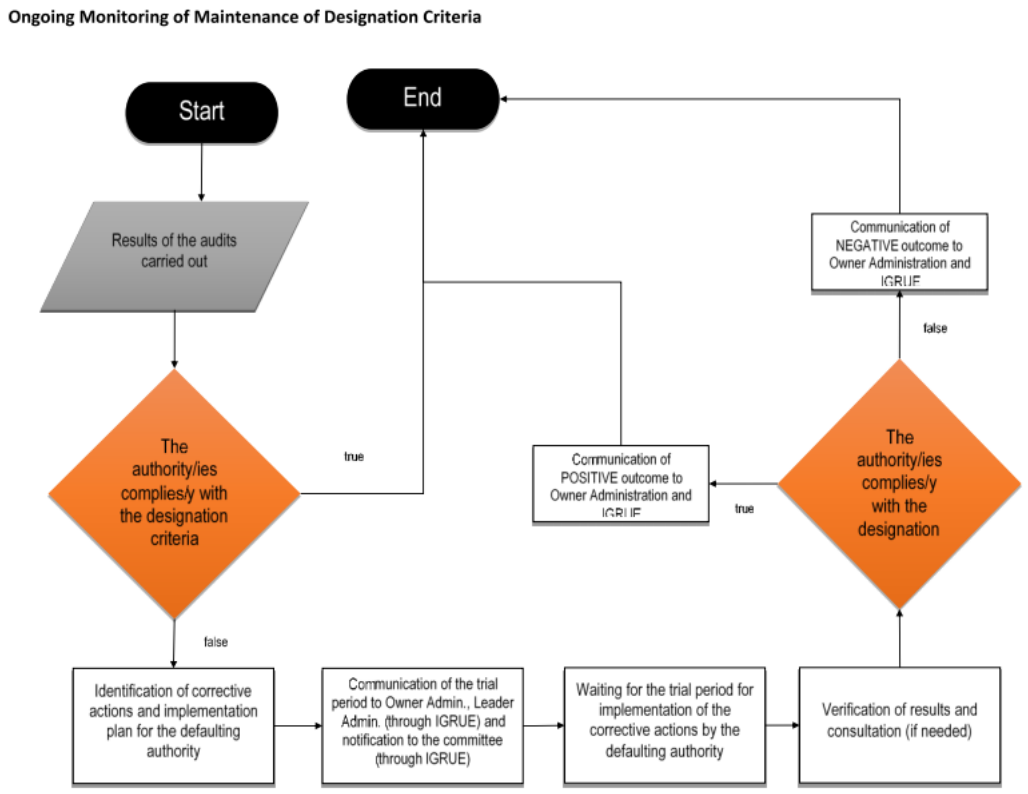


Figure 9 – Flow chart of the continuing monitoring process for designation criteria

4. Methodological approach

The audit methodology adopted by the AA respects international standards, ensures that the main bodies involved in the Programme implementation and control are subject to audit and, as far as possible, foresees a continuous audit work throughout the whole programming period.

Furthermore, since the audit methodology is to stimulate continuous improvement as concerns both the adequacy of the 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).

The methodological approach includes the following actions:

1. Risk assessment (see chapter 5).

Main steps are:

- assess the context,
- identify procedures and actors involved,
- identify inherent and control risk factors;
- Perform risk analysis and assessment.

2. Audit activity planning (see chapter 6). In this phase the AA:

- identifies audit priorities with respect to the assessed risks,
- defines the audit scope and methodology,
- gathers information about the functioning of the MCS,
- identifies necessary resources (auditors, technicians and specialists, travels, timing, costs);
- approves the audit activities plan (procedures, timing, purpose).

The phase includes:

2.1 – Audit Strategy

2.2 - Annual Planning Memorandum (APM)

3. System audit (see chapter 7):

- verification of the organisational structure and procedures set up by the Programme authorities, including project selection, monitoring of projects, accounting and information systems. Special attention is to be given to the MA monitoring internal control and risk management procedures, since they concern newly assigned 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 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 definition of the size and representativeness of the project sample for audit of operations.

4. Sample and audit on projects (see chapters 8 and 9):

- sampling: sample size and definition depends on the confidence level, fixed according to the assessment of Management and Control System reliability;
- APM concerning the detailed planning of the audit of operations mission for the accounting period;

- 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. 897/2014 (see chapter 10):

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 the accounts. For the purposes of the audit of accounts, the Audit Authority considers the outcomes of the system audits and the audits on projects.

6. Monitoring: follow-up and corrective measures (see chapter 13):

- 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 acceptation of risk by the Managing Authority).

When implementing the functions listed above 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.

The AA tools are included in this Manual of procedures and consist in check-lists, reports and tables of critical issues and irregularities differentiated for system audit and project audit.

The audit tools can be modified and adapted during the Programme implementation based on the specific needs emerging from the audit activities to be implemented and any external inputs such as changes in the legal framework, audits by the ECA, EC, IGRUE and so on.

The topics exposed are treated in detail in the following chapters from the fifth to the thirteenth.

5. Risk assesment

The Regulation No. 897/2014 lays emphasis on the central role of the assessment of the reliability of the management and control system of the ENI CBC MED Programme.

The AA of the ENI CBC MED Programme, through its Annual Audit Report and the Audit Opinion, provides guarantee about the correct functioning and reliability of the Management and control system.

The Audit Authority, as indicated by art. 28 of Reg. (EU) no. 897/2014, has the objective of ascertaining the effective functioning of the Programme management and control system also by carrying out activities on an appropriate sample of operations, selected based on the expenses declared to the Commission, and on the annual accounts of the Programme, within the internationally recognised standards in this area.

In this context, the Audit Authority operates in accordance with the Note EGESIF_14_0011_02 final of 27/08/2015[1], to ensure the correct performance of the assigned functions.

A fundamental tool to achieve this objective is the "Risk assessment", which allows the planning of the audit activities: the latter shall necessarily take place based on the main risks detected during the assessment, also for the purpose of mitigate them.

The **Appendix 1** provides the methodology used by the AA to perform the risk assessment.

6. Audit planning

6.1. Audit Strategy

The Audit Authority, pursuant to art. 28 (5) of the EN IR, prepares, within 9 months of the signature of the first financing agreement in accordance with Article 8 (2) of the Regulation (EU) No 897/2014, the Audit Strategy for the performance of the audit activities.

The Audit Strategy identifies the bodies responsible for the system audits, audit of operations and audit of accounts, the audit methodology used in such activities, the sampling method for audit of operations and the planning of the activities of control over the current accounting period and the two subsequent ones, in order to ensure that all audit bodies are duly involved and that controls are carried out uniformly throughout the entire programme area and during the entire programming period. 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.

The purpose of the Audit Strategy is therefore to plan all the control activities which must be performed by the Audit Authority to guarantee, by February 15th of the year N+1, the presentation both, of the Audit Opinion and the Annual Audit Report, with reference to the accounting period 1/07/N-1 - 30/06/N.

The first official version of the AS has been approved on 20.09.2017, within 9 months of the signature of the first financing agreement. According to Article 28 (5) of the Regulation (EU) No 897/2014, the Audit Strategy is transmitted to the Commission and must be updated and reviewed annually starting from 2017 until end 2024, in order to take into account the changes related to the bodies in charge of the system audit activities, audit on operations and audit on accounts, audit methodology and sampling methods.

The AA shares the Audit Strategy with the GoA, and updates it annually, and/or during the implementation of the audit activities, to take into account changes and developments relating to the bodies in charge of system audit activities, audits on operations and audits of accounts, the audit methodology, the sampling method and the planning of the various control activities in relation to the current accounting period and the following two.

[1] EGESIF_14_0011_02 final of the 27/08/2015 Guidance for Member States on Audit Strategy (Programming period 2014-2020)

Changes that may require the update of the Audit Strategy could be illustrated as follows:

- *Changes in the Management and Control System, which may affect:*
  - the organization of the Audit Authority and the audit bodies;
  - functions and responsibilities of the Audit Authority and/or other audit bodies;
  - degree of independence of the Audit Authority from the Managing Authority;
  - modification of the Managing Authority;
  - audit methodology with particular regard to risk assessment;
  - audit priorities and objectives as a result of a change in the methodology and the results of the risk assessment (this element could also involve a change in the scheduling of audits);
  - results of the system audit and reliability assessment of the Management and Control System;
  - sampling parameters and execution of audits on operations;
  - corrective actions pursuant to art. 25.5 of the ENI IR relating to the designation procedure, in compliance with the Note EGESIF 14-0011-02 final of 27.08.2015.
- *Results of the audit activities conducted, which may have effects on:*
  - audit methodology with particular regard to risk assessment;
  - audit priorities and objectives as a result of a change in the methodology and the results of the risk assessment (this element could also involve a change in the scheduling of audits);
  - results of the system audit and reliability assessment of the Management and Control System;
  - sampling parameters and execution of audits on operations.
- *Results of the checks carried out by the Managing Authority that can highlight critical issues with effects on:*
  - sampling methodology with regard to the choice of the sampling method based on expected error rates compared to those envisaged when the Strategy was firstly drawn up;
  - execution of the audit on operations.
- *Results of checks carried out by other control bodies, including the European Commission or the European Court of Auditors, which can highlight critical issues relating to the Management and Control System or to operations with effects on:*
  - audit methodology with particular regard to risk assessment;
  - audit priorities and objectives as a result of a change in the methodology and the results of the risk assessment (this element could also involve a change in the scheduling of audits);

- results of the system audit and reliability assessment of the Management and Control System;
- sampling parameters and execution of audits on operations.

- *Any other ordinary or extraordinary event that may in any way affect one or more elements of the Audit Strategy:*
  - modification of the national regulatory framework;
  - modification of the human resources used in the audit activity in terms of auditors/days or professional profiles.

Any update of the Audit Strategy must be included in the Annual Audit Report, as specified in art. 77 (4) of the Reg. (EU) n. 897/2014 and required by the "Guidance for Member States on Annual Control Report and Audit Opinion"[2], reporting any changes made to the Audit Strategy and the related reasons.

The structure and contents of the Audit Strategy, as outlined in Annex VII of Reg. No. 207/2015 and the "Guidance on Audit Strategy for Member State - Programming period 2014-2020"[3], highlight a close interdependence and a strong conditioning with the activities implemented by the AA. The Audit Strategy is in fact a dynamic document that must necessarily be updated on the occasion of the final results of the audit activity, or in the presence of extraordinary events, as listed above. Among the fundamental aspects included in the Audit Strategy the activities planning consists in:

- list of activities to be carried out throughout the programming period;
- medium-term multi-year plan;
- annual program that establishes the specific tasks to be performed during the first year of implementation of the Strategy with respect to the update date.

From the above, it emerges that within the Audit Strategy, the Audit Authority must indicate the audit priorities and the specific objectives in relation to the current accounting year and the two following ones, highlighting the links with the risk assessment activity.

6.2. Annual planning of the audit activity

The purpose of this section is to illustrate the principles which should inspire the audit planning and the related operational tools.

Based on the results obtained through the assessment of the risk associated with each subject / object of audit,

[2] Cfr. EGESIF 15-0002-02 final of 09.10.2015.

[3] Cfr. EGESIF 14-0011-02 final of 27.08.2015.

the AA proceeds with the planning of the system audit activities.

The main tool used by the AA is the Audit Strategy, which defines the audit methodology, the sampling method for audits on operations and, of course, the planning of audits in relation to the current accounting period and the two following ones. Sections 3 and 4 of the Strategy are particularly relevant in this context, as they relate to the risk assessment and the audit work schedule respectively.

Figure 10 schematically illustrates the development of the annual planning process of audit engagements.

While the first two elements of Figure 10 are part of the Audit Strategy, the third element - the audit planning memorandum – illustrates the activities for the current accounting year with a greater level of detail.

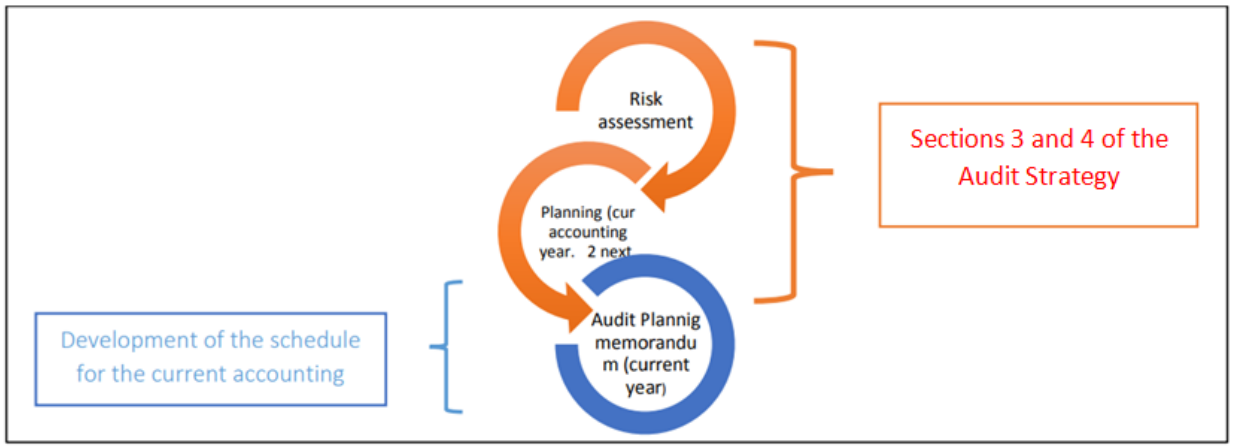


Figure 10 - Elements of planning

To carry out its tasks effectively and efficiently and to achieve the audit objectives, the AA is to timely and appropriately plan the audit activities, assuring that the Audit Opinion and the AAR are issued by 15 February of the following year.

For the annual planning, in which the multi-year planning included in the Audit Strategy is expressed, the AA must have an adequate planning tool and monitor the achievement of the objectives set within the established timescales. Specifically, the Audit Authority draws up its Audit Planning Memorandum (APM).

The objective of the Memorandum for System Audit is to describe the detail planning of the audit mission in the framework of the System Audit to be performed in a specific accounting year. It aims to ensure the efficiency and the effectiveness of the audit activities carried out, to prevent, identify and correct deficiencies, anomalies and irregularities of the Management and Control System and ensure the sound financial management of the Programme.

The objective of the Memorandum for Audit of Operations is to describe the detailed planning of the audit mission in the framework of the audit of operations. It aims to ensure the efficiency and the effectiveness of the audit

activities carried out, to prevent, identify and correct deficiencies, anomalies and irregularities of the Management and Control System, ensure the sound financial management of the Programme and confirm the regularity of the expenditures declared to the Commission.

In detail, the Audit Planning Memorandum provides:

- description of the methodologies/procedures used for the implementation of the audit activities and objectives,
- definition of the scope and the objectives of the audit work to be carried out and the foreseen output/s,
- specifies the means used to obtain and analyze evidence/documentation necessary for the achievement of the audit objectives,
- identify the resources and the tools necessary for the implementation of the audit mission,
- define the procedures and the means used for the monitoring/evaluation of the activities carried out.

Therefore, the Audit Planning Memorandum provides the description of the following workflows:

1. Preliminary planning:
   - evidence of the documents examined to understand the general framework of the authority/structure/process to be audited, including documents regarding the results of other audit activities carried out by national and/or EU authorities,
   - preliminary assessment of the authority/structure/process to be audited,
   - general definition of the scope and audit objectives,
   - estimation of the resources necessary to carry out the audit mission,
   - identification of the timeline for the implementation of the audit activities.
2. Launch of the audit mission:
   - detailed definition/re-assessment of the audit scope/objectives,
   - contacts with the authorities/structures to be audited,
   - definition of the audit plan (sequence of the audit activities, tools to be used, on the spot verifications schedule, if any, and of the general implementation of the audit plan),
   - announcement of the audit mission to the authority/structure to be audited.

3. On the spot verification/web meeting and implementation of the controls:
   - gathering of the documentation necessary for the audit,
   - interviews,
   - preliminary conclusions,
   - requests of further clarifications/ documents,
   - compliance tests,
   - reassessment of the audit plan and amendments of the audit planning memorandum if necessary.
4. Reporting:

- draw up of the provisional audit report and checklist/s,
- submission of the provisional audit report to the GoA delegate/s (if the AA so decides),
- review of the provisional audit report in case of observations provided by the competent GoA delegate (if applicable),
- sending of the provisional audit report to the audited authority/body/structure and contradictory procedure regarding specific issues raised by the AA (if any),
- review of the opposing/contradictory procedure and draw up of the final audit report, included possible action plan to be implemented by the audited authority/structure and revised checklist (if necessary),
- submission of the final audit report to the GoA (if applicable),
- submission of the final audit report to the audited authority/body/structure,

5. Follow up
   - monitoring of the action plan.

Annex 5.3A provides an Audit Planning Memorandum Model aimed at facilitating and documenting the planning phase of system audit activities.

Annex 5.3B provides an Audit Planning Memorandum Model aimed at facilitating and documenting the planning phase of audit of operations activities.

7. System audit

7.1. The system reliability assessment

The Audit Authority ensures that audits are carried out to verify the effective functioning of the Management and Control System (MCS) of the Cooperation Programme, i.e. system audits.

This verification must be carried out each accounting year following the designation of the MA determines the estimate assurance level of the MCS. Assessing the level of assurance is crucial for the definition of the level of confidence to be considered for the definition of the sample size for the audit on operation calculation.

The system audit is a complex process, consisting of several stages which can be divided into sub-processes. Figure 11 shows a flow chart of the system audit. The tools to be used for the system audit implementation are available in Annex 1.1, 1.2, 1.3, 1.4, 1.5, 1.6, 1.7, 1.8, 1.9, 1.10, 1.11 and 1.12.

The initial activity input is represented by the output of the programming phase, which - if properly done through a risk-based approach – allows to assess the audit priorities.

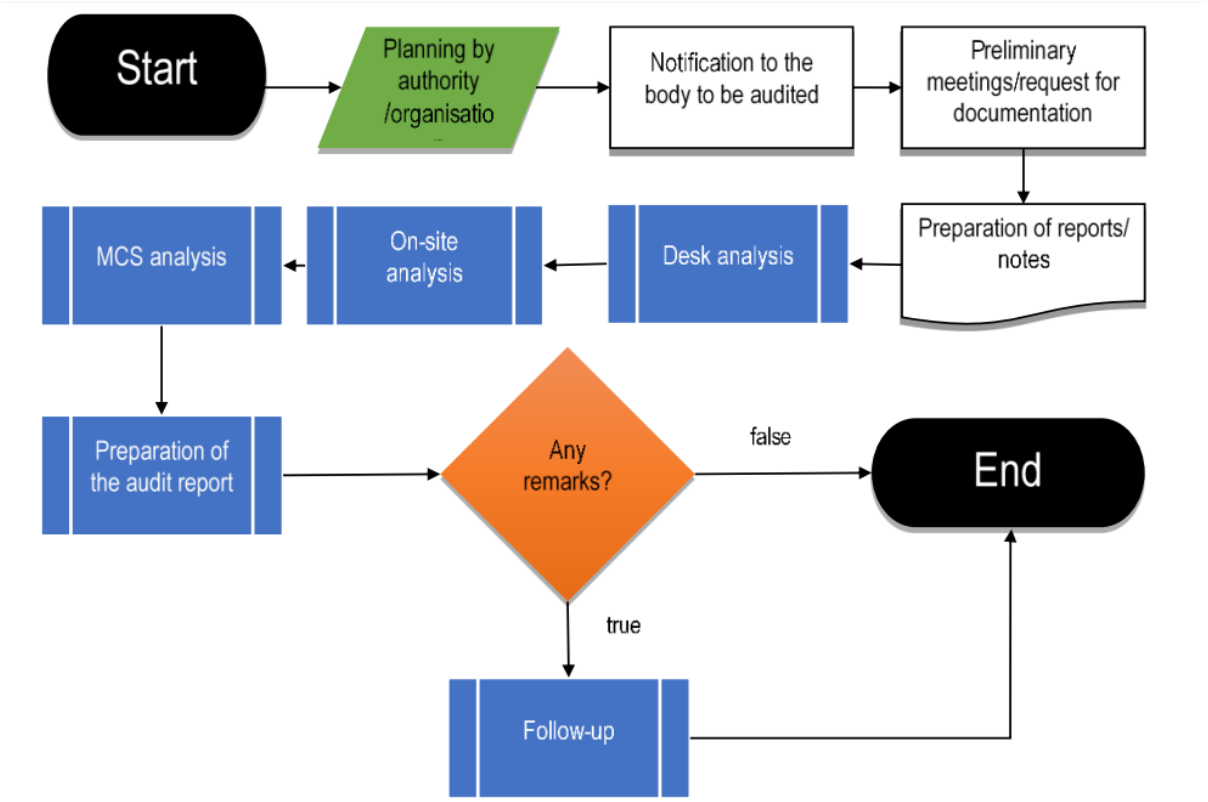


Figure 11 - Flowchart of the system audit

As summarized below, the implementation of these audit activities includes three phases:

1. planning of audit activities
2. execution of the system audits
3. the assessment phase of the reliability of the system, or final phase in which the Audit Authority draws its conclusions on the level of effectiveness of the functioning of the management and control system of the Program.

Interactions with the Group of auditors (GoA delegates), for the implementation of the above phases, are foreseen during the system audit, when the verifications concern bodies involved in Programme management situated in the partner countries. The same is also valid in case of a general system audit that doesn't focus on specific structures situated in the Partner Countries, but detects issues strictly related to beneficiaries and/or procedures put in place by a Partner Country (for example with regard to significant issues detected through compliance tests that might lead to financial corrections).

Phase 1 - Performing system audits

System audits should be carried out on a regular and timely basis throughout the year and in view of the expression

of the annual audit opinion, covering primarily the key requirements set out in Annex IV CDR and taking account of the Commission's Guidance on a common methodology for the assessment of management and control systems in the Member States (EGESIF_14-0010 of 18/12/2014) and the implementation of the procedures mentioned in MCS description.

Additionally, system audits should be carried out in accordance with the guidelines provided by the EGESIF Note n. 14-0011 of 27/08/2015:

- the AA must analyse at least all the essential Key Requirements during the first year of implementation of the Program (with subsequent follow-up audits every year);
- the AA has tailored checklists and work programs adapted to its system audits ensuring that all key requirements and procedures are covered regularly either through full audits or follow-up audits, allowing the AA to conclude on the functioning of the MCS from the first AAR onwards;
- the AA must also evaluate the opportunity to integrate its audit activities with thematic audits on the remaining Key Requirements and on particular requirements, especially where the risk is considered to be systemic.

Every year following the first, a follow-up of the system audit carried out in the previous year is performed. If the follow-up is carried out between the final report and the AAR, the results are formalized according to the form in annex 1.7, while when the follow up is carried out in the framework of the next system audit, the results are formalized in the related system audit report.

System audits targeted to specific thematic areas correspond to audits covering one or two key requirements (for example, the ones mentioned in table 9 Thematic system audits EGESIF Note 14-0011-02 above and set out in the model ACR under section 3.2) for a set of entities and programmes, aiming at assessing a horizontal risk for this population on specific matters covered by those requirements.

The system audit, with the objective of allowing the AA to draw reliable conclusions on the correct and effective functioning of the Management and Control System of the Cooperation Programme must consider in particular the following aspects:

- the organizational structure of the Authorities audited;
- the procedures for selecting operations;
- information to the Beneficiaries;
- the systems for preservation of all documents related to expenses and audits;
- systems for collecting, recording and storing data for monitoring purposes;
- financial management, audits and implementation of audit results,
- the implementation of effective and proportionate anti-fraud measures;
- management verifications (administrative checks and on the spot verifications);
- the procedures for processing payment requests submitted by the Beneficiaries;

- the procedures for drawing up the Management Declaration and the Annual Report of the checks carried out;
- the existence of computerized records of the expenses declared to the European Commission and of the corresponding public contribution paid to the Beneficiaries;
- accounting for recoverable, recovered and withdrawn amounts;
- the procedures for completing and certifying the completeness, accuracy and truthfulness of the accounts of the Cooperation Programme.

During audits, the Audit Authority will also take into account the observations of the Commission and other national and EU audit bodies (eg National Court of Auditors, European Court of Auditors, OLAF) found in the area of their controls, monitoring the implementation by the subject audited.

In case, during the implementation of the Programme, the MCS undergoes substantial changes, the AA performs a new system audit on the MCS, covering the new aspects and updating the risk assessment accordingly.

The system audits concern, for each Authority / Body subject to verification, the Key Requirements (hereafter KR), as per Annex IV of CDR 480/2014, as provided also in the EGESIF Note 14-0010 dated 18/12/2014 (Guidelines for the Commission and the Member States on a common methodology for the evaluation of Management and Control Systems in the Member States), taking into account other requirements stemming from the ENI CBC IR. The items to be verified, duly adapted by considering ENI peculiarities according to related legal framework, are summarized below

1. Key requirements in relation to the MA		
	ESIF	*ENI CBC*
Key requirement 1: Adequate separation of functions and adequate systems for reporting and monitoring where the responsible authority entrusts execution of tasks to another body *KR1 also encompasses "Appropriate procedures to ascertain that the components of internal control exist and function".*	(Articles 72(a), (b), (e) and (h), 122(2), 123(1) and (6), 125(1) CPR[2])	Articles 30.1(a), (d), (g), Article 31 Point 5 of the Annex
Key requirement 2: Appropriate selection of operations	(Articles 72(c), 125(3) CPR)	Articles 30.1(b), 30.1(h); Articles 26.3(a), 26.3(b)
Key requirement 3: Adequate Information to beneficiaries	(Article 125(3)(c) CPR)	Article 26.3; Article 3(i) of theAnnex

1. Key requirements in relation to the MA		
	ESIF	*ENI CBC*
Key requirement 4: Adequate management verifications	(Articles 72(c) and (h), 125(4)(a), (5) and (6) CPR)	Articles 30.1(b), (g); Article26.5(a), 26.6 and 26.7
Key requirement 5: Effective system inplace to ensure that all documents regarding expenditure and audits are held to ensure an adequate audit trail	(Articles 72(g), 122(3), 140, 125(4)(d), 125(8) CPR)	Articles70; 26.5(d); 30.1(c), (f);
Key requirement 6: 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 *KR6 also encompasses "Appropriateprocedures to ascertain that the components of internal control exist and function".*	(Articles 72(d), 112(3), 122(3), 125(2)(a),(d),(e), 125(4)(d), (8) and 140 CPR)	Articles 30.1(c), 31.3Point 5 of the Annex
Key requirement 7: Effective implementation of proportionate anti-fraud measures	(Articles 72(h), 122(2), 125(4)(c) CPR)	Articles 30.1(g), 31.3()
Key requirement 8: Appropriate procedures for drawing up the management declaration and annual summary of the final audit reports andof controls carried out	(Article 125(4)(e) CPR)	Articles 25.6(e), (f), (g)
2. Key requirements in relation to the CA (Payment Unit) In the case of ENI CBC MED, certification function is carried out by the MA in all cases. The key requirements and assessment criteria are read and applied from the perspective on the allocation and separation of the respective tasks within the MA.		
Key requirement 9: Adequate separation of functions and adequate system for reporting and monitoring where the responsible authority entrust execution of tasks to another authority- NOT APPLICABLE FOR ENI CBC MED OP	(Articles 72(a), (b) and (e), 123 (2) and (6), 126 CPR)	Article 30.1(a),(b), (e)

1. Key requirements in relation to the MA		
	ESIF	*ENI CBC*
Key requirement 10: Adequateprocedures for drawing-up and submitting payment applications	(Article 126(a), (e) and (f)CPR)	Article 30.1(a), (b), (e);Article 60.1, 60.2
Key requirement 11: Appropriate computerised records of expenditure declared and of the corresponding public contribution are maintained	(Article 126(d), (g) CPR)	Article 26.5(i)
Key requirement 12: Appropriate and complete account of amounts recoverable, recovered and withdrawn	(Articles 72(h), 137(1)(b),137(2) CPR)	Article 26.2(d)
Key requirement 13: Appropriate procedures for drawing up andcertifying the completeness, accuracy and veracity of the accounts	(Articles 72(h), 126 (b),(c)and (h), 137 CPR, Article 59(5)(a) of the Financial Regulation)	Article 26.5(g); 68; 70

Annex II of the EGESIF Note no. 14-0010 also identifies, in relation to each Key Requirement and by Authority, some corresponding “Evaluation Criteria”. Specifically, the No. 8 KRs applicable to the MA include n. 36 Evaluation Criteria, while the No. 5 KRs applicable to the CA provide n. 18 Evaluation Criteria.

According to the recommendations of the aforementioned EGESIF Note, in fact, the audit of the correct functioning of the Management and Control System is carried out starting from the examination of the individual Evaluation Criteria applicable to the Authority / subject under examination (see below).

The effective execution phase of the system audits is divided into the following activities:

A. Audit notification

The AA notifies the auditing to the bodies to be audited, as identified during the planning, in particular, communicating the dates and times agreed for the audit, the names of the auditors, the agenda of the activities and the list of documentation required for preliminary analysis. In case the audited body is stationed in a Partner State, the audit notification is shared between the AA and the concerned GoA member.

The notification might be then sent by eider the AA of the GoA delegate, based on the considerations made during the preparation of the audit notification.

B. Preliminary analysis

The preliminary analysis is aimed at identifying the critical points to be investigated in the course of the audits, by

means of a first documentary check on the aspects of the KRs and Evaluation Criteria related to the Authorities and Bodies under control.

This activity includes:

- acquisition of the necessary documentation and information;
- examination of the documentation and data collected (e.g. audit trails, data on the execution of operations, documents on the checks performed, ...) and possible pre-compilation of the corresponding sections of the checklists;
- identification of critical issues or points of attention to be investigated in the course of system audits;
- mapping of significant transactions (so-called "Walkthrough"/compliance tests fields).

C. Meetings and interviews

The audit is conducted by means of meetings with the bodies to be audited, in which the audited body representatives and Heads (Managers, director…) of the functions and of the processes to be audited and the work group of the AA/TA/GoA member take part.

