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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 Manual

Version 2.0

Adopted by the Audit Authority with Decision No 666 of 12th June 2020

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Acronyms and abbreviations

AA	Audit Authority
AAR	Annual Audit Report
ANAC	Italian National Anti-Corruption Authority
AS	Audit Strategy
BO	Programme Branch Office
CBC	Cross-Border Cooperation
CCP	Control Contact Point(s)
CDR_480	Commission Delegated Regulation (EU) No 480/2014 of 03.03.2014 supplementing Regulation (EU) No 1303/2014 of the European Parliament and Council
COBIT	Control Objectives for Information and related Technology
COCOF	Coordination Committee of the Funds
CPR	Common Provisions Regulation (Reg. (EU) No 1303/2013 of the European Parliament and of the Council of 17.12.2013
CR	Control Risk
DMCS	Description of the Management and Control System(s)
EC	European Community or European Commission
ECA	European Court of Auditors
EGESIF	Expert Group on European Structural and Investment Funds
ENI	European Neighbourhood Instrument
ENPI	European Neighbourhood and Partnership Instrument
EU	European Union
GoA	Group of Auditors
IESBA	International Ethics Standards Board for Accountants
IFAC	International Federation of Accountants
IGRUE	*Ispettorato Generale per i Rapporti con l'Unione Europea*, 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 Regulation (EU) n. 897/2014 or Inherent Risk
IS	Information System
ISA	International Standards for Auditing
ISACA	Information Systems Audit and Control Association
ISSAI	International Standards of Supreme Audit Institutions
ITAF	A Professional Practices Framework for IS Audit/Assurance
JOP	Joint Operational Programme (the ENI CBC MED Programme)
JTS	Joint Technical Secretariat
MA	Managing Authority or Master of Arts
MCS	Management and Control System(s)
MED	Mediterranean Sea Basin
MEF	Italian Ministry of Economy and Finance
MPC	Mediterranean Partner Country or Countries
MSB	Mediterranean Sea Basin
MUS	Monetary Unit Sampling
NA	National Authority or Authorities
NCP	National Contact Point(s)
OP	Operational Program
PSC	Project Selection Committee
RAS	Regione Autonoma della Sardegna (Autonomous Region of Sardinia)
Reg.	Regulation
RTER	Residual Total Error Rate
RR	Residual Risk

TA	Technical assistance
TE	Tolerable error
TER	Tolerable error rate
TESIM	Technical Support to the Implementation and Management of ENI CBC Programmes
VAT	Value Added Tax

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General information

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

The ENI CBC MED Audit Authority (AA) is a new body introduced in the programming period 2014-2020 for ENI Programs, since, in the previous programming period 2007-2013, no audit authority was in place but an Internal Control Unit only instead and that both audits on accounts and on the operations were performed by external providers on behalf of the ENPI CBC MED Managing Authority.

As all the other Italian AAs, the ENI CBC MED AA is subject to the control and coordination of IGRUE (Italian General Inspectorate of the Italian Ministry of Finance for relationship with the European Union). The accreditation procedure for becoming/maintaining the function of Audit Authority requires a compliance with precise criteria defined by EU and national regulations in terms of separation of functions, the staff, adequate procedures, and manuals based on international standards. These requirements are periodically checked by IGRUE.

This Audit Manual, as one of the requirements requested by IGRUE, explains the Audit methodology set for the ENI CBC MED Programme 2014-2020.

The first version of the Manual was approved by the Audit Authority on 27.09.2018 and consisted in a tool for the implementation of the Audit Strategy (AS), as compulsory document also requested by IGRUE.

This Manual is updated on the basis of the updated version of the Audit Strategy adopted by the Audit Authority with decision No 253 of 27.02.2020 and sent to the European Commission on 27.02.2020.

The Audit Manual describes the methodology audit steps and priorities to follow for risk assessment, designation process, system audits, sampling of projects, audits on projects, audit of annual accounts and of management declarations and audit opinions and includes audit tools such as check-lists, audit trails and report templates.

