EUROPEAN UNION

REGIONE AUTÒNOMA DE SARDIGNA
REGIONE AUTONOMA DELLA SARDEGNA

ENI CBCMED
Cooperating across borders in the Mediterranean

Audit Authority ENI CBC MED Programme

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

Audit Strategy

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

Version 2.0

Adopted by the Audit Authority with decision No 111 of 14 February 2019

SUMMARY

ACRONYMS AND ABBREVIATIONS

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

MAIN REGULATIONS AND DOCUMENTS

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

Table 1 – EU Regulations and directives

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

[1] Amending Regulations (EU) and repealing Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council of 25/10/2012 on the financial rules applicable to the general budget of the Union

Table 2 - Guidelines drawn up by TESIM

	Title	Date
1	Guidance on the preparation of the Audit Strategy in ENI CBC programmes	June 2017
2	Guidance note on “Development of the description of the management and control system in ENI CBC programmes”	June 2017
3	Guidance for compliance assessment in ENI CBC Programmes	June 2017
4	Guide to developing Management and Information Systems in ENI CBC Programmes	June 2017
5	Guide to programme accounts, audit and reporting to EC in ENI CBC Programmes	June 2017

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

	Reference	Title	Date
Management and Control System			
1	EGESIF 14-0010-final	Guidance for the Commission and Member States on a common methodology for the assessment of management and control systems in the Member States	18/12/14
2	EGESIF 14-0012-02-final	Guidance for the Member States on management verifications	17/09/15
3	EGESIF 15-0017-02	Guidance for Member States on amounts withdrawn, recovered, to be recovered and irrecoverable amounts	25/01/16
4	EGESIF 15-0016-02 final	Guidance for Member States on Audit of Accounts	05/02/16
5	EGESIF 15-0018-02	Guidance for Member States on preparation, examination and acceptance of accounts	09/02/16
Procedure Audit Authority procedures			
6	EGESIF_14-0013	Guidance for Member States and Programme Authorities on Designation Procedure	18/12/14
7	EGESIF 15-0008-03	Guidance for Member States on the Drawing of Management Declaration and Annual Summary	19/08/15
8	EGESIF 14-0011-02 final	Guidance for Member States on Audit Strategy	27/08/15
9	EGESIF 15-0007-02 final	Updated Guidance for Member States on treatment of errors disclosed in the annual control reports	09/10/15
10	EGESIF 15-0002-2015 final	Guidance for Member States on Annual Control Report and on Audit Opinion	15/10/15
11	EGESIF 16-0014-01	Guidance on sampling methods for audit authorities - Programming periods 2007- 2013 and 2014-2020	20/01/17
Fraud management			
13	EGESIF 14-0021-00	Fraud Risk Assessment and Effective and Proportionate Anti-Fraud Measures	16/06/14
Beneficiaries guideline			
14	EGESIF 14-0025-00	How to effectively access and use the ESI Funds and exploit complementarities with other instruments of relevant Union policies	16/07/14

Table 4 – International Standards

	Reference	Title
1	IIA 2200	Engagement Planning
2	IIA 2300	Performing the Engagement
3	IIA 2400	Communicating Results
4	IIA 2500	Monitoring Progress
5	INTOSAI 11	Planning and control
6	INTOSAI 12	Relevance and control risks
7	INTOSAI 13	Probatory elements and control methods
8	INTOSAI 21	Internal control assessment and control test
9	INTOSAI 23	Control sampling
10	IIA 2200, INTOSAI 11,ISA 200	Audit activity planning
11	IIA 2300, INTOSAI 11,ISA 200	Methodology set up to execute system audits
12	IIA 2200, INTOSAI 1 and 23, ISA 300	Risk assessment methodology set up to evaluate the reliability of the system and the sampling methodology
13	IIA 2300, INTOSAI 13	Methodology set up for operation controlling
14	IIA 2500.A1	Follow-up procedures set up
15	IIA 2400, INTOSAI 21, ISA 700	Analysis modalities of the audit outcomes for the preparation of the annual Opinion and the annual control report
16	IPPF 1100	Practical guidance on “independence and objectivity”
17	ISA 300	Revisor responses to identified and evacuate risks
18	ISSAI 4100	Factors to be considered for relevance definition
19	ISSAI 1320	Materiality in Planning and Performing an Audit
20	ISSAI 1450	Evaluation of Misstatements Identified during the Audit

Table 5 – Management, control and audit

	Reference	Title	Date
1	EGESIF n. 18-0017-00	Charter on good practices promoted by the Audit Community (Commission and Member State's audit authorities) when carrying out audits under COHESION POLICY, EMFF and FEAD	07/03/18
2	EGESIF n. 17-0012-01	Decommitment methodology (n+3) and process in 2014 – 2020	30/08/17
3	EGESIF n. 17-0006-00	Questions and Answers regarding e-Cohesion	6/04/17
4	EGESIF n. 16-0014-01	Guidance on sampling methods for audit authorities Programming periods 2007-2013 and 2014-2020	20/01/17
5	EGESIF n. 15_0018-02 final	Guidance for Member States on Preparation, Examination and Acceptance of Accounts	09/02/16
6	EGESIF n. 15_0016-02 final	Guidance for Member States on Audit of Accounts	05/02/16
7	EGESIF n. 15-0017-02 final	Guidance for Member States on Amounts Withdrawn, Recovered, to be Recovered and Irrecoverable Amounts	25/01/16
8	EGESIF n. 15-0002-03 final	Guidance for Member States on the Annual Control Report and Audit Opinion	09/10/15

9	EGESIF n. 15-0007-01 final	Updated Guidance for Member States on treatment of errors disclosed in the annual control reports (Programming Period 2007-2013)	09/10/15
10	EGESIF n. 14-0012-02 final	Guidance for Member States on Management verifications	17/09/15
11	EGESIF n. 14-0011-02 final	Guidance for Member States on Audit Strategy	27/08/15
12	EGESIF n. 15-0008-03	Guidance for Member States on the Drawing of Management Declaration and Annual Summary	19/08/15
13	EGESIF n. 14-0010 final	Guidance for the Commission and Member States on a common methodology for the assessment of management and control systems in the Member States	18/12/14
14	EGESIF n. 14-0013 final	Guidance for Member States on Designation Procedure	18/12/14
15	EGESIF n. 14-0021-00	Fraud Risk Assessment and Effective and Proportionate Anti-Fraud Measures	16/06/14

Table 6 – Italian National documents

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

Table 7 – Acts of the Autonomous Region of Sardinia

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

Table 8 – Programme documents

	Reference	Title	Date
1	Commission Implementing Decision	Joint Operational Programme Mediterranean Sea Basin 2014-2020 for the European Neighbourhood Instrument (ENI) Cross Border Cooperation for the year 2014-2020 to be financed from the general budget of the European Union	17/12/15
2	AA decision n. 12	Audit Strategy of the Mediterranean Sea Basin Programme 2014-2020 for the European Neighbourhood Instrument (ENI) Cross Border Cooperation	20/09/17
3	DMCS in force	Description of the Management and Control Systems of the Mediterranean Sea Basin Programme 2014-2020	25/10/18
4	AA decision n. 797	Audit Opinion referring to the Managing Authority compliance with the criteria established in the Annex to the Reg. (EU) 897/2014 European Neighbourhood Instrument (ENI) Cross Border Cooperation Mediterranean Sea Basin Programme 2014-2020	29/10/18
5	AA decision n. 36	Annual Audit Report of the Audit Authority European Neighbourhood Instrument (ENI) Cross Border Cooperation Mediterranean Sea Basin Programme 2014-2020	18/01/19

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

1. INTRODUCTION

This document explains the Audit strategy for the Mediterranean Sea Basin Programme (ENI) 2014-2020 that was adopted by the European Commission on 17 December 2015, through decision no. C(2015) 9133 and is updated on the basis of the first official version of the Audit Strategy (AS) as approved on September 20, 2017.

The update is drafted by considering, on one hand:

- *the adoption by the Managing Authority (MA) of the Description of the Management and Control System (DMCS) on 8 June 2018;*
- *the designation process of the Programme Managing Authority concluded with the drafting of the designation report by the Audit Authority and the adoption of the related Opinion on 29 October 2018 (See Chapter 2 of the document);*
- *the designation process of all the components of the GoA in 2018 and its next establishment.*

On the other hand, the update of the Strategy considers that, due to the limited expenses as incurred, for the 1st accounting year the Managing Authority did not submit both the Management Declaration and the Programme Accounts of the 1st accounting year.

Therefore, it was not possible to draft and adopt a standard Audit Opinion on the Annual Accounts.

Furthermore, since 1st call for standard projects as granted have been approved at the end of January 2019 only, related first round of reporting, as baseline for audit on operations, is expected not before second quarter 2020.

The Strategy, based on the AA professional expertise, as well as on the general experience from the previous programming period, has been drafted with an active contribution by TESIM experts and the Unit of Statistics of the Presidency of the Autonomous Region of Sardinia.

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

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

Meanwhile, on 27 September 2018, the AA has approved its own Audit Manual procedures, which is a tool for the implementation of the Strategy, as compulsory document also requested by IGRUE. The manual includes audit tools such as check-lists, audit trails and report templates.

The current version of the audit manual is due to be updated following the release of the new strategy.

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

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

It covers the accounting year July 1, 2018 – Jun 30, 2019 and provides general indications on the activities to be carried out by Audit Authority during the following 2 accounting periods (July 1, 2019 – Jun 30, 2020 and July 1, 2020 – Jun 30, 2021). It will be further enhanced during the 1st GoA meeting, which is expected by June 2019.