During these meetings, the AA illustrates the objectives of the audit mission, communicating the scope and coverage of the audit, clearly illustrating the work program and the timetable, the steps and deadlines, the methodology followed and the tools used, as well as clarifying the roles and responsibilities of the various interlocutors. The audit activity carried out must also be documented with sufficient detail to make these aspects clear.

During the meetings, the managers of the Bodies (or of the operations involved) are interviewed with the help of a checklist prepared specifically for the system audit, in accordance with Annex IV CDR 480/2014 and the aforementioned EGESIF Note 14-0010. When filling in the check-list and performing the interviews, the auditors keep into consideration the knowledge acquired in the preliminary work phase.

Interviews are carried out in the form of “open” interviews, without providing a rigid path and predefined answers. During the interview the individual KR and the related evaluation criteria are examined, within the aforementioned checklist.

The checklist is the guide for the execution of the system audit; in this checklist, the auditors document the elements examined and any critical aspects identified with sufficient detail to prove the acquired evidence and the logical path followed as a basis for the conclusions of the system audit.

When carrying out thematic system audits, if the case (e.i. for management verifications), meetings can be held at the premises of the respective reference body of the Partner Countries other than Italy (where the MA is located).

In this case, the concerned GoA member may assist to the audit activities and might participate at the meeting/interview.

A Model of Checklist for system audits is available in Annexes 1.8 and 1.10

A model of checklist for specific thematic audit on performance data reliability is available in annex 3c.

Annex 1.2 provides a Model of minutes for on-the-spot verification for system audits.

D. Test of control /Compliance test

To obtain a high level of assurance and to express an opinion on the functioning of the MCS, system audits include compliance testing (or “test of control”) of key controls at key bodies. Such compliance testing is to be carried out for a number of projects, transactions at the level of the MA and national authorities.

Specifically, the tests of control are aimed at examining the conformity and effectiveness of the procedures adopted in the various stages of implementation of the operations that fall under the responsibility of the Authorities / Bodies audited, in compliance with the relevant regulatory provisions, as well as what is foreseen in the Description of the functions and procedures of the MA.

The compliance tests, therefore, have different purposes than the audits carried out by the AA on the operations co-financed by the CP, pursuant to art. 27 CDR 480/2014. These tests are in fact an integral part of the system audits, contributing, together with other qualitative elements and other audit procedures, to the assessment of the reliability of the Management and Control System of the CP, determining for the definition of the parameters for the sampling of operations to be audited.

Tests of controls can also contribute to audits of accounts.

Compliance tests may include walkthrough verification of relevant dossiers, kept by the relevant authorities, interviews with staff and verification of a sample of transactions.

The methodology used for determining the sample size for tests of controls will be defined by the AA in line with internationally accepted audit standards (INTOSAI, IFAC or IIA) and the guidelines provided by the EC and TESIM.

In this regard, it should be noted that it is not necessary to limit the analysis to operations with certified expenses in the reference accounting period; the selection sample for the compliance tests is in fact related to the evidence that the Audit Authority needs to acquire for the purposes of its system audit activities.

The AA during the definition of the sample, based on its professional opinion and according to the needs / difficulties emerged during the preliminary analysis, can also decide to create different sets of sample populations to analyse in depth the management and control system; each population will be used to analyse certain control points, linked to each other, of the different key requirements.

To this end, the AA will take into consideration the guidelines provided in the EGESIF Note 16-0014-01 of 20/01/2017 ("Guidance on sampling methods for audit authorities" Programming periods 2007-2013 and 2014-

2020), in the specific section on sampling techniques applicable to system audits (Section 7.9).

Considering that the system audits are aimed at providing the auditor with information on the nature and causes of errors found in the Management and Control System, rather than on their presence, the selection of the operations on which to perform the compliance tests could also take place without using a statistical method.

It is therefore up to the professional judgment of the AA to determine which sampling methodology to use, considering above all the need to assure that the results obtained from the control tests apply to the entire population.

By way of indication, a table is provided below that shows parameters that can be taken into consideration to determine the number of projects / minimum transactions to be tested in relation to the total population.

Number of projects and operations in the reference population	**Minimum number of projects to be tested**
1	1
From 2 to 4	2
From 5 to 12	From 2 to 5
From 13 to 52	5
Up to 250	20
More than 250	25

It is also underlined that, when planning system audits, the AA should also preliminarily define the threshold beyond which any shortcomings detected during the execution of such audits are to be considered relevant.

In the event that the deficiencies found exceed this threshold, the AA will have to provide for the extension of the sample in order to verify if those deficiencies are systematic and to evaluate their impact. For the purposes of this assessment, the AA must take into account the link between the exceptions noted and the evaluation categories referred to in the EGESIF Note 14.0010 final.

For example, if the AA has tested the controls related to a specific KR (e.g. Adequate procedures for the selection of operations), selecting a sample of 20 operations (on a population of up to 250 operations) and detected deficiencies for 8 operations out of 20 (40%), it can be concluded that the controls have not been carried out or are ineffective in detecting and correcting irregularities. In this case, considering the high percentage of exceptions detected, the evaluation of the specific KR cannot be classified as functioning well.

Below there's a table showing indicative thresholds, which can be used by the AA to define the thresholds of relevance in system audits, taking into account that qualitative factors must also be taken into consideration in the final evaluation.

Category 1 - Works well: No or only minor improvement(s) needed - Less than 10% of exceptions

Category 2 - Works, but some improvement(s) are needed - Less than 25% of exceptions

Category 3 - Works partially; substantial improvement(s) are - Less than 40% of exceptions

Category 4 - Essentially does not work - More than 40% of exceptions

Phase 2 - The reliability assessment of the system

The results of the system audits, including the compliance tests, form the basis of the reliability assessment of the Management and Control System, which is decisive for the definition of the level of trust based on which to calculate the size of the sample of operations to be audited.

According to the guidelines referred to in the EGESIF Note 14-0010 final, the evaluation of the MCS responds to an assessment methodology as shown below:

1. conclusions per assessment criteria on the bases of control points,
2. conclusion per key requirement on the basis of assessment criteria,
3. conclusion per authority on the bases of the conclusions per key requirement,
4. overall conclusion on the bases of the conclusions per authority.

The AA's assessment is to be carried out for each of the steps highlighted above, ie first for each Evaluation Criterion, then for each Key Requirement, then for each Authority and finally with regard to the general conclusion on the MCS on the basis of the following categories, as defined in the EGESIF Note 14-0010:

- Category 1. Works well. No or only minor improvement(s) needed. There are no deficiencies or only minor deficiencies found. These deficiencies have no, or minor impact on the functioning of the assessed key requirements / authorities / system.
- Category 2. Works, but some improvement(s) are needed. Some deficiencies were found. These deficiencies have a moderate impact on the functioning of the assessed key requirements / authorities / system. Recommendations have been formulated for implementation by the audited body.
- Category 3. Works partially; substantial improvement(s) are needed. Serious deficiencies were found that expose the Funds to irregularities. The impact on the effective functioning of the key requirements / authorities / system is significant.
- Category 4. Essentially does not work. 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 key requirements / authorities / system function poorly or do not function at all.

At all stages of the assessment process, auditors should apply their professional judgment considering any other audit evidence available which should also be analysed. This audit evidence may include all cumulative audit

knowledge including information gained from the review of the system descriptions, designation audit opinion and report, procedures manuals, functioning of the MCS, enquiries, or interviews at bodies involved in the MCS.

The AA therefore preliminarily expresses a judgment per each evaluation criteria (Step 1).

Therefore, on the basis of the assessment of these criteria, the AA draws a conclusion by Key Requirement (step 2). As a matter of principle, when evaluating the key requirements, the overall impact on the assurance level is a decisive factor. In this context, questions to be asked are:

- What is the impact of the non-respect or partial respect of a particular assessment criterion or key requirement on the identification of errors, irregularities and on the management and control system?
- Does its absence increase the likelihood of irregular or illegal expenditure not being prevented, detected and/or adequately corrected?

In this regards, the EGESIF Note 14-0010 provide the following guidance as examples of possible outcomes for this second step (after the combination of tests of key controls with other qualitative elements):

- Where one or more assessment criteria are in category 3 or category 4, the auditor may reasonably conclude that this would not allow for categorizing the key requirement as category 1 and most probably as category 2;
- Where a majority of the assessment criteria are in the same category, the auditor may reasonably conclude that this provides a sound basis for also classifying the key requirement in this same category;
- As a general rule, the key requirement cannot be classified more favourably than the worst of the assessment criteria with the possible exception of the following assessment criteria: 2.3, 2.5, 5.3, 11.3 and 13.5.

The second step involves reaching a conclusion by authority, based upon the results of the categorization of each key requirement under step 2.

The analysis of the AA must result from an audit checklist prepared for each Audit Body, in accordance with Annex IV CDR 480/2014 and the EGESIF Note 14-0010.

As highlighted in the EGESIF Note 14-0010, it is not possible to foresee all combinations of assessments of key requirements by authority that might arise; nevertheless, the following guidance have been given in mentioned EGESIF Note 14-0010:

1. Each of the key requirements has to be assessed independently from the others within the same authority. This means that a weakness in one of the key requirements in one authority cannot be compensated by another key requirement that is functioning well in the same authority. Compensating controls are considered only at the level of the overall assessment of the system (step 4).
2. Some key requirements are essential with regard to the legality and regularity of expenditure and the proper functioning of the relevant authority. Criteria for determining serious deficiencies as defined in

Article 2(39) CPR are set out in Article 30 CDR and for the MA concern key requirements 2 (selection of operations), 4 (management verifications) and 5 (audit trail of documents regarding expenditure and audits).

3. A category 1 or 2 classification of the essential key requirements referred to in point 2 above would have a positive influence on the overall conclusion.
4. If one of the essential key requirements referred to in point 2 above or two or more of the other key requirements for an authority are classified in categories 3 or 4, this authority cannot be assessed overall in a better category than category 3 or 4. In other words, deficiency in an essential key requirement cannot be counterbalanced by a better classification of the other key requirements for the authority in question.

In the final step, the AA shall make the link between the conclusion by authority and the overall conclusion on the MCS of the programme, by identifying any mitigating factors and compensating controls that may exist in one authority which effectively reduce the risk in the overall MCS.

For instance, if the auditor concludes that verifications carried out by the national authorities are incomplete or not effective enough, but management verifications in the MA are of a good quality and effective, this may reduce the risk that irregular expenditure is certified and sent to the Commission. It is reminded that key requirement 4 (management verifications) remains the most important and first line of defence of MCS against irregularities.

Appreciation of the proper functioning of this key requirement is therefore crucial to assess the risk of reimbursement of irregular expenditure by the Commission. It is important to underline that before being taken into account as a mitigating factor or compensating control, evidence of the proper functioning of these controls should be obtained.

Another example of a mitigating factor, before issuing the audit opinion, could be an action plan having been implemented which has effectively improved the management and control system (for avoidance of future similar irregularities) and corrected the main irregularities not previously detected by sample checks or management verification checks (financial corrections for previously declared expenditure).

For the overall assessment of the Management and Control System the same categories applied in the previous phases are used, in order to guarantee the consistency of the results in all phases of the assessment procedure of the Management and Control System itself.

The model where to report the assessments for each individual Authority / Body audited and the general conclusion on the functioning of the Management and Control System as a whole is shown below.

The overall conclusion on the MCS then provides the basis for determining the level of assurance of the MCS.

The following table presents the relationship between general conclusion for the system and confidence level:

Overall conclusion for the system	Level of residual risk	Level of assurance	Confidence level
1 – Funcions well	low	high	60%
2 - Works	Medium high	medium	70%
3 – Works partially	medium	medium	80%
4 – Does not work significantly	high	low	90%

At the end of the system audit, the AA reports in specific Audit Reports the audit activity performed, the assessments made, the results achieved, any shortcomings found and the related Action Plan in order to remedy such deficiencies.

When drawing up the AAR, by combining its conclusions on the MCS with the results of audits of operations and of the accounts, the auditor can then formulate an audit opinion for the Programme and recommend subsequent action if necessary.

7.2. Thematic Audit

7.2.1. Thematic Audit: Anti-fraud measures and fraud risk assessment carried out by the MA and the AA audits

According to art. 125 (4) (c) CPR the MA shall put in place “effective and proportionate anti-fraud measures taking into account the risks identified” and the AA shall carry out verifications to verify the compliance of the measures taken by the MA.

Moreover, in compliance with art. 26 (5) subparagraph c) of Regulation (EU) 897/2014, as regards the financial management and control of the Programme, the MA shall put in place effective and proportionate anti-fraud measures taking into account the risks identified;

Accordingly, art. 30 (1) subparagraph g) of the same Regulation clearly state that the management and control systems of the OP shall include procedures for prevention, detection and correction of irregularities, including fraud and the recovery of amounts unduly paid, together with any interest.

Finally, art. 31 set a precise engagement for participating countries which shall prevent, detect and correct irregularities, including fraud and the recovery of amounts unduly paid, together with any interest pursuant Article 74 on their territories.

As far as expenditure is concerned, for **fraud** it is intended[4] any intentional act or omission relating to:

- the use or presentation of false, incorrect or incomplete statements or documents, which has as its effect

[4] Convention drawn up based on Article K.3 of the Treaty on European Union on the protection of the European Communities' financial interests.

the misappropriation or wrongful retention of funds from the general budget of the European Communities or budgets managed by, or on behalf of the European Communities;

- non-disclosure of information in violation of a specific obligation, with the same effect;
- the misapplication of such funds for purposes other than those for which they were originally granted.

For **irregularity** it is instead intended[5] :

any infringement of a provision of Community law resulting from an act or omission by an economic operator, which has, or would have, the effect of prejudicing the general budget of the Communities or budgets managed by them, either by reducing or losing revenue accruing from own resources collected directly on behalf of the Communities, or by an unjustified item of expenditure.

The term "irregularity" identifies a wide concept covering both intentional and non-intentional committed by economic operators.

Finally, a broad definition of **corruption** used by the Commission is the abuse of (public) position for private gain. Corrupt payments facilitate many other types of fraud, such as false invoicing, phantom expenditure or failure to meet contract specifications.

Before starting the Programme implementation, the MA shall conduct an analysis of the fraud risks by assessing the likelihood and impact of the fraud risk compared to the main Programme management processes. Moreover, the MA is recommended to assess the overall fraud risks in relation to public procurement contracts it may manage directly, e.g., in the context of procuring technical assistance.

This analysis must be carried out in accordance with the guidelines contained in Note EGESIF 14-0021-00 of 16.06.2014" Fraud Risk Assessment and Effective and Proportionate Anti-Fraud Measures".

The methodology for this fraud risk assessment has five main steps as detailed in the following figure:

[5] Article 1(2) of Council Regulation (EC) No 2988/95 of 18 December 1995 on the protection of the European Communities' financial interests

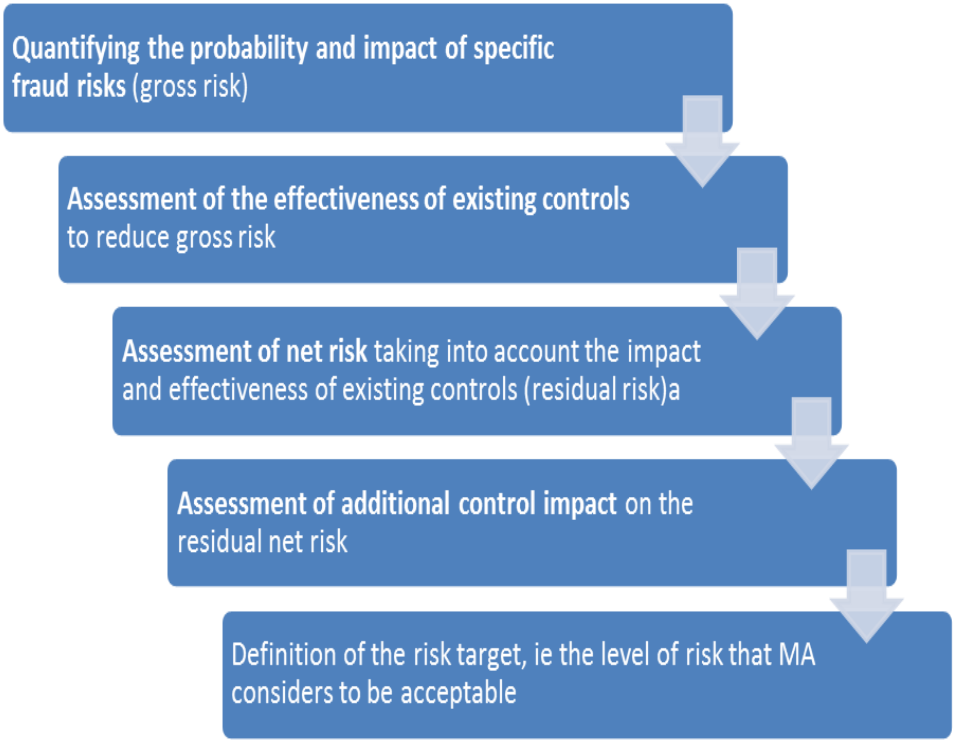


Figure 12 - Methodology for this fraud risk assessment

For each of the specific risks, the overall objective is to assess the 'gross' risk of particular fraud scenarios occurring, and then to identify and assess the effectiveness of controls already in place to mitigate against these fraud risks either from occurring or ensuring that they do not remain undetected. The result is a 'net' current risk which leads to an internal action plan to be implemented when the residual risk is significant or critical in order to improve controls and further reduce the exposure of the Programme to negative consequences (i.e., putting in place any additional effective and proportionate anti-fraud measures, as necessary[6]).

In this respect, the AA performs an audit on the risk assessment exercise carried out by the MA.

Self-assessment of fraud risks by the MA should be conducted every year, or every two years, based on the level of risk identified. Assessment results needs to be formally approved by MA.

In addition, the MA shall develop a "structured approach to fighting fraud", based on the main elements of the figure below.

[6] See the list of recommended mitigating controls in Annex 2 of EGESIF_14-0021-00 of 16/06/2014

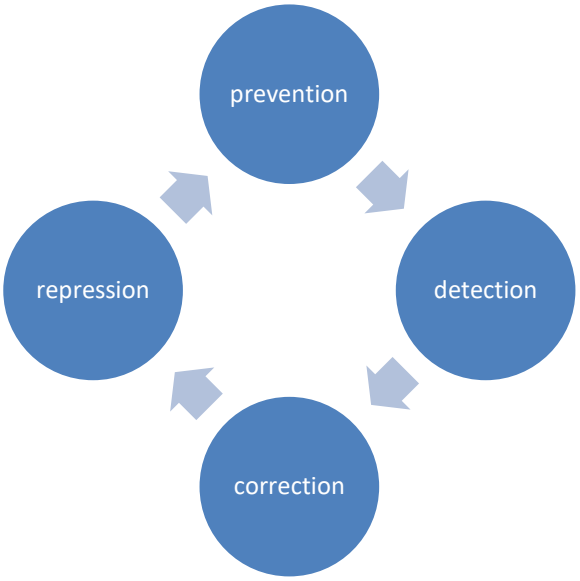


***Figure** 13 - Key elements of fight against fraud approach*

According to the OP and DMCS in force, all phases as mentioned are a joint responsibility of the Programme bodies and the participating countries and affect multiple procedures.

The activities for fraud prevention, detection, correction and repression, both at Programme and project level, may be summarised in four types of actions:

- Information;
- Capacity building;
- Support;
- Control.

In this respect, the main procedures and actions to be carried out as for prevention, and the responsible bodies, are:

Procedure/Action	Responsible bodies
Define adequate and harmonised procedures both at the Programme and national level	MA&NA
Define clear rules on eligibility of expenditure (including procurement procedures) and treatment of revenue in the application pack for the calls for proposals and technical assistance	MA&NA
Elaborate a detailed on-line Project Implementation Manual, including national specificities	MA&JTS&NA
Train staff of all Programme bodies and national institutions	MA & AA, in collaboration with EC

concerned with Programme implementation	
Train potential beneficiaries during the calls for proposals on the programme rules	MA, JTS & NA
Train beneficiaries of approved projects before starting, and during, implementation	MA, JTS & NA
Define a good project internal control system	Lead beneficiary and beneficiaries
Train auditors of the projects	MA, CCP & NA
Inform relevant Programme bodies about recurrent and systemic errors	MA for JTS, CCP & NA
Inform project beneficiaries about recurrent and systemic errors	MA, JTS & NA
Provide a question-and-answer section in the Programme web-site on applicable rules and procedures	MA & JTS
Provide on-going support by JTS officers to project beneficiaries and controllers	MA & JTS
Conduct a risk analysis	JTS, MA & AA with input from CCP, NA, GoA or any other actor

Figure 14 - Main procedures and actions for prevention and responsible bodies

The main procedures and actions to be carried out for the detection of fraud, and the responsible bodies, are:

Procedure/Action	Responsible bodies
Produce Expenditure Verification Report (EVR)	Auditors
Check EVR	Lead Beneficiary, Lead Beneficiary Auditor, JTS, MA
Verify supporting documents	Auditor, JTS, MA & CCP
Conduct on-the-spot checks	MA & CCP
Produce progress reports not linked to payment	JTS & MA
Conduct follow-up & regular monitoring	JTS with support by NA
Visit project events/activities	JTS, MA & NA
Conduct sample checks, including checks on the performance of the work of auditors (re-performing & check on working papers)	AA & GoA

Figure 15 - Main procedures and actions for the detection of fraud and responsible bodies

Actions pertaining to the correction and repression phases follow accordingly.

The association between an in-depth assessment of the fraud risks and appropriate measures in the areas of prevention, identification/detection, correction, and repression is then the key to significantly reduce the fraud risks and to be a valuable deterrent against fraud.

In this context, AA carries out audits to verify the compliance of the MA with Article 125 (4) (c) CPR, that is to check the establishment of effective and proportionate anti-fraud measures based on identified risks. In fact, the purpose of this audit is to verify the effective implementation of anti-fraud measures by the MA.

These audits can be conducted using the checklist already used for system audits (Annex 1.8 of this Manual) that

contains all the checkpoints provided for in the checklist proposed in Annex 4 of the EGESIF Note n. 14-0021-00 of 16.06.2014 “Verification of the Managing Authority’s compliance with article 125.4 c) regarding - Fraud risk assessment and effective and proportionate anti-fraud measures for 2014-2020”. In fact, this audit must be conducted in parallel with the audits on the functioning of the management and control systems.
The results of this audit is reported in Section 4 (System Audit) of the Annual Audit Report (see Annex 4.1 to this Manual).

7.2.2. Thematic Audit: Performance data reliability

Pursuant art. 26 of Reg. (EU) No. 897/2014, the MA is required to inform the JMC of data relating to the progress of the Programme in order to verify the achievement of expected results and the objectives as set.

On the basis of the data communicated by the Beneficiaries at the operational level, the management verification ensure that the data, aggregated or micro, relating to indicators and target values at the investment priority, priority or level of the Programme, are timely, complete and reliable.

The monitoring of Programme enhancement and progress in the implementation of projects through the revision of indicators is an activity to be carried out in the context of the verification of payment claims submitted by the same beneficiary.

In the reimbursement phase, the MA checks whether the information on the contribution obtained and the results of the indicators are provided by the Beneficiaries, verifies as well that all agreed indicators have been reached and, where appropriate, requires justification whenever difference between the commitment and the actual contribution occurred.

Moreover, on-the-spot verifications shall verify the correctness of the data communicated by the Beneficiaries in relation to the indicators. If the Beneficiary is responsible for the inclusion of information on indicators in the OP information system, the correctness of this process will also be subject to on-the-spot verification.

In this respect, the Audit Authority shall carry out system audit activities on indicators in order to obtain reasonable assurance that the audited MCS generates reliable indicator data and that it is possible to rely on the effectiveness and adequacy of checks carried out on these indicators by the MA during the management verifications. The objective of these audit activities is not to express a professional judgement on the performance of Programme implementation, but to verify instead the reliability of the MIS put in place and the performance data communicated by MA.

Therefore, the AA verifies the adequacy of these investigations so that the data processed by MA are truthful and reliable. These audit activities may be carried out within the usual system audits, or through ad hoc thematic audits.

AA Checklist on data reliability, including a related worksheet on indicator compliance testing, is listed in Annex 1.12 of this Manual.

7.2.3. Thematic Audit: Management Verifications

Article 125(4)(a) CPR requires the MA to verify that the co-financed products and services have been delivered and that expenditure declared by the beneficiaries has been paid and that it complies with applicable law, the Programme and the conditions for support of the operation.

Pursuant to Article 125(5) CPR the verifications shall include administrative verifications in respect of each application for reimbursement by beneficiaries and on-the-spot verifications of operations.

Pursuant to Article 125(7) CPR, where the MA is also a beneficiary under the Cooperation Programme, arrangements for the verifications (referred to in point (a) of the first subparagraph of paragraph 4 of this Article) shall ensure adequate separation of functions.

Moreover, Article 23(1) ETC Regulation states that the MA of a cooperation programme shall carry out the functions laid down in Article 125(4) CPR. Article 23(4) ETC states that Member States and third countries under certain conditions bear responsibility for management verifications. The specificities relating to verifications in ETC programmes are covered by Article 23 (§3 and §5) ETC Regulation.

Through thematic audit system on management verifications the AA shall verify:

1. that the management verifications include:
    a) Administrative verifications in respect of each application for reimbursement by beneficiaries: all applications for reimbursement submitted by beneficiaries should be subject to administrative verifications before certification and should include an examination of both the claim itself and the relevant supporting documentation attached.The range and type of supporting documentation to be requested from beneficiaries for verification, is based on a risk assessment of each type of file or beneficiary;
    b) The on-the-spot verifications of operations, that should be undertaken when the project is well under way, both in terms of physical and financial progress.
2. that the frequency and coverage of the on-the-spot verifications is proportionate to the amount of public support to an operation and to the level of risk identified through the administrative verifications and by the AA through its audits for the MCS as a whole; the records should describe the sampling method used, identify the operations selected, and provide an overview of the conclusions of the verifications and the detected irregularities;
3. that written procedures and comprehensive checklists exist and are used for the management verifications in order to detect any material misstatements. These checklists should, as a minimum, address verifications on:
    a) the correctness of the application for reimbursement;
    b) the eligible period;
    c) compliance with the approved project;

d) compliance with the approved financing rate (where applicable);
e) compliance with the relevant eligibility rules and EU and national rules on public procurement, state aid, environment, financial instruments, sustainable development, publicity, equal opportunity requirements and non-discrimination;
f) the reality of the project, including physical progress of the product or service and compliance with the terms and the conditions of the grant agreement and with the output and result indicators;
g) the expenditure declared and the existence and compliance of the audit trail for a number of expenditure items;
h) the separate accounting system or an adequate accounting code for all transactions relating to an operation for operations reimbursed on the basis of eligible costs actually incurred. This separate accounting system or adequate accounting codes allow for verification of (1) the correct allocation of expenditure only partly relating to the co-financed operation and (2) certain types of expenditure which are only considered eligible within certain limits or in proportion to other costs.

4. that evidence is kept of:
   a) the administrative verifications and the on-the-spot verifications, including the work done and the results obtained;
   b) the follow-up of the findings detected;
5. the existence of procedures approved by the MA to ensure that the CA receives all necessary information on the verifications carried out for the purpose of certification.

When performing thematic audit on management verifications, particular attention should be paid also to the specific issues related to the admissibility of expenditure.

7.2.4. Thematic Audit: IT System

The system audits carried out on the MA include the verification of functioning and security of the IT system set up by Programme; and their connection with the IT system "SFC2014" as foreseen in Article 74(4) CPR.

The AA shall then verify the existence of a computerised system capable to collect, record and store on each operation the data required by Annex III CDR, including data relating to indicators and milestones and on the progress of the Programme in achieving its objectives provided by the MA under Article 125(2)(a) CPR.

Additionally, also through the implementation of control tests, the AA shall verify that adequate procedures are in place to allow:

a) for the aggregation of the data where this is necessary for the purposes of evaluation, audits, as well as for payment applications and accounts, annual summaries, annual implementation and final reports, including reports on financial data, submitted to the Commission;
b) the security and maintenance of this computerised system, data integrity taken account of internationally

accepted standards as for example ISO/IEC 27001:2013 and ISO/IEC 27002:2013, data confidentiality, the authentication of the sender and storage of documents and data in particular in accordance with Articles 122(3), 125(4)(d), 125(8) and 140 CPR;

c) the protection of individuals with regard to the processing of personal data.

7.2.5. Thematic Audit: Withdrawals and recoveries

The system audits carried out on the MA within the accounting function include the verification of the procedure for reporting of withdrawals and recoveries.

More specifically, the AA shall verify that:

a) complete and adequate procedures and manuals exist and are updated as necessary, covering all key activities within the MA, including reporting and monitoring procedures for irregularities and for the recovery of amounts unduly paid (assessment criteria 1.4);
b) appropriate processes are in place for following up any suspected cases of fraud and related recoveries of EU funds spent in a fraudulent manner (assessment criteria 7.6);
c) complete and adequate procedures and manuals exist and are updated as necessary, covering all key activities within the MA within the accounting function, including reporting and monitoring procedures for irregularities (irregularities detected by the MA within the accounting function) and for the recovery of amounts unduly paid (assessment criteria 9.4);
d) adequate and effective procedures are in place to maintain accurate and complete evidence of the amounts withdrawn and recovered during the accounting year, the amounts to be recovered as at the end of the accounting year, the recoveries carried out pursuant to Articles 72(h) and 137(1)(b) of the CPR, and that the irrecoverable amounts presented in the accounts correspond to the amounts entered in the accounting systems (assessment criteria 12.1);
e) appropriate accounting records are maintained to evidence that expenditure has been excluded from the accounts in accordance with Article 137(2) CPR, where applicable, and that all the required corrections are reflected in the accounts for the accounting year concerned (assessment criteria 12.2);
f) adequate procedures to ensure that expenditure entered in the accounts corresponds to interim payments declared in the accounting year after corrections of any clerical errors and deduction of all irregular amounts detected through management verifications and audits and withdrawn or recovered in the given accounting year, and after temporary withdrawal of any expenditure which is undergoing an assessment of its eligibility at the time of drawing the accounts (assessment criteria 13.2);
g) adequate procedures to ensure that amounts recovered, to be recovered, withdrawn from previous interim payment claims and irrecoverable are properly reflected in the accounts. The procedure should ensure keeping account of amounts recoverable and of amounts withdrawn following cancellation of all or part of

the contribution for an operation. Amounts recovered shall be repaid prior to closure of the Programme by deducting them from the next statement of expenditure (assessment criteria 13.3);

This verification will be carried out by using the Checklist for system audits (Annex 3) with specific reference to Key Requirements n. 1, 7, 9, 12 and 13. It is advisable to carry out these verifications through tests of controls (see paragraph 7.1 “The system reliability assessment”, phase 2, Sect. D).