<u>The update is drafted by considering:</u>

- *the adoption by the Managing Authority (MA) of the updated version of the Description of the Management and Control System (DMCS) on 25.10.2018,*

- *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 and related follow up,*

- *the designation process of all the components of the GoA in 2018 and its establishment on the 14th and 15th October 2019.*

The Manual, based on the AA professional expertise, as well as on the general experience from the previous programming period, has been drafted following the "*Manual of audit procedure 2014-2020* ¯ Version VI of 12/07/2019 prepared by IGRUE, which has been the main operational reference for the preparation of this document.

1. Legal framework for the programming period 2014-2020

1.1. UE legal framework

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

	Reference	Title	Category	Date
1	Regulation (EU) n. 886/2019	Commission Delegated Regulation amending and correcting Delegated Regulation (EU) No 480/2014 as regards the provisions on financial instruments, simplified cost options, audit trail, scope and content of audits of operations and methodology for the selection of the sample of operations and Annex III	Financial Regulation	12/02/19
2	Regulation (EU, Euratom) No 2018/1046 of the European Parliament and of the Council[1]	Establishing the financial rules applicable to the general budget of the Union	Financial Regulation	18/07/18
3	Reg. (EU) No1299/2013 of the European Parliament and of the Council	Establishing specific provisions for the support from the European Regional Development Fund to the European territorial cooperation goal	European territorial cooperation Regulation	17/12/13
4	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
5	Reg. (EU) No 232/2014of the European Parliament and of the Council	Establishing a European Neighbourhood Instrument	Regulation with general provisions	11/03/14
6	Reg. (EU) No 236/2014 of the European Parliament and of the Council	Laying down common rules and procedures for the implementation of the Union's instruments for financing external action	Regulation with common provisions	11/03/14
7	Commission Implementing Regulation (EU) No 897/2014	Laying down specific provisions for the implementation of cross-border cooperation programmes financed under Regulation (EU) No 232/2014 of the European Parliament and the Council establishing a European Neighbourhood Instrument	Regulation with specific provisions	18/08/14

Table 1 – EU Regulations and directives

[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

	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	October 2017
6	Adapted key requirements/ assessment criteria for the management and control system audits	August 2019
7	Templates and tools for sub-grants by ENI CBC project beneficiaries. Version for programme bodies	June 2020

Table 2 - Guidelines drawn up by TESIM

	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_0016-04	Guidance for Member States on Audit of Accounts	03/12/18
4	EGESIF_15_0018-04	Guidance for Member States on preparation, examination and acceptance of accounts	03/12/18
5	EGESIF_15_0017-04	Guidance for Member States on amounts withdrawn, recovered, to be recovered and irrecoverable amounts	03/12/18
Procedure Audit Authority procedures			
6	EGESIF_14-0013	Guidance for Member States and Programme Authorities on Designation Procedure	18/12/14
7	EGESIF 14-0011-02 final	Guidance for Member States on Audit Strategy	27/08/15
8	EGESIF 15-0007-02 final	Updated Guidance for Member States on treatment of errors disclosed in the annual control reports	09/10/15
9	EGESIF 16-0014-01	Guidance on sampling methods for audit authorities - Programming periods 2007- 2013 and 2014-2020	20/01/17
10	EGESIF_15-0008-05	Guidance for Member States on the Drawing of Management Declaration and Annual Summary	03/12/18
11	EGESIF_15-0002-04	Guidance for Member States on the Annual Control Report and Audit Opinion to be reported by audit authorities and on the treatment of errors detected by audit authorities in view of establishing and reporting reliable total residual error rates	19/12/18
Fraud management			
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 3 - EC Indicative Guidelines on European Structural and Investment Funds