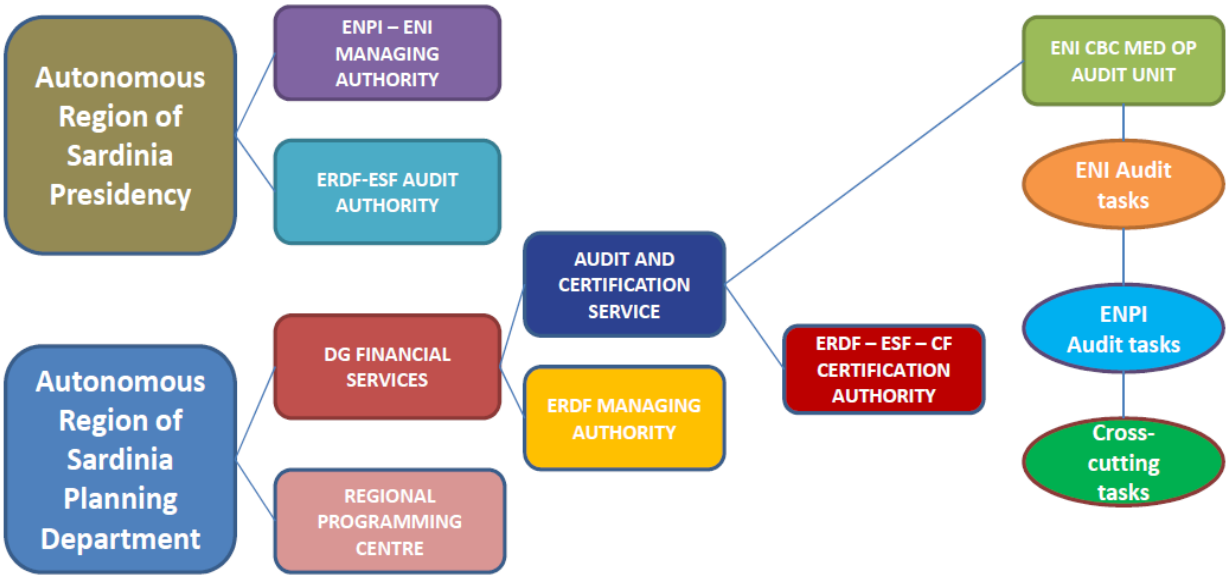
1.2 Identification of the AA responsible for the Audit Strategy and the Group of Auditors, if it has contributed to the development of the strategy

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

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

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

AA functional structure and tasks



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

Group of Auditors

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

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

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

The Group can operate through direct participation of members or written consultation. In both modalities Group members can express their expertise in opinions and, for procedural matters, votes.

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

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

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

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

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

When drafting the Audit Strategy update, all CV and declarations about independence, engagement incompatibility and lack of conflicts of interest have been acquired, in order to give evidence of the experience and impartiality of the panel. An update of documents as such is due whenever requested by the AA and at least once a year.

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

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

Responsible body	**Direzione generale dei Servizi Finanziari dell’ Assessorato della Programmazione, Bilancio, Credito e Assetto del territorio – Servizio Certificazione PO FESR – FSE – FSC e Autorità di Audit PO ENI CBC MED**
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1.4. Reference to the appointing decision (as per Article 20.2 of ENI CBC IR) of the Audit Authority and other bodies carrying out audits under its responsibility

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Therefore, since September 2018 the AA staff is composed of the Head of Unit, 4 full time officers and a part-time IT officer.

Since December 2018, an intern from Tunisia also joined the AA staff.

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

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

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

Regarding financial and instrumental independence, according to ENI CBC MED financial plan approved by the European Commission, AA have own resources for technical assistance entirely co-financed by the Programme. AA operate through RAS financial and accounting system, by inscribing incomes and expenses according to Italian Legislative Decree 118/2011, art. 51, par. 2, letter b. in specific chapters related to the AA Center of responsibility.

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

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

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

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

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

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

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

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

Regarding financial and instrumental independence, according to ENI CBC MED financial plan approved by the European Commission, AA have own resources for technical assistance entirely co-financed by the Programme. AA operate through RAS financial and accounting system, by inscribing incomes and expenses according to Italian Legislative Decree 118/2011, art. 51, par. 2, letter b. in specific chapters relating to the AA as Center of Responsibility.

External Auditors

In order to carry out the 3 clusters of audit controls as assigned (namely: system audit, audit of accounts and audit of sample of projects), the AA will be supported by a technical assistance service, to be provided by a sub-contracted company. To this purpose, the AA has planned one open international tender in the meaning of EU directives for procurements.

This complex procedure is likely to be launched within mid 2019 and the winning provider is expected to be announced by the end of the same year.

The timeline as mentioned is due since this international tender must be carried out through the Unique Regional Central Purchasing Body and it has to be included in its work plan. Thus, in order to perform a proper system audit and audit of accounts for the next reporting period the AA has planned to start another tender on its electronic market system (SardegnaCAT), for the identification of a senior professional/consultant to support the Audit Authority on these control tasks.

Such additional tender aims to acquire due expertise to lead the finalization of main audit tools, develop a tailored risk analysis and supply the implementation of AA work plan; it will therefore be launched soon at the beginning of 2019.

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

a. standards will be included in the terms of reference for each tender procedure (system audit, project audit and account audit);

b. each auditor performing the activity will respect the standards;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2. DESIGNATION

2.1 Introduction

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

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

2.2 Tools

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

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

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

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

and, for some elements of the internal control:

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

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

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

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

Several recommendations expressed in the previous ENPI CBC MED 2007/2013 Operational Programme could not be solved at the time, due to the state of implementation of the Programme and they were therefore postponed to the present ENI CBC MED 2014/2020 Operational Programme. Therefore, in the check-list AA added specific checks relating to these pending recommendations to other verifications performed for the designation.

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

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

2.3 Activity

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

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

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

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

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

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

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

The outcome of the audit work for the designation has been summarised in specific check-lists for each internal control component and designation criterion foreseen in the above-mentioned Annex.

Moreover, several non implemented recommendations, raised as pending issues in previous Annual Audit reports of ENPI CBC MED 2007/2013 O P , were also included.

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

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

On 25 October 2018 the MA sent:

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

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

Moreover, according to Article 25.4 of the Regulation (EU) No 897/2014, the designation process as a whole has been audited by the European Commission (EC). In particular a five days inspection (from 10 to 15 December 2018) involving both the MA and the AA staff has been performed by Ernest and Young as winning provider of the EC tender. Besides the cooperation due, it is worth to mention that both the AA and the MA received precious suggestions to further improve their efforts towards the Programme implementation.

3. RISK ASSESSMENT

3.1 Explanation of the risk assessment method

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

In accordance with the relevant methodology, paying attention to the guidance note on Audit Strategy N. EGESIF_14-0011-02 risk assessment is used by AA to detect risky areas and identify structures and processes which are more exposed to risk. Considerations about risk apply to both project audit and accounts audit.

The identification and the assessment of risk factors by the AA are key elements in order to ensure the proper functioning of the MCS of the Programme.
Actually, the definition of a risk assessment method allows to set the priorities of system audits and audits of operations.

In the context of the Audit Strategy and its updates, the AA reports the identified risk factors and, in the light of the results of the assessment of these risks, identifies a priority order among the bodies, processes, controls and main programmes, as well as transversal aspects to be audited.
In order to implement the risk assessment, the AA, as illustrated in the AA Manual, has chosen a model based on the Guidelines provided by the European Court of Auditors in the Guideline on Risk Assessment – October 2013. Furthermore, the risk self-assessment will be performed by filling the relevant fields of Annex I of the European Commission European Structural and Investment Funds Guidance For Member States and Programme Authorities “Fraud Risk Assessment and Effective and Proportionate Anti-Fraud Measures” (EGESIF 14-0021-00 16/06/2014).

<u>The main characteristics of the employed methodology are:</u>

- build on what has already been done - rather than starting from scratch, the AA keeps in consideration all existing material, such as previous risk assessments, available audit reports, and quality reviews, results of audits conducted by other authorities etc.;
- establish clear risk ownership of specific risks and drive toward better transparency – a comprehensive risk assessment will help identify those authorities/individuals responsible for managing each type of risk, and make it easier to identify possible risk mitigation activities, remediation efforts, and emerging risk exposures;
- make the assessment actionable - the assessment both prioritizes risks and indicates how they should be mitigated or remediated, remediation actions should be universally understood and viable across borders, so that all Partner States are able to apply said mitigation options;

- solicit external input when appropriate - by definition, a risk assessment relies on knowledge of emerging risks and regulatory behavior, which are not always well known within the organization, involvement of outside expertise such as GoA members and technical assistance can inform the assessment and ensure that it incorporates a detailed understanding of emerging compliance issues.

The complexity of the risk landscape make it essential to conduct the assessments of the compliance risk exposure.

According to the ECA Guidelines "Risk" is defined as: "…an incident or the occurrence of a particular set of circumstances that, if they occur, could adversely affect the organization, such as exposure to financial loss, loss of reputation or failure to deliver a policy or Programme economically, efficiently or effectively. Risks may vary in nature and concern any level of the organization."

Risks to sound financial management, i.e. risks to achieving economy, efficiency and effectiveness, can be inherent in nature (inherent risk) and/or arise from weaknesses in internal control (control risk). The inherent risk is the risk level before existing controls and/or risk response. Detection risk is the risk level still remaining after taking existing actions and controls into account. This are the three types of risk which the auditor may encounter in the performance of the audit.
In order to keep the overall audit risk levels below acceptable limit, the auditor must assess the level of risk related to each component of audit risk.