8. Sampling

This Manual provides in **Appendix 2** the general rules and methodologies that the AA intends to apply when carrying out sampling procedures, following the provisions set out in EU Regulations and EGESIF Guides. Every year the Audit Authority will, based on its professional judgement and on a case by case basis, select the most appropriate sampling method, the motivation of which, together with a detailed explanation of the followed procedure, will be provided in the yearly update of the Audit Strategy and/or in the APM, in sampling minutes and in the AAR.

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.

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 continued using the project as a sampling unit.

In each accounting period, within the framework of the audit planning memorandum for the audit of operations mission the AA will document the sampling method used and the motivation of potential changes in the sampling approach.

Moreover, the AA may evaluate, based on the results of the system audit, also the opportunity/applicability of a statistical sampling method, considering as sample units the reports submitted by each partner and certified by the MA.

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, regardless of the adopted sampling method. Therefore, when selecting the most appropriate sampling method, the AA will keep into consideration the possibility of stratification or a cluster for a supplementary sample, made of reports submitted by beneficiaries from countries not selected in previous accounting periods.

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

The AA will also assure that all 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 further evaluated and defined while planning the audit mission for audit of operations).

Following the 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) are also audited in the context of the audit on projects.

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, to demonstrate the appropriateness of the followed procedure.

The general aim of the audit on projects is to perform audits on a sample that is representative of the population considered, and that in case of use of non - statistical sampling methods, covers at least 5% of projects and 10% of claimed expenses, according to the provisions of the EU “Guidance on sampling methods for audit authorities Programming periods 2007-2013 and 2014-2020”.

Hereafter and in Appendix 2 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; also, some examples of possible sampling methodologies to be considered are illustrated. In any case for the choice of the sampling method the AA will refer to the recommendations of the EGESIF_16-0014-01 20/01//2017 “Guidance on sampling methods for audit authorities Programming periods 2007-2013 and 2014-2020”.

The first distinction between sampling methods is made between statistical and non-statistical sampling.

A **statistical sampling method** has the following characteristics:

- each item in the population has a known and positive selection probability;
- randomness should be ensured by using proper random number generating software, specialized or not (e.g. MS Excel provides random numbers);
- sample size is calculated in such a way that allow to achieve a certain level of desirable precision.

Statistical sampling methods allow the selection of a sample that is “representing” the population (reason why statistical selection is considered important). The final goal is to project (extrapolate or estimate) to the population, the value of a parameter (the “variable”) observed in a sample, allowing to conclude whether a population is materially misstated or not and, if so, by how much (an error amount).

Non-statistical sampling does not allow the calculation of precision, consequently there is no control of the audit risk and it is impossible to ensure that the sample is representing the population. Therefore, the error has to be assessed empirically. It is recommended that the AA use this method only after excluding any possibility of obtaining a sufficient size of the population to allow the use of a statistical method.

The Audit Authority is to keep the documentation supporting the assessments made on the basis of its professional judgment to establish the sampling methods to be used for the planning, selection, testing and evaluation phases, in order to demonstrate the suitability of the established method.

9. Audit on projects (operations)

9.1. Introduction

Pursuant to art. 28 of the ENI IR, the Audit Authority (AA) ensures that audits are carried out on an appropriate sample of projects (operations), ensuring that audit work complies with internationally accepted auditing standards. According to art. 32 (1) of ENI CBC IR, during the audit on the sample of projects, expenditure declared by the beneficiary in support of a payment request shall be examined by the AA, to obtain assurance that the costs declared and the revenue 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. Audit on the sample of projects is an integral part of the overall control system. It ensures that the Audit Authority is in the position to issue the audit opinion and the annual audit report as required in article 68 of the ENI CBC IR.

The Audit Strategy provides indications on the contents of the audits on projects and the methodology for the selection of the sample of operations.

The work to be carried out during audit on projects will cover the entire Programme territory. Therefore, the AA, or its representatives, are legally authorised to carry out the required work over participating country territory where beneficiaries are based.

In this task, the AA will be assisted by the Group of Auditors, acting on behalf of the nominating national authority. The GoA involvement is of particular importance during on-the-spot checks.

The audit, in accordance with INTOSAI standards, should is conducted on the basis of the following elements:

- adequate evidence;
- relevance;
- found at a reasonable cost.

The audit process keeps into account the main aspects of the audit context as for example:

- the Programme;
- the category of operations concerned (for example, the purchase of goods and services, State aid (*de minimis*), etc.);
- the type of management and Beneficiary (Public Administration, Public Entity, private entity).

The audits shall therefore cover at least the following aspects:

- obtaining an understanding of the Programme, the call, the project, the lead beneficiary and the beneficiaries;
- verify the compliance of the reports with the grant contracts and its annexes;
- verify the plausibility of financial reports and expenditure verification reports;
- verify the eligibility of expenditure and proper treatment of project revenue;
- verify the correctness/accuracy of project reporting;
- verify the correctness/accuracy of project accounting information;
- verify the existence of the project outputs and deliverables.

Based on the above, audits on projects are carried out on the basis of supporting documents constituting the audit trail and are to verify the legality and regularity of expenditure declared to the Commission, including the following aspects:

- that the operation was selected in accordance with the selection criteria established by the Programme, was not physically completed or fully implemented before the beneficiary submitted the application for funding under the operational Programme, has been implemented in accordance with the approval decision and fulfilled any conditions applicable at the time of the audit concerning its functionality, use, and objectives to be attained;
- that the expenditure declared to the Commission corresponds to the accounting records and that the required supporting documentation demonstrates an adequate audit trail as set out in art. 30 (f) of the ENI IR;
- that for expenditure declared to the Commission, outputs and results underpinning payments to the beneficiary have been delivered, participant data or other records related to outputs and results are consistent with the information submitted to the Commission and that the required supporting documentation demonstrates an adequate audit trail as set out in art. 30 (f) of the ENI IR.

The audit of operations generally consists of two phases:

- a phase in which the supporting documents that constitute the audit trail relating to the sampled operations are analysed;
- an on-the-spot phase, if necessary, to verify the material implementation of the operation.

The on-the-spot verification is therefore determined by the need to verify the physical implementation of the operation. Said 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 in the case of projects that do not require a physical implementation. When the on-the-spot verification of the implementation of the intervention is not possible, the auditors are to obtain evidence of the implementation of the intervention and on the objectives met through the supporting documents that constitute the audit trail.

The audit phase at the Beneficiary premises therefore assumes particular relevance, given that it allows to verify as much as possible the actual execution of the operation with all plausible evidence.

To carry out the audit of the selected operations, pursuant to art. 30 of the ENI IR, the supporting documents that constitute the audit trail should be available through the electronic data exchange systems.

The evidence and results of each audit are to be properly documented:

1. in the pertinent audit checklists (see Annexes 2.9 from a) to e) to this Manual);
2. in the on-the-spot verification reports (see Annex 2.2 to this Manual);
3. in the reports for audit of operations (see Annexes 2.4 and 2.5 to this Manual).

The final outcome of the audit is always be based on certain evidence, including a minimum level of on-the-spot verifications required for the purposes of an efficient risk management. The aforementioned minimum level of on-the-spot verifications can be reduced in the event that MCS is functioning properly and if the error rate is maintained at an acceptable level or increased in case system deficiencies are detected or the error rates keep increasing.

Based on the above, the audit on projects process is organized 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**

These phases will be thereafter fully described. A flowchart is available in Annex 2.10

9.2. 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 section 4.5.

The sampling choice will depend on the findings of the AA during the system audits. The sample size is determined based on the level of assurance obtained through the performed system audit.

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

- will be supported 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 the Programme lifetime;
- will assure that thematic objectives/priorities of ENI CBC MED Programme are properly represented in the sample.

As clarified by DG Regio at the beginning of 2020, after the handover with DG Near, audit on projects is carried

out on project expenditures as well as on technical assistance expenditures, consisting of expenditures incurred by the MA, the Programme (BOs, NCP, CCP, NA, etc.) and the AA.

Therefore, TA expenditures are considered as part of the total population and will be audited in the context of the audits of projects and taken into account for the Total Error Rate (TER) and Residual Total Error Rate (RTER) calculation.

9.3. Planning

To carry out audits on projects, a specific engagement programme has to 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;
- 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, it is considered a good operating practice to convene a meeting or meetings with all the people assigned 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 audit planning is performed using Annex 5.3b.

The auditor shall 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 must 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 dossier may have an internal specific structure as a function of the intervention area, the subjects involved and their responsibility, the implementation timing, etc.

The operational control checklist has to be considered an 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.

Operational control checklists are normally organized according to a general checklist and specific checklists in relation to the types of operations/audit trails, such as:

- check list on Audit on operations;
- check list on pubblic procurament;
- check list on procurament by private;
- State aid (de minimis);

After audit planning, written notices to the Authority(ies)/ Body(ies) /Partner(s) to be audited will be sent.

The documents available for document examinations must be as complete as possible. Preparation of full project documentation requires considerable effort on the behalf of the beneficiaries. Therefore, the document request template should contain:

- a short information on the purpose of the document examination;
- the name of the foreseen auditor, the time/time frame for the audit, including the deadline until when the documents must be received by the auditor/made available to the auditor;
- the address and the name of the person who will be responsible for receiving the documents, their appropriate archiving for the time frame of the audit and their re-sending to the auditee;
- a list of the documents needed, including an indication on whether originals or copies must be provided;
- a request that persons responsible for the project and the project accounting and their contact details are communicated to the auditor, so that the auditor can address questions directly to the relevant personnel;
- information that missing information or missing documents are considered as an error and cannot be accepted after the time frame for the document examination has passed.

The GoA shall be included in the copy of the announcement letter.

9.4. Analysis of documents

The audits of the sample of projects are carried out on the basis of the supporting documents that constitute the audit trail and they verify the legitimacy and regularity of the expenses declared to the Commission.

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.

It is considered a good practice to finish the relevant documentation analysis before any on the-spot verification, with particular reference to the financial aspects and the financial regularity, as it allows, among other things, to verify the management effectiveness and efficiency in compliance with EU rules, national and regional law, and in particular the following control aspects:

- effectiveness: actual monetary outlay;
- reality: existence of purchased/returned goods/services;
- inherence: functional and temporal link between the expenses charged and the operations carried out;
- legitimacy: primary documents review, checking the regularity and proper accounting (accounting records statutory/fiscal obligations);
- veracity: correspondence between the amount declared and the review with the supporting documents and recording in analytical/sectional accounting and general accounting system.

A. *Check of the correct procedure for informing potential beneficiaries in accordance with the cooperation Programme rules and provisions.*

Control reference documents:

- cooperation Programme,
- MC's decision on selection procedures,
- call for proposals or tender documents and related annexes,
- Manual for Applicants,
- factsheets,
- FAQs,
- proof of publications of the call/tender.

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B. *Check of an appropriate procedure for the acquisition and logging of the applications for assistance.*

Control reference documents:

- manual or management procedures (with reference to the sections regarding the internal procedures for

protocol, document storage and retention),
- public notices/bid documents,
- protocol list or register,
- registration on receipt of the application,
- evidence of receipt delivered to each applicant,
- records kept of the approval status of each application.

C. *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.*

Control reference documents:

- cooperation Programme,
- public notices/bid documents,
- the further acts to be adopted in accordance with the specific national rules on public procurement.
- selection criteria approved by the JMC,
- call for proposals,
- Guidelines for Grant Applicants,
- factsheets,
- FAQs, if applicable,
- selection and formal appointment of assessors by JMC,
- declaration on impartiality and absence of conflict of interests signed by the assessors,
- minutes of the PSC's work,
- internal regulation on the functioning of the PSC (if applicable),
- communications to Lead Applicants (f.i. request for additional documents);
- JMC's approval of the results of the evaluation,
- notification of the result of the evaluation according to the foreseen procedure with the reasons for acceptance or rejection clearly set out

D. *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.*

Control reference documents:

- cooperation Programme;
- cooperation Programme selection criteria adopted by the JMC;
- public notices/bid documents;
- tenders submitted;

- evaluation committee's proceedings minutes.

E. *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.*

Control reference documents:

- cooperation Programme,
- public notices/bid documents,
- agreement/contract between MA and the Beneficiary,
- orders, assignments, contracts for delivery,
- for training initiatives, training and economic plan, attendance records, contracts with internal and external staff involved in various capacities in the training intervention implementation (teachers, tutors, consultants, coordinators, etc.),
- supporting expenditure documentation,
- expenditure payment documents,
- reporting and application for refund documents.

F. *Check the correctness of expenditure supporting evidence from the regulatory point of view (statutory/civil code and fiscal).*

Control reference documents:

- orders, contracts, supplies and services,
- supporting expenditure documentation,
- expenditure payment documents,
- obligatory accounting books (i.e. Journal, VAT book, depreciable assets, etc.),
- any additional and relevant act referred to fiscal and statutory regulations.

G. *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.*

Control reference documents:

- cooperation Programme,
- public notices/bid documents,
- agreement/contract between MA and the Beneficiary,
- any approved convention/contract variants,
- orders, assignments, contracts for delivery,
- for training initiatives, contracts with internal and external staff involved in various capacities in the training intervention implementation (teachers, tutors, consultants, coordinators, etc.),

- for the training programs, educational calendars and records of attendance,
- expenditure payment documents,
- reporting and application for refund documents.

H. *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.*

Control reference documents:

- cooperation Programme,
- the acts prescribed by rules on expenditure eligibility,
- public notices/bid documents,
- agreement/contract between MA and the Beneficiary,
- any approved convention/contract variants,
- orders, assignments, contracts for delivery,
- contracts with internal and external staff involved in various capacities in the training intervention implementation (teachers, tutors, consultants, coordinators, etc.),
- supporting expenditure documentation,
- expenditure payment documents,
- further acts adopted in accordance with the specific national rules on public procurement.

I. *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.*

Control Reference Documents:

- cooperation Programme,
- the documents stated in the specific aid scheme of reference,
- for the training programs, the documents normally required on the expenditure eligibility and cost caps, the training plan and its economic plan, the contracts with the internal and external staff involved in various capacities in the training intervention implementation (teachers, tutors, consultants, coordinators, etc.);
- public notices/bid documents;
- agreement/contract between MA and the Beneficiary;
- any approved convention/contract variants;
- orders, assignments, contracts for delivery;
- supporting expenditure documentation;
- expenditure payment documents.

J. *Check the traceability of expenditure incurred (and exactly reported) to the Beneficiary requiring the assistance provision, and the operation subject to aid.*

Control Reference Documents:

- cooperation Programme;
- public notices/bid documents;
- agreement/contract between MA and the Beneficiary;
- any approved convention/contract variants;
- orders, assignments, contracts for delivery;
- supporting expenditure documentation;
- expenditure payment documents.

K. *Check that requested assistance does not overlap with other not cumulative contributions.*

Control Reference Documents:

- cooperation Programme;
- supporting expenditure documentation;
- expenditure payment documents;
- documents relating to the receipt of other grants for the same operation;
- documentation regarding the consultation of any databases on aid at national/regional/EU level.

L. *Check the existence of a separate accounting inside the beneficiary accounting system for expenses incurred for the operation/project of the cooperation Programme.*

Control reference documents:

- accounting records extract on the operation/project financed;
- supporting expenditure documentation;
- expenditure payment documents;
- verifications in the journal, assets and depreciation fund allocations register, etc.

M. *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.*

Control reference documents:

- cooperation Programme;
- the documents provided by the rules on expenditure eligibility;
- documents required by the specific EU rules, if applicable
- public notices/bid documents;

- agreement/contract between MA and the Beneficiary;
- any approved convention/contract variants;
- orders, assignments, contracts for delivery;
- for training interventions, contracts with internal and external staff involved in various capacities in the training intervention implementation (teachers, tutors, consultants, coordinators, etc.);
- for training interventions, attendance registers and educational materials produced;
- supporting expenditure documentation;
- expenditure payment documents;
- the further acts to be adopted in accordance with the specific national rules on public procurement.

N. *Check of information obligations fulfilment under EU regulations, cooperation Programme and the specific Communication Plan in relation to the operation/project co-financed.*

Control reference documents:

- EU and national rules on information requirements;
- cooperation Programme;
- the specific Communication Plan of the cooperation Programme;
- informational material produced (i.e. billboards, plaques posted on the works or goods subject of the transaction expenses, teaching materials, attendance certificates, posters, etc.);
- on the information material, the presence of the European Commission and Autonomous Region of Sardinia recognition logos as well as other links of the expenditure object with the cooperation Programme.

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

Control reference documents:

- acts related to the compliance with EU, national and regional legislation regarding environmental protection and equal opportunities and non-discrimination;
- cooperation Programme;
- any guidelines on equal opportunities adopted by the MA.

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

To start an on-the spot audit, an announcement letter will be sent to the auditee (see Annex 2.1).

The announcement letter should 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.

The AA may consider to include extra information on the necessary content of the announcement letter. Due to the tight time frame, it is very important that on-the-spot checks can be done efficiently. This is only possible if the auditees prepare all necessary documents and if the responsible persons are available during the on-the-spot check.

The GoA shall 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 has to be considered an 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.

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

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

The auditor shall 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 shall inform the auditee about the next steps of the audit process and reporting.

The auditor shall inform the auditee on the process and deadlines of the contradictory procedure. He/she shall make clear that the audit must be completed immediately following the spot visit, 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. The on-the-spot visit is carried

out through interviews with the previously identified relevant actors and may have an open structure, i.e. it may 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.

When performing on-the-spot checks, the following issues should be verified:

1. General procedures
   - access to the grant contract and partnership agreement;
   - rules for selection of expenditure and principles and criteria for verification coverage;
   - financial Report for the Grant Contract;
   - rules for Accounting and Record keeping;
   - exchange rates.
2. Costs declared are real, accurately recorded and eligible
   2.1. Whether the costs are real?
      - examination of supporting documents.
   2.2. Whether the costs are accurately recorded?
      - examination of the accounting system.
   2.3. Whether the costs are eligible?
      - compliance with budget of the Grant Contract (check of the budget in force);
      - compliance with direct cost categories;
      - compliance with implementation period;
      - compliance with sound financial management principles;
      - compliance with tax and social legislation;
      - retroactive award in infrastructure projects.
3. Non-eligibility, indirect cost and procurement rules
   - indirect costs;
   - compliance with procurement, nationality and Origin Rules;
   - non-eligible costs.
4. Non-profit character of the project
   - revenues, income and profit.
5. Compliance with contractual conditions
   - compliance with visibility rules;
   - other contractual conditions.

During on-the-spot audits, the auditor must do all checks, from preparation to execution, to reporting, and

subsequently to the aggregated reporting.

All activities must be recorded through specific checklists, as already explained in the previous sections, normally organized according to standardized formats separated in relation to the operation types/audit trails, such as goods and services acquisitions, public works, funds provision and State aid (de minimis).

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 any, causes which might have limited access to documents if case may be. A model of the on-the-spot verification minutes can be found in Annex 2.2 to the present Manual.

The auditor shall 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 to clarify any open issue, and for the signature of the minutes of the visit.

The following figure summarizes the on-the-spot audit activities:

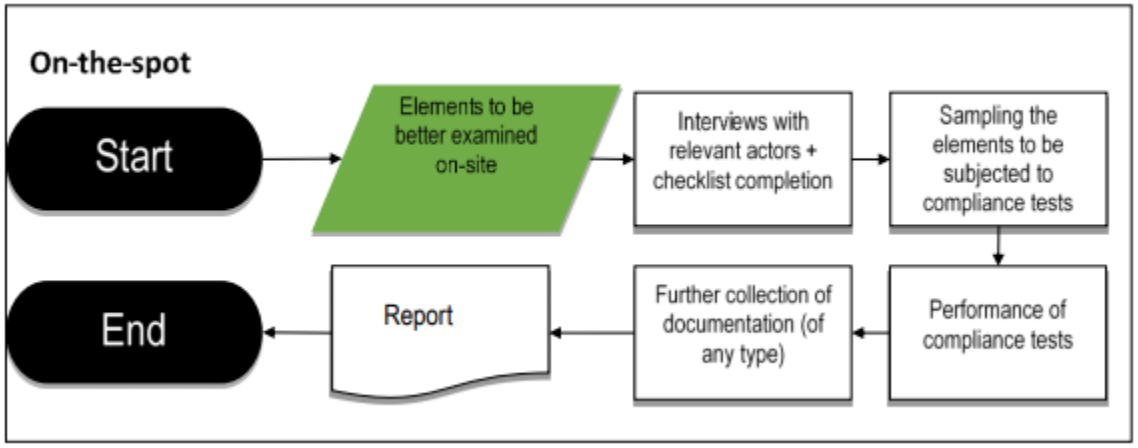


Figure 16 – Flowchart diagram of on-the-spot analysis

9.6. Audit Reports and follow up

The auditors responsible for auditing of operations must have reporting instruments through which they can record the results of the activity carried out.

The reporting instruments make up the fundamental supporting evidence

- for a possible contradictory procedure;
- for the subsequent drafting of the Annual Audit Report and Audit Opinion by the AA, according to Article 28(6) of ENI IR.

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 annexes of this Audit Manual include the main reporting documents referred to audits of operations.

All these documents constitute legal proof of the execution of the audit activities.

The audit reports represent a complete description of the activity carried out and must 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 must also disclose the amounts subject to control and any amounts deemed inadmissible.

During the drafting of each Audit Report on projects, all documentation acquired during the audit should be re-examined, in particular with regard to the aspects that ensure:

- the financial regularity;
- the eligibility of expenditure;
- the validity of the documentation;
- the consistency with the Programme;
- the consistency of the procedures with the requirements of the audit trails.

The presence of irregularities or the need for further investigation determines 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 should be conducted in a way to allow the 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 is 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.

Any report issued by the audit providers and the conclusions of any audit are discussed with the GoA members depending on the need (Annex 2.11).

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.

Consequently, it is important that the AA, with the assistance of GoA, can establish a monitoring system on the follow-up process resulting from the recommendations provided by the audits of operations on the certified expenditure.

To avoid unnecessary delays, auditors and Authority(ies)/Body(ies)/Partner(s) should follow a number of simple rules:

a) prior to the audits:

- ensure that all requested documents are available and properly arranged for the date of the audits;

b) during the audits:
- guarantee the presence of the respective financial and technical manager and, if feasible and relevant, also of its first level controller in order to give the necessary clarifications;
- guarantee to have access to the internal accounting system and provide further documents requested on-the-spot;
- to have clearly understood, if applicable, the results/findings that have been raised by the auditors; this does not necessarily imply agreement;

c) after the audits:
- promptly address the requests for action put forward by the Programme bodies.

The processing of any irregularities is 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”.

If, on the other hand, the results of the audit of operations do not lead to the detection of irregularities, the auditor issues directly a Final Audit Report.

If the issues found appear to have a systemic nature and such as to entail a risk for other operations within the cooperation Programme, the AA makes sure that further examinations are performed, including, if necessary, additional audits, to establish the scale of said issues and call for appropriate corrective measures.

The ENI CBC IR article 68.2(e) requires that an “analysis of the nature and extent of errors and weaknesses identified” is provided in the annual audit report. This requirement implies that the AA should have a clear concept on the classification of errors detected during audit on operations.

The procedure for the classification of errors should include the following elements in relation to each audit of operations:

- a report or conclusion should be prepared and attached to the audit file containing planning documentation and other documents supporting the findings;
- such report or conclusion should contain a complete description of the findings, covering all elements (conditions or actual situation, criteria or standard, effect and – especially - the cause of the errors), as well as the classification of each error.

The analysis and treatment of errors will be fully described on the following section 9.8 to this Manual.

Finally, it is to be noted that the AA will ensure the accessibility and archiving of all the audit documents, which will be recorded in the AA database, including the following points:

- auditee;
- date of audit;

- any irregularities found;
- findings code;
- date of submission of the final report to the auditee;
- updates of follow-up (if irregularities present).

9.7. Specific Areas

9.7.1. Public tenders

With regard to the rules on public procurement, the auditor shall verify that the operations financed by the ENI CBC MED Operational Program are implemented in full compliance with EU and national procurement legislation.

The applicable rules are:

- Directive 2014/23/EU of the European Parliament and of the Council of 26 February 2014 on the award of concession contracts
- Directive 2014/24/EU of the European Parliament and of the Council of 26 February 2014 on public procurement and repealing Directive 2004/18/EC
- Directive 2014/25/EU of the European Parliament and of the Council of 26 February 2014 on procurement by entities operating in the water, energy, transport and postal services sectors and repealing Directive 2004/17/EC
- Articles 52 - 56 of the ENI Implementing Rules (Reg. EU 897/2014)
- Articles 8 and 9 of Regulation (EU) N. 236/2014 laying down common rules and procedures for the implementation of the Union's instruments for financing external action
- Guide on procurement by private project beneficiaries in ENI CBC Mediterranean Sea Basin and Italy Tunisia programme s – TESIM
- Factsheet on procurement by Egyptian public beneficiaries – TESIM
- Fiche descriptive des règles de marchés pour les bénéficiaires publics en Tunisie – TESIM
- Factsheet on procurement by Palestinian public beneficiaries – TESIM
- Factsheet on procurement by Jordanian public beneficiaries – TESIM
- Factsheet on procurement by public beneficiaries in Lebanon – TESIM
- Project Implementation Manual Annex 7.3 - Procurement for private organisations

Audit in relation to public procurement shall ensure, therefore, that applicable EU procurement rules and related national rules are respected.

The audit shall be based on the verification of the evidence of the following aspects:

(i) for contracts with a value of more than EUR 60.000, an evaluation committee shall be set up to evaluate applications and/or tenders on the basis of the exclusion, selection and award criteria published by the beneficiary

in advance in the tender documents. The committee must have an odd number of members with all the technical and administrative capacities necessary to give an informed opinion on the tenders/applications;

(ii) sufficient transparency, fair competition and adequate ex-ante publicity have been ensured;

(iii) equal treatment, proportionality and non-discrimination have been guaranteed;

(iv) tender documents were drafted according to best international practice;

(v) deadlines for submitting applications or tenders have been long enough to give interested parties a reasonable period to prepare their tenders;

(vi) candidates or tenderers were excluded from participating in a procurement procedure if they fell within one of the situations described in Article 106(1) of Regulation (EU, Euratom) No 966/2012 and candidates or tenderers have certified that they are not in one of these situations. In addition, contracts may not be awarded to candidates or tenderers which, during the procurement procedure fall within one of the situations referred to in Article 107 of Regulation (EU, Euratom) No 966/2012;

(vii) the procurement method used was in accordance with those defined by the art. 53 – 56 of the ENI IR considering the relevant thresholds.

The following documentation shall also be taken into account:

- European Commission Decision C (2019) 3452, "Guidelines for determining financial corrections to be made to expenditure financed by the Union for non-compliance with the applicable rules on public procurement", defines the financial corrections that the European Commission applies in case of violation of the rules on public procurement;
- the document of the European Commission "Guidelines for officers responsible for procurement on the most common errors to avoid in projects financed by the European Structural and Investment Funds"[7], aimed at supporting the Beneficiaries in carrying out procurement procedures and preventing any irregularities.

9.7.2. State aids

Member States and Mediterranean Partner Countries (Egypt, Jordan and Tunisia) should contribute positively to the compliance with the rules on state aid. The Treaty on European Union establishes a general framework for State Aid in Articles 107 and 108. The essential reference framework on State Aid is mainly represented by:

· de minimis aid, or the so-called minor aid, such as minimum financial aid granted by the EU Member States to a

[7] Available on: http://ec.europa.eu/regional_policy/sources/docgener/informat/2014/guidance_public_proc_it.pdf.

business, which is not substantially considered state aid as it does not affect free competition. The legislation on this type of aid consists of the following regulations:

- Reg. (EU) No 1407/2013 laying down the rules on de minimis aid;
- Reg. (EU) No 360/2012 on de minimis aid granted to business providing general economic services;
- art. 12.3 of the ENI CBC Implementing Rules (Commission Implementing Regulation (EU) No 897/2014) stipulates that "*Aid granted under the Programme shall comply with the applicable Union rules on State aid within the meaning of Article 107 of the treaty on the Functioning of the European Union.*"

9.7.3. Simplified Cost Options

The so-called Simplified Cost Options (SCOs) consist of procedures of calculating eligible costs according to a predefined method based on outputs, results, or some other costs. In the ENI MED OP these procedures are governed by article 50 of Reg. (EU) 874/2014. Moreover articles 47 and 52 of the same regulation define a general framework for specific type of operation. Further requirements, which may limit the application of SCOs to certain operations or provide additional options, could be included in the call for proposal guidelines.

According to art.50 of Reg. 897/2014, SCOs may not exceed EUR 60 000 per beneficiary and per project, unless the Programme establishes otherwise according to art. 4 of the same regulation, but not exceeding EUR 100 000 of public contribution.

It may take any of the following forms:

- standard scales of unit costs;
- lump sums;
- flat-rate financing determined by the application of a percentage to one or more defined categories of costs.

These options may be also combined, but only where each option covers different categories of costs or where they are used for different projects forming a part of an operation or for successive phases of an operation.

Where simplified costs are used, the tracing of every euro of co-financed expenditure to individual supporting documents is no longer required as well as the consequent reconciliation of use of SCOs contributes to a more correct use of the ENI Funds, reducing administrative burdens and the risk of error linked to the reporting based on real costs (i.e. based on the precise justification of each single expense actually incurred).

In the case of the use of SCOs, audit verifications shall focus on:

- **the correctness of the calculation method (to be verified within system audits carried out by the AA),**
- **whether the conditions for reimbursement set in the agreement between the beneficiary and MA have been met and that the agreed methodology has been correctly applied to (be verified within**

audit of operations).