	Reference	Title	Date
1	EGESIF n. 18-0017-00	Charter on good practices promoted by the Audit Community (Commission and Member State's auditauthorities) when carrying out audits under COHESION POLICY, EMFF and FEAD	07/03/18
2	EGESIF_15_0018-04	Guidance for Member States on preparation, examination and acceptance of accounts	03/12/18
3	EGESIF_15_0016-04	Guidance for Member States on Audit of Accounts	03/12/18
4	EGESIF_15_0017-04	Guidance for Member States on amounts withdrawn, recovered, to be recovered and irrecoverable amounts	03/12/18
5	EGESIF_15-0008-05	Guidance for Member States on the Drawing of Management Declaration and Annual Summary	03/12/18
6	EGESIF_15-0002-04	Guidance for Member States on the Annual Control Report and Audit Opinion to be reported by audit authorities and on the treatment of errors detected by audit authorities in view of establishing and reporting reliable total residual error rates	19/12/18
7	EGESIF n. 17-0012-01	Decommitment methodology (n+3) and process in 2014 – 2020	30/08/17
8	EGESIF n. 17-0006-00	Questions and Answers regarding e-Cohesion	06/04/17
9	EGESIF n. 16-0014-01	Guidance on sampling methods for audit authorities Programming periods 2007-2013 and 2014-2020	20/01/17
10	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
11	EGESIF n. 14-0012-02 final	Guidance for Member States on Management verifications	17/09/15
12	EGESIF n. 14-0011-02 final	Guidance for Member States on Audit Strategy	27/08/15
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 4 - Management, control and audit

	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. 253	Updated version of the Audit Strategy (Version 2.1) of the Mediterranean Sea Basin Programme 2014-2020 for the European Neighbourhood Instrument (ENI) Cross Border Cooperation	27/02/20
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

Table 5 – Programme documents

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

1.2. National and regional legal framework

	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 6 – Italian National documents

	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 7 – Acts of the Autonomous Region of Sardinia

	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. 253	Updated version of the Audit Strategy (Version 2.1) of the Mediterranean Sea Basin Programme 2014-2020 for the European Neighbourhood Instrument (ENI) Cross Border Cooperation	27/02/20
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

Table 8 – Programme documents

1.3. International standards for audit work

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

In carrying out the functions provided for by the regulations, the AA guarantees the respect of the principle of functions separation.

The Audit Authority shall ensure that audits are carried out on the proper functioning of the Management and Control System of the operational Programme and on an appropriate sample of operations on the basis of the declared expenditure.

The Audit Authority shall ensure that audit work takes account of "internationally accepted audit standards".

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

Table 9 – ISSAI standards

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

Table 10 – ISA standards

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

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

As far as audit work by providers is concerned: standards will be included in the terms of reference for each tender procedure; each auditor performing the activity is due to respect the standards; the coordinator of the

working group set up by the providers shall be responsible for monitoring all results, also respecting the standards; the officer in charge of project 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.

	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 11 – International Standards

2. The Audit Authority

2.1. The Management and Control System (MCS)

This Manual has been elaborated taking into account the updated version of the Description of the Management and Control System (DMCS) adopted by the Managing Authority on 25.10.2018.

The AA revises – and amends if necessary – the Audit Manual taking into account the changes in the Management and Control System (MCS) as well as modifications of legal and internal regulations.

2.2. Tasks and role of the Audit Authority

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 AA 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 30/05/2014 and No 56513 of 03/07/2014.

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 Joint Operative Programme 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 MSB ENI CBC 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 “Directorate General of the Financial Services” of the Regional Planning Department, in the Unit named “OP ERDF, ESF, FSC Certification and OP ENI CBC MED Audit Authority”; 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).