The AA policy is to keep the overall audit risk below 5% providing a high level of assurance: 95%.
Initial risk assessment is based on the ex-ante analysis by the AA as occurred during the designation process and related follow-up . At the time of actual programme implementation, the assumption is that both the inherent risks and control risks to be high. Detection risks are estimated to be lower as the projects audits are intended to be increased when the auditing begins (see Tables 1 to 3 below).

Basic risks compendium:

Inherent risk (IR) is the perceived level of risk that a material misstatement may occur in the client's financial statements (i.e. for the Structural Funds, certified statements of expenditure to the European Commission), or underlying levels of aggregation, in the absence of internal control procedures. The inherent risk refers to the fact that there may be errors even though a functioning control system exists. A complex organizational framework or sophisticated procedures may create or increase the inherent risk.
Control risk (CR) Control risk is the perceived level of risk that a material misstatement in the client's financial statements, or underlying levels of aggregation, will not be prevented, detected and corrected by the management's internal control procedures. The control risk refers to the fact that the control system may not function.

Thus errors that are not detected may arise.
Detection risk (DR) Detection risk is the perceived level of risk that a material misstatement in the client's financial statements, or underlying levels of aggregation, will not be detected by the auditor.

Audit risk model shall be used:

Audit Risk = Inherent Risk x Control Risk x Detection Risk

Within the definition of the Audit Strategy the risk assessment is performed in order to:

- reveal areas of potential weakness in the MCS;
- identify risks and analyze those which are the most significant and critical to the achievement of good performance;
- examine how risks are managed by the Managing Authority, etc.;
- focus the audit on areas/bodies of high risk;
- establish the audit scope.

In the context of an Audit Strategy, the risk assessment is therefore defined as the identification and analysis of the key risks to the achievement of objectives concerning economy, efficiency and effectiveness and compliance of the MCS, thus forming a basis for determining the potential audit scope.
The risk evaluation is be made using a criticality scale that indicates the extent of impact (high, medium or low) should noncompliance occur and the probability of the risk to occur. The impact is described within the risk itself and therefore the extent of impact is considered in qualitative terms.
Given that, effective risk mitigation activities may reduce the likelihood of the risk event occurring, as well as the potential severity of impact to the MCS, the AA keeps track of all mitigations measures adopted by the Programme authorities.

The core steps for conducting risk assessments are established as follows:

A. collection of documents useful for risk assessment;
B. analysis of MCS and risk management processes;
C. identification of risk factors and risks analysis;
D. quality assessment on the controls to reduce risks;
E. planning of audit activities.

A. Collection of documents useful for risk assessment

To perform the risk assessment, a preliminary phase of analysis of the relevant documentation is required and, in this regard, the documents shown in the list below can be taken as a not exhaustive example.

It should be noted that the following list is merely indicative and is subject to change in relation to the specificities of the individual national and regional contexts in which the AA operates, as well as in relation to the bodies subject to control. It is therefore necessary to consider the possibility that some of these documents are not available in certain situations or that there are relevant documents to be examined further than those not mentioned in the list below.

Documentation useful for risk assessment:

- description of MCS;
- audit trails;
- designation procedures and relevant follow up results;
- annual control report and audit report on the previous accounting periods;
- audit reports of the European Commission;
- Information deductible from management verifications;
- Information deductible from controls carried out by other institutions, such as the Italian Court of Auditors, the European Court of Auditors;
- EU legislation and other documents of interest;
- national legislation and other national documents of interest;
- reports of various types (for example direct reports from the Beneficiaries or simple citizens);
- surveillance system;
- various documents depending on the local specificity;
- risk Assessment performed for the previous accounting period.

B. Analysis of the Management and Control System, significant processes and risk management processes

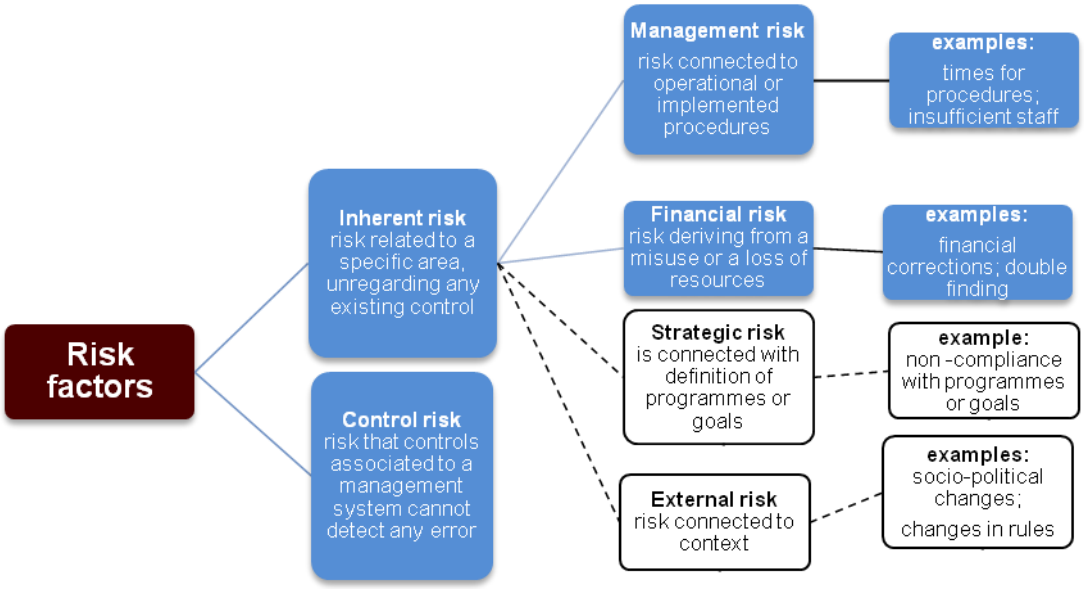
The AA performs an analysis of the MCS adopted by the MA, by examining the organization, procedures and controls implemented by the MA.

The auditors must ascertain the existence of any changes to the MCS in place with respect to that indicated in the description of the MCS approved at the time of Designation of the Authorities and Bodies of the Programme.

For the first risk assessment the AA bases its work on the knowledge acquired during the designation process, while the next annual risk assessments are conducted keeping in consideration the results of the previously performed system audits and any additional information regarding the MCS provided by the MA.

C. Identification of risk factors and risks analysis

The risk assessment identifies the relevant risk factors, according to the subdivision presented in the figure below:



Relevant inherent risk factors could be:

- Budgetary amount (especially high project sums) (IRF1);
- Complexity of rules and procedures of internal control elements (IRF2);
- The risk of Fraud (IRF3);
- Significance to achieve the objectives of the EU funds (IRF4).

The maximum total scoring for the inherent risk is 100%. As four risk factors are applied, the scale is high (25,00%), medium (12,5%), low (6,25%).

Table 9 - Evaluation of inherent risk factors

No	Risk factor	Proportion of risk factor (Total 1 = maximum 100%)	Explanation	Description
1.	Budgetary amount (IRF1)	High: 0,25 Medium: 0,125 Low: 0,0625	Risks related to financial consequences and budgetary amount	Low – there is small impact on budget issues Medium – there is average impact on budget issues High – very high impact on budget issues and financial management and progress

2.	Complexity of rules and procedures of internal control elements (IRF2)	High: 0,25 Medium: 0,125 Low: 0,0625	Risks related to complexity of process: - Regulatory documents are general and system is lacking proper guidance documents; - Regulatory documents are in excessive amounts, they are too fragmented, documents lack structure; - To many binding requirements which creates risks that they might not be implemented correctly; - Terms and conditions can be interpreted in different ways; - No clear criteria defined; - Scope is influenced by frequent changes.	Low – there is small possibility of interpretation of rules and regulations, the scope is sufficiently regulated; Medium – financial consequences are possible because of interpretation of different rules or lack of regulatory framework which can be difficult and poorly structured at the same time; High - the process is complex and creates the risk of noncompliance, or there is a new process established which were not in 2007- 2013 programming period. To support Assessment experience from 2007- 2013 programming period can be used.
3.	The risk of fraud (IRF3)	High: 0,25 Medium: 0,125 Low: 0,0625	Any illegal activity associated with deception, concealment or abuse of trust exploitation, manipulation of financial performance. Fraud of parties and institutions in order to obtain money, property or services to avoid payment or loss of services, keep personal or commercial advantages, as well as officials can use the service position for any merchant or group of merchants interests in return for payment or motivated by any other personal interest.	Low - unlikely, there is no significant impact on the process; Medium - it is possible; High - elevated risk of conflict of interest, corruption or other forms of fraud risk, it has been historically detected. *For risk assessment, results from 2007-2013 OP are used as well as the results of the designation process.*

4.	Significance to achieve the objectives of the EU funds (IFR4)	High: 0,25 Medium: 0,125 Low: 0,0625	The most significant risks that directly or indirectly imperil the legality and correctness of the payment declarations.	Low - do not affect; Medium – may be affected if the process is interrupted; High - it is a serious threat if the system is malfunctioning or essentially do not work. The process has strict deadlines set in regulations or lack of action may cause serious financial consequences.

Relevant control risk factors could be:

- Changes to the process of the MCS (CRF1);
- Quality of internal controls (CRF2).

The maximum total scoring for the control risk is 100%. As two risk factors are applied, the scale is high (50,00%), medium (25,00%), low (12,5%).