Verification on the correctness of the calculation method for SCOs

In analogy with art. 67(5) of the CPR several methods for calculating simplified costs: some of them are based on statistical data, others on data of the beneficiaries or elements included in the regulation. Some give a lot of flexibility, while others offer strong legal certainty or can be established with a limited administrative burden. For simplified cost options, it is important to ensure proper ex ante assessment and related documentation of the method, where necessary, since it is only the control of the achievements that is done ex-post.

The decision to use these types of calculation of eligible costs is in charge of the MA, which may establish the use of SCOs for all or part of the Beneficiaries and/or for all or part of the operations.

The auditor will therefore have to verify, at the level of the MA, that the methodology for calculating the chosen SCO is based on **a fair, equitable and verifiable calculation method.**

In this case, the auditor shall verify that the method adopted is based on:

(i) statistical data or other objective information (e.g. surveys, comparative analysis with similar types of operations, etc.);

(ii) the verified historical data of individual beneficiaries;

(iii) the application of the usual cost accounting practices of individual beneficiaries.

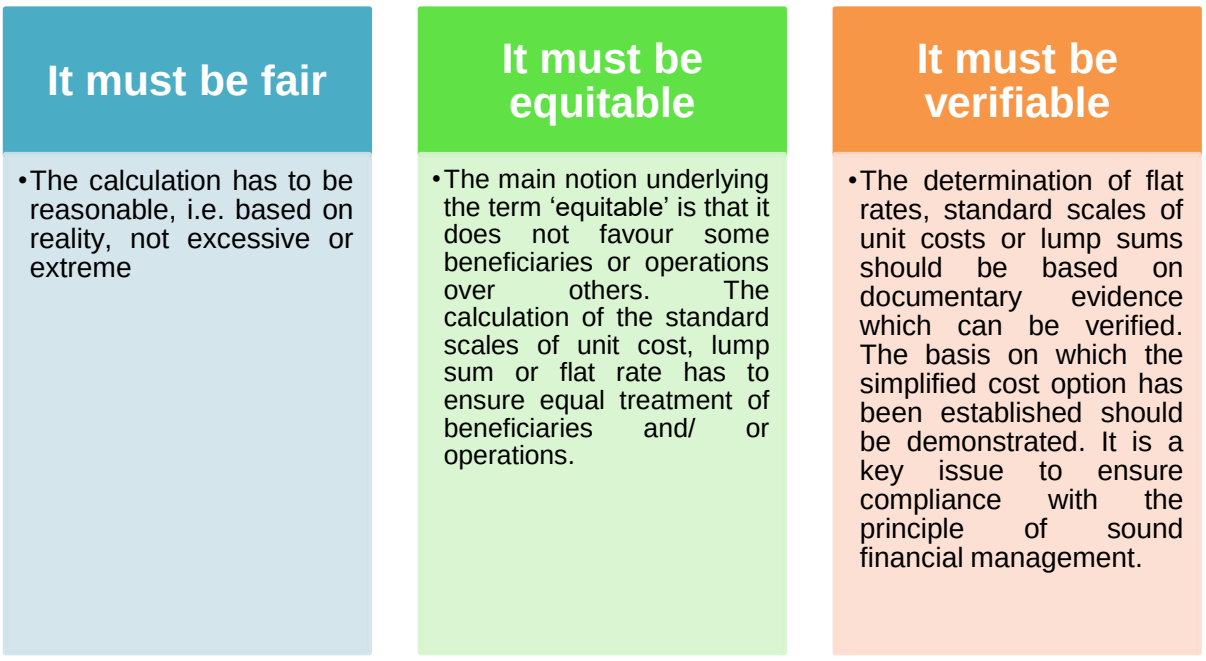


Figure 17 – Method for SCOs' calculation

The conditions for the use of the SCOs, as duly defined in advance and adequately documented, must be duly communicated to the Beneficiaries in Programming documents or in the call for proposals.

The auditor will therefore have to verify that the methodology adopted by the MA respects the peculiarities of the individual Simplification Cost Options, as shown below.

LUMP SUMS

Lump sums cover all or a predefined portion of the eligible costs of an operation, within the limit of a public contribution not exceeding 100,000 euros per operation. This amount corresponds to the public contribution paid to or by the beneficiary for the activity supported through the lump sum (excluding private participation if any). It does not include the allowances or salaries disbursed by a third party for the benefit of the participants in an operation. The definition of the lump sum amount is justified by the Monitoring Committee.

The grant is awarded to achieve the pre-established results for the operation; therefore, the Beneficiary must prove the realization of the expected outputs (not the individual expenses incurred for this purpose). Considering that payments are calculated based on the result achieved, it is essential to acquire proof of the actual achievement of the activities/outputs envisaged for the operation in the related approval decision. In fact, in case the result is not achieved, either partially achieved, or is different from what is foreseen, no amount will be due to the Beneficiary. In practice, in the case of lump sums, the payment to the Beneficiary is 100% of the grant, if the operation produced the correct output, or zero, in all other cases.

Even if several lump sums could be combined to cover different categories of eligible costs or different projects within the same operation, the total of the lump sums must not exceed EUR 100 000 of public contribution for a given body receiving the grant or the repayable assistance.

However, within a project, lump sums not exceeding EUR 100 000 of public contribution could be combined with real costs and/or other simplified cost options for a total which could exceed EUR 100.000 of public contribution.

FLAT RATE FINANCING

In case of flat rate financing a percentage, fixed ex ante, is applied to one or several other categories of eligible costs, in order to calculate the eligible amount due to the Beneficiary. When reporting costs, the Beneficiary must then prove the costs to which the flat rate applies, but not produce supporting documentation for the individual costs reimbursed based on this Simplified Cost Option.

For ENI MED OP system there is a maximum of three types of categories of costs:

Type 1: categories of eligible costs on whose basis the rate is to be applied to calculate the eligible amounts.

Type 2: categories of eligible costs that will be calculated with the flat rate.

Type 3: where relevant, other categories of eligible costs: the rate is not applied to them and they are not calculated

with the flat rate.

When using a flat rate financing system, the categories of costs falling under each type should have been clearly defined by the MA: any category of expenditure is clearly included in one — and only one — of the three types.

In this respect, it is then of outmost importance to define which are the eligible direct costs and how they must be proven, as a possible adjustment to direct costs also reduces the eligible indirect costs as defined in the box below:

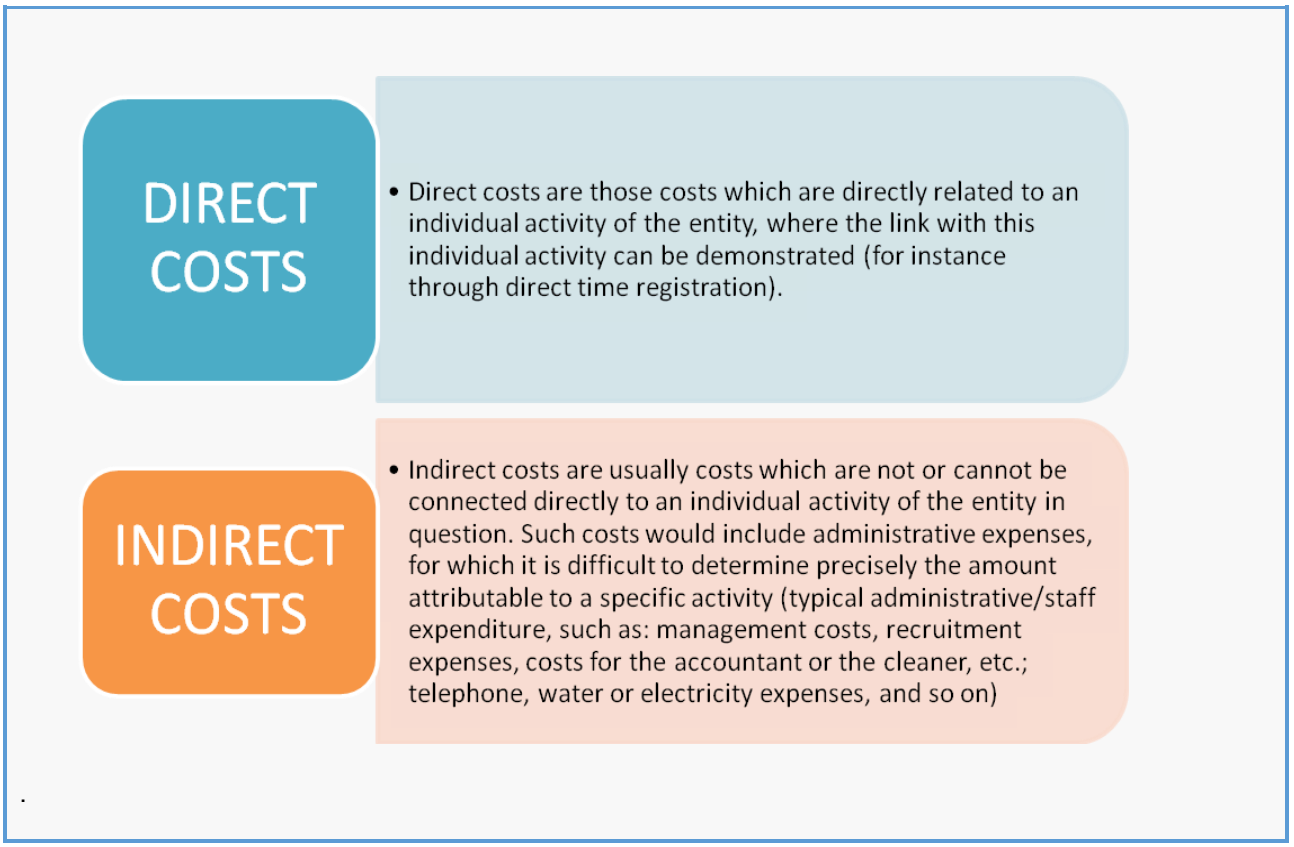


Figure 18 - Direct Costs and Indirect Costs

STANDARD SCALES OF UNIT COSTS

In the case of standard scales of unit costs, all or part of the eligible costs of an operation will be calculated on the basis of quantified activities, input, outputs or results multiplied by standard scales of unit costs established in advance.

This possibility can be used for any type of project or part of a project, when it is possible to define quantities related to an activity and standard scales of unit costs. Standard scales of unit costs apply typically to easily identifiable quantities.

The standard scales of unit costs can be process-based, aiming at covering through a best approximation the real costs of delivering an operation. It can also be outcome-based (output or result) or defined on both process and outcome. The MA shall also take into consideration the impact the different set-ups will have in terms of justification of the eligible costs. Different scales of unit costs applicable to different activities may be set up.

The Programme has adopted all the three typologies of SCOs for specific type of costs as specified in the followings. For each of them the AA shall then verify that the conditions established within the applicable regulation are satisfied, namely:

LUMP SUMS

Within the OP lump sum arrangement is used in the case of preparation costs and may be used for sub-grants schemes. The maximum amount of eligible lump sum is ruled in the respective call for proposal/Implementation Manual.

FLAT RATE FINANCING

Flat rate financing applies to one cost categories compulsory, depending on the direct costs, i.e as for the indirect costs calculated as a maximum of 7% of total direct eligible cost (excluding infrastructure costs).

STANDARD SCALES OF UNIT COSTS

Optionally, for sub-grants schemes if the Beneficiary so decide.

Verification on the correct application of the method adopted for the operation

As for audit of operations, the auditor shall verify whether the conditions for reimbursement set in the agreement between the beneficiary and MA have been met and whether the agreed methodology has been correctly applied by the Beneficiary.

In this regard, the auditor shall verify the basis for calculating the grant have been adequately proven (e.g. the outputs realized), the effective application of the methodology established by the MA in relation to the outputs / results of the project in the case of unit costs and lump sums, or at the rate to be applied in case of flat rates; thus the auditor verifies that the calculation of the grant due to the Beneficiary and of the expenditure certified to the EC is correct.

The auditor shall also verify the presence of an adequate audit trail that includes the documents on the method of defining the SCOs regarding the co-financed operations and that, allows:

- in case of standard scales of unit costs and lump sums, the reconciliation between the aggregate amounts reported to the European Commission, the detailed data concerning the outputs or results and the supporting documents kept by the MA and by the Beneficiaries,

- in case of flat rates, the reconciliation between the aggregate amounts reported to the European Commission and the supporting documents kept by the MA and by the Beneficiaries for the costs taken as a basis for the application of the flat rate.

The following figure summarizes the items audited in the case of the different types of SCOs.

SCO	Items audited
Standard scales of unit costs	First, the auditor verifies that the individual output units envisaged for the operation have been implemented and are properly substantiated. The auditor then verifies that the total eligible expenditure and the amount paid to the Beneficiary coincide with the multiplication of the correct number of actual output units (e.g. hours / expert) by the related unit cost established ex ante by the Beneficiary/MA.
Lump sums	The auditor verifies that the product/s has/ve been provided as planned: in such a case, the entire grant is eligible. Otherwise, no payment should have been made to the Beneficiary.
Flat rates	First, the auditor verifies that the costs to which the flat rate will apply (e.g. direct costs) fall within the categories established *ex ante* by the MA and are adequately proven. The auditor then verifies the correctness of the calculation of the flat rate of the eligible expenditure, by applying the correct flat rate established ex ante by the MA to the costs correctly proved by the Beneficiary.

Figure 19 – Items audited in the case of the different types of SCO's

In case of a combination of different types of SCOs apply, the auditor shall verify that the combination as occurred covers different categories of costs or if they are used for different projects that are part of the same operation, or for subsequent phases of the operation.

9.7.4. Principles of equal opportunities and non-discrimination

According to the art. 7, Reg. (EU) n. 1303/2013, the Member States and the Commission:

- "ensure that equality between men and women and the integration of the gender perspective are taken

into account and promoted at all stages of the preparation and execution of the programs, also in connection with the monitoring, preparation of reports and evaluation "(Principle of equal opportunities), in implementation of the general principles pursuant to art. 157 of the Treaty on the Functioning of the European Union (TFEU);

- "take the necessary measures to prevent any form of discrimination based on sex, racial or ethnic origin, religion or belief, disability, age or sexual orientation during the preparation and execution of the programs. In particular, with reference to people with disabilities, the possibility of their access to all phases of the preparation and execution of the programs is taken into account"(Principle of non-discrimination), in implementation of the general principles of art. 10 of the TFEU.

These principles are part of the basic principles of the Europe 2020 Strategy, one of whose priorities is dedicated to the promotion of inclusive growth in the EU, such as promoting an economy with a high rate of employment and which favors social economic. and territorial cohesion. Furthermore, the related initiative "European Platform against Poverty" includes the objective of combating discrimination in all its forms, including that one for people with disabilities.

As part of the audit on the operations, the auditor will then have to verify that the operation subjected to control promote or, in any case, respects the principles of equal opportunity and non-discrimination, pursuant to art. 7, Reg. (EU) n. 1303/2013, according to one of the following two perspectives:

- activation, pursuant to the provisions of the Partnership Agreement, of interventions aimed at promoting equal opportunities and non-discrimination, for example through the interventions falling within the following Thematic Objectives (TO) of the ENI CBC MED SB Programme (adopted to the European Commission with Decision No C(2015) 9133 on 17.12.2015):

  - TO A.3 – Promotion of social inclusion and fight against poverty;

More in detail, pursuant to art. 96, Reg. (EU) 1303/2013, the ENI CBC MED SB Programme includes a description of the "... specific actions to promote equal opportunities and prevent discrimination based on sex, race or ethnic origin, religion or personal beliefs, disability, age or sexual orientation ... in particular with regard to access to finance, taking into account the needs of the various target groups at risk of such discrimination, and in particular the obligation to guarantee the accessibility for disabled people";

- integration of the principle of equal opportunities and non-discrimination as a transversal priority, as far as applicable, for all types of interventions supported by the European Structural Investments (ESI) Funds. Without prejudice to the specificities connected with the type of operation, the auditor will therefore have to verify in particular that:
  - the operation respects and takes into consideration the principles of equal opportunities and non-discrimination as cross-cutting priorities ("mainstreaming"), if the intervention is not directly aimed at the implementation of these principles;

- the principles of equal opportunities and non-discrimination, including accessibility for people with disabilities, have been taken into consideration and promoted at all stages of the operation.

In this regard, the Communication of the Commission "Guide on ensuring the respect for the Charter of Fundamental Rights of the European Union when implementing the European Structural and Investment Funds" (2016/C 269/01) is also a useful support for audit activities. This document provides examples of the implementation of these rights in the various phases of management and control of the EU Funds, such as the selection of operations or management verifications.

Furthermore, this Communication recalls that the United Nations Convention on the Rights of Persons with Disabilities (UNCRPD) was signed by the EU and is therefore also applicable in the Member States in implementing EU policies. Furthermore, the European Union has adopted the European Disability Strategy 2010-2020: a renewed commitment to a barrier-free Europe" which aims to "... put people with disabilities in a position to exercise all their rights and benefit from full participation in the European society and economy, in particular through the single market";

- all necessary measures have been taken into account to prevent any discrimination based on sex, racial or ethnic origin, religion or belief, disability, age or sexual orientation, with regard to both risks of "direct discrimination" and "indirect discrimination". The notions of direct and indirect discrimination are reported below:

Notions of direct and indirect discrimination:

1) Provision, criterion, practice, act, pact or behavior, as well as the order to put in place an act or a behavior, which produces (directly) a prejudicial effect, discriminating individuals or groups according to their gender, race or ethnic origin, religion or belief, disability, age or sexual orientation, as well as a less favorable treatment compared to that one addressed to another individual or group in a similar situation;
2) Provision, criterion, practice, act, pact or apparently neutral behavior that nevertheless puts or can put individuals or groups of a determined sex, (or race, ethnic origin, religion, personal belief, disability, age and sexual orientation in a position of particular disadvantage with respect to individuals or groups of other sex (or race, ethnic origin, religion or belief, disability, age, sexual orientation), except where such provision, criterion, etc. concerns essential requisites (e.g. to perform work activities), provided that the objective is legitimate and the means used to achieve it are appropriate and necessary.

- the operation complies with the regulatory and strategic framework provided by the "Ex-ante conditionality", pursuant to art. 19 and Annex XI of Reg (EU) n. 1303/2013.

With reference to the analysis on the correct set-up and on the effective functioning of the Management and Control System of the Programme, the auditor must examine whether:

- the Management and Control System favours the promotion and respect of the principles of equal

opportunities and non-discrimination, providing for example that the manuals and documentation prepared by the MA contemplate: i) Thematic Objectives, Priorities and Specific Objectives, ii) indications for the integration of the principles of equal opportunities and non-discrimination in the implementation of the Program, with reference both to actions directly dedicated to the promotion of these principles, and to actions that can indirectly contribute to this purpose;

- the procedures for the selection of operations take into account the compliance of the operations with the EU's cross-cutting policies;
- the Managing Authority provided indications to the Beneficiaries in relation to the objectives, criteria and indicators for the promotion of the principles of equal opportunities and non-discrimination in the operations;
- the procedures for the verification of the operations also take also into account the compliance of the operations with the EU's cross-cutting policies;
- "Devices for training the personnel of the Authorities involved in the management and control of the ESI Funds in relation to the Union's law and policy on gender equality" are provided as well as on the subject of non-discrimination.

In line with the Note EGESIF 14-0011-02, system audits on equal opportunities and non-discrimination might be foreseen during the updating of the Audit Strategy, particularly in the assessment of intrinsic and/or inherent risk and in the evaluation of the reliability of the Management and Control System.

With specific reference to the audited operation, for example, the auditor may examine whether:

- the provisions of the Management and Control System for the promotion and compliance with the principles of equal opportunities and non-discrimination have been respected;
- the indications of the Managing Authority to the Beneficiaries on this matter have been respected;
- the implemented selection procedures have taken into account the compliance of the operations with the EU's cross-cutting policies;
- the relevant rules on state aid (e.g. aid for disadvantaged workers and workers with disabilities) have been respected;
- the relevant procurement rules have been respected (e.g. rules on social contracts for disadvantaged workers and workers with disabilities, technical specifications, criteria for offer evaluations, etc.);
- management verifications carried out on the operations have taken into consideration the respect of the principles of equal opportunities and non-discrimination.

As previously indicated, various aspects relating to the implementation of these principles can be examined already during the system audit phase. Also in this case, the auditor may use the aforementioned checklist.

9.7.5. Principle of sustainable development

According to art. 8, Reg. (EU) n. 1303/2013, the objectives of the ESI Funds are pursued in line with the principle of sustainable development and the promotion of the objective of preserving, protecting and improving the quality of the environment, taking into account the "polluter pays principle". This regulation refers to Article 11 and Article 191, paragraph 1 of the TFEU, which provides that "the requirements connected with environmental protection must be integrated into the definition and implementation of policies and actions of the Union, in particular with a view of promoting sustainable development".

Sustainable development means an economic and social development compatible with social equity, environmental protection and the rights of future generations.

The principle of sustainable development is one of the basic principles of the Europe 2020 Strategy, one of whose priorities is dedicated to the promotion of sustainable growth in the EU, which means a more efficient economy in terms of resources, environmental protection and more competitive. One of the objectives of the Europe 2020 Strategy is the "20/20/20 target", which includes:

- the reduction of greenhouse gas emissions by 20% (or even 30%, if conditions permit) compared to 1990 levels;
- the achievement of a 20% share of energy requirement derived from renewable sources;
- 20% increase in energy efficiency.

Furthermore, the Communication of the European Commission SWD(2016) 390 final, dated 22/11/2016, "Agenda 2030" provides indications on the implementation of both the 2030 Agenda in Europe and the UN Sustainable Development Goals (SDGs).

With reference to ENI CBC MED SB Programme (adopted to the European Commission with Decision No C(2015) 9133 on 17.12.2015) its overarching objective “Address common challenges in environment” and the correspondent Thematic Objectives (TO-B) titled “Environmental protection, climate change adaptation and mitigation”, promotes operations which undertake measures for anticipating and mitigating the adverse effects of climate change (such as improving water and energy efficiency) and enhancing environmental protection (through more sound management of wastes, and integrated ECAP-based planning for coastal areas).

This TO focuses on the following four priorities:

B.4.1: Support sustainable initiatives targeting innovative and technological solutions to increase water efficiency and encourage use of non-conventional water supply.

B.4.2: Reduce municipal waste generation, promote source-separated collection and its optimal exploitation, in particular its organic component.

B.4.3: Renewable energy and energy efficiency - Support cost-effective and innovative energy rehabilitations relevant to building types and climatic zones, with a focus on public buildings.

B.4.4: Integrated Coastal Zone Management - Incorporate the Ecosystem-Based management approach to ICZM into local development planning, through the improvement of intra-territorial coordination among different stakeholders.

In this framework, as far as the audit on operations is concerned, the auditor will have to verify that the operation subjected to control promotes, or, in any case, respects the principle of sustainable development reported in art. 8, Reg. (EU) n. 1303/2013, according to one of the following perspectives:

- activation of interventions aimed at promoting the obligations on environmental protection, efficient use of resources, mitigation and adaptation to climate change, protection of biodiversity, disaster resilience, as well as risk prevention and management;
- integration of the principle of sustainable development as a transversal priority, as far as applicable, for all types of interventions supported by the SIE Funds.

Taking into account the specificities connected with the type of operation, the auditor's verification will focus in particular to the contribution provided by the operation to promote the safeguarding, protection and improvement of the quality of the environment, the protection of human health, the efficient use of natural resources, the mitigation/adaptation to climate change, the protection of biodiversity, disaster resilience and risk prevention/management.

In this regard, the Commission Notice "Guidance on ensuring the respect for the Charter of Fundamental Rights of the European Union when implementing the European Structural and Investment Funds (2016/C 269/01)" is also a useful support to carry out the audit activities, providing examples of the implementation of these rights in the various phases of management and control of the SIE Funds.

Furthermore, this Notice recalls that the UNECE (United Nations Economic Commission for Europe) Convention on information access, public participation in decision-making processes and access to justice in environmental matters (Aarhus Convention) has been approved by the EU with Decision n. 2005/370/CE of the Council of the European Union and it is also applicable in the Member States.

9.7.6. Fraud contrast

Audits of operations, such as system audits, also include verification that all necessary measures have been taken, in compliance with relevant legislative, regulatory and administrative measures, in order to protect the EU's financial interests and for the prevention, detection and correction of any irregularities and fraud, albeit with regard

to the specific operation being audited.

To this end, during the audit of operations the auditor in charge shall verify that the anti-fraud measures established by the Management Authority following the related Fraud Risk Assessment have been applied as for the operation being audited. During the system audit, in fact, the Audit Authority verifies that the Management Authority has carried out such assessment of the risks of fraud, taking into account the model referred to in Annex 1 to the EGESIF Note n. 14-0021-00 of 16/06/2014, 2014 "Assessment of the risks of fraud and effective and proportionate anti-fraud measures" in order to assess the impact and likelihood of any risk of fraud affecting the EU's financial interests in the case of the relevant Operational Programme.

For each risk identified in this assessment, the Managing Authority must put in place appropriate measures and verifications for the mitigation of this risk, considering the suggestions of Annex 2 of the EGESIF Note as mentioned.

Consequently, at the time of the audits on the operations, the auditor verifies whether there is actual evidence of the implementation of the anti-fraud measures as defined by the Management Authority following its Fraud Risk Assessment. Related tools and reports are set accordingly.

In this respect, in Table **14** are some examples of anti-fraud measures that the Managing Authorities may have defined and that therefore the auditor may find in the framework of the audit on operations.

In addition, the European Commission has developed the ARACHNE system as an integrated IT tool for data extraction and enrichment, aimed at strengthening the identification, prevention, and detection of fraud under the ESI Funds. Even though this tool is applicable for EU member states only and it is not compulsory, related guidelines documents and the system itself are strongly recommended even for the ENI MED programme MA.

If the latter expressively decline the use or simply does not follow AA recommendation on it, an equivalent level of efficiency and effectiveness in fraud contrast instruments as set shall be proved.

Another tool available to the auditor for detecting possible cases of suspected fraud is the analysis of specific indicators, the so-called "Red Flags", which may support the detection of possible fraudulent activities (a Note on this subject, although related to the previous Programming period, is Note COCOF 09/0003/00 of 18/02/2009, "Information note on fraud indicators for the ERDF, the ESF and the CF" [8]). It is worth to remind that, only cases classified as such by a final judgment of the judicial authority are considered as established fraud cases.

Further supporting elements for the auditor in the detection of cases of suspected fraud are provided by the Information Notes of the European Anti-fraud Office (OLAF) on, for example, conflicts of interest and counterfeiting

[8] Available at: http://ec.europa.eu/regional_policy/it/information/publications/cocof-guidance%20documents/2009/information-note-on-fraud-indicators-for-erdf-esf-and-cf

of documents, and the Collection of Anonymous Fraud Cases published by OLAF itself.

As part of the document checks, in order to identify possible fraudulent activities, the auditor also refers to the European Commission's Note on "Detection of documentary fraud in the framework of structural actions - Practical guide for Managing Authorities" [9], drawn up by a group of experts from the Member States coordinated by the OLAF Fraud Prevention Unit".

The Note provides clarification on the concept of document fraud by identifying it as a material or ideological alteration of a document; the material alteration is manifested when a document can be modified manually (e.g. entries or references are deleted), while the ideological alteration takes place where the content of the document does not reflect reality (for example in the case of a false description of the services rendered or a list of participants with false signatures). In keeping in mind that all types of documents presented by the Beneficiaries are exposed to the risk of counterfeiting, the auditor shall pay attention e.g. to the following documents:

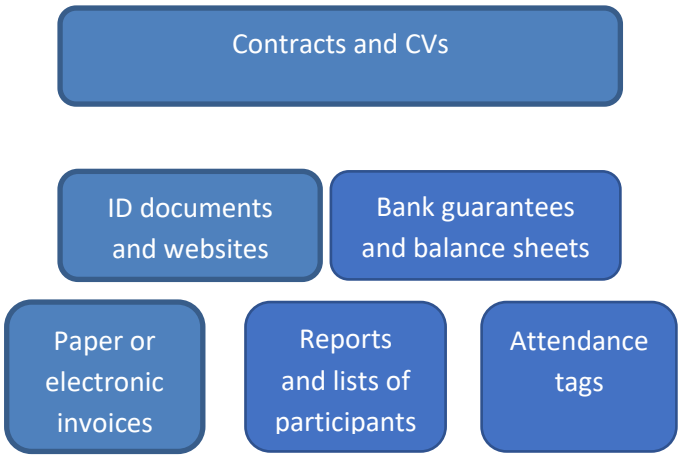


Figure 20 – Documents exposed to risk of counterfeiting

The above-mentioned Note on the detection of documentary fraud refers to so called "warning signs", both as regards the format of the documents (e.g. invoices without the Company's logo, handwritten amounts, cancelled figures, etc.) along with their content (e.g. vague description of products/services, dates, amounts, VAT registration number, etc.).

In case of suspected fraud or fraud has occurred, the auditor verifies that the Beneficiary and the Managing Authority have properly implemented the relevant management and information procedures, and in particular:

[9] Available at: https://ec.europa.eu/sfc/sites/sfc2014/files/sfc-files/guide-forged-documents-IT.pdf

1. the Beneficiary has informed the MA in a timely and accurate manner,

2. the MA has carried out an examination of the assessment of the irregularity, ascertaining whether the irregularity occurred. In this regard, reference shall be made to the "Classification table of types of irregularity" in Annex 2.12 to this Manual; this table combines the type of irregularity found (description) with a code identifying the irregularity itself, in order to be properly integrated into the OP MIS,

3. in the event of an actual irregularity, suspected fraud or fraud, the MA has fulfilled its communication obligations under art. 122 del Reg. (UE) n. 1303/2013 and art. 3 del Reg. (UE) n. 1970/2015 integrating the Regulation (EU) n. 1303/2013.

In particular, the auditor shall verify that any irregularity, suspected fraud or fraud found in audited operation (subject to a first administrative or judicial finding) has been included in the communication that the MA sends to the EC within two months following the end of each quarter pursuant in analogy with art. 72, comma 1, h) del Reg. (EU) n. 1303/2013. The MA must in fact have transmitted electronically, through the system of management of irregularities established by the European Commission Irregularity Management System (IMS), information on all irregularities reported by the competent bodies and found as such in the assessment phase.

The auditor then checks that the irregularity, suspected fraud, or fraud found in audited operation have also been the subject of an OLAF File within the IMS system, if the impact on the EU budget is equal to or higher than EUR 10,000.

In case of lower sums, communication is only envisaged if the EC explicitly requests it, but appropriate documentation must be kept and inserted on the information system by the MA.

In the event of suspected fraud or criminal conduct, the provisions of the Criminal Procedure Code will also apply in relation to the news of the crime, with the consequent obligations of communication to the Judicial Authority or the Judicial Police,

4. the auditor then verifies that the MA has applied the appropriate financial corrections and has put in place corrective measures, including through any updates to the OP Management and Control System, manuals and checklists, where appropriate,

5. the Beneficiary must then have repaid the MA of the irregular sum and the related interest,

6. the auditor shall also ensure that the MA has properly followed up on the irregularity, suspected fraud or fraud and related corrective measures, corrections and recoveries and shall communicate the relevant updates to the EC,

7. finally, the auditor verifies that the MA that, in line with EGESIF Note No. 15-0017-04, has withdrawn the irregular expenditure from the Annual report as sent to the EC, provided that the expenditure as such must have been entered by the MA in its debtors' ledger and must be properly inscribed in the accounts of the relevant accounting

year.

9.7.7. Use of the euro

According to art. 32 of Reg. (EU) 897/2014 expenditure incurred in a currency other than the euro shall be converted into euro by the Managing Authority and by the beneficiary using the monthly accounting exchange rate of the Commission[10] of one of the following:

a. the month during which the expenditure was incurred,
b. the month during which the expenditure was submitted for examination in accordance with Article 32(1) of the abovementioned regulation,
c. the month during which the expenditure was reported to the lead beneficiary.

The method chosen shall be set out in the Programme and shall apply throughout the Programme duration. Different methods may be applied to technical assistance and to projects.

As for the latter, section *4.8.3 ELIGIBILITY OF COSTS* of the ENI MED OP foresee that Technical Assistance expenditures incurred in a currency other than the euro shall be converted into euro using the monthly accounting exchange rate of the Commission for the month in which the expenditure was incurred.

Concerning the audit of operation, the auditor shall verify that:

1. the method chosen by the MA and Beneficiaries is congruent with the one/s set out by the Programme;
2. that the conversion is made correctly.

9.8. Evaluation of results and calculation of the Total Error Rate (TER)

Based on the results of audits of the operations carried out, the Audit Authority calculate the sample error rate, which is the sum of the irregularities found in the operations subject to audit divided by the expenditure audited.

In addition, at the end of the audits of operations, any errors found are evaluated in order to determine their type. This activity is functional to the correct calculation of the Total Error Rate (TER), or the estimation of the error rate for the entire population of expenditure certified to the European Commission for the accounting year audited.

The errors detected in the audit activities may therefore be 'random', 'systemic' or, in exceptional circumstances, 'abnormal', and 'known':

[10] Available at https://ec.europa.eu/info/funding-tenders/how-eu-funding-works/information-contractors-and-beneficiaries/exchange-rate-inforeuro_en

- **Random error**: this corresponds to a generic error of neither anomalous nor systemic nature and, therefore, representative of errors that could also be present in the population. As such, the random error is extrapolated according to the sampling method chosen by the AA for the execution of the audits of operations (so called "projection");
- **Systemic error**: corresponds to a systemic irregularity i.e. errors found in the audited sample which have an impact on the entire sampled population and occur under defined and similar circumstances. Such errors are associated with ineffective control procedures within the MCS of the programme; therefore, the identification of a systemic error implies the carrying out of activities necessary to identify its total scope and its quantification, in such a way as to allow the delimitation of its effect on the entire population. If the systemic error has been correctly delimited, determining the exact impact on the population, the systemic error is not extrapolated, but added in absolute value to the amount of error found for other types of error for the calculation of the TER. If, on the other hand, the extent of the systemic error has been only partially delimited, it is considered random and therefore contributes to the extrapolation for the purpose of calculating the TER;

- **Anomalous error**: it corresponds to an error of an exceptional nature, not representative of the population and therefore the communication of the presence of this type of error must be rare and well-motivated. In order to ensure that the anomalous error is not representative of the population, the AA provides guidance in the Annual Audit Report (AAR) on the additional audit procedures carried out. For the purpose of calculating the TER, the anomalous error is considered if corrected before the submission of the AAR to the European Commission and the correction made should not be taken into account in the calculation of the Total Residual Error Rate (TRER);

- **Known error**: this is an error found in the audited sample, which leads the auditor to identify further irregularities originating from the same cause, but outside the sample. In this case the error found in the sample is extrapolated and the amount of the known error is added to the TER.

Where the number of irregularities detected is high or where systematic irregularities are detected, the AA analyses the causes of such irregularities in order to make appropriate recommendations.

Having defined the nature of the errors, then the AA proceeds to calculate the Total Error Rate of the population. As indicated in EGESIF Note No. 15-0002-04 of 19/12/2018, the TER reflects the analysis carried out by the AA in relation to the different types of errors detected in the context of the audits of transactions and is given by the sum of random errors projected, random errors established in the comprehensive stratum/s, where present, well-defined systemic errors and any unadjusted abnormal errors, divided by the amount of sampled population expenditure for the reference accounting year.

With regard to the definition of the sampled population for the reference accounting period the AA considers only the expenditure declared in the Payment Claims submitted to the European Commission and therefore, it estimates the error only in relation to such expenses.

Therefore, the TER reported in the AAR represents the error rate before any corrective measures have been applied following audits of operations, net of certain specific cases of errors detected by the AA or other body prior to the selection of the sample by the AA.

Once the TER is defined, the AA also calculates the precision (SE), as a measure of the uncertainty associated with the extrapolation. The two defined quantities are functional to the calculation, based on the statistical sampling method applied, of the upper limit of the error (ULE = TER + SE). The error (TER) and the upper limit (ULE) are then both compared with the maximum tolerable error (TE) set at 2% of the expenditure, to draw the conclusions of the audit of operations:

- if **TER > TE** the auditor concludes that errors in the population are above the materiality threshold;
- if **TET<TE** and also **ULE<TE** the auditor concludes that the errors in the population are below the materiality threshold;
- if **TER<TE** but **ULE >TE** additional work is required (additional sample) since there are no guarantees to claim that the population is not affected by errors above the materiality threshold.

As indicated by INTOSAI Guideline No. 23, the additional work required consists of one of the following possibilities:

- to require the Audited Body to review detected errors/exceptions and those that may occur in the future. This could entail agreed adjustments to financial statements;

- to carry out further checks to mitigate the risk of sampling and consequently the tolerance to be included in the evaluation of the results (for example, an additional sample);

- to use alternative audit procedures to achieve an additional guarantee.

More specifically, where the sample checks do not allow acceptable conclusions to be reached, for the purposes of the Annual Report, the AA proceeds with the extraction of an additional sample of further operations, in relation to specific identified risk factors, in order to ensure sufficient coverage for the Operational Programme of the different types of operations, Beneficiaries and other priority issues.

Pursuant to art. 59 (5) subparagraph b) of the Financial Regulation, n. 1046/2018, the results of the additional sample are treated and communicated separately within the Annual Audit Report to be transmitted to the European Commission.

10. Audit of the accounts

Audit on the accounts is carried out by the Audit Authority, according to the articles 28.6.a, 68.2 and 68.4 of the Regulation n. 897 (ENI Implementing Regulation) and of the Regulation n. 1046/2018 (Financial Regulation).

With audit on the accounts, the AA provides a reasonable assurance concerning the truthfulness, completeness, accuracy of the amounts in the accounts. (the accounts give a true and fair view (art. 68) and are complete, accurate and true (art. 69)).

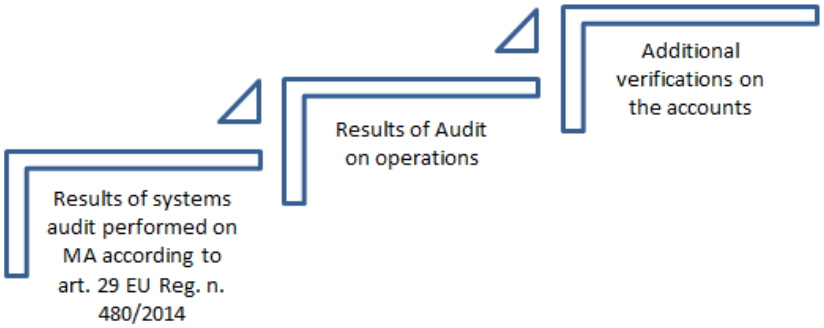
When audit on the accounts is concluded, the AA issues an opinion establishing whether the accounts give a true and fair view, whether declared expenditures are legal and regular and whether the control systems function properly; the opinion also states whether the audit work puts in doubt the assertions made in the management declaration.

This task is carried out for each accounting year, meaning the period from 1st July N-1 to 30 June N.

The audit opinion on the accounts, accompanied by the Annual Audit Report, is submitted to the European Commission by 15th February N+1, as an attachment to the annual report of the Managing Authority, which must be submitted beforehand to the Joint Monitoring Committee.

Therefore, the AA will agree with the MA convenient deadlines to allow the latter to draw the draft accounts, and the former to perform required verifications on it, taking into account that, in accordance with the “Guidance for Member States on Preparation, Examination and Acceptance of Accounts” (EGESIF 15-0018-04, 03.12.2018), submission of provisional accounts is also possible.

The following chart shows the Audit on the accounts process:



Audit on accounts flow chart is available in Annex 3.10.

The Audit on the accounts process takes into proper consideration the results of existing audits, namely the results from System audits carried out, especially those referring to the accounting system (even in case of no financial impact) and the results of the Audits on operations.

In addition, the AA, according to the guidelines provided by the above - mentioned note EGESIF 15-0018-04 of 03.12.2018 entitled the “Guidance for Member States on Preparation, Examination and Acceptance of Accounts”, carries out further final verifications on the accounts, allowing the same AA to establish whether they give a true and fair view.

This activity takes into consideration that the Management and Control System of the Programme doesn’t provide for a separate Certifying Authority and this task is carried out by the Managing Authority.

Firstly, when dealing with system Audit, the AA will consider of utmost importance, among other things, the Key requirement n. 13 “Proper procedures for the compilation and the certification of completeness, accuracy and reliability of the accounts”. In this regard, control tests will be carried out, to assess all relevant elements of the accounts.

It may be considered that, starting from the results of control tests performed on the Key requirement n. 13, and, more broadly, on other requirements referring to accounting, it is possible to obtain reasonable assurance concerning the procedures adopted by the MA, also with reference to the reliability of the accounts, on the basis of the specific checklist for system Audit.

The AA will therefore refer, in checklists and reports of the Audit on the accounts, to the results of performed system audits referring to the accounts and the related follow-up.

Secondly, it must be stressed that, to achieve completeness and reliability when performing Audit on the accounts, it is necessary to fully include in this task the results of the Audits on operations.

In particular, when referring to the sample of operations to be checked, the AA verifies that: total amount of eligible costs is reconciled with the amount of actually incurred costs; all irregular costs are deducted from the accounts; necessary financial corrections are taken into proper consideration for the given accounting period. The Audit on operations also verifies that public grant has been paid to the beneficiary.

The AA may already assess during Audit on operations, where applicable to the sample of operations and if needed, that advances paid to beneficiaries in the context of State aids are supported by information in possession of the MA. The main purpose of these checks is to assess reliability of the audit trail of the accounting systems.

Audit on operations also aims at verifying that the amounts indicated for the single operations in the accounting systems of the MA are accurate and void of material errors.

In the light of the final results of the Audits on operations, when dealing with Audit on the accounts, the AA will verify the proper implementation of the follow-up mechanisms, against expenditure assessed as ineligible (effectiveness of withdrawals, de-certification of expenditure declared ineligible, recovers, etc.)

Verifying the compliance with the proper application by the MA of the guidelines on withdrawn amounts, recovered amounts, amounts to be recovered and irrecoverable amounts, as provided for in the note EGESIF 15-0017-04 of 03.12.2018, is indeed part of the activity of the Audit on the accounts.

Pending the stipulation of a specific agreement among the Programme Authorities, the Audit on the accounts starts off with a specific formal note by the AA (see Annex 3.1) requesting a first draft of the accounts, of the annual summary of the controls and of the Management declaration of assurance.

As soon as drafts are received, considering the results of the system Audit carried out on the MA and the final outcomes of audits on operations, the AA performs further final verifications on the draft of the accounts. These verifications will be aimed at establishing that all required elements are correctly included in the accounts and supported by documentation held by the competent Authorities.

The final verifications performed by the AA on the accounts relate to:

- the total amount of eligible expenses declared and registered by the MA in their accounting systems;
- other items ((withdrawals, recovers, amounts to be recovered by the end of the accounting period, and irrecoverable amounts); the AA performs further verifications on single recordings, taking into account outcomes of system audits and audits on operations. The AA performs by sample and for every typology, verifications on the accuracy of accounting recordings;
- the advances paid in the context of State aids, including compliance to certifying conditions for this kind of advances, if needed;
- the effective correction of irregularities, through the verification of the correct inclusion in the accounts of the results of controls performed by the AA, or by other bodies, including the Commission and the European Court of Auditors (ECA). Such verification is very important also for the purposes of handling of error rate, to be reported in the Annual Audit Report.

Verification of the above mentioned items is carried out on the basis of a specific checklist prepared for the audits on the accounts (see Annex 3.8, 3.9 and 3.10).

Furthermore, the results of Audit activities aim at allowing the MA, if required, to further correct the accounting ahead of the certification to the European Commission.

The results of the verification on the draft accounts are shown in the Audit of the accounts Provisional Report (see Annex 3.3 and 3.4), and are submitted to the MA for a prompt feedback.

In the Audit on the accounts Final Report (see Annex 3.5 and 3.6), the AA assesses whether corrective measures and recommendations made in the draft report are implemented into the Final draft of the accounts.

Therefore, the Final Report on the accounts must reflect the AA opinion on the last draft of the accounts, or on the draft recorded by the MA into the information system SFC2014 to be submitted to the European Commission.

The final results of the Audit on the accounts may be unqualified in case the MA reflects in the final accounts all the corrections considered as necessary by the AA.

In case of persisting issues or recommendations in the final draft of the accounts, appropriate procedures are activated by the AA, in order to monitor the implementation of recommendations or corrective measures (see Annex 3.7), as shown in the Audit on the accounts Final Report.

Detailed information on performed audit activities and the results of the audit on the accounts are shown in a specific section of the Annual Audit Report (see Annex 4.1).

The Audit opinion (see Annex 4.2) should also report whether the audit work puts in doubt the assertions made in the Management declaration drawn up by the MA. In this light, the AA, when dealing with Audit on the accounts activities, verifies also the annual summary of the controls drawn up by the MA and its coherence with the accounts and the other probative elements acquired by the AA.

According to internal deadlines agreed with the MA, after receiving drafts of the of assurance documentation prepared by the MA, the AA assesses the following items:

- verification of the accuracy of the Management declaration of assurance and of the Summary of controls;
- verification of the correct representation of first level control methodologies in the Summary of controls, as approved by the AA during the MA designation process or during system audits;
- verification of the correct representation of possible irregularities;
- verification on the procedures performed and documents used by the MA for the preparation of the Declaration of assurance and of the Summary of controls, as required in the Managing and Control System of the Programme (for example: real involvement of the competent Administrations and intermediate bodies in the preparation of the accounts payment);
- verification on the absence of inconsistences or contradictions, with particular reference to the results of the work audit performed by the AA, and to the controls performed by the MA and by other audit bodies, and with respect to what is represented in the accounts;

The activities must be performed according to deadlines designed to allow the AA to have at disposal the necessary useful time for the verification of the effective implementation of possible recommendations given by the MA after the analysis of the accounting documentation.

For this purpose, it should be recalled that the abovementioned note EGESIF 14-0011-02 final of 27.08.2015 provides that the MA sends the draft accounts within 31/10/N and that at the same time launches preparatory works for the Management declaration of assurance, and the AA launches the preparatory works for the Annual Audit Report and for the Opinion.

Within 31/12/N, the MA sends to the AA the final version of their documents, in order to allow the AA to formulate the Annual Audit Report and the Audit Opinion within 15/02/N+1.

For OP ENI CBC MED the flow should take into proper account that all documents are prepared by the MA, and that all documents must be submitted to the Joint Monitoring Committee ahead of the transmission to the Commission.

Below the indicative list of the flow of activities and associated deadlines, with reference to the audit on the accounts:

1. MA within 31/10/N

- submits draft of accounts reporting:

1. Calculation of the annual balance

1.1. Pre-financing request

1.2. Provisional budget for the following 2 accounting years (commitments and expenditure)

1.3. Payments from European Commission

1.4. Payments from participating countries at programme level

1.5. Reconciliation with the financial table of the JOP

1.6. Bank accounts

1.7. Co-financing

2. Projects

2.1. Payments

2.2. Recoveries, financial corrections and waivers

2.3. Revenue

3. Technical Assistance

3.1. Staff costs

3.2. Staff costs

3.3. Travel costs

3.4. Equipment& supplies

3.5. Administrative costs

3.6. Subcontracted services

3.7. Other costs

3.8. Recoveries from Technical Assistance

3.9. Revenue from Technical Assistance

- submits a draft of the Management Declaration and Summary of Controls.

2. AA, on the basis of internal deadlines:

- performs additional verifications on the draft accounts with reference to:

– certified items of expenditure;

– other items (withdrawals, recoveries, amounts to be recovered and irrecoverable amounts);

– calculation of the final payment;

– the effective correction of irregularities;

- performs verifications on the drafts of the Management Declaration and the Summary of controls;
- transmits to the MA personal observations/recommendations in view of the Final version of the accounts, the Management declaration and the Summary of controls.

3. MA within 15/12/N:

- develops the account model on the basis of potential new facts and anyway of the observations and recommendations arising from the controls of:

– the AA;

– the EC;

– the ECA.

- transmits to the AA the Final draft of the accounts
- updates the Summary of controls on the basis of potential new facts and anyway of the observations and recommendations arising from the controls of:

– the AA;

– the EC;

– the ECA.

- transmits to the AA the final draft of the Management declaration and of the Summary of controls.

4. AA within 15/01/N+1:

- verifies that all the observations and recommendations are implemented by the MA;
- includes the results of the audits on the accounts in the Annual Audit Report (final audit opinion on the accounts may be unqualified in the event that the MA makes in the accounts all the corrections deemed necessary by the AA)
- activates appropriate procedures in order to monitor the implementation of recommendations or corrective measures, in the event that criticalities or recommendations are detected when performing audits on the final accounts.

5. MA within 15/01/N+1

- submits the accounts package to the JMC

6. JMC within 10/02/N+1

- verifies the accounts package sent by the MA

7. MA within 15/02/N+1

- submits the accounts package to the EC, through SFC 2014-2020.

It is important to highlight that the above deadlines are a matter of agreement between the Programme authorities and are therefore define in a specific ad hoc document updated as needed.

11. Analysis of audit findings

At the end of the audit activities, the AA, with the assistance of GoA, must carry out an overall assessment of the results, as well as activate the necessary notifications.

In particular, the analysis of the results of the audit activity shall highlight whether any detected irregularities are systemic or isolated and therefore whether the error is recurrent and attributable to serious gaps in the Management and Control System, requiring a review of the System itself, or, on the contrary, the error is the consequence of an occasional or anomalous default.

Therefore, the Audit Authority, during the drafting of each audit report, re-examines all the documentation acquired during the audits, with particular regard to the aspects that ensure:

- financial regularity;
- the eligibility of the expense;
- the validity of the evidentiary documentation;
- consistency with the Operational Program;
- compliance of the procedures adopted with the provisions of the audit trails.

It should be noted that the nature of the Audit Authority's control also concerns the detection of any irregularities.

This is to avoid that, through the subsequent indication of preventive and/or corrective measures and follow-up mechanisms, the irregularities could be repeated.

In this way, the AA should therefore provide a contribution to minimize the risk for the other operations of the Operational Program. With this in mind, the Audit Authority directly addresses the controlled subject to collect additional elements that serve to qualify the deficiency or irregularity.

The presence of irregularities determines the need to proceed with the drafting of a provisional report which contains clear audit conclusions and recommendations and which allows the Beneficiary, or the Bodies and Authorities of the JOP, to formulate counter-deductions and the possible opening of a cross-examination.

These recommendations are brought to the attention of the Beneficiaries/audited implementing entities in such a way as to allow them to integrate the missing documentation and to present their counter-deductions to the findings raised, within the deadlines agreed with the AA.

At the end of this phase, the Audit Authority prepares the final Annual Audit Report which is transmitted to the Managing Authority and the bodies responsible for the operations.

The set of results of the checks carried out in the period under consideration allows the Audit Authority, with the assistance of GoA, to determine the level of reliability of the Management and Control System.

It should be immediately noted the importance of the clarity in drawing up the audit reports, both of the systems and of the operations, drawn up after the investigations; they represent the fundamental supporting on which to

base the analysis of audit outcomes for the purposes of the subsequent drafting of the Annual Audit Report and of the Audit Opinion according to art. 28.6 of the ENI IR.

In particular, it is necessary that the analysis of the results of audit activities highlight whether potential detected irregularities are systemic or isolated and therefore whether the error is applicant and due to serious failings in the MCS, enough to require its revision, or, on the contrary, it is consequence of occasional and abnormal default. Please refer to the subsequent paragraphs for a more detailed discussion on the matter, also on the basis of the note EGESIF 15-0007-02 final of 09.10.2015 entitled “Updated Guidance for Member States on treatment of errors disclosed in the annual audit reports”.

Anyway, in order to simplify, the audit analysis is designed to show in particular the following aspects:

- definition of financial impact: the AA, assisted by GoA, carries out the quantification of the impact, real or potential, that the detected irregularities could have at financial level. The assessment is likely to lead to possible needs to carry out an additional sampling;
- determination of the systemic or occasional nature of the irregularity: the repetition of an irregularity or its imputability to a control failure not provided by the audit trails or by the checklists, highlights a system gap and therefore determines the necessity to carry out a review of the system. Where, instead, the irregularity arises for an occasional error of procedure, it should be necessary to formulate recommendations targeted at the people responsible for the interested operations in order that they provide to make the necessary corrections;
- determination of urgent and suspected cases of fraud: the Audit Authority ascertains the nature of urgency and/or suspicion of fraud to initiate the necessary procedures and thus allow the competent Authorities to make prompt communications to the Commission;
- determination of corrective measures: the analysis ends with the definition of corrective measures to be made to the MCS, if its inefficiency is observed, or to the single specific responsible bodies which could lead to adjustments of the same MCS also in the light of the verification of the maintenance of requirements about the designation of MA.

12. Reporting activity

The auditors responsible for auditing (system audit, audit on operations, audit on accounts) must have reporting instruments through which they can record the results of the activity carried out. The reporting instruments make up the fundamental supporting evidence:

- for a possible contradictory procedure;
- for the subsequent drafting of the Annual Audit Report and the Audit Opinion according to art. 28 of the ENI IR by the AA.

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 must 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 must also disclose the amounts subject to control and any amounts deemed inadmissible.

As previously noted, as a rule, the audit reports are made up of a provisional report (if any) and a final report. In the note of submission of the provisional reports, the auditor is required to specify the time period set out for reception of possible counter-arguments, taking the complexity of the findings and/or irregularities revealed into account.

Any integration of counter-motion must be submitted by the party concerned in writing and within the deadlines set by the auditor. Once the discussion has finished, where unresolved problems remain, subsequent actions are to be taken and the timetable for their implementation will be formulated in the final audit report.

In the case of accounts audits, the AA must ensure that the results of the verifications on the management declaration of assurance are also submitted on time in order to allow incorporation of any observations and recommendations made in its review before submission of the Annual Audit Report and the Audit Opinion in accordance with art. 28.6 of the ENI IR.

In order to guarantee a regular and formalized flow of information between the main actors of the Management and Control System, the Audit Authority is required to notify the results of the audits and any observations / recommendations to the various audited Bodies. The AA auditors, responsible for the audit activity (system audits, operations audits, audits of the accounts), shall use reporting tools to record the results of the activities carried out, which will serve as an information basis for a possible contradictory and for the preparation of the Annual Audit Report. The reporting process accompanies the different control phases and ensures the correct recording of the relevant information for each phase, through the use of differentiated tools, such as: minutes, provisional reports and final reports.

These tools are:

- system audit report;
- on the spot verification report of the operation;
- provisional system audit report;
- final system audit report;
- provisional report on the audit of operations;
- final report on the audit of the operations;
- final report on the audit of the accounts.

The minutes constitute the legal proof of the execution of the control and shall be drafted in a very concise manner and contain the essential information relating to the control performed. The minutes shall be signed by the auditor and by the person representing the Beneficiary or the executor.

The audit reports, on the other hand, represent a complete description of the activity carried out and shall clearly contain the conclusions of the audit indicating possible corrective actions, in case irregularities have been detected. In the case of audits of transactions, the reports shall also indicate the amounts subject to control and any amounts deemed ineligible.

The audit reports shall be signed by the auditors and the Audit Authority and sent to the interested parties:

- the provisional report on the system audit shall be sent to the controlled body (i.e. Managing Authority);
- the provisional report on the audit of the operations shall be sent to the Beneficiary and the Managing Authority.

In the transmission note of the provisional reports, the Audit Authority shall specify the times established for the reception of any counter-deductions, taking into account the complexity of the criticalities and/or irregularities detected. Please note that any additions and counter-deductions shall be sent by the interested party in writing and within the terms established by the Audit Authority. In the case of counter-deductions during the audits on the operations, the Managing Authority shall request the controlled entity to formulate counter-deductions and provide additional documentation useful for resolving the emerged criticality, within the established deadlines. The Managing Authority shall then transmit any counter-deductions and supplementary documentation to the Audit Authority, supplemented by further information in their possession which could be useful to resolve the criticality. Once the contracdicory is concluded, if unresolved critical issues remain, the consequent actions to be taken and the relative implementation deadlines shall be formulated in the final audit report, according to the specific procedures set out in the Audit Strategy.

The reports shall always be transmitted even in the event of a positive outcome and a comparative examination of the outcome of the audits (system audit, audit on operations audit, audit on accounts) will contribute to the drafting of the Annual Audit Report and the Audit Opinion.

In addition, the AA ensures that the results of the verification of the reliability of the management declaration shall be transmitted in advance to the MA, in order to allow the latter to acknowledge of any observations and recommendations made during the verification, before the presentation of the Audit Opinion and the Annual Audit Report pursuant to art. 68 of Reg. (EU) no. 897/2014.

The following tables indicate the useful tools for the correct execution of the system audit, audit on operations and on the accounts:

Table 15 – System audit tools

Table 16 – Audit on operations tools

Table 17 – Audit on accounts tools

In conclusion, the outcome of the checks shall be recorded in the Audit Authority database, indicationg for example the following elements:

- controlled entity;

- date of the check;

- any critical issue;

- findings code;

- any irregularities found;

- error rate;

- date of sending the report to the controlled subject;

- follow-up updates (in the case of irregularities).

13. Follow-up and monitoring of corrective actions

In the event that the AA has proposed system changes or financial corrections in the Final System Audit Report (or in the Final Audit Report on Operations), the so-called follow up phase starts, during which the aforementioned Authority verifies the implementation of the recommendations and the financial corrections.

As regards the follow up of the system audits, the Audit Authority shall verify that the corrections proposed in the Final Report have been implemented within the established deadlines.

As regards the follow up of the audit on operations, the Audit Authority shall closely monitor the application of the proposed financial correction.

In particular, the financial adjustment has the following consequences:

- deduction of the amount related to the irregularity established by the first payment application;
- recovery of the amount unduly paid in favor of the Beneficiary;
- registration of the sum in the Register of Debtors.

With reference to both the follow up of the Audit on accounts and the verification of the reliability of the management declaration, the AA activates appropriate procedures in order to monitor the implementation of preventive or corrective recommendations, in order to ensure that the accounts comply with all conditions established in art. 68.4 of Reg. (EU) n. 897/2014 and that the reliability of the management declaration does not contain inconsistencies and contradictions with respect to the results of the Audit performed by the AA.

It should be noted that the follow-up procedures also regard any recommendations relating to the accounting period preceding the one in relation to which the Audit was carried out and whose implementation has not yet been completed.

Furthermore, the AA also monitors the implementation of the observations of the European Commission and other national and EU control bodies (e.g. Italian Finance Police, Italian Court of Auditors, European Court of Auditors, OLAF).

In order to verify the information on follow-ups, together with all the other information collected during the various audit activities, this information shall be adequately documented and archived in an information system.

For this purpose, the AA shall transmit a schedule containing the list of controls subject to follow-up procedures to the bodies required to implement the corrective measures (in case of corrective action indicated in the system audit final report, the body subject to Audit; in case of corrective action indicated in the final report on audit on operations, the Managing Authority; in case of corrective action indicated in the report on reliability of the management declaration, the MA).

This schedule, duly completed and signed by the interested parties, shall be returned to the AA in order to update the AA on the adoption of corrective measures within a specific deadline.

An example of a follow-up template is available in the tables below:

Table 18 – System audit follow up

Table 19 – Audit on operations follow up

Table 20 - Audit on accounts follow up

The parties required to provide the follow-up shall send a copy of the original documentation to AA which certify the successful implementation of corrective measures. For example:

- in the case of MCS's improvement: a formal decision of that body which fulfils the requirements stated in the system audit's final report;
- in the case of financial adjustments following an operations audit: evidence that irregular expenses are not included both in the balance request and in the financial reporting to be sent to the EU;
- in the case of differences or mismatches between the total expenditure shown in the draft accounts and the expenses included in the payment requests presented to the Commission during the reference accounting year following an accounts audit: proof of correction made and reported in the accounts.

The AA reserves the rights to carry out appropriate on-the-spot verifications to ensure the fulfilment of predetermined corrective measures.

Following the adoption of corrective measures that AA considers appropriate in order to remove the encountered issues and to ensure restoration of MCS reliability, the follow-up procedure will end with the filing of the documentation and integration of data acquired into the information system. Finally, these data shall eventually be included during the processing of the annual Opinion.