Table 10 - Evaluation of control risk factors

No	Risk factor	Proportion of risk factor (Total 1 = maximum 100%)	Explanation	Description
1.	Changes to the process (MCS) (CRF1)	High: 0,5 Medium: 0,25 Low: 0,125	Changes of the system after last system audit. As a substantial change can be considered such as: - administering institutional reorganization; - changes of structure; - internal responsibilities change;	Low – no changes or minor /some changes to the MCS (procedures) since the last system audit; Medium - a lot of (minor) changes in control procedures; High – substantially changed control procedures or a new process, as well as the introduction of new controls which have so far not been tested. *To support the Assessment comparison from 2007-2013 programming period can be used.*

			- revoked controls; - new process controls; - new process.	
2.	The quality of existing controls (CRF2)	High: 0,5 Medium: 0,25 Low: 0,125	The analysis and evaluation of any type of problems and risks presented in: - the results presented in Annual Control Report; - initial process evaluation; - all system audit results; - all audits on operation results.	Low – regarding the process controls identified minor problems without systemic and financial impact (category 1 or category 2 without possibility of financial risk); Medium - regarding the process controls serious problems identified and there may be financial implications (category 2); High - regarding the process controls systemic problems identified that created the financial consequences (category 3 or 4; or category 2 with the financial consequences). *For risk assessment, results from 2007-2013 OP are used as well as the results of the designation process.*

Material misstatement may not be detected by the auditor. Intensified financial controls may help to obtain a lower detection risk. Increasing samples could correlate to a lower detection risk. Apart from assessing elements of the system, horizontal issues have to be identified in the framework of the risk assessment.

They have to be grouped as:

- start-up issues;
- upcoming issues.

The maximum total scoring for the detection risk is 100%. As two risk factors are applied, the scale is high (50,00%), medium (25,00%), low (12,5%).

Table 11 - Evaluation of detecting risk factors

No	Risk factor	Proportion of risk factor (Total 1 = maximum 100%)	Explanation	Description
1.	Start up and upcoming issues (Changes to the process (MCS)	High: 0,5 Medium: 0,25 Low: 0,125	Changes of the system after last system audit and previous programming period. As a substantial change can be considered such as: - changes in IT system; -allocation of human resources; - administering institutional reorganization; - changes of structure; - internal responsibilities change; - new process controls	Low – no changes or minor /some changes to the MCS, allocation of recourses and IT system, procedures since the last system audit; Medium - a lot of (minor) changes in MCS, control procedures, allocation of recourses and IT system changes; High – a substantial changed IT system and allocation of recourses (MA, CA, and JTS), control procedures or a new process, as well as the introduction of new controls which have so far not been tested. To support the Assessment comparison from 2007-2013 programming period can be used.
2.	Upcoming issues (linked to the start of payment procedures, public procurements) The quality of existing controls	High: 0,5 Medium: 0,25 Low: 0,125	The analysis and evaluation of any type of problems regarding payment procedures that are a main field of risks analysis. The quality of procedures and existing controls connecting public procurement procedures. The results presented in Annual Control Report.	Low – Regarding the process controls identified minor problems without systemic and financial impact (category 1 or category 2 without possibility of financial risk); Medium- Regarding the process controls serious problems identified and there may be financial implications (category 2); High- Regarding the process controls systemic problems identified that created the financial consequences (category 3 or 4; or category 2 with the financial consequences).

			Initial process evaluation. All system audit results. All audits on operation results.	*For risk assessment, results from 2007-2013 OP are used as well as the results of the designation process.*

On the basis of the results of the risk assessment, the AA will be able to prioritize the System Audits over the audit period. The timing and scope of the audits will be influenced by the implementation rate of the Programme, i.e. the (expected) late timing of declaration of expenditure to the European Commission.

The risk assessment will be carried out on specific thematic areas that are linked to Key components of internal control according designation criteria for the Managing Authority set in Annex of Commission regulation No 897/2014 and bodies to be audited. **Results on ex-ante risk assessment based on the designation process of the MA are included in Annex 1 of this document.**

The risk analysis is a continuous exercise and therefore it will be updated annually, in particular, following the assessment of:

- MA designation procedure, with specific reference to outcomes of tests on compliance with designation criteria and the ongoing maintaining of key requirements;
- system audit, project audit and audit on accounts;
- annual audit report;
- any audit carried out by the European Commission or the European Court of Auditors related to the Programme;
- any other information relevant for the Programme.

D. Quality assessment of the controls to reduce risk

For those risks assessed as Medium and High, the Audit Authority, with the support of the GoA members, when necessary, examines management response in place. This examination allows the AA to assess how well an entity is managing major risks rather than simply focusing on areas of suspected weakness.
Risk response and control activities are the actions, policies and/or procedures that help to ensure that AA and MA directives are carried out, and that necessary actions are taken to address and reduce the risks to the effective and efficient functioning of the MCS.

To identify the actions, controls and/or procedures that have been taken to counter the main risks identified, the AA sets up a List of Expected Key Controls and compare these to the controls that the description of the MCS asserts to be in existence. It is also necessary to ascertain what controls are actually in operation, and establish the extent of their limitations. This last point is actually assessed during system audits, and audits of operations and is therefore “stored” and used for the next update of the risk assessment.

The final assessment of the risk level, or residual risk level, considers the MA response in place to adjust, i.e., increase or decrease the initial risk level, if appropriate. Reducing the risk level is a critical decision that is taken after careful consideration, based on the experience and sound judgment of the AA.

The risk assessment identifies matters of potential significance or issues for in-depth audit. Based on the level of risk/residual risk, the AA prioritizes the risks to be able to single out and focus on the key risks i.e. risks which are significant and critical. Those include all high-level risks and the medium-level risks that are considered critical. Typically, the matters which are the most critical to the success of the activity being audited, or those that present the greatest risks or opportunity for improvement, are proposed for detailed audit. A risk is generally speaking considered as critical, if it can:

- endanger or hamper the achievement of Authority/policy/Programme objectives;
- result in wasting significant amounts of resources in the area under study;
- result in infringement of laws and regulations;
- result in material financial loss;
- cause serious damage to the EU institutions;
- in any way seriously affect the EU's image and reputation;
- prevent objectives from being achieved according to the principles of economy, efficiency and effectiveness.

It is also important to mention that in evaluating the risks and determining the audit scope, the AA keeps into consideration the possible verifications to be performed, depending on the stage of implementation of the Programme. Therefore, if a specific process is considered risky, but due to the state of the art of Programme implementation, it is considered impossible to check, the AA will illustrate the issue in Annex 1 to the AA update Manual and schedule the specific risk to be take into consideration in future risk assessment updates. Such decision is dully motivated in the notes section of Annex 1.

E. Planning of audit activity

Key risks can be grouped in different ways, depending on the needs of the Audit Authority and on the audit area, e.g. by process, objective, category (efficiency, effectiveness, economy).
For the purposes of the Audit Strategy, the identified risks are grouped according to the process and the authority responsible, within the framework of the key evaluation criteria set by the Commission for the assessment of the Management and Control System. The AA then formulates potential audit scope.

It is important to mention that some risks are specific to certain processes/system areas — for example, independence of the committees members involved in the project proposal evaluations, clear definition of eligibility rules and so on. Other risks transcend the single procedure/process - horizontal issues/risks – such as compliance with public procurements rules, or state aid legislation. In that second case, even though the residual risk level of the single procedures might be low, the significance of the risk at horizontal level might be medium or high. In order to be able to keep trace of all horizontal issues, the AA will perform, starting with

the VI accounting period a specific horizontal risk assessment in order to proceed with specific thematic/horizontal audits.
The output of the risk assessment is used for the definition of the Audit Strategy, in audit mission planning, to allocate resources, and also serve as the starting point for testing and monitoring of the implementation of corrective measures at Programme level. The analysis of the level of risk is carried out through the form approved in the Audit Manual.
The risk assessment performed for the purposes of updating the Audit Strategy is formalized using the form provided in Annex 1 to the update Audit Manual. The results of the risk assessment for each accounting period are attached to the Audit Strategy and any further risk assessments conducted during the accounting year due to significant changes in the management and control system are attached to the Audit Strategy.

3.2 Internal procedure for updating the risk assessment

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

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

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

The responsibility of an annual update of the risk assessment process lies within the responsibility of the AA.
If risk factors will be reconsidered during the compliance assessment or by concrete audits, the risk factors will be rescheduled. An annual update of the risk assessment will be provided by the AA.

4. AUDIT METHODOLOGY

4.1 Overview

4.1.1 Methodological approach

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

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

Specific audit objectives include the following actions.

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

4. Sample audit on projects:
   - sampling: sample size and definition depends on the confidence level, fixed according to the assessment of management and control system reliability;
   - audit implementation on a sample of projects suitable for the verification of claimed expenses; this phase includes also any additional audit needed to best define error rates.
   - analysis of irregularities: whether they are systemic, what their causes are, which preventive and corrective measures are to be recommended.
5. Audit on annual accounts according to Art. 28.1 and 68.4 of Reg. 897. This audit is performed by the Audit Authority with reference to each accounting period. It provides a reasonable assurance on truth, completeness, accuracy and regularity of amounts claimed in accounts; the Audit Authority especially considers outcomes of system audits and audits on projects.
6. Monitoring: follow-up and corrective measures:
   - verification of corrective measures adopted by the Managing Authority to solve identified weaknesses;
   - deadlines for answering to audit reports, evaluation of observations or counter-deductions and follow-up activation where relevant (or formal acceptation of risk by the Managing Authority).

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

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

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

4.1.2 Audit standards

The audit work respects international standards on audit.