However, in the event that the responsible bodies do not move forward in the adoption of the corrective measures required by the AA, the latter will have to mention the existence of critical issues within the MCS, as well as the failure to decertification of spending for the amount deemed irregular, relating to the operation concerned or to all the operations if the findings revealed also had a systematic nature following an accounts audit.

In such circumstances, the AA is still required to adopt appropriate monitoring tools of the issues raised, both in the system, operations and accounts audit, so as to ensure traceability in time.

It is therefore important that the AA, with the assistance of GoA, can establish a monitoring system on the recommendations provided by the audits of operations on the certified expenditure.

The flow-charts with a description of the follow-up procedures and relative indicative timelines for the three types of Audit (Systems, Operations and Accounts) are reported in Annex 1.11, Annex 2.10 and Annex 3.10 to this Manual.

14. AA documentation management and archiving

The AA archives and conserves the documentation relating to its activity through the organization of the archives, both in digital and paper form, relating to data and documentation relevant to the audit activities, in compliance with the International Standard on Auditing (ISA) 230 "Audit documentation".

The documentation acquired or produced by the AA is managed through the following tools: i) the Sardinian Regional administration information system of the (SIBAR document form), ii) folders shared on a server accessible to all components of the structure and iii) folders for physical storage.

SIBAR Protocol

The Sardinian regional administration information system (SIBAR), structured on the basis of the national legislation and in particular of the Digital Administrative Code (CAD) and its modifications, additions and updates, is used for official documents and correspondence of the Audit Authority, as well as documents acquired through the same system (including certified e-mail). When a document is registered by the digital system, a protocol number is automatically assigned with the date of execution and, at the same time, it is archived on the server of the regional administration, through a system of Indexes of the Classification Holder for structures.

The fundamental acts, such as the Audit Reports, the Activity Programs, the Audit Manual, the updating of the Audit Strategy as well as the correspondence and the service orders (i.e. organizational provisions), are adopted

through the Service Director's Decision and progressively numbered and kept in the SIBAR.

Audit reports also have a progressive number per calendar year.

Shared folders

The shared folders, whose access is strictly reserved for the AA staff, are managed by the IT staff of the Financial Flow Analysis and Monitoring and Management Support Service of the Financial Services Directorate General, who takes care of their security and carries out periodic back-ups. These "folders", created on the server of the regional administration local network, allow the AA users to store and share files (files of various formats) with the aim of promoting:

- access to work tools, with considerable utility for all users;
- homogeneity and sharing of the same information;
- the availability of the documentation in digital format to all AA auditors and Head of Unit, allowing a process of substantial standardization of all documents which are produced.

The paper documents are also acquired in digital format by scanning and stored them on the server. The digital archive therefore includes both all the instructor and end-procedural documents that are not registered in the administration's information system and those produced or acquired in digital format. Within each folder, subfolders are created by type of documents and/or process.

Physical storage

As regards paper archiving, all communication which are received and sent to several bodies involved in the audit activities (European Commission, IGRUE, MA, Intermediate bodies, etc.) are collected in specific folders and appropriately recorded.

15. Performance concerning the audit activity

15.1. Annual Audit Report

Pursuant art. 28, paragraph 6, letter b) of Reg. (EU) No 897/2014 the AA is requeted to prepare an Annual Audit Report (AAR) highlighting the main findings of the audit activities carried out, including the deficiencies found in the management and control systems and the corrective actions proposed and implemented.

The Annual Audit Report is drawn up in analogy to the model referred to in Annex IX of Reg. (EU) No. 207/2015, as integrated by Reg. (EU) n. 277/2018, of 23 February 2018, along with the indications as mentioned in the specific document provided in the framework of the TESIM project, namely Annual audit report_Template_20180108_Sent EC. This report is the summary of the audits carried out with reference to a specific accounting year between 01/07 of year N-1 and 30/06/ of year N.

Moreover, the AA makes reference to the guidelines set out in the “Guidance for Member States on the Annual Audit Report and Audit Opinion”. EGESIF 15-0002-04 of 19 December 2018.

It shall be noted the ‘accounting year’ means the period from 1 July to 30 June, except for the first accounting year, for which the period starts from the date for eligibility of expenditure until 30 June 2015. The final accounting year shall be from 1 July 2023 to 30 June 2024.

In compliance with art. 68 of Reg. (EU) no. 897/2014 such report, along with the Audit Opinion on the annual accounts, must be submitted to the MA in time in order to let it transmit its annual report to the competent services of the European Commission by 15 February of N+1 of each year. This deadline may exceptionally be extended by the Commission until 1 March, upon notification by the MA sent to the Commission no later than 15 February, duly motivating the extension request.

The document highlights the results of system audits, project audits and accounts audits carried out on expenditure included in a payment application submitted to the Commission with reference to the accounting year from 01/07/N-1 to 30/06/N, covering all participating countries of the Programme. In this respect, it is worth to remind that, in compliance with the OP section 3.2.5, the Group of Auditors may be asked to support to AA in the drafting of Audit Annual Reports and Audit Opinion.

Main steps per audit topics as assigned, namely for system audit, audit on operation and audit on accounts, which leads to the drafting and releaseing of the AAR could be resumed as follow:

Procedures relating to the preparation of the AAR - Systems Audits

1. Preliminary verification of the system audit report submitted to the European Commission for the previous period and its follow-up.
2. Update of the previous period system audit: risk analysis.
3. Implementation of the system audit.
4. Provisional description of the phenomena detected, description of the areas of criticality detected and formulation of first improvement hypotheses i.e. possible discrepancies from the management and control model represented in the description of the Management and Control System; discrepancies from what was found for the previous accounting period during the system audits and the AAR; etc. From this analysis areas of concern and recommendations for improvement which are described a provisional audit report shall arise.
5. Counter-deductions and final system audit report.
6. Quantitative estimates on the reliability of the systems, which could feed the number of operations to be checked within the related audits.
7. After completion of audits of operations, while the procedure for collecting observations and counter-deductions by the audited bodies takes place, formulation of further improvement hypotheses to be applied on the systems that may have emerged from the audits on operations and their sending to the MA.

Possibility for the latter to make observations and counter-observations in writing.

8. Consideration of counter-claims and comments of interested parties to any further recommendations made following audits of operations (decision on this and disclosure to interested parties) as well as follow-up of the recommendations included in the previously submitted system audit report, in order to provide the most up-to-date information in the AAR.
9. Carrying out audits of the Accounts, for which the Audit Authority takes into account, in particular, the results of the system audits and audits of operations; highlighting any improvements to the Management and Control System that may arise when auditing the Accounts.
10. Comparative examination of the results of the system audit, the audit of the operations and the audit of the Accounts and formulation of the draft AAR, including the final formulation of improvement actions, possible corrective etc., with identification of roles and timing, as for improvements still to be achieved by a maximum of 1 year at the latest.
11. Sharing the draft of the AAR with the MA: observations, counter-deductions, proposals.
12. Drafting of the Annual Audit Report.

Procedures relating to the preparation of the AAR - Audit of operations

1. Formulation of a complete calendar for the period of audit of the operations and notice to the MA.
2. Communication of the calendar of checks to auditors in charge of the verification.
3. Notice of the opening of the procedure to interested Beneficiaries and MA.
4. Receipt of documentation from MA.
5. Acquisition of administrative documentation on the operation and analysis, interviews, possible request for additional documents.
6. According to AA Strategy in force: verification of goods and services, acquisition of any additions to the expenditure documentation, etc.
7. For each audit carried out, drafting of an audit report (based on the standard checklist) with a final result of the audit per verifier. If one or more items of expenditure are not certified, they shall be described in detail and documented.
8. Control of the report and related documentation by the AA; formulation of a final opinion (which could also deviate from that of the verifier) adequately detailed and reasoned, with the indication of mandatory/optional requirements and corrective actions to be reported to the Beneficiary and MA.
9. Submission of the control report to the Beneficiary, the MA.
10. Collection and examination of any counter-deductions of the Beneficiary and Managing Authority.
11. Preparation, monitoring and submission of the final audit report.
12. If anomalies have been found, the MA proceeds with the correction adopting, if necessary, the total or partial withdrawal of the financing, and with the implementation of the corrective measures
13. Collection of all audit reports following audits of operations.

14. Possible preparation of an audit report summarizing the findings of the audit of operations and the general results, the corrective actions reported as necessary, the procedures for monitoring their application, etc.
15. Comparative examination of the results of the system audit, of the transactions and the Accounts and formulation of the draft AAR based on the EC template in force.
16. Transmission of the AAR and the Annual Audit Opinion to MA.

Procedures relating to the preparation of the AAR - Audit of Accounts

1. The MA presents the Draft Accounts based on the bilateral agreement between MA and AA in force.
2. The AA verifies the reconciliation of expenses.
3. Based on internal deadlines, the AA carries out additional checks on Draft of Accounts with reference to i. certified expenditure items; ii other items (withdrawals, recoveries, amounts to be recovered and irrecoverable amounts); iii. State aid compliance iv. reconciliation of expenditure; v. the actual correction of irregularities.
4. AA transmits to MA its observations recommendations for the final version of the Accounts.
5. MA prepare and send to the AA the Accounts on the basis of new facts and, in any case, of the observations and recommendations deriving from the AA' audits, the EC, the European Court of Auditors.
6. The AA verifies that all observations and recommendations have been taken on board by the MA, includes the results of the audits of the Accounts in the AAR and issues an Opinion without reservation in the event that the MA reflects in the final accounts all the corrections deemed necessary by the AA. If critical issues are identified, appropriate procedures are in place to monitor the implementation of recommendations of a preventive or corrective nature.

As part of the preparation of the AAR, the Audit Authority also calculates the Residual Total Error Rate (RTER) or the estimated residual error rate in the population of expenditure certified to the European Commission for the reference accounting year, after financial corrections have been made or amounts subject to ongoing evaluation have been excluded in compliance with EGESIF Note No. 15-0002-04 of 19.12.2018.

Finally, AA is requested to supervise the effective implementation of the National Administrative Strengthening Plan, also referring to it in the Annual Audit Report and, together with MA, it defines the most appropriate dialogue arrangements for the effective treatment of the issues related to the functioning of the Management and Control Systems and related improvement actions, as established by the *National Partnership Agreement in Annex II - Highlights of the Management and Control System 2014-2020 proposal.*

For the purposes of the preparation of the AAR, the AA uses IT procedures to support the audit activities provided by the Programme MIS, which contributes to the display and acquisition of data necessary to support the ordinary activities of audits as well as the ones related to the preparation of both the abovementioned document and the Audit Opinion.

The model of the AAR is reported in Annex 4.1 to this Manual.

15.2. Annual Audit Opinion

Article 68, paragraph 4 of Reg. (EU) No 897/2014 provides that the AA shall prepare an Audit Opinion (AO) on the annual accounts for the previous accounting year which shall determine whether the accounts give a true and fair view, the related transactions are legal and regular and the control systems properly put in place function. The opinion shall also state whether the audit work puts in doubt the assertions made in the management declaration made by the MA.

For the purposes of the Audit Opinion, the AA verifies:

- that expenditure was incurred during the relevant reference period and that it was incurred for the intended purpose as defined in the Programme,
- that the amounts for which recovery procedures are in progress or have been completed are correctly carried over, that any irregular expenditure has been reduced and recovery procedures have been initiated with the beneficiary,
- that the control systems in place ensure the legality and regularity of the operation underlying the payment application.

Therefore, the AO cannot be based on a pure financial control of the accounts only but must also take into consideration the results of both the system audits and the audits on operations. To this end, cross-references are made to the relevant sections of the Annual Audit Report (see Art. 68 paragraph. 2, letter e), of Reg. (EU) No. 897/2014).

The AA must also ensure that audits of the Programme have been carried out in accordance with the Audit Strategy, also by considering internationally recognized audit standards. These standards require the AA to meet ethical requirements and to perform audit works allowing the achievement of a reasonable assurance for the Audit Opinion.

Likewise for the AAR, in compliance with art. 68 of Reg. (EU) no. 897/2014, such report has to be submitted to MA in time in order to let it transmit its annual report to the competent services of the European Commission by 15 February of N+1 of each year. This deadline may exceptionally be extended by the Commission until 1 March, upon notification by the MA sent to the Commission no later than 15 February, duly motivating the extension request.

The AO is drawn up in analogy to the model referred to in Annex VIII of Reg. (EU) No. 207/2015, as integrated by Reg. (EU) n. 277/2018, of 23 February 2018, along with the indications contained in the specific document provided in the framework of the TESIM project. The model of the AO is reported in Annex 4.2 to this Manual.

Moreover, the AA makes reference to the guidelines set out by the Commission in the “Guidance for Member States on the Annual Control Report and Audit Opinion”. EGESIF 15-0002-04 of 19 December 2018.

In analogy with the model provided for in Annex VIII of Reg. (EU) 207/2015, the AO is divided into the following section:

1. Introduction;

2. Responsibilities of the MA;

3. Responsibilities of the AA;

4. Limitations of audit scope;

5. Opinion: this is based on the conclusions drawn, following the results of the audit activities.

Audit opinion on legality and regularity of expenditure and proper functioning of MCS	**AA's assessment on**				
	Functioning of MCS*		**Legality and regularity of certified expenditures**	**Accounts**	**Implementation of the required corrective measures *****
	System Audit result	**TER (results from audits of operations)**	**RTER ****		
1. Unqualified	Category 1 or 2	and TER ≤ 2%	and RTER ≤2%	and accounts correction/revision ≤2%	Corrections of individual errors in the implemented sample
2. Qualified *(remarks/revision having a limited impact)*	Category 2	and/or 2% <TER ≤ 5%	NA	NA	Corrections of individual errors in the implemented sample. Improvements to overcome any deficiencies in the MCS
3. Qualified *(remarks/revision having a significant impact)*	Category 3	and/or 5% <TER ≤ 10%	and RTER > 2%	and/or accounts correction/revision	Extrapolated financial corrections to bring the RTER below or equal to 2%, considering the corrections already applied following the AA audits (including corrections of individual errors in the sample) + corrective action plan to overcome any deficiencies in the MCS + implementation of the adjustments to be made to the Accounts
4. Adverse	Category 4	and TER ≥ 10%	and RTER > 2%		

Figure 21 - Parameters for issuing the Audit Opinion

* Results of system audits confirmed or corrected by the results of operations audits, TER or/and improvements to overcome deficiencies in MCS.

** Results of audits of operations mitigated by financial corrections implemented prior to the submission of accounts to the EC.

*** Based on the AA conclusions in the AAR (Financial corrections or system improvements / procedural or both).

The AA express its opinion by choosing between three well-defined types of opinions provided for by the abovementioned Annex VIII, namely:

A. **Unqualified opinion** whenever the AA considers that:
- the accounts give a true and fair view, as established by art. 68 of Reg. (EU) no. 897/2014,
- the expenditure in the accounts is legal and regular,
- the management and control system put in place functions properly,
- the audit work carried out does not put in doubt the assertions made in the management declaration.

B. **Qualified opinion** whenever the AA considers that:

- the accounts give a true and fair view, as established by art. 68 of Reg. (EU) no. 897/2014,
- the expenditure in the accounts is legal and regular,
- the management and control system put in place functions properly, except in the following aspects:
  - ✓ in relation to material matters referring to the accounts and/or
  - ✓ in relation to material matters referred to the legality and regularity of the expenditure in the accounts and/or
  - ✓ in relation to material matters referring to the functioning of the management and control system
- the audit work carried out does not put in doubt the assertions made in the management declaration.

In the case of qualified opinion, the AA:

- ✓ details and explain the qualifications,
- ✓ estimates their impact: limited or significant,
- ✓ quantifies the impact, in relation to the expenditure declared and in absolute terms.

The estimation of the impact of a qualification as "limited" is deemed appropriate when it relates to irregularities (not yet corrected in the accounts) corresponding to expenditure above 2% but below or equal to 5% of the total expenditure certified in these accounts. If those irregularities exceed 5% of the total expenditure certified in these accounts, the corresponding qualification should be estimated as "significant".

The same reasoning applies when the exact amount of the irregularities cannot be quantified precisely by the AA and a flat rate is used; this may be the case of system deficiencies.

The quantification of the impact may be defined either on the basis of the TER (or the RTER, where corrective measures have been implemented before the AAR is finalized) established for the accounting year, or on a flat-rate basis, taking into account all the information available to the AA.

In this respect, the AA provides details whether the qualifications relate to the accounts, the legality and regularity of expenditure, or the management and control systems.

C. **Adverse opinion** which is due if following circumstances occur simultaneously or not:

- the accounts give / do not give a true and fair view, as established by art. 68 of Reg. (EU) no. 897/2014,
- the expenditure in the accounts is / is not legal and regular,
- the management and control system put in place function / does not function properly,
- the audit work carried out does not put in doubt the assertions made in the management declaration.

This adverse opinion can be based on the following aspects:

- for material matters referring to the accounts and/or,
- for material matters referring to the legality and regularity of the expenditure in the account and/or,
- for material matters referring to the functioning of the management and control system,
- for specific issues that put in doubt the assertions made in the management declaration.

The AA may also include emphasis of matter, not affecting its opinion, as established by internationally accepted auditing standards.

Where a **limitation of scope** is identified in the audit opinion, the impact (if any) of the limitation on the expenditure declared is estimated. In case the impact is estimated as material, an unqualified opinion cannot be given.

In cases of qualified or adverse opinion, the AA is expected to indicate the corrective actions planned or taken by the MA. The AA follows up if these actions have been implemented and reports them in its AAR.

While establishing the audit opinions and setting the levels of assurance, appropriate professional judgment applies to decide whether the gravity of findings justifies a qualified or an adverse opinion.

Disclaimer of opinion

In exceptional cases, the AA can release a disclaimer of opinion.

This is the case when the AA is not able to audit the accounts, the expenditure declared or the functioning of the management and control system due to external factors outside the responsibilities of the AA. In such cases, the AA explains why it could not reach an audit opinion.

The annual Audit Opinion is of outmost importance, since, pursuant art. 62 and 72 of the Reg. (EU) no. 897/2014 if a qualified or adverse opinion is due, the European Commission could decide to suspend the whole or part of the payments at Programme level to contain the risk of improper use of EU funds.

15.3. Submission of closure documents and payment of the final balance

Pursuant art. 77 of the Reg. (EU) no. 897/2014, by 15 February the Managing Authority shall submit an annual report approved by the Joint Monitoring Committee to the Commission. That annual report is composed by a technical and a financial part covering the preceding accounting year.

The financial part, including the AAR and the AO, is prepared in accordance with art.68, paragraph 2 of the Reg. (EU) no. 897/2014.

The Managing Authority shall submit a final report approved by the Joint Monitoring Committee to the Commission. This final report contains *mutatis mutandis* the information requested under paragraphs 2 and 3 of the abovementioned art. for the last accounting year and for the entire duration of the Programme.

Moreover, a Programme shall be considered closed when:

- ✓ all contracts concluded under the Programme have been closed;
- ✓ the final balance has been paid or reimbursed;
- ✓ remaining appropriations have been de-committed by the Commission.

The closure of the Programme is not prejudicing the Commission's right to undertake, at a later stage, financial corrections vis-à-vis the Managing Authority or the beneficiaries if the final amount of the Programme or the projects has to be readjusted as a result of controls or audits carried out after the closure date.

Following MA final payment request as set in art 64 of the Reg. (EU) no. 897/2014 the final balance is paid no later than three months after the date of clearance of accounts of the final accounting year or one month after the date of acceptance of the final implementation report, whichever date is later.

Consequently, given the above regulatory provisions, with the exception of the Final Implementation Report of the OP whose responsibility is *prima facie* to the MA, the Final Audit Report and the Final Audit Opinion shall not differ from those transmitted for the previous accounting periods.

Appendix 1 – The Risk Assessment

The risk assessment is performed by the Audit Authority during the drawing up of the Audit Strategy, which indicates the connection between the results of the Risk Assessment and the expected audit activity.

In particular, the Strategy indicates the considered risk factors and, in the light of the results of the assessment of these risks, identifies an order of priority among the thematic objectives (TO), the Program Bodies and the Countries which will be subjected to audit.

"The risk analysis is an ongoing exercise and, therefore, shall be reviewed on an annual basis and in any case when events which determine a change in the ENI CBC MED Programme Audit Strategy occur."

The risk analysis and assessment is the indispensable tool for a proper planning of audit activities, which allows to set priorities of system audits and audits of operations.

The EGESIF Note 14-0011-02 final of 27/08/2015, in providing indications to the Audit Authorities on the elaboration of the Audit Strategy, also proposes a methodology to elaborate the Risk Assessment.

In section III of the above mentioned EGESIF a table to describe the results of the Risk Assessment is reported, in order to classify the main bodies of the Management and Control System, based on the risk level detected for each body.

Generally, the methodology underlying risk assessment envisages several activities, listed below:

- collecting and analysing the relevant documentation for risk assessment;
- analysing and understanding of the entity of the operating environment;
- analysing the Management and Control System and of significant processes linked to the lines of action;
- identifying the risk factors;
- analysing the risk level of the significant processes and the controls associated with it;
- judging about outstanding risks and controls in place.

The Audit Strategy indicates the relationship between the results of risk assessment and the audit planning activity. In the context of the audit Strategy and its updates, the AA reports the identified risk factors and prioritizes the bodies and the processes, as crosscutting aspects to be checked.

Based on such approach, the main features of the methodology used could be resumed as follow:

- to rely on what has already been done: the AA considers all existing materials, such as available audit reports, results of audit undertaken by other authorities, etc.
- to establish a clear risk assessment on specific risks: a complete risk assessment helps to identify the authorities responsible for the management of each type of risk and facilitate the identification of possible risk mitigation activities, corrective actions and emerging risks.

i. Collecting and analysing the relevant documentation for risk assessment

In order to perform risk assessment, the Audit Authority carries out a preliminary analysis of the following documentation:

- Operational Programme approved by European Commission;
- Selection criteria for projects approved by the Joint Monitoring Committee pursuant to Art. 24, first subparagraph, letter c, of Reg. (UE) No. 897/2014;
- Description of the Management and Control System;
- Organisational structure of the Managing Authority;
- Report of the designation procedure;
- Audit Strategy ENI CBC MED;
- Compliance opinion and report, including the Action Plan, concerning the designation procedure of the Managing Authority;
- Annual report of Control and Opinion of related audits;
- System Audit final reports as carried out;
- EC Audit reports;
- Any information from controls made by other bodies, such as the Italian Court of Audit, the European Court of Auditors, etc.;
- UE legislation and other relevant UE documents (guide lines, communications, declarations, etc.);
- Legislation and other relevant documents from national sources;
- Guardia di Finanza reports;
- Various types of reports (for example beneficiaries or ordinary citizens direct reports, etc.);
- Other documents relating to the ENI CBC MED Operational Programme.

ii. Analysing and understanding of the entity of the operating environment

In accordance with the international auditing principle ISA 315 – “Identifying and assessing the risk of material misstatement through understanding the entity and its environment”, the Audit Authority objective is to identify and evaluate the significant risks. The AA performs the assessment whether these risks are due to fraud or intentional behaviors or events, through the understanding of the subject/body and its operating environment, including its internal control as well as the use of the previous audit carried out even by other subjects as to define and put in place concrete answers to those significant risks and mistakes identified.

With respect to internal control, The Audit Authority also consider what is provided for by the International Standards on Auditing ISA 200 – “Overall objectives of the independent auditor and the conduct of an audit in accordance with international standards on auditing”, which provides relevant definitions on the issue of auditing with specific regard to risks linked to internal control and risk assessment procedures.

From an operative point of view, the Audit Authority will perform this activity during competence assessments on

the different Bodies to be audited.

In accordance with the reference auditing principles referred to above, therefore, the Audit Authority performs an analysis aimed to:

- acquire and update the understanding of the functioning of the bodies to be assessed and of their operating environments, including their internal controls, sufficiently to identify and assess whether the possible risks are due to fraud or to unintentional behaviors or events;
- establish and perform revision procedures to answer to identified and assessed risks.

As regard the Managing Authority and the programming cycle 2007-2013 of the Programme ENPI CBC MED, taking account of the risks previously identified, a maximum risk value will be attributed to the factor “Degree of change 2007-2013” as provided for by the control risk (for additional information next paragraph should be consulted: 1.1.3 Analysis of the Management and Control System and of the significant processes linked to the lines of action).

With reference to the operational environment of the Audit Authority the complexity of the Programme ENI CBC MED 2014-2020, due to the large number of EU and non -EU States involved, should be taken into consideration for the risk assessment.

iii. Analysis of the Management and Control System and of the significant processes connected to the lines of actions

A further analysis that the auditor must perform concerns the Management and Control System adopted by the Programme Authorities, by examining the relative Description, with particular regard to the organisation, the procedures and controls implemented by the Managing Authority, also in the light of the results of the assessment of the designation criteria of the Managing Authority.

It is necessary to verify the existence of any changes to the Management and Control System not only in the case in which the MCS has been formally modified, but also in the cases in which the changes have already taken place but not yet formalized in MCS.

"In the presence, for example, of an act of reorganization of the offices/services where the MA is based, it is appropriate to re-evaluate the risks associated with the MCS in order to evaluate, for example, the risk related to possible changes regarding the independence and separation of functions”.

The assessments on the changes in the MCS represent the risk factor "degree of change of the Management and control system" related to the risk assessment of the subjects which are part of the management and control.

The critical issues that emerge from the previous audit reports and from the annual audit reports, represent the factors which can be used for risk analysis related to the thematic areas and compliance tests.

Finally, it is also important to verify the ways in which the risks are identified and managed, and whether these are

effective, sufficient and appropriate.

The risk analysis of the management and control system, although preliminary to the system audits, shall then be declined on a specific analysis of the management and control processes.

The investigation tools are listed below:

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

The on-spot visits give the opportunity to observe directly 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 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 judgement 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 Management and Control, the risk assessment will be updated on the basis of the related results and the number of audits carried out.

iv. Identifying the risk factors

Following the analysis conducted on the relevant documentation (i), the operating environment (ii) and the Management and Control System (iii), the Auditor identifies specific Risk factors.

The risk assessment model adopted by the Audit Authority is based on the provisions stated in the international standards of audit and the guidelines provided by the European Commission EGESIF 14-0011-02 final of 27/08/2015. More in detail, the adopted model is inspired by the provisions of the ISA 200.

The risk assessment model aims to determine the risk level related to the **Risk of material misstatement,** intended as the risk that the financial statements are materially misstated prior to audit. The risk of material misstatement is influenced by the two components, described as follows:

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.

The risk assessment model adopted by the AA aims to detect the related risk factors, as shown in the subdivision in Figure below.

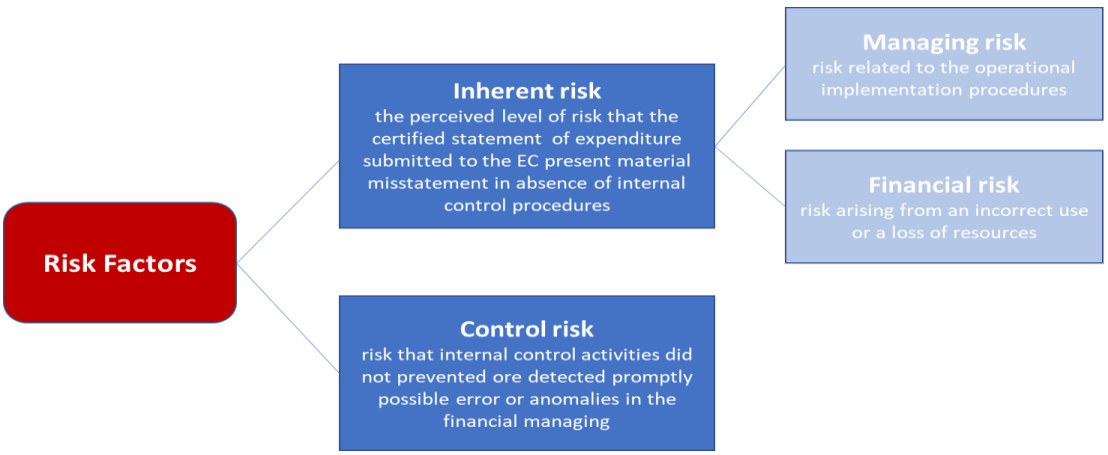
The risk assessment model adopted by the Audit Authority is based on the provisions stated in the international standards of audit and the guidelines provided by the European Commission EGESIF 14-0011-02 final of 27/08/2015. More in detail, the adopted model is inspired by the provisions of the ISA 200.

The risk assessment model aims to determine the risk level related to the **Risk of material misstatement,** intended as the risk that the financial statements are materially misstated prior to audit. The risk of material misstatement is influenced by the two components, described as follows:

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.

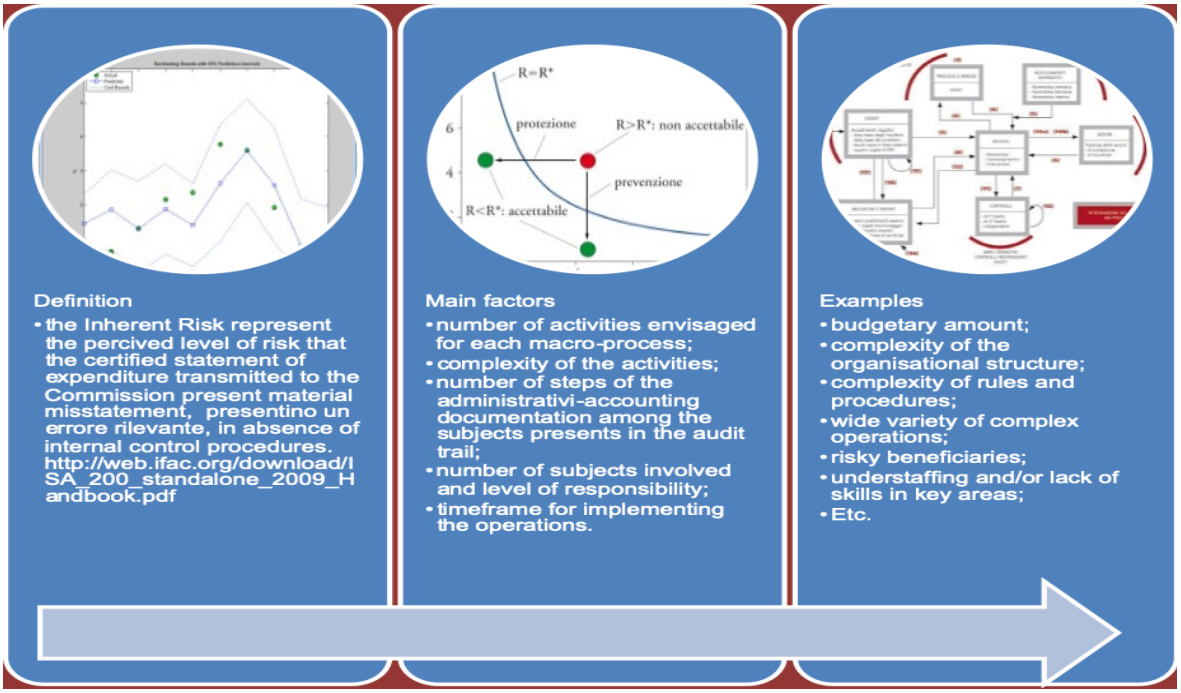
The risk assessment model adopted by the AA aims to detect the related risk factors, as shown in the subdivision in figure below.

Figure – Representation of the types of risk



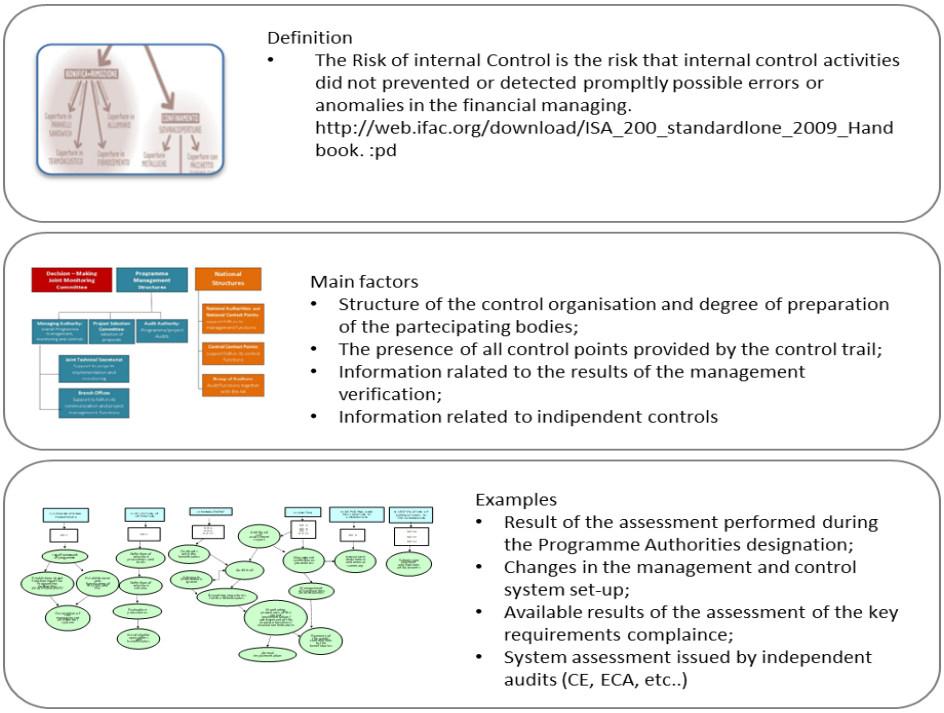
It can be useful to state that strategic and external risks listed in the ISA 200 are not considered separately. Nevertheless, the latter may be recovered and included, if needed, as part of AA set of control risk indicators. Figure below describe the contents of the inherent risk indicating the main factors which could influence it and some examples of the implementation procedures to be considered.

Figure – Representation of the standard Inherent Risk (ISA 200)



The figure below 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.

Figure - Representation of the standard Control Risk ISA 200



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

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

1. Degree of changes from the previous programming period (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 the Guidelines by TESIM "*Adapted key requirements/assessment criteria for the management and control system audits*" of December 2020:

- 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,
- 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.

The risk analysis methodology foresees the implementation of the following activities:

- Collection of the main documents describing the set-up of the management and control system, understanding of the general context of the programme implementation and identification of the main bodies and processes that characterize the management and control system,
- Identification of the risk factors,
- Assessment of the risk level for each process and body involved in the management and control system (inherent risk) and of the impact of the systems internal control measures put in place (control risk),
- Planning of the audit activities.

v. 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 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 are assessed independently from each other, to evaluate them as analytically and precisely as possible. The parameters set - up keeps into consideration both the impact of the identified risk and the occurrence probability.

For the risk quantification the AA decided to adopt the following scale of values inspired by the best practices made available by the Italian AA coordination body MEF IGRUE.

Table- 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%**

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 - 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%

The same best practice is also used to determine the scale of values for the quantification of the control risk

Table - 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 key requirements are assessed separately. In the previous risk analysis, the AA also considered the changes in the MCS compared to the previous programming period as a risk factor. Given the current stage of implementation of the programme it is considered that the degree of change has no significant risk impact. Therefore, the current risk analysis exercise considers exclusively the risks deriving from the system capacity of detecting and correcting malfunctions and irregularities. Based on the above the following table illustrate the scale attributable to the 12 key requirements:

Table - Scale to the 12 key requirements

H - High	**100.00%**	**8.33%**	**8.33%**
M/H – Medium/High	**80.00%**	**8.33%**	**6.66%**
M/L – Medium/Low	**45.00%**	**8.33%**	**3.75%**
L - Low	**30.00%**	**8.33%**	**2.50%**

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 the 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 best practice suggested by IGRUE, an additional factor "Number of Audit Risk" (AR) is adopted to mitigate the Material Misstatement Risk i.e. by considering 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 multiplying of RESxAR it results the Material Misstatement Risk score, for each Authority, for each Country.
In order to be able to take into account the audit activities carried out within the scope of the strategy for the purposes of mitigate the risk, it is necessary to clarify more precisely what is meant by closed audits and to limit the possibility of relief where several audits were performed. For mitigating purposes, the AA considers a 0,1 score for each system audit implemented on a thematic objective or/body with positive outcome (at least category 2). The follow up audits are not considered as a separate audit on bodies and/priorities.
With regard to the results of the audit of operations, said results are to be considered exclusively when significant deficiencies and system errors are detected. In such case a negative 0,1 will be attributed for the process/body interested by the system deficiency detected through the audit of operations.
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 external factors (such as for example the limitations for travels per country because of the Covid_19 pandemic),

- at country level, priority is given to those ones also hosting the Programme Branch Offices (namely Jordan and Spain),
- 50% as Programe "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),
- 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.

Back to chapter 5

Appendix 2 – Sampling

1. General Legal Framework

As stated in art. 28 of the Regulation (EU) 897/2014(ENI IR), "the AA 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".

The general rules to be used as regards the selection of the sample of projects to be audited are provided in article 28 of the Regulation (EU) n. 480/2014 (CDR), as amended by the Regulation (EU) 886/2019, applicable mutatis mutandis.

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 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.

Taking into account the abovementioned EU Regulations and the peculiarities of the ENI CBC MED Programme, the general methodology for the selection of the sample of projects can be described as follows:

1. The AA, with the assistance of TA, shall establish the method for the selection of the sample ("the sampling method") in accordance with the rules set up in the EU Regulations, taking into account the internationally accepted auditing standards, INTOSAI, IFAC or IIA, ISA.
2. In addition to the explanations provided in the "Audit Strategy", the AA shall 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.
3. A sample shall be representative of the population from which it is selected and enable the AA, with the assistance of TA and GoA, to draw up a valid audit Opinion. The sample may be selected during or after the accounting year.
4. A sampling method is statistical when ensures:
    - a random selection of the sample items;
    - the use of probability theory to evaluate sample results, including measurement and control of the sampling risk and of the planned and achieved precision.
5. The sampling method shall ensure a random selection of each sampling unit in the population by using random numbers generated for each population unit in order to select the units constituting the sample, or through systematic selection, by using a random starting point and applying a systematic rule to select additional items.

6. The sampling unit shall be determined by the AA, with the assistance of TA and GoA, based on professional judgment. The sampling unit may be an operation, a project within an operation or a payment claim by a beneficiary. Information on the type of sampling unit determined and on the professional judgment used for that purpose shall be included in the Audit Report.
7. Where the total expenditure relating to a sampling unit for the accounting year is a negative amount, it shall be excluded from the population referred to in point 3 above, and shall be audited separately. The AA, with the assistance of TA and GoA, may also draw a sample of this separate population.
8. Where conditions for the proportional control provided for in art. 148 (1) of Regulation (EU) n. 1303/2013 apply, the AA, with the assistance of TA and GoA, may either exclude the items referred to in that Article from the population to be sampled or maintain the items in the population to be sampled and replace them if selected. The decision to use either exclusion or replacement of sampling units should be taken by the audit authority based on its professional judgement.
9. All expenditure declared to the Commission in the sample shall be subject to audit. However, depending on the characteristics of sampling unit, the audit authority may decide to apply sub- sampling. The methodology for selection of the sub-sampling units shall follow the principles allowing projection at the level of the sampling unit.
10. The AA, with the assistance of TA, may stratify a population by dividing a population into sub-populations, each of which is a group of sampling units which have similar characteristics, in particular in terms of risk or expected error rate or where the population includes operations consisting of financial contributions to financial instruments or other high-value items.
11. The AA, with the assistance of TA, shall evaluate the reliability of the system as high, average or low, taking into account the results of systems audits to determine the technical parameters of sampling so that the combined level of assurance obtained from the systems audits and audits of operations is high. For a system assessed as having high reliability the confidence level used for sampling operations shall not be less than 60%. For a system assessed as having low reliability the confidence level used for sampling operations shall not be less than 90%. The maximum materiality level shall be 2% of the expenditure referred to in point 3.
12. Where irregularities or a risk of irregularities have been detected, the AA, with the assistance of TA, shall decide on the basis of professional judgment whether it is necessary to audit a complementary sample of additional operations or parts of operations that were not audited in the random sample in order to take account of specific risk factors identified.
13. The AA, with the assistance of TA, shall analyse the results of the audits on the complementary sample separately, draw conclusions based on those results and communicate them to the Commission in the Annual Audit Report. Irregularities detected in the complementary sample shall not be included in the calculation of the projected random error of the random sample.
14. On the basis of the results of the audits of operations for the purpose of the AO and AAR, the AA, with the

assistance of TA and GoA, shall calculate a total error rate, which shall be the sum of the projected random errors and, if applicable, systemic errors and uncorrected anomalous errors, divided by the population.

The detailed methodology for the selection of the sample will also be based on the guidelines of the European Commission; the last official document over this 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 are 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 (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);
- 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
- the last "Audit Strategy" adopted by the Audit Authority.

2. Sampling methods

As a preliminary remark on the choice of a method to select the operations to be audited, whilst the criteria that should lead to this decision are numerous, from a statistical point of view the choice is mainly based on the expectation regarding the variability of errors and their relationship with the expenditure.

The table below gives some indications on the most appropriate methods depending on those criteria.

Sampling Method	Favourable conditions
Standard MUS	Errors have high variability and are approximately proportional to the level of expenditure (i.e. error rates are of low variability). The values of expenditure per operation show high variability.
Conservative MUS	Errors have high variability and are approximately proportional to the level of expenditure. The values of expenditure per operation show high variability. Proportion of errors is expected to be low. Anticipated error rate has to be smaller than 2%.
Difference estimation	Errors are relatively constant or of low variability. An estimate of the total corrected expenditure in the population is needed.
Simple random sampling	General proposed method that can be applied when the previous conditions do not hold Can be applied using mean-per-unit estimation or ratio estimation (guidelines for choosing between these two estimation techniques can be found in EGESIF note 16-0014-01 of 20/01//2017)
Non-statistical methods	If the application of statistical method is impossible
Stratification	Can be used in combination with any of the above methods It is particularly useful whenever the level of error is expected to vary significantly among population groups (subpopulations)

Table - Conditions of applicability of different sampling designs

Although the previous advice should be followed, actually no method can be universally classified as the only suited method or even the “best method”. In general, all methods can be applied. The consequence of choosing a method that is not the most suitable for a certain situation is that the sample size will have to be larger than the one obtained when using a more appropriate method. Nevertheless, it will always be possible to select a representative sample through any of the methods, provided that an adequate sample size is considered.

Stratification can be used in combination with any sampling method. The reasoning underlying stratification is the partition of the population in groups (strata) more homogeneous (with less variability) than the whole population. Instead of having a population with high variability it is possible to have two or more subpopulations with lower variability. Stratification should be used to either minimize variability or isolate error-generating subsets of the population. In both cases stratification will reduce the needed sample size.

As stated before, statistical sampling should be used to draw conclusions about the amount of error in a population. However, there are special justified cases where **a non- statistical sampling method** may be used on the professional judgement of the audit authority, in accordance with internationally accepted audit standards.

In practice, the specific situations that may justify the use of non-statistical sampling are related to the population

size (that is, less than 150) or to specific peculiar conditions that may not allow for statistical methods (i.e. the Covid-19 Pandemic).

The audit authority will use all possible means to achieve a sufficiently large population, whenever possible (for example by using as the unit the beneficiaries' periodic payment claims). AA will also consider that even in an extreme situation where the statistical approach is not possible in the beginning of the program period, it should be applied as soon as it is feasible.

The Following Table shows a summary of the abovementioned sampling methods:

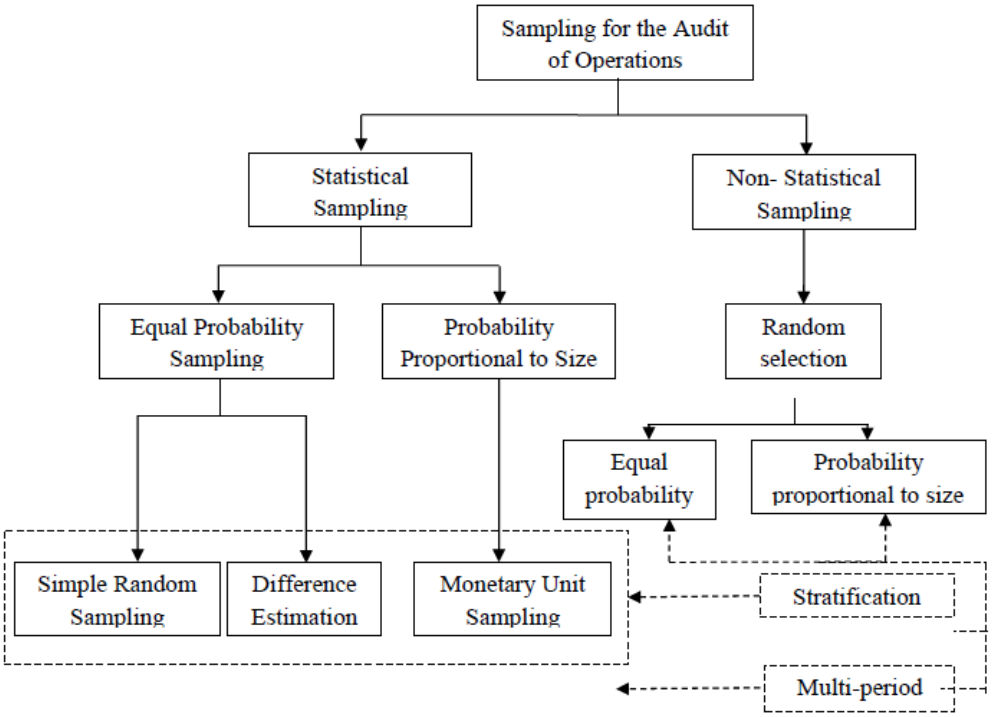


Figure - Sampling methods for the audit of operations

Once the sampling method has been identified, the AA must proceed to:

1. define the population to be sampled and the sampling unit;
2. define the sampling parameters in particular:
   - the level of confidence defined according to the "level of reliability" granted to the MCS following system audits;
   - the relevance threshold (equal to 2% of the population);
   - the expected error rate ("Anticipated Error") based on historical data or using a pilot sample;
   - the standard deviation that defines the variability of the population with respect to the error.
3. calculate the sample size based on the sampling methodology chosen and described in the audit strategy;

4. select the sample and perform audit on operations;
5. project the error rate detected on the sample and compare it with the materiality threshold and with the upper limit.

Furthermore, the AA may consider stratification (for example, using the results from system audits), enabling the AA to draw conclusions per stratum where necessary. The stratification by Partner Country may be considered either a priori or a posteriori (e.g. when the error rate is above 2%), in order to allow the AA to assess where the error comes from. In this respect, the sampling methodology can take into account the "bottom-up strategy" explained in section 7.8 of the EGESIF Note No 16-0014-01 of 20/01//2017.
The sampling activities shall be detailed in the Audit Strategy. In particular, the AA shall formalize any professional judgment used to establish the sampling methods; it is also necessary to carry out the minutes of the planning phases, with particular regard to the definition of the sampling parameters, the calculation of the sample size and the selection of the operations to be audited in order to demonstrate the suitability of the procedure followed.
The AA will also periodically review the coverage provided by the extracted sample - in particular where the double sampling or subsequent sampling of each intermediate payment application was chosen - in light of any irregularities detected as a result of the controls.

2.1 Population

As already mentioned, the population for sampling purposes includes the expenditure declared to the Commission for operations within a Programme in the reference period, except for negative sampling units, as will be explained in the following sections of this Manual. All operations included in that expenditure should be comprised in the sampled population, except where the proportional control arrangements set out by Article 148(1) CPR and Article 28(8) of the Delegated Regulation (EU) No 480/2014, as amended by the Delegated Regulation (EU) No. 886/2019, apply in the context of the sampling carried out for the programming period 2014-2020.
It should be noted that, notwithstanding proportionate control arrangements, the Audit Authority will carry out audits of operations in the event that:

- on his professional judgement, the Audit Authority believes that it is not possible to give an audit opinion based on either statistic or non-statistic sampling methods, without performing more than one audit on a specific operation;
- a risk assessment or an audit by the European Court of Auditors establishes a specific risk of irregularity or fraud;
- in the case of evidence of serious deficiencies in the effective functioning of the management and control system of the operational Programme concerned.

As regards the Article 28(8) of the Delegated Regulation (EU) No 480/2014, it should be remembered that, pursuing amendments made by the Delegated Regulation (EU) No. 886/2019, the Audit Authority may decide,

when dealing with proportionate control arrangements, whether excluding the items referred to in that Article from the population to be sampled, or keep them in the population and replace the operation/s concerned, using an appropriate random selection, only if selected in the sample.

In the case of replacement of sampling units, these sampling units should be replaced in the sample by selecting an additional sample with a size equal to the number of the operations replaced. The "replacement units" should be selected using the same methodology as for the original sample.
In the case of both replacement and exclusion, the sample size is calculated based on the population parameters corresponding to the original population.
The decision to use either exclusion or replacement of sampling units should be taken by the AA based on professional judgement, with the assistance of TA.

2.3 Sampling unit

In the programming period 2014-2020, determination of the sampling unit is regulated by Commission Delegated Regulation No 480/2013. In particular, Article 28 of this Regulation stipulates:
"The sampling unit shall be determined by the audit authority, based on professional judgement. The sampling unit may be an operation, a project within an operation or a payment claim by a beneficiary…"
Therefore, possible sample units to be chosen are:

- The operations;
- Partners/Beneficiaries of the Project;
- Payment Requests (generally grouped by partner / beneficiary of the project);
- Individual invoices or receipts of expenses.

At least one of the first three alternatives has always to be defined as a sampling unit, while the fourth (ie single invoices or receipts of expense) can only be used as a further sample unit within a two or more stages sampling design. Such sampling should be used, in particular, when payment requests are made up of a large number of invoices and it would therefore be too costly to control them all.

2.4 Negative sampling units

It can happen that there are sampling units (operations or payment claims) that are negative, in particular due to financial corrections applied by national authorities.
In this case, the negative sampling unit should be included in a separate population and should be audited separately with the objective of verifying if the amount corrected corresponds to what has been decided by the Member State or the Commission. If the AA concludes that the amount corrected is less than what was decided, then this matter will be disclosed in the Annual Audit Report, in particular when this non-compliance constitutes an

indication of weaknesses in the Member State's corrective capacity.

In this context, when calculating the total error rate, the AA only considers the errors found in the population of positive amounts and this is the book value to be considered in both the projection of random errors and in the total error rate. Before calculating the projected error rate, the AA will verify that the errors found are not already corrected in the reference period (i.e. included in the population of negative amounts, as described above). If this is the case, these errors should not be included in the projected error rate.

Concretely, the AA has to identify, in the total population of sampling units (i.e. operations or payment claims) to be sampled, the ones with a negative balance and audit them as a separate population.

In summary, there are three approaches concerning separation between positive and negative sampling units:

- Negative amounts are included in the positive population if the sum of negative and positive amounts within the sampling unit is positive.
- All positive amounts are included in the positive population and all negative amounts are included in the negative population.
- Negative amounts related to the previous sampling periods (such as corrections of amounts declared in previous years) are included in the negative population, whereas negative amounts correcting/adjusting the positive amounts in the positive population of the current sampling period are included in the positive population.

In the Commission’s view, options 2 and 3 are recommended.

For the purposes of the "Table for declared expenditure and sample audits" included in the AAR, the AA should present in the column "Expenditure declared in reference period" the population of positive amounts. The AA should present in the AAR a reconciliation of the expenditure declared (net amount) with the population from which the random sample of positive amounts was drawn.

The artificial negative sampling units (clerical errors, reversal entries in the accounts not corresponding to financial corrections, revenues of revenue-generating projects and transfer of operations within a Programme, unrelated with irregularities detected in that operation) will also be included in the negative population. Alternatively, a sample of such units could be selected from a specific population of artificial negative sampling units. The AA will record the nature of the negative sampling units (in particular, allowing the distinction between financial corrections resulting from irregularities and artificial negative sampling units) on a regular basis for the purposes of ensuring that only financial corrections are included in the annual reporting on withdrawals and recoveries (for 2014-2020 programming period, this reporting is included in the accounts). Therefore, the audit of the negative sampling units should include verification of correctness of such recording for the selected units.

Any errors found among the decertified amounts should be corrected and they do not take part in determining the total error rate. However, the AA may decide to extend the verifications, and audit also the amounts decertified over previous periods, to increase the efficiency of audits. In this case as well, the results of the verifications carried

out on the amounts decertified over previous period should not be taken into consideration for the determination of the overall error rate.

It should be noted that the calculated error rate will not be affected by results of the audit of negative sampling units. However, it is recommended that the negative sampling units are selected at random. Financial corrections derived from irregularities detected by the AA or the EC that are constantly monitored by the AA could be excluded from the random sample on negative units.

The audit of negative sampling units will be included in the audit of accounts.

2.3 Define sampling parameters

As already mentioned in the above section, in order to define the sample dimension, it is firstly necessary to define the desired values of the following sampling parameters:

1. confidence level and its coefficient
2. materiality level
3. anticipated error rate
4. a measure of population variability (standard deviation)

2.3.1 Confidence level

Setting an appropriate confidence level is a critical issue for the auditing of operations, as sample size is strongly dependent on this level (the higher the confidence level the larger the sample size for substantive tests). Assurance/confidence levels depend mainly on the quality of the system of internal controls.
The audit authority will establish criteria used for system audits in order to determine the reliability of the management and control systems. These criteria will include a quantified assessment of all key elements of the systems (key requirements) and encompass the main authorities and intermediate bodies participating in the management and control of the operational programme.
By performing System audits, the AA will assess the functioning of the MCS. In this evaluation process, four reliability levels are foreseen:

- Works well. No, or only minor improvements are needed;
- Works. Some improvement(s) needed;
- Works partially. Substantial improvements needed;
- Essentially does not work.

The confidence level for sampling is determined according to the reliability level obtained from the system audits. One could consider three levels of assurance on systems: high, average and low. The average level effectively

corresponds to the second and third categories of the methodology for evaluation of the management and control systems, which provide a more refined differentiation between the two extremes of high/"works well" and low/"does not work". The recommended relationship is shown in the table below:

Reliability levels for the evaluation of the MCS	Level of assurance from the system audit	Confidence level	Detection Risk
1. Works well. No, or only minor improvement(s) needed	High	Not less than 60%	Less or equal to 40%
2. Works. Some improvement(s) are needed.	Average	70%	30%
3. Works partially. Substantial improvements needed.	Average	80%	20%
4. Essentially does not work.	Low	Not below 90%	Not greater than 10%

Table- Confidence level for the audit of operations according to the assurance from the system

It is expected that at the beginning of the programming period, the assurance level is low as no or only a limited number of system audits will have taken place. The confidence level to be used would therefore be not less than 90%. However, if the systems remain unchanged from the previous programming period and there is reliable audit evidence on the assurance they provide, the Member State could use another confidence level (between 60% and 90%). The confidence level can also be reduced during a programming period if no material errors are found or there is evidence that the systems have been improved over time. The methodology applied for determining this confidence level will have to be explained in the Audit Strategy and the audit evidence used to determine the confidence level will have to be mentioned.

2.3.2 Materiality level

According to art. 28 of the Regulation (ERU) n. 480/2014, materiality level will be set to 2% maximum of the expenditure of the programme declared to the Commission in the reference period (positive population). The AA can consider reducing the materiality for planning purposes (tolerable error).
The materiality is used:

- As a threshold to compare the projected error in expenditure
- To define the tolerable/acceptable error that is used for determining sample size

2.3.3 Anticipated error (AE)

As already mentioned, the anticipated error (AE) is the projected error that the auditor expects to obtain at the level of the operations at the end of the audit. This error will be set by the AA on the basis of:

- auditor professional judgment;

- information acquired on the population to be sampled and known facts/events;
- evidence gathered in previous auditing activities for the same of similar population;
- results from compliance tests performed during system audits.

2.3.4 Variability (s)

The variability of the population is a very influential parameter on sample size and is usually measured by a parameter known as standard-deviation.

The standard-deviation can be defined as a measure of the variability of a population around its mean. It can be calculated using errors or book-values. When calculated over the population, it is usually represented by s; when calculated over the sample, it is represented by s. The larger the standard deviation, the more heterogeneous is the population (or the sample). The variance (s^2) is the square of the standard deviation. The standard-deviation is more easily understandable than variance, because it is expressed in the same units of the variable for which we seek to measure variability.

The sample size needed to audit a population of low variability is smaller than the one needed for a population of high variability. In the extreme case of a variance of 0, a sample size of one operation would be sufficient to project the population error accurately.

As it is not possible to know the standard deviation for the whole population, the AA will estimate its value on the basis of historical data (standard-deviation of the errors for the population in the past period) or on a preliminary/pilot sample of low sample size (sample size is recommended to be not smaller than 30 units) upon which and a preliminary estimate of the variance of errors is calculated.

2.4 Stratification

Stratification is when the population is divided in sub-populations called “strata” and independent samples are drawn from each stratum.

The main goal of stratification is two-folded: on one hand usually allows an improvement of precision (for the same sample size) or a reduction of sample size (for the same level of precision); on the other hand, ensures that the subpopulations corresponding to each stratum are represented in the sample.

Whenever we expect that the level of error (misstatement) will be different for different groups in the population (e.g. by region, intermediate body, risk of the operation) this classification is a good candidate to implement stratification.

Different sampling methods can be applied to different strata. For example, it is common to apply a 100% audit of the high-value items and apply a statistical sampling method to audit a sample of the remaining lower-value items that are included in the additional stratum or strata. This is useful in the event that the population include a few quite high-value items, as it lowers the variability in each stratum and therefore allows an improvement of precision

(or reduction of sample size).

2.5 Projection of the error rate

As stated before, the final goal when applying a sampling method is to **project** (extrapolate or estimate) the level of error (misstatement) observed in the sample to the whole population. This process will allow to conclude whether a population is materially misstated or not and, if so, by how much (an error amount). Therefore, the level of error found in the sample is not of interest by itself, being merely instrumental, i.e. a mean through which the error is projected to the population.

Sample statistics used to project the error to the population are called **estimators**. The act of projection is called estimation and the value calculated from the sample (projected value) is called the estimate. Clearly, this estimate, only based on a fraction of the population, is affected by an error called the sampling error.

2.6 Sampling error and precision

Sampling error is an indication of the difference between the sample projection (estimate) and the true (unknown) population parameter (value of error). This is the error that arises because we are not observing the whole population. In fact, sampling always implies an estimation (extrapolation) error as we rely on sample data to extrapolate to the whole population. It represents, in fact, the uncertainty in the projection of results to the population. A measure of this error is usually called **precision** or **accuracy** of the estimation. It depends mainly on sample size, population variability and in smaller degree population size.

A distinction should be made between **planned precision** and **effective precision**.

The **planned precision** is the maximum sampling error accepted for the projection of errors in a certain reference period, i.e. the maximum deviation between the true population error and the projection produced from sample data. It should be set by the auditor to a value lower than the tolerable error, because otherwise the results of sampling of operations will have a high risk of being inconclusive and a complementary or additional sample may be needed.

The **effective precision** is an indication of the difference between the sample projection (estimate) and the true (unknown) population parameter (value of error) and represents the uncertainty in the projection of results to the population.

The **tolerable error** is the maximum acceptable error rate that can be found in the population for a certain reference period. With a 2% materiality level this maximum tolerable error is therefore 2% of the expenditure declared to the Commission for that reference period.

The most adequate way to settle the planned precision is to calculate it equal to the difference between the **tolerable error** and the **anticipated error** (the projected error that the auditor expects to obtain at the end of the audit). This anticipated error will of course be based on the auditor professional judgment, supported by the

evidence gathered in the auditing activities in previous years for the same of similar population or in preliminary/pilot sample.

It should be noted that the choice of a realistic anticipated error is important, since the sample size is highly dependent on the value chosen for this error.

The **sample error rate** is computed as the ratio between total error in the sample and total book value of the sampled items; the **projected error rate** is computed as the ratio between **projected population error** and total book value.

Again, it should be stressed that the sample error is of no interest by itself as it should be considered a mere instrument to calculate the **projected error**.