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

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

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

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

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

Main ISA regarding the audit work are the following:

ISA 200	Overall objective of audit
ISA 220	Quality control for audit work
ISA 230	Audit documentation
ISA 240	The auditor's responsibility to consider fraud in an audit of financial statements
ISA 250	Consideration of laws and regulations in an audit of financial statement
ISA 300	Planning an audit of financial statements
ISA 315	Understanding the entity and its environment and assessing the risk of material
ISA 320	Materiality in planning and performing an audit
ISA 450	Evaluation of misstatements identified during the audit
ISA 500	Audit evidence
ISA 530	Audit sampling
ISA 600	The use of the work of other auditors
ISA 620	Using the work of an Auditor's Expert
ISA 700	Forming an audit opinion
ISA 705	Modifications to the opinion in the independent auditor's report
ISA 706	Emphasis of matter paragraphs and other matter paragraphs in the independent

In system audits, IPPF (*International Professional Practices Framework*) as issued by the IIA (The Institute of Internal Auditors), will also apply, as far as compatible with ISSAI.

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

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

4.1.3 Group of Auditors

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

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

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

The Group can operate through direct participation of members or written consultation. In both modalities Group members can express their expertise in opinions and, for procedural matters, votes.

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

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

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

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

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

When drafting the Audit Strategy update, all CV and declarations about independence, engagement incompatibility and lack of conflicts of interest have been acquired, in order to give evidence of the experience and impartiality of the panel. An update of documents as such is due whenever requested by the AA and at least once a year.

Art. 32.3 of ENI IR states that:

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

In this respect, since the designation process is pending, the official constitution of this Group is not completed yet.

The first GoA meeting is expected by June 2019; related logistics and organisation, for this event and forthcomings, are assured by the future winning provider of a specific on-going tender procedure as launched by the AA.

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

When drafting the Audit Strategy update, the Rules of Procedure have been prepared by the AA and will be approved during the first GoA meeting. Therefore, any official consultation with the Group will start from that moment onwards.

4.2 Audits on management and control systems

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

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

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

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

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

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

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

<u>For planning the system audit work the AA follows:</u>

- The International Standards for the Professional Practice of Internal Auditing;

- The requirements described in ISA 300, ISA 315, ISA 330 and ISA 500 in order to ensure the harmonization of audit results.

- Guidance on a common methodology for the assessment of management and control systems in the Member States", EGESIF 14-0010_final of 18.12.2014

- Guidance for Member States on Audit Strategy, EGESIF_14-0011-02 of 27.8.2015.

During site work of system audit, the auditor shall obtain sufficient and reliable evidence that the MCS in place functions effectively and as described. The aim of the audits is to verify whether the audited elements and processes of the MCS provide for the legal and regular use of funds in line with the funding objectives. Test of controls shall apply , including walkthrough tests of the relevant documents held by the authorities concerned, interviews with relevant staff and examination of a sample of transactions.

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

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

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

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

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

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

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

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

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

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

  - Internal control environment;
  - Risk management;
  - Management and control activities;
  - Information and communication;
  - Monitoring.

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

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

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

- **Programme authorities, structures and bodies as follow:**
  - Managing Authority (MA)
  - Joint Technical Secretariat (JTS)
  - Aqaba and Valencia branch offices (BO)
  - Project Selection Committee (PSC)
  - National Authorities (NAs)
  - National Contact Points (NCPs)
  - Control Contact points (CCP)

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

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

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

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

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

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

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

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

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

Regarding the system audits on the functioning of IT systems, standards related to information technology will be used. In addition to the guidelines on IT Audit (ISSAI 5300) and the Information System Security Review Methodology (ISSAI 5310) issued by INTOSAI, TESIM guidance documents and checklist are considered as main reference documents. Moreover the AA will also take into account related national standards like "Misure minime di sicurezza ICT per le pubbliche amministrazioni" issued by AGID ("Agenzia Italiana per il Digitale").

Finally, COBIT (Control Objectives for Information and related Technology) framework, internationally accepted standards for information security, including the ISO/IEC standard 27001 and the ISO/IEC 27002, could be used as a source of inspiration.

Implementation of effective and proportionate anti-fraud measures as well as a fraud risk assessment in line with Article 26(5c) of Regulation (EU) No 897/2014 will be checked according to the EC Guidance on “Fraud Risk Assessment and Effective and Proportionate Anti-Fraud Measures” (EGESIF_14-0021-00).
Taking into account the principle of independence, the AA does not audit management and control systems of itself. These audits are carried out by the services of the European Commission.

4.3 Audits on a sample of projects and sampling method

4.3.1 Sampling methodology

The Audit Authority shall assure that expenditure done by ENI CBC MED Programme for which reimbursement has been requested from the Commission is legal and regular.
Verifications by Audit Authority focus on expenditure reported by each project beneficiary and already certified by the Managing Authority. Therefore, as said above, not only expenditure regularity but also the Managing Authority checks on effectiveness are verified.
The aim is a sample of at least 5% of projects and 10% of claimed expenses in the whole ENI MED Programme. The actual sample size depends on the system audit output (control risks) and inherent risks detected during the risk analysis phase.
The aim of sample survey is estimating the error rate, i.e. the ratio between irregular expenditure and expenditure certified by the Managing Authority. Confidence level, therefore, shall be related to the system reliability in order to have statistically reliable project audit results. An example is reported in the following table.

Table 12 - sample size according to risk

Inherent risk	Control risk	Sample size (% on population)
Low	Works satisfactorily	5%
Low	Works	10%
Low	Works partially	15%
Low	Does not work	20%
High	Works satisfactorily	10%
High	Works	15%
High	Works partially	20%
High	Does not work	30%

Sampling methodology for selecting projects to audit is defined by the Audit Authority on the basis of both population characteristics (expenditure certified by the Managing Authority in the referred accounting year) and error level and dispersion. Following the population analysis and system audit outputs, sampling

methods presented in the Guidance on sampling methods for audit authorities shall be assessed in order to apply the most suitable one (statistical or not statistical, random, MUS, stratified, etc.)[1].

The maximum Tolerable Error Rate (TER) shall be within 2%, which constitute casual irregularities. In case of higher rates, AA shall assess errors through adequate in-depths analysis in order to establish if they are systemic; this analysis can involve supplementary sampling in order to better define the nature and distribution of irregularities.

Sample size will thus depend on TER.

A random statistical sampling, representative of the population, shall be the ordinary procedure, according to Reg. (EU) 480/2014 art. 28, par. 4, used as a source of inspiration. The aim is extending audit results to the overall expenditure of the population from which the sample is selected.

In this case, sample size is defined as follows:

$$n = [(N \times z \times \sigma) / (TE - AE)]^1$$

where:

n sample size (number)

N population size

z is a parameter from a normal distribution related to the system reliability level determined from system audits and the connected confidence level

σ estimation of standard deviation, as measure of population dispersion and variability (expenditure of each audited item – average expenditure certified by the Managing Authority)

TE maximum acceptable materiality level of error: it is fixed at 2% as said above

AE anticipated error, obtained from historical data (projected error in past period); on the base of AE the irregularity rate can be esteemed.

Simple random sampling is a generic method that fits every kind and size of population (for both the monetary unit and a beneficiary/consolidated report as sampling unit) and considers the error rate.

On the basis of the experience of previous 2007/2013 programming period with the ENPI CBC MED OP, that is similar as for resources granted by the Commission, for participating countries and for managing structures, number of projects could not allow a statistical sampling, considering the project consolidated report as the sampling unit especially in the first years. In ENPI three calls for proposal, 95 projects have been selected and financed overall, with not more than 200 project interim and final reports (155 reports until 31.12.2016). Since the sampling unit had to be the consolidated report submitted by the project lead beneficiary, statistical sampling has not been possible. On the contrary, had the auditors be allowed to consider the 798 partners/beneficiaries involved in projects as sampling units, reports are more than 1200 and would have allowed a statistical sampling since the 4th project implementing year, with more than 150 units.

Therefore, the Audit Authority intends to use reports submitted by each beneficiary and certified by the MA as sampling units, in order to apply a statistical method and to extend audit results to the entire population.

[1] COCOF_08-0021-03_EN, Guidance on sampling methods for audit authorities.

In doing this, the Audit Authority follows suggestions by the Commission in its "Guidance on sampling methods for audit authorities" (par. 6.3).

Moreover, considering the territorial distribution of the projects, the Audit Authority intends to ensure that in the whole Programme duration beneficiaries of all participating countries are audited. Therefore, since the 3rd sampling year, a cluster shall be created for a supplementary sample, made of reports submitted by beneficiaries coming from countries not selected in previous sampling.
According to the population and its distribution, more stratification could be also needed; subpopulations with similar characteristics (such as the risk level or the error rate) or high value reports shall then constitute specific clusters.

In case of irregularities or irregularity risk, the Audit Authority can decide, based on its professional judgement, to audit a complementary sample of projects or project parts not audited within the random sample: the aim of the complementary sampling is considering specific risk factors.
Sampling methodology shall be reassessed at least once a year, before each sampling.
A non-statistical sampling method can be used following professional judgment by the Audit Authority in specifically justified cases and when the number of projects in an accounting period has not a sufficient size to apply a statistical method: this means that sample size that would be advised by the application of appropriate formulas is not achievable. It is not possible to state the exact population size below which non-statistical sampling is needed, as it depends on several population characteristics, but it is safe to state that this threshold is somewhere between 50 and 150 population units.

In such cases, too, the sample size shall be sufficient to allow the Audit Authority to draw up a valid audit opinion. This kind of sampling is usual in the Programme starting phase, when the project number is insufficient for a statistical method.
In this case, sample size shall be corrected according to the actual population size: a non-statistical sample shall be selected through corrected Poisson method or judgmental sampling. In both cases the sample size shall consider system reliability and related confidence level, as defined beforehand by AA.

The creation of a stratum made by items with the highest values is allowed, and they shall be audited at 100%; while the other items to audit shall be selected through stratified random sampling or MUS, if proportional to expenditure. On the other hand, should no item in the population have a value higher than the recommended limit, calculation of sample size shall be made on the basis of professional judgment and considering the reliability level assessed through system audit.

As in statistical sampling, results are projected to the population; the projected error rate (TPER) shall be compared with the maximum Tolerable Error (TE: 2%), in order to assess whether errors in the population are higher to the materiality threshold.

Finally, on the basis of the results of the project audits, the Audit Authority calculates the error rate of the sample and the total error rate(the sum of the extrapolated casual errors and any the systemic and

anomalous errors not corrected, adjusted according to the population). At the end of the controls, the possible errors found in the context of the project audits will be analyzed.

The errors found can be random, systemic or, in exceptional circumstances ,anomalous:

- **systemic error:** errors found in the sample audited; they have an impact in the non-audited population, occur in well-defined and similar circumstances;
- **known error:** errors found outside the audited sample;
- **anomalous error:** misstatements of exceptional nature, demonstrably not representative of the population. The existence of anomalous errors should only be reported in extremely rare, well-motivated circumstances;
- **random error:** errors which are not considered systemic are classified as random errors. This concept presumes the probability that random errors found in the audited sample are also present in the non-audited population.

The detection of errors during the audits shall be supported by evidence of the existence of the error, its characteristics, size and the path followed for its detection. The AA shall then assess error nature and characteristics and also consider the appropriateness of further checks, included additional sampling or the verification of specific issues or bodies of the management and control systems.

4.3.2 Project audit methodology

Art. 28.1 of Reg. 897 entrusts the Audit Authority with the audit on a sample of projects. This activity has the double aim in the system of verifying the correctness of expenses and revenue reported to the European Commission and of checking the Programme Management and Control System. Project audits aim at verifying the existence, accuracy and eligibility of expenses claimed by projects and materiality of those authorised by the Managing Authority and saved in the management and information system.

The Audit Authority has to achieve sufficient assurance that the controls in the financial management and control system of the projects implemented with the use of EU funds are in place and function adequately, that the funds have been used in a legal, regular and efficient way and in line with the funding objectives, and that the payment applications submitted to the European Commission are correct.

Project financed by the Programme are multi-beneficiary: involved actors are supposed to come from 7 EU countries and 6 Mediterranean partner countries, with different traditions and laws, a dozen of different official languages and even four different alphabets. ENPI experience shows that the average number of partners is around 8.4; strategic projects tend to involve more actors that the standard ones. Nevertheless, the recently launched call for proposals recommends a lower number of partners to the applicants, so this average number may decrease.

Due to the variety of this situation, the Audit Authority is going to perform project audits through an external provider, as foreseen in the JOP par. 3.2.5. The Audit Authority shall specifically monitor the providers' activity and its outputs, especially as far as respect of approved methodology, ethic requirements and audit standards is concerned. The Audit Authority shall retain the responsibility of final audit decisions and thus

shall supervise the audit work according to applicable international standards previously indicated, by whoever should it be performed (Audit Authority, Group of Auditors, selected providers, external auditors).

All administrative and accounting documents supporting claimed expenses in the period to which the sampled report refers shall be audited; these documents shall be downloaded from the management and information system. Should this not be possible or in case other documents are needed, documentation can be obtained at the beneficiary premises or through other information systems.

In principle, original documents shall be checked and stamped in order to give evidence of the verification and allow its re-performance. Details of verifications and checks shall be specified in the manual of procedures.

All audits shall include a visit at the beneficiary premises and when relevant on-the-spot verifications for outputs.

After sampling the projects to audit, the provider shall propose an audit plan to the Audit Authority.

Project audit results shall be shared with the audited subject, its project lead beneficiary, the Managing Authority and involved bodies, fixing an appropriate deadline for any observation, integration or counter-deduction. Provisional audit report shall be reviewed in order to take into consideration any observation received and, after expiration of the deadline, shall become final reports and be sent to the Managing Authority and any competent body, demanding preventive or corrective measures should any error or irregularity be detected in it. When sending the final report, the Audit Authority shall start a follow-up and monitoring process in order to verify the correct and effective implementation of demanded measures.

Errors and irregularities shall be treated in accordance with article 72.7 of ENI CBC IR.

If systemic issues were detected, thus involving a risk for other projects, the Audit Authority is due to perform further verifications, including additional audits, in order to define materiality relating to these issues and to recommend necessary corrective measures.

More in detail, in case a fraud or a suspected fraud were detected among errors, the Audit Authority shall inform the competent body; in case of amount higher than 10.000 €, the latter, in turn, shall notify the European Anti-Fraud Office and communicate related administrative and judiciary procedures outcomes. If the project were included in the random sample and its audit could not be possible due to documents being retained by the judiciary, two cases may arise:

- if the fraud is proven for sure, involved expenditure is considered as error and included in the population total error rate;
- if no information is available about the state of fraud, the sampled project shall be replaced, according to the adopted sampling method and assuring a random selection among the remaining population.

Moreover, the fraud risk shall be assessed through regular system audits towards the Managing Authority, keeping into consideration EGESIF 14-0021-00 of 16.6.2014 “Fraud Risk Assessment and Effective and Proportionate Anti-Fraud Measures”.

The activity planning is going to be organised in coming years according to the actual project implementation and reporting, both as for periodicity of sampling and for the audit phases over time. The first call for projects has been launched by MA on 19 July 2018: the selecting, negotiating and contracting phases will be completed by first quarter of 2019; therefore projects will not start before mid-2019 and are likely going to issue first report in accounting year 2019-2020. The project audit activity is thus not going to start before 2020.

This paragraph of the Audit Strategy shall be revised and integrated after completion of the DMCS, in order to ensure its effectiveness and efficiency. The project audit procedure shall be detailed in the manual and the methodology that the AA shall approve in due time before the beginning of the activity. Specifications about the providers' role are due in the terms of reference for their respective call for tenders.

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

4.4.1 Audit on annual accounts of the Programme

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

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

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

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

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

- Summary overview and follow-up of the recommendations of system audits relating to the accounting year which is subject of the accounts, paying special attention to the errors and deficiencies revealed in relation to the MA and to the follow-up of the implementation of any relating corrective measures. Audit of whether the recommendations made for the audited organisations

have been fulfilled based on the available evidence, with the content required by the audit; and accordingly, what impact they have on the assurance level stemming from the management and control system.

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

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

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

- Study of the relevant reports by the EC and the ECA. Check of whether these reports contain any findings relating to the drawing-up of the accounts or any errors, deficiencies or anomalous cases relating to the functioning of the system, and follow-up of the measures taken in order to correct the errors and irregularities revealed by the EC and ECA. Also in this case does the follow-up cover the check of whether the established irregularities form part of the accounts, and whether they are appropriately included in the w+r records.
- Audit on the accounts submitted by the MA. Check of whether the documentation has been compiled in line with applicable provisions on form and content, with the content required by the MA methodology and within the defined deadlines.
- If it required based on professional judgment, testing may be carried out for the purposes of the audit of accounts submitted by the MA. The AA carries out a desk based audit on expenditure items selected randomly – taking the principles laid down in the EC guidance on sampling into account –, to establish whether the data included in the submitted accounts are in harmony with the content of the IT system and with the records of the organisations in the MCS. It also assesses whether follow-up is made possible and whether there is a complete audit trail. In case there are discrepancies, AA shall assess what causes the difference, whether the explanation is indicated in the document and whether it is justifiable and acceptable in the auditor's opinion.
- Check of whether the accounts are in line with the final interim payment application submitted for the accounting year at priority level. In case there are discrepancies, it shall be assessed what causes the difference, whether the explanation is indicated in the accounts (also taking into consideration the information included in the annual summary) and whether it is justifiable and acceptable in the audit's opinion.
- Test based check of the amounts withdrawn, recovered, to be recovered and irrecoverable. Desk based review of randomly selected items (primarily irregularity decisions), check of whether the data

in the IT system is in line with those in the submitted accounts and whether they can be followed up in the records of the organisations in the MCS. Assessment of the completeness of the audit trail.

- Test based check of whether the expenditure affected by ongoing irregularity procedures does not form part of the accounts.
- Examination of the main findings established in relation to the management declaration and the annual summary of the MA, which may have an influence on the completeness, accuracy and veracity of the accounts.

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

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

4.4.2 Verification of the management declaration

In accordance with art.68 Regulation (EU) No. 897/2014, the Managing Authority draws up the annual summary and the management declaration confirming that the information is properly presented, complete and accurate, the expenditure was used for its intended purpose and the control systems put in place give the necessary guarantees concerning the legality of the underlying transactions. The management declaration and the annual summary are referred to in points (a) and (b) of Article 59(5) of the Financial Regulation.

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

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

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

recommendations regarding any identified deficiencies or errors, and assess the satisfactory implementation of corrective actions prior to drawing up the first draft of the management declaration. In the following years the requirement to follow up any open findings and assess changes affecting the component of internal control shall continue to apply.

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

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

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

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

5. ANNUAL REPORT AND AUDIT OPINION

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

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

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

The terms for the acquisition of documents shall be agreed upon in an internal agreement between AA and MA or formally established in the DMCS.

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

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

In turn, the Audit Opinion verifies if the accounts provide a fair view, if the operations related to the accounts were legitimate and regular and if control's systems opportunely predisposed work; besides it specifies if audit puts in doubt the assertions made in the management declaration, information are correctly introduced,

complete and exact, the expenses have been effected for the foreseen purposes and the control systems put in place assure that the related transactions are legal and regular.