2.7 Non-statistical sampling

Statistical sampling should be used, as a general rule, to audit the declared expenditure and draw conclusions about the amount of error in a population. Non-statistical sampling does not allow the calculation of precision, and consequently there is no control of the audit risk. Consequently, non-statistical sampling may be used, on the professional judgement of the AA, and in accordance with internationally accepted audit standards, only in cases where statistical sampling is not possible to implement, usually related to the limited population size.

In summary, non-statistical sampling is considered appropriate for cases where it is not possible to achieve an adequate sample size that would be required to support statistical sampling. EGESIF note 16-0014-01 of 20/01/2017 indicates this threshold somewhere between 50 and 150 sampling units. The final decision should of course take into consideration the balance between the cost and benefit associated with each of the methods.

For 2014-2020, the regulation sets criteria to be respected when non-statistical sampling is applied, namely to cover a minimum of 5% operations and 10% of the expenditure declared (Article 127(1) CPR). This may lead in practice to sample sizes equivalent to the ones obtained by statistical sampling methods. In such situations, the AAs will use statistical methods instead.

Even in the situations where the AA applied a non-statistical sampling method, the sample shall be selected using a random method. The size of the sample must be determined taking into account the level of assurance provided by the system and must be sufficient to enable the AA to draw a valid audit opinion on the legality and regularity of the expenditure (cfr. Art. 127 (1) CPR). The AA should be able to extrapolate the results to the population from which the sample was drawn.

There is no fixed rule to select the sample size based on the assurance level from the system audits, but as a reference, the AA, when defining the sample size under non-statistical sampling, will consider the following indicative thresholds (as per the abovementioned EGESIF note of 2017):

Assurance level from the system audits	Recommended coverage	
	on operations	on expenditure declared
Works well. No, or only minor improvement(s) needed.	5%	10%
Work. Some improvement(s) needed.	Between 5% - 10% (to be defined by the AA on the basis of its professional judgement)	10%
Works partially. Substantial improvement(s) needed.	Between 10% and 15% (to be defined by the AA on the basis of its professional judgement)	Between 10% and 20% (to be defined by the AA on the basis of its professional judgement)
Essentially does not work.	Between 15% and 20% (to be defined by the AA on the basis of its professional judgement)	Between 10% and 20% (to be defined by the AA on the basis of its professional judgement)

Table - Sample size for non-statistical sampling methods

The sample from the positive population shall be selected using a random method. In particular, the selection can be made either using:

- equal probability selection (where each sampling unit has equal chance of being selected regardless of the amount of expenditure declared in the sampling unit), as in simple random sampling;
- probability proportional to size (expenditure) (where a random selection is made of the first element for the sample and then subsequent elements are selected using an interval until the desired sample size is reached; it uses the monetary unit as an auxiliary variable for sampling) as done for the MUS case.

2.7.1 Stratified non-statistical sampling

When implementing non-statistical sampling, the AA will consider stratifying the population by dividing it into sub-populations, each one being a group of sampling units with similar characteristics, in particular in terms of risk or expected error rate or where the population includes specific types of operations (e.g. financial instruments). Stratification is a very efficient tool to improve the quality of the projections and it is strongly recommendable to use some kind of stratification in the framework of non-statistical sampling.

In case non statistical sampling is used for Cooperation programmes, the practices in the field indicate that it might be appropriate to apply a sampling design with either two-stage or three-stage sampling, where a project partner or a payment claim of project partner could constitute a sampling unit at one of the sampling stages.

If the sampling unit is an operation, the AA could decide to have a sampling design with selection of a sub-sample of payment claims of individual project partners (two-stage sampling). Another option of two-stage sampling design, the most frequently used in ETC context, is to group all payment claims of individual project partners per project partner and to select a sub-sample of project partners within the selected operation.

All sampling units in sub-samples are to be selected using the same sampling method as the one used for the selection of the “main” sample (random).
In case stratification is applied at the level of sub-samples, obviously the AA could decide to audit all sampling units of a particular stratum.
Example: if the AA decides to use an operation as the sampling unit of the main sample and project partners as the sub-sampling units, the AA could either:

- make a random selection of project partners (without distinguishing between lead and other project partners)
- apply stratification at the level of an operation:
    - one stratum for the expenditure of the lead partner and
    - a second stratum for the expenditure of other project partners.

The size of the combined sample of lead partner and project partners must in any case be sufficient to enable the AA to draw valid conclusions.

2.8 Project results, calculate precision and draw conclusion

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.

2.8.1 Statistical sample

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;
- If TER is lower than 2% and the ULE 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 request the MA to 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".

2.8.2 Non statistical sample

The projection of the audit findings depends on the adopted sample design.

Following the example already used above, where the AA is to choose a two - stage sample design, based on the selection of the operations at the main sample level and proceed with subsampling of ether expenditure claims/reports or partners, stratifying the LP and PP expenditure, here below are illustrated the main aspects to

be considered for the treatment of the errors.

In such cases, errors detected at the level of payment claims/project partners need to be projected first to the level of the strata (if applicable) and then to the operation, before the final projection of errors to the level of the population of operations.

The projection of the errors to the population, as well as the projection to the strata and then to the operation, in the case of two stage sample design with substrata at the level of partners, should take into consideration that the lead partner is not selected at random, but its expenditure constitutes an exhaustive stratum. To calculate the error at the level of the operation, the errors of the other project partners selected at random in the operation should be projected to the stratum of other project partners, whereas the error of the lead partner should be added to the projected error to establish the total projected error rate of the operation.

Therefore, for one specific operation, i, in the sample, the projected error for the exhaustive stratum (corresponding to the lead partner) is $EEe = ELP$, where ELP is the amount of error found in the lead partner's expenditure. In other words, the projected error of the exhaustive stratum is simply the amount of error found in the lead partner.

If a further subsample is used, the projected error of the lead partner will be:

$$EE_{LP} = BV_{LP}\frac{\sum_{j=1}^{n_{LP}} E_j}{\sum_{j=1}^{n_{LP}} BV_j}.$$

where $BVLP$ is the is the expenditure of the lead partner and nLP the sample size of the subunits audited for this partner. For the stratum containing the other project partners

$$EE_{PP} = BV_{PP}\frac{\sum_{i=1}^{n_{s,PP}} E_i}{\sum_{i=1}^{n_{s,PP}} BV_i}.$$

where $BVPP$ is the expenditure of the set of project partners and ns,PP the sample size in the project partners stratum.

This projected error is equal to the error rate in the sample of project partners multiplied by the population expenditure of the stratum.

In cases of three stage sampling, where the project partners selected in the sample are not fully audited, but only audited through a subsample of payments claims (or other units) then the errors Ei have to be projected, as explained for the lead partner.

The total projected error for the operation I is just the sum of these two components

- $EEi = EELP + EEPP$.

This projection procedure is to be followed for each operation in the sample in order to obtain the projected errors for each operation (EEi, $i = 1, \dots n$). Once the projected errors of all operations in the sample have been calculated, the projection to the population is straightforward.

The projected error is then compared to the maximum tolerable error (materiality level rate multiplied by the population expenditure) in order to conclude about the existence of material error in the population.

Once determined the TER and established the possible level of material misstatement at population level, the AA will proceed as described for the statistical sampling methodology (ULE is not applicable for the non - statistical sampling approach).

3. Sub-sampling

In general, all the expenditure declared to the Commission for all the selected operations in the sample should be subject to audit. However, depending on the characteristics of sampling unit, the audit authority may decide to apply sub-sampling.

Sub-sampling usually applies whenever the selected operations include a large number of payment claims or invoices, thus offering the possibility to significantly reduce the audit workload, allowing to still control the reliability of the conclusions.

The amendment of the art. 28 of Reg. (EU) n. 480/2014 by the Reg. (EU) n. 886/2019, allows the AA for more freedom when applying sub-sampling methods: the only rule to be followed is that the methodology for selection of the sub-sampling units shall follow the principles allowing projection at the level of the sampling unit.

Whenever a sub-sampling is followed, the AA will record the sampling methodology in the audit report or working papers, explaining in depth the reasons behind this choice.

It is important to stress that only the expenditure of the secondary units selected to the subsample is audited; this means that in the AAR the audited expenditure is only the one selected to the sample and not the whole expenditure of the selected operation.

A very simple approach to the determination of sub-sample sizes is to use the same sample size determination formulas that are proposed to the main sample under the several sampling designs and based on parameters compatible with expected operation characteristics. Here, it will be acknowledged that the reference population is now the operation inside which the subsample is selected and that the population parameters used for the determination the sub-sample size should, whenever possible, reflect the characteristics of the corresponding operation. Despite the sampling methodology used to determine sample sizes, a basic rule of thumb is to never use sample sizes smaller than 30 observations (i.e. invoices or payment claims from beneficiaries).

The AA may choose to use any statistical sampling methods for selecting the claims/invoices within the operations.

In fact the sampling method used at the sub-sample level does not need to be equal to the one used for the main sample. For example, it is possible to have a sample selection of operations based on MUS and a subsample of invoices within one operation based on simple random sampling. Therefore, the whole range of sampling methods (including stratification of claims/invoices by level of expenditure, selection based on probabilities proportional to size as in MUS or selection based on equal probabilities) may be applied at this subsample level. Nevertheless, the subsampling strategy (sampling within the primary unit) should always be statistical (unless the sampling of primary units is not itself statistical).

Once the sub-sample is selected and audited, the observed errors have to be projected to the respective operation using a projection method compatible with the selected sampling design. For example, if the expenditure items have been chosen with equal probabilities, then the error may be projected to the operation using the usual mean-per-unit estimation or ratio estimation.

Finally, once the errors have been projected for every operation in the sample that has been sub-sampled, the projection for the population and the subsequent evaluation follows the usual procedure (as if one had observed the whole expenditure of the operation).

4. Additional sampling

4.1 Complementary sampling

Article 28(12) of Regulation (EU) No 480/2014 refers to complementary sampling: "*Where irregularities or a risk of irregularities have been detected, the audit authority shall decide on the basis of professional judgement whether it is necessary to audit a complementary sample of additional operations or parts of operations that were not audited in the random sample in order to take account of specific risk factors identified.*"
The results of the random statistical sampling have to be assessed in relation to the results of the risk analysis of the programme. Where it is concluded from this comparison that the random statistical sample does not address some high-risk areas, it should be completed by a further selection of operations, i.e. a **complementary** sample.
The audit authority should make this assessment on a regular basis during the implementation period.
In this framework, the results of the audits covering the complementary sample are analysed separately from the results of the audits covering the random statistical sample. In particular, the errors detected in the complementary sample are not taken into account for the calculation of the error rate resulting from the audit of the random statistical sample. However, the results of the complementary sample should be reported to the Commission in the Annual Control report immediately following the audit of a complementary sample.

In any case, a detailed analysis must also be done of the errors identified in the complementary sample, in order to identify the nature of the errors and to provide recommendations to correct them.

4.2 Additional samplings (due to systemic error risk)

Pursuant to Art. 27(5) CDR_480, where problems detected appear to be systemic in nature and therefore entail a risk for other operations under the operational Programme, the audit authority shall ensure further examination, including, where necessary, additional audits to establish the scale of such problems, and shall recommend the necessary corrective actions.

Whenever dealing with such a risk, the AA will assess whether systemic errors detected in the sample are such that additional sampling is necessary. The process for determining whether further actions are needed, includes an analysis of the nature and cause of the errors found, through additional audit activities.

In this respect, it is useful to remember that the AA opinion on the proper functioning of the MCS is built from the AA's work on system audits as well on the audits of operations and any complementary audits judged necessary by the AA based on their risk assessment, taking into account the audit work carried out during the programming period. As a general rule, the detection of an irregularity can be considered an isolated event only if the system has been rated highly reliable. In that case, the AA can consider that irregularity rather insignificant for the purposes of determining the error rate and, therefore, subject to correct in its uniqueness, pending the confirmation of the correctness of the opinion expressed. If, in fact, during the next sampling period, the AA were to find a lower error rate, the irregularity identified previously could be considered an isolated phenomenon; otherwise, it will constitute a risk to be taken into account during the following system audit.

Generally, a proper system audit allows to identify the risk factors which, added to any risks that emerged from previous audits of operations linked to previous sampling, can justify additional audit activities to be performed.

Additional audits will be performed through additional sampling. The operations to be audited will be selected by the AA taking into account all available information, especially those based on the results of previous controls, on the population characteristics, and on any further useful elements.

The additional sample will be extracted from the original population of certified operations, using the same sampling method of the ordinary sample.

Once additional sampling has been performed, the AA, with the assistance of GoA, will analyse separately the results of the audit on the additional sampling, will draw its own conclusions on the basis of these results and will inform the European Commission in the AAR. The irregularities detected in the additional sampling are not included in the calculation of the error rate extrapolated from the random sample.

In overall terms, it can be concluded that the additional sampling is to be considered as a "safety" sample:

- to better outline a follow-up in relation to the risks detected with the ordinary sample;
- to establish the nature of the errors found and, in some cases, define the error rate.

Both samples, ordinary and additional, are therefore integrated for the purposes of the evaluation work that the AA, with the assistance of GoA, has to carry out in order to draw up the Annual Audit Report and the Audit Opinion for the audited accounting year.
It should be noted that, in this context, proportional control arrangements set out by Article 148(1) CPR and Article 28(8) of the Delegated Regulation (EU) No 480/2014, as amended by the Delegated Regulation (EU) No. 886/2019, apply (see above sections).

4.3 Additional sampling (due to inconclusive results of the audit)

Whenever the results of the audit are inconclusive, typically, when the projected error is below the materiality but the upper limit is above, additional work is needed: an option is to select an additional sample.
For this, the projected error produced from the original sample should be substituted in formulas for sample size determination in the place of the anticipated error (in fact the projected error is at that moment the best estimate of the error in the population). Doing this, a new sample size can be calculated based on the new information arising from the original sample.
The size of the additional sample needed can be obtained by subtracting the original sample size from the new sample size. Finally, a new sample can be selected (using the same method as for the original sample), the two samples are grouped together and results (projected error and precision) should be recalculated using data from the final grouped sample.

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List of Tables

Table 1 - EU Regulations and directives

	Reference	Title	Category	Date
1	COM (2021/C 121/01)	COMMISSION NOTICE Guidance on the avoidance and management of conflicts of interest under the Financial Regulation	COMMISSION NOTICE	9/4/2021
2	Regulation (EU) n. 879/2020	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	Regulation with common and general provisions	23/06/2020
3	Regulation (EU) n. 886/2019	Commission Delegated Regulation amending and correcting Delegated Regulation (EU) No 480/2014 as regards the provisions on financial instruments, simplified cost options, audit trail, scope and content of audits of operations and methodology for the selection of the sample of operations and Annex III	Financial Regulation	12/02/19
4	Regulation (EU, Euratom) No 2018/1046 of the European Parliament and of the Council[11]	Establishing the financial rules applicable to the general budget of the Union	Financial Regulation	18/07/18
5	Reg. (EU) No 232/2014 of the European Parliament and of the Council	Establishing a European Neighbourhood Instrument	Regulation with general provisions	11/03/14
6	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
7	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
8	Reg. (EU) No1299/2013 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
9	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

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[11] 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

Table 2 - Guidelines drawn up by TESIM

	Title	Date
1	Q&A on procurement in ENI CBC Programmes using PRAG	March 2021
2	Overview on procurement by beneficiaries in partner countries	March 2021
3	Thematic publication environment	February 2021
4	Adapted key requirements for assessment of MCS (system audit)	December 2020
5	Updated guide to Programme accounts, audit and reporting to EC in ENI CBC Programmes (with annexes)	December 2020
6	Guidance on the preparation of the Audit Strategy in ENI CBC Programmes	December 2020
7	Note on Audit Opinions	December 2020
8	Check-list for system audit of national management and control systems	October 2020
9	Templates and tools for sub-grants by ENI CBC project beneficiaries. Version for programme bodies	June 2020
10	Guidance note on “Development of the description of the management and control system in ENI CBC Programmes”	June 2017
11	Guidance for compliance assessment in ENI CBC Programmes	June 2017
12	Guide to developing Management and Information Systems in ENI CBC Programmes	June 2017
13	Factsheet on procurement by Egyptian public beneficiaries - Applicable rules, tips and recommendations	January 2020
14	Fiche descriptive des règles de march é s pour les bénéficiaires public s en Tunisie - Règles applicables et recommandations	Décembre 2019
15	Factsheet on procurement by Palestinian public beneficiaries - Applicable rules, tips and recommendations	December 2019
16	Factsheet on procurement by Jordanian public beneficiaries - Applicable rules, tips and recommendations	December 2019
17	Factsheet on procurement by public beneficiaries in Lebanon - Applicable rules, tips and recommendations	April 2019
18	Guide on procurement by private project beneficiaries in ENI CBC Mediterranean Sea Basin and Italy Tunisia programme - Applicable rules, templates, tips and recommendations	February 2020

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

	Reference	Title	Date
Management and Control System			
1	EGESIF 14-0030	Public procurement guidance for practitioners on the avoidance of common errors in in ESI Funded projects	29/08/2014
2	EGESIF n. 14-0013 final	Guidance for Member States on Designation Procedure	18/12/14
3	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
4	EGESIF 14-0012-02-final	Guidance for the Member States on management verifications	17/09/15
5	EGESIF_15_0018-04	Guidance for Member States on preparation, examination and acceptance of accounts	03/12/18
6	EGESIF_15_0017-04	Guidance for Member States on amounts withdrawn, recovered, to be recovered and irrecoverable amounts	03/12/18

	Reference	Title	Date
7	EGESIF_15-0008-05	Guidance for Member States on the Drawing of Management Declaration and Annual Summary	03/12/18
8	EGESIF n. 17-0012-01	Decommitment methodology (n+3) and process in 2014 – 2020	30/08/17
9	EGESIF n. 17-0006-00	Questions and Answers regarding e-Cohesion	06/04/17
Procedure Audit Authority procedures			
10	EGESIF n. 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
11	EGESIF_14-0013	Guidance for Member States and Programme Authorities on Designation Procedure	18/12/14
12	EGESIF 14-0011-02 final	Guidance for Member States on Audit Strategy	27/08/15
13	EGESIF 15-0007-02 final	Updated Guidance for Member States on treatment of errors disclosed in the annual control reports	09/10/15
14	EGESIF_15_0016-04	Guidance for Member States on Audit of Accounts	03/12/18
15	EGESIF 16-0014-01	Guidance on sampling methods for audit authorities - Programming periods 2007- 2013 and 2014-2020	20/01/17
16	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
17	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			
18	EGESIF 14-0021-00	Fraud Risk Assessment and Effective and Proportionate Anti-Fraud Measures	16/06/14
Beneficiaries guideline			
19	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

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Table 4 – Simplified Costs Options

	Reference	Title	Date
1	EGESIF_14-0017	Guidance on simplified costs options	09/2014
2	Commission notice 2021/C 200/01	Guidelines on the use of simplified cost options within the European Structural and Investment Funds (ESI) – revised version	27/05/21

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Table 5 – Public procurement

	Reference	Title	Date
1	Commission Decision C(2019)3452	Guidelines for determining financial corrections to be made by the Commission to expenditure financed by the Union under shared management, for non-compliance with the rules on public procurement	14/05/2019
2	Commission Decision C(2013) 9527 final	Guidelines for determining financial corrections to be made by the Commission to expenditure financed by the Union under shared management, for non-compliance with the rules on public procurement	19/12/2013

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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
4	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

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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

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Table 8 – Programme documents

	Reference	Title	Date
1	Audit Authority (AA) Decision n. 12	Audit Strategy (Version 1) of the Mediterranean Sea Basin Programme 2014-2020 for the European Neighbourhood Instrument (ENI) Cross Border Cooperation	20/09/2017
2	Audit Authority (AA) Decision. 275 prot. 2064	Description of the Management and Control Systems of the Mediterranean Sea Basin Programme 2014-2020 (Version 1)	02/11/2020

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Table 9 – ISSAI standards

	Reference	Title
1	ISSAI 3000	Standards for performance auditing
2	ISSAI 3200	Guidelines for performance auditing process
3	ISSAI 4000	Compliance audit standard
4	ISSAI 5300	Guidelines on IT audit

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Table 10 – ISA standards

	Reference	Title
1	ISA 200	Overall objective of audit
2	ISA 220	Quality control for audit work
3	ISA 230	Audit documentation
4	ISA 240	The auditor's responsibility to consider fraud in an audit of financial statements
5	ISA 250	Consideration of laws and regulations in an audit of financial statement
6	ISA 300	Planning an audit of financial statements
7	ISA 315	Understanding the entity and its environment and assessing the risk of material misstatement
8	ISA 320	Materiality in planning and performing an audit
9	ISA 450	Evaluation of misstatements identified during the audit
10	ISA 500	Audit evidence
11	ISA 530	Audit sampling
12	ISA 600	The use of the work of other auditors
13	ISA 620	Using the work of an Auditor's Expert
14	ISA 700	Forming an audit opinion
15	ISA 705	Modifications to the opinion in the independent auditor's report
16	ISA 706	Emphasis of matter paragraphs and other matter paragraphs in the independent auditor's report

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Table 11 – 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

	Reference	Title
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
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

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Table 12 - AA

AA	Reference	Period
Direzione generale dei Servizi Finanziari of the Assessorato della Programmazione, Bilancio, Credito e Assetto del territorio – Unit: Certificazione PO FESR – FSE – FSC e Autorità di Audit PO ENI CBC MED	Decision Regional Council n. 53/9 of 28.11.17 effective since March 2018	March 18 – 20.05.20
Direzione generale dei Servizi Finanziari of the Assessorato della Programmazione, Bilancio, Credito e Assetto del territorio – Unit: Autorità di Audit PO ENI CBC MED, divided in two sectors (AA Decision n. 767 of 03.07.2020): "Audit activities Programming and Management" "AA Designation and Technical Assistance"	Decree of the Planning Assessor n. 1/16396 of 21.05.20	21.05.20 – 23.03.21
Presidency of the Autonomous Region of Sardinia – Project Unit: Ufficio dell'Autorità di Audit dei Programmi Operativi FESR e FSE	Decision Regional Council n. 11/50 of 24.03.21	24.03.21 – 21.09.22
Rename Project Unit as "Ufficio della Autorità di Audit" (Audit Authority Office) and confirmation of Dr. Vincenzo Pavone as Audit Authority also for the Interreg Next Mediterranean Sea Basin (NEXT MED) 2021/2027.	Decision Regional Council n. 29/3 del 22.09.22	22.09.22 - now

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Table 13 – AA appointment

AA' appointment	Decree	Period
Dr. Enrica Argiolas		
Dr. Antonella Garippa	Decree of the President of the Region n. 37 Prot. n. 11870 of 28.06.21	28.06.21 – 11.08.22

AA' appointment	Decree	Period
Dr. Vincenzo Pavone	Decree of the President of the Region n. 61 of 12.08.2022 Decree of the President of the Region n. 75 Prot. n. 17741 of 30.09.22	12.08.22 – 29.09.22 30.09.22 - now

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Table 14 – Example of anti-fraud measures to apply in audits of operations

Examples of anti-fraud measures to apply in audits of operations
Instructions to the Beneficiary on possible anti-fraud measures in the implementation of operations.
Instructions to the Beneficiary on the correct and transparent implementation of procurement procedures.
Informing the Beneficiary by raising awareness of the fight against fraud.
Training and further training in fraud.
Proper implementation of anti-mafia discipline in the case of the audited operation.
Correct verification of the reliability of the declarations made in the case of the operation being audited.
Specific control points in first-level control checklists.
Recording of information on the types of risks encountered for operation audited within the system adopted by the MA, to support the identification of projects potentially exposed to risks of fraud, conflicts of interest and irregularities.
Consideration of fraud in the type of operations covered by the operation audited in the context of risk assessment within the sampling methodology adopted by the MA.

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Table 15 – System audit tools

System audit tools	
1	**System audit Minute**
	Brief report containing the essential information relating to the control such as: • date of checks execution; • documentation verified during the audit and/or documentation acquired during the on the spot visit; • staff interviewed; • any limitations on the control activity. The report shall be signed by the auditor and the audited body.
2	**System Audit Provisional Report**
	The provisional report contains: • executive summary; • the indication of the performed control tests; • introduction; • workplace and controlled body; • regulatory framework; • objectives of the audit; • description of the audit work carried out and assessments made; • description of any discrepancies found in the Management and Control System or description of any discrepancies found with respect to the previous audit and the Annual Audit Report in the event that the system audit is being updated; • description of any emerged critical issues and areas for improvement, outlining possible corrective actions; • provisional audit opinion. The provisional report shall be signed in original by all the auditors, countersigned by the Audit Authority and sent to the controlled body for its counterarguments.
3	**System Audit Final Report**
	Following the counterarguments received from the controlled body, the AA proceeds to draft the final report on the system audit.

System audit tools	
	The final report integrates the content of the provisional one, mentioning the counter-deductions of the body under control (if any), provides the consequent assessments and contains the conclusions, indicating whether the critical issues have been overcome, or indicating the necessary changes to resolve the critical issues emerged during the audit and not resolved with the cross-examination (to be verified during the follow-up). The final report includes the opinion on the functioning of the Management and Control System. The final report shall be signed in original by all the auditors, countersigned by the Audit Authority and sent to the audited body.

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Table 16 – Audit on operations tools

Audit on operations tools	
1	**Minute on the spot checks**
	Brief summary report containing the essential information relating to the control such as: • date and place of checks execution; • controlled subject; • controlled operation; • controlled documentation and/or documentation acquired during the on the spot visit; • any missing documentation; • causes which possibly have limited access to the documentation. The report shall be signed by the auditor and the Beneficiary which is responsible of the operation subject to control.
2	**Audit on operations Provisional Report**
	The provisional report contains the following information: • executive summary; • code and title of the operation; • identification of the Beneficiary which is subject to audit; • subjects who represented the Beneficiary during the verification; • period during which the check was carried out; • place of inspection; • brief description of the project being verified; • objectives and scope of the audit; • audit work carried out, including indication of the checklists used; • result of the check; • controlled amount (% of the certificate); • amount considered ineligible and relative percentage rate; • any recommendations and corrective actions. The provisional report will be signed by the auditors and by the Audit Authority and sent to the MA (for its counterarguments).
3	**Audit on operations Final Report**
	Following the counterarguments, the AA proceeds to draft the final report on audit on operations. The final report integrates the content of the provisional one, mentioning the counter-deductions of the MA (if any), provides the consequent assessments and contains the conclusions, specifying if the outcome is positive or indicating the necessary financial corrections to carryout (to be checked during follow-up). The final report shall be signed in original by the auditors, countersigned by the Audit Authority and sent to the MA.

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Table 17 – Audit on accounts tools

Audit on accounts tools	
1	**Audit on accounts Minute**
	Brief report containing the essential information relating to the control such as: • date of checks execution; • documentation verified during the audit and/or documentation acquired during the on the spot visit; • staff interviewed; • any limitations on the control activity. The report shall be signed by the auditor and the audited body.
2	**Audit on accounts Provisional Report**
	The provisional report contains: • executive summary; • introduction; • the indication of the performed control tests; • introduction; • workplace and controlled body; • regulatory framework; • objectives of the audit; • description of the audit work carried out and assessments made, including the indication of the adopted checklists; • description of any discrepancies found in the Management and Control System or description of any discrepancies found with respect to the previous Audit and the Annual Audit Report in the event that the System Audit is being updated; • description of any emerged critical issues and areas for improvement, outlining possible corrective actions; • provisional audit opinion. The provisional report shall be signed in original by all the auditors, countersigned by the Audit Authority and sent to the controlled body for its counterarguments.
3	**Audit on accounts Final Report**
	Following the counterarguments received from the controlled body, the AA proceeds to draft the final report on the accounts. The final report provides the assessments performed on the Accounts, contains the conclusions, indicating whether the critical issues have been overcome, or indicating the recommendations deemed necessary to resolve the critical issues that emerged during the audit and still not resolved. The report supports the correct release of the opinion with reference to the accounts. The report shall be signed in original by the auditors, countersigned by the Audit Authority and sent to the audited body.

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Table 18 – System audit follow up template

Joint Operational Programme: European Neighbourhood Instrument Cross (ENI) Cross-Border Cooperation (CBC) Mediterranean Sea Basin (MED) Follow-up Schedule – System Audit	
System audit period:	Accounting year XXXX - XXXX
System audit starting date	**XX/XX/XXXX**
Check date	
Person in charge of the checks	
Controlled body	
Audit Report Reference (Final Report number, issue date, transmission details)	
Detected criticality and detection date	
Requested corrective actions	
Deadline to implement the corrective action	
Follow-up information that the recipient body is required to transmit to the Audit Authority no later than xx.xx.xxxx	
Implemented corrective actions	
References and summary of the documentation certifying the adoption of the corrective action	

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Table 19 – Audit on operations follow up template

Joint Operational Programme: European Neighbourhood Instrument Cross (ENI) Cross-Border Cooperation (CBC) Mediterranean Sea Basin (MED) Follow-up Schedule – Audit on operations	
Operation code	
Operation title	
Check date	
Person in charge of the checks	
Beneficiary	
Responsible body (MA, body)	
Audit Report Reference (Report number, issue date)	
Detected criticality and detection date	
Details of reporting to OLAF (if applicable)	
Requested corrective actions	
Deadline to implement the corrective action	
Follow-up information that the recipient body is required to transmit to the Audit Authority no later than xx.xx.xxxx	
Implemented corrective actions	
References and summary of the documentation certifying the adoption of the corrective action	
Certification correction references (date and act)	

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Table 20 - Audit on accounts follow up template

Joint Operational Programme: European Neighbourhood Instrument Cross (ENI) Cross-Border Cooperation (CBC) Mediterranean Sea Basin (MED) Follow-up Schedule – Audit on accounts	
Audit date	
Person in charge of the checks	
References relating to the final account (number and date of the final version of the accounts)	
Detected criticality and detection date	
Requested corrective actions	
Deadline to implement the corrective action	
Follow-up information that the recipient body is required to transmit to the Audit Authority no later than xx.xx.xxxx	
Implemented corrective actions	
References and summary of the documentation certifying the adoption of the corrective action	

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2.12Table of classification of types of irregularity reported

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3.5: Transmission letter Final Report

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Annual Audit Report

4.1: Annual Audit Report model

4.2: Audit Opinion model

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