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

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

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

Table 13 - Audit opinion according to audit results

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

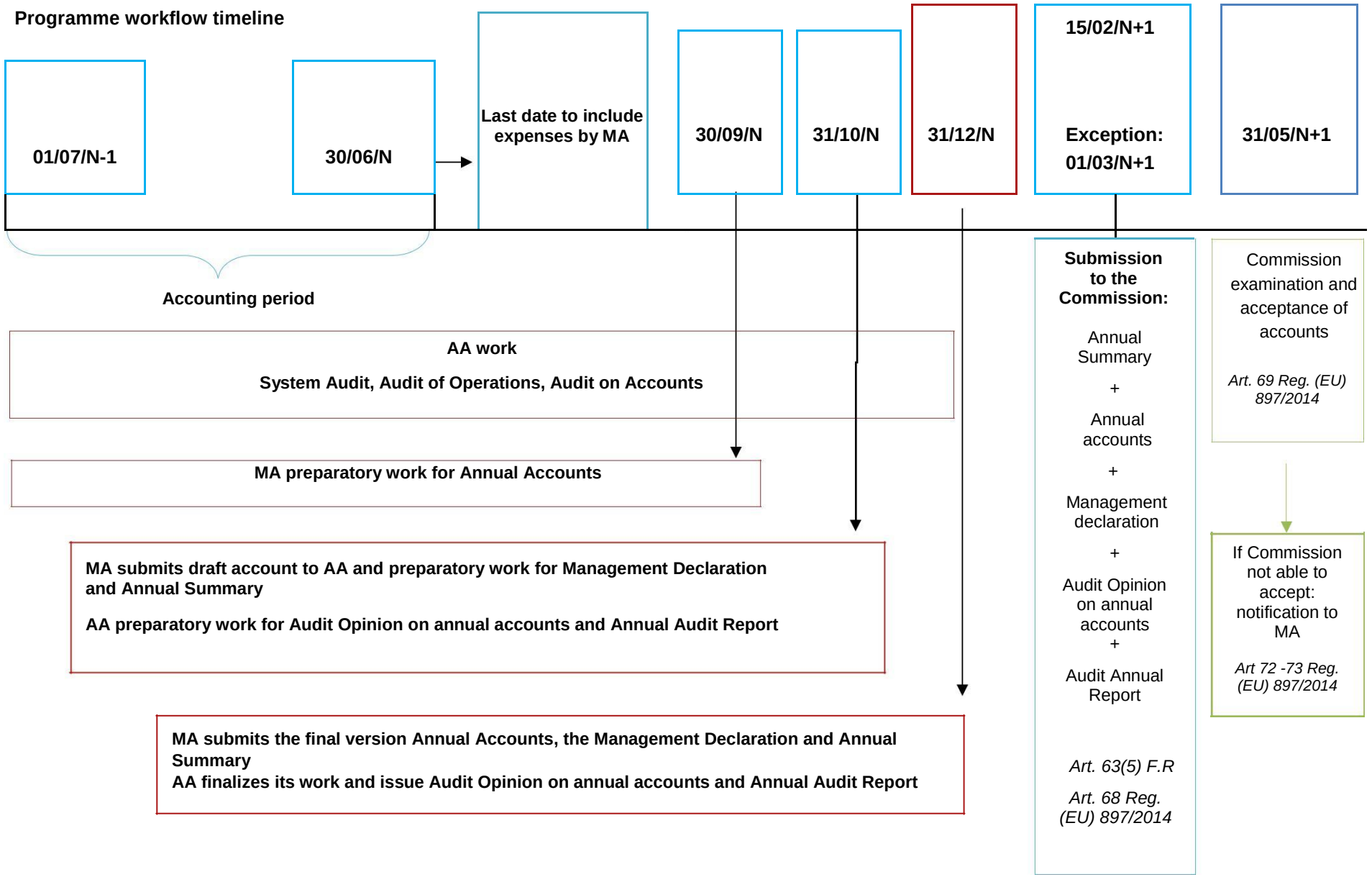
All activities described in this AS, including the annual report and Audit Opinion, can be subject for cooperation with the European Commission on audits, according to Art. 29 of Reg. (EU) 897.

6. AUDIT WORK PLAN

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

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

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


Programme workflow timeline
01/07/N-1
30/06/N
Last date to include expenses by MA
30/09/N
31/10/N
31/12/N
15/02/N+1
Exception: 01/03/N+1
31/05/N+1
Accounting period
AA work
System Audit, Audit of Operations, Audit on Accounts
MA preparatory work for Annual Accounts
MA submits draft account to AA and preparatory work for Management Declaration and Annual Summary
AA preparatory work for Audit Opinion on annual accounts and Annual Audit Report
MA submits the final version Annual Accounts, the Management Declaration and Annual Summary
AA finalizes its work and issue Audit Opinion on annual accounts and Annual Audit Report
Submission to the Commission:
Annual Summary
+
Annual accounts
+
Management declaration
+
Audit Opinion on annual accounts
+
Audit Annual Report
Art. 63(5) F.R
Art. 68 Reg. (EU) 897/2014
Commission examination and acceptance of accounts
Art. 69 Reg. (EU) 897/2014
If Commission not able to accept: notification to MA
Art 72 -73 Reg. (EU) 897/2014

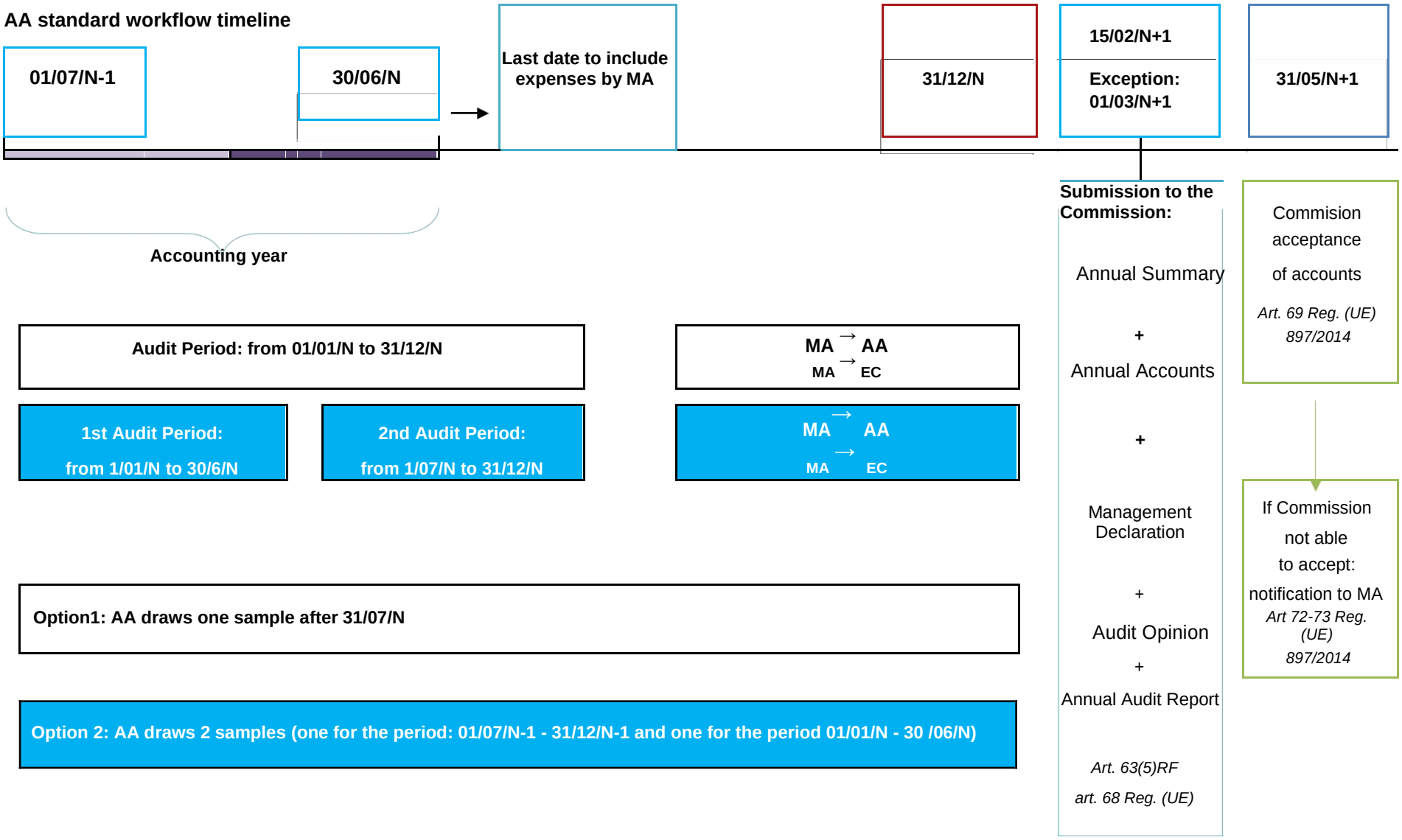

AA standard workflow timeline
01/07/N-1
30/06/N
Last date to include expenses by MA
31/12/N
15/02/N+1
Exception: 01/03/N+1
31/05/N+1
Accounting year
Submission to the Commission:
Annual Summary
+
Annual Accounts
+
Management Declaration
+
Audit Opinion
+
Annual Audit Report
Art. 63(5)RF
art. 68 Reg. (UE)
Commision acceptance of accounts
Art. 69 Reg. (UE) 897/2014
If Commission not able to accept: notification to MA
Art 72-73 Reg. (UE) 897/2014
Audit Period: from 01/01/N to 31/12/N
MA → AA
MA → EC
1st Audit Period: from 1/01/N to 30/6/N
2nd Audit Period: from 1/07/N to 31/12/N
MA → AA
MA → EC
Option1: AA draws one sample after 31/07/N
Option 2: AA draws 2 samples (one for the period: 01/07/N-1 - 31/12/N-1 and one for the period 01/01/N - 30 /06/N)

Table 14 – Audit timeline per topic

Audit activities	2018						2019												2020												2021					
	Ju	Au	Se	Oc	No	De	Ja	Fe	Ma	Ap	Ma	Ju	Ju	Au	Se	Oc	No	De	Ja	Fe	Ma	Ap	Ma	Ju	Ju	Au	Se	Oc	No	De	Ja	Fe	Ma	Ap	Ma	Ju
Audit Strategy 2018-2021 and updates						■	■											■	■											■	■					
System audits (including follow up on designation)									■	■	■	■									■	■	■	■								■	■	■	■
Sampling																							■	■	*											■
Audit of operations																								■	■	■	■	■								■
Audit accounts						■	■										■	■	■										■	■	■					
Verification of management declaration						■	■											■	■										■	■	■					
AAR and AO							■	■											■	■											■	■				

* A sample will be extracted in July (or later on) according to above-mentioned **Option 1** or **Option 2**

7. AUDIT RESOURCES

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

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

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

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

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

When drafting this Strategy update, the total working available for carrying out the audit activity, correspond to 5 human resources, including the head of the AA.

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

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

- Group of Auditors (travel and subsistence costs for its meetings) € 301.933,02;
- Audit Authority travel and functioning costs € 212.647,18;
- Audit on MA expenses for TA and of payments to projects € 340.000,00;
- Audit of the projects expenses (on sample check) € 1.100.000,00;
- System audits € 750.000,00.

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

Table 15 – AA staff matrix

Structure	Profile	Education	Specialized expertise	Experience in activities relates to European Programmes (planning/management/control/report/audit/ monitoring) – more than:	Time dedicated to ENI MED 2014/2020 OP (%)	Total	Years of activity
Audit Authority of ENI CBC MED Programme	permanent director	post MA level	Registered accountant; member of the national official register of auditors	20 years	At least 50%	50%	**I-II-III**
	permanent officer	post MA level	ESIF Certification	10 years	100%	100%	**I-II-III**
	permanent officer	post MA level	Legal /procurement	N/A	100%	100%	**I-II-III**
	permanent officer	post MA level	ESIF Finance	15 years	100%	100%	**I-II-III**
	permanent officer	post MA level	ESIF Finance	15 years	100%	100%	**I-II-III**
Financial Analysis and Monitoring Unit	permanent officer	post MA level	Computer science	15 years	50%	50%	**I-II-III**

Table 16 – AA functional chart (Annex to the AA Determination Prot. N. 3513 Rep. 78 of 01.02.2019)

NAME AND SURNAME	ROLE	TASKS
Enrica Argiolas	Director of OP ERDF, ESF, FSC Certifying Authority and OP ENI CBC MED Audit Authority	1. As ERDF, ESF and FSC Certifying Authority, she coordinates and manages the procedures of the Certifying Unit procedures, namely: • activities demanded to the Certifying Authority and management of the procedures in accordance with the Reg. No. 1303/2013; • activities related to the preparation and submission of annual financial statements and reporting incurred expenditures; • procedures for guaranteeing that accounting data are properly kept in order to ensure an adequate audit trail; • activities for establishing a proper information system to ensure adequate acquisition of information procedures related to performed verifications in order to prepare and submit the payment request to the European Commission. 2. As ENI CBC MED Audit Authority, she coordinates and manages Audit Unit procedures, namely: • handles tasks and expresses compliance opinions for the designation of the Managing Authority; • adopts and - when required - transmits documents listed in the Ministry of Finance (IGRUE) Manual (audit strategy, procedures manual and related check lists, audit opinion, annual audit report, system audit reports) to the European Commission; • leads system audits on Programme actors aimed at verifying the correct functioning of management and control systems set up for implementation; • supervises audit system activities, accounts and project audits performed by both internal auditors and external contractors; • defines staff training plan; • verifies reports of all performed audits (system, operations and on accounts) before their transmission and handles the outputs communication; • participates to coordination meetings and activities with the European Commission, with the Ministry of Finance (IGRUE), with the Managing Authority and with the other Programme bodies and also formulates suggestions; • chairs the Group of Auditor.
Raffaella Melis (Full Time)	Expert in administrative and legal subjects – Audit Officer	• performs system audits; • performs audits on the accounts which are preparatory to the adoption of the Opinion; • supports audits related to the designation process and to the consequent follow-up; • verify the quality of the work carried out by external auditors; • supports the Audit Authority in: - the fulfillment of the anti-corruption law and the obligations related to transparency; - activities related to the Ministry of Finance (IGRUE) accreditation; - administrative and accounting activities; • collaborates in: - the preparation of the audit program and the annual report; - preparation of the working tools of the Audit Authority (manuals, check lists, etc.).
Severino Ostorero (Full Time)	Expert in international cooperation programs -	• performs system audits; • performs audits on the accounts which are preparatory to the adoption of the Opinion; • supports audits related to the designation process and to the consequent follow-up;

	Audit Officer	• verifies the quality of the work carried out by external auditors; • supports the Audit Authority in the organization and management of the Group of Auditors (GOA); • draws up financial plans and accounting reports; • collaborates in: - the preparation of the audit program and the annual report; - preparation of the working tools of the Audit Authority (manuals, check lists, etc.).
Marcello Lubino (Full Time)	Expert in international cooperation programs - Audit Officer	• performs system audits; • performs audits on the accounts which are preparatory to the adoption of the Opinion; • supports audits related to the designation process and to the consequent follow-up; • verifies the quality of the work carried out by external auditors; • supports the Audit Authority in the preparation of the tender specifications related to the audit on projects; • collaborates in: - the preparation of the audit program and the annual report; - the preparation of the working tools of the Audit Authority (manuals, check lists, etc.)
Civil Servant (Full Time)	Expert in legal affairs and tenders - Audit Officer	• prepares documents for tenders below the EU threshold, carrying out, when designated, the functions of the RUP (Responsible for the procedure); • prepares the preliminary acts for the activation of tenders above the EU threshold; • performs system audit and audit on operations with particular regard to public procurement; • manages the legal aspects of contracts; • verifies the quality of the work carried out by external auditors; • collaborates in: - the preparation of the audit program and the annual report; - preparation of the working tools of the Audit Authority (manuals, check lists, etc.).
Civil Servant (requested on AA demand)	Expert in statistics and sampling	• prepares and updates the sampling method; • draws up the definition of the population and the sample size; • performs sampling on projects and operations; • prepare and update the risk assessment; • participates in the system verification for his/her expertise.
Massimiliano Farris (Part Time - 50%)	Expert in IT systems	• contact person of the Audit Authority for the management of the information system; • collaborates in the audit on the information system; • manages the Audit Authority information system and the communication information systems with the Ministry of Finance (IGRUE) and the European Commission.

8. APPROVAL AND ENTRY INTO FORCE

The updated Audit Strategy has been adopted by the AA on 14/02/2019. According to art. 77.4 (a), it has to be included in the Annual Reports package which has to be provided to the European Commission by the MA within 15 February, 2019.

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

Audit Authority ENI CBC MED Programme

Head of the Audit Authority: Enrica Argiolas

Audit Officers: Severino Ostorero, Marcello Lubino, Raffaella Melis

ANNEX 1 - Risk assessment and audit priorities based on designation process

Thematic area	Key components of internal control	Body involved	Inherent risk factors				Total scoring for inherent risk factors	Control risk factors		Total scoring for control risk factors	Total risk score (inherent risk* control risk)	Priority*	System audit		
			IFR1	IFR2	IFR3	IFR4		CRF1	CRF2				2018-19	2019-20	2020-21
Quality of project selection	KCIC 1;3;4	MA, PSC,JTS	0,25	0,125	0,125	0,25	0,75	0,25	0,125	0,38	0,29	Medium		X	X
Functioning and security of IT systems and document management	KCIC 1;5	MA, JTS,CCP	0,0625	0,25	0,0625	0,125	0,5	0,5	0,25	0,75	0,38	High	X	X	X
Implementation of effective and proportionate anti-fraud measures and risk management	KCIC 1;2;3	MA,NA, JTS,BO	0,125	0,125	0,125	0,0625	0,44	0,5	0,125	0,63	0,28	Medium		X	X
Quality of the administrative and the on-the-spot verifications	KCIC 1;3	MA,JTS,CCP,NA	0,25	0,125	0,25	0,125	0,75	0,25	0,25	0,5	0,38	High	X	X	X
Drawing up and submitting payment applications and annual accounts	KCIC 1;3	MA,JTS	0,125	0,125	0,0625	0,125	0,44	0,5	0,125	0,63	0,28	Medium		X	X
Reliability of data relating to indicators and milestones and on the progress of the operational programme in achieving its objectives	KCIC 1;3	MA,JTS,NCP	0,125	0,125	0,0625	0,25	0,56	0,25	0,125	0,38	0,22	Low			X
Reporting of withdrawals and recoveries	KCIC 1	MA,JTS	0,125	0,125	0,125	0,125	0,5	0,25	0,125	0,38	0,19	Low			X

* HIGH (score 0.37 -1), MEDIUM (score 0.25 -0.36); LOW (score 0 – 0.24)

Note - Key components of internal control according designation criteria for the MA set in Annex of Commission Regulation No 897/2014:

- *KCIC 1 - Internal control environment*
- *KCIC 2 - Risk management*
- *KCIC 3 - Management and control activities*
- *KCIC 4 - Information and communication*
- *KCIC 5 – Monitoring*