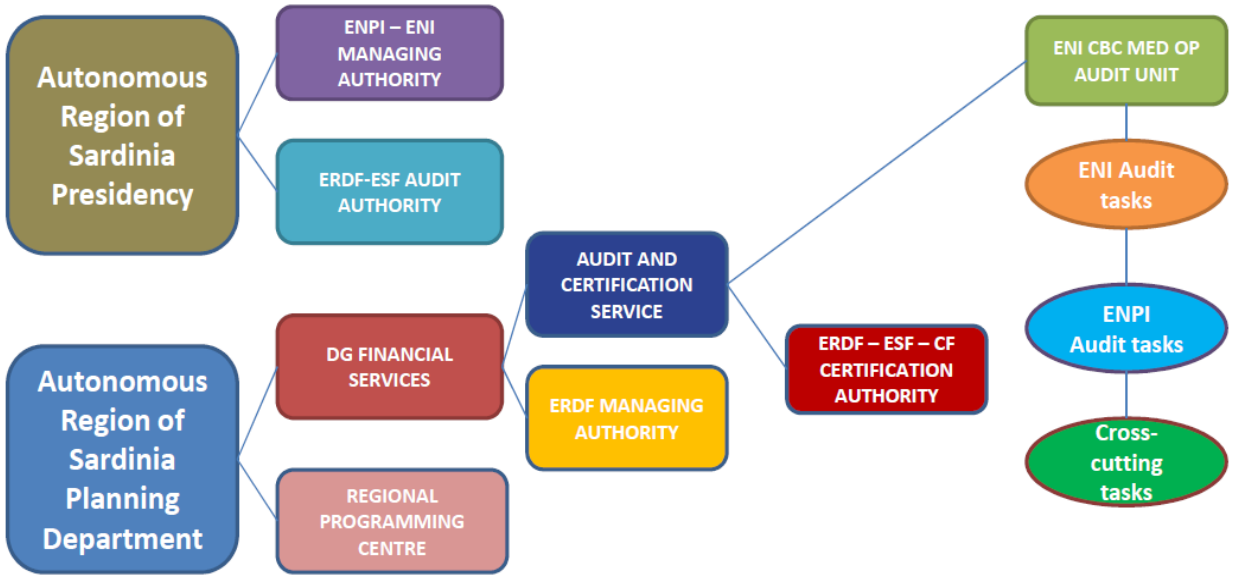

Figure 1 – AA functional structure and tasks

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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Table 12 – Audit Authority contacts

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

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

2.3. Organisation of the Audit Authority

The organisational unit of the Audit Authority follows up the fulfilment of objectives laid down in the Audit Strategy that is revised yearly from 2018 to 2024.

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 JOP.

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 MED 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.

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

Therefore, at the moment the AA staff is composed of the Head of Unit, 5 full time officers and 2 more officers assigned to other DG Services, which support the AA on specific issues (First Level Control on AA expenses and the Programme Monitoring System).

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.

Moreover, the AA is going to start operational technical support and consultancy on specific issues related to ENI CBC MED Programme 2014-2020 through qualified external providers, under AA coordination and supervision. Providers will be paid by the dedicated funds of the Programme for technical assistance.

The Audit Authority may involve an external audit company for the provision of audit tasks, regarding audits to be carried out in several member states. When these functions are delegated to other audit bodies, the AA ensures that audit bodies have the necessary functional and organizational independence. The AA shall ensure that the other bodies which cooperate to carry out the audits own the necessary requirement of independence and autonomy according to the law and to the international audit standards.

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 operates 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 (see Annex 2.7 to this Manual).

Any conflicts of interest are governed by both the anti-corruption legislation in force for the Region of Sardinia and 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 the Italian Minister of Finance – IGRUE and the National School of Administration and training organised by TESIM, as the European Commission technical assistance to ENI Programmes.

2.3.1. Group of Auditors (GoA)

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 the Audit Strategy and the GoA Rules of Procedure.

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

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

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

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

Art. 32.3 of ENI IR states that:

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

The GoA rules of procedures regulate summons, development and follow-up of Group meetings in presence and by communicating tools, decision system for procedural matters, specific modalities of assistance to the

Audit Authority and participation to its processes, modalities for checking and assuring independence and any other matter deemed useful.

When drafting the Audit Manual update, the Rules of Procedure have been adopted during the 1st GoA meeting as mentioned. Therefore, any official consultation with the Group started from that moment onwards.

2.3.2. 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 the second mid 2020 and the winning provider is expected to be announced by the end of the same year/beginning 2021.

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 recruit 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.

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 (ToR) 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.

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.

2.4. Objectives, content, and timing of the audit

According to art. 32 of the IR (EU) n. 897/2014 of 18.08.2014, the Audit Authority shall ensure that audits are carried out on the management and control systems, on an appropriate sample of projects and on the annual accounts of the Programme.

Following the pattern proposed by the IGRUE Manual, the objectives and content of the audit activity under art. 127 of the Reg. (EU) n. 1303/2013 and articles 27-29 of the Reg. (EU) n. 480/2014 can be graphically divided into four phases:

1. planning,
2. implementation,
3. annual closure,
4. end closure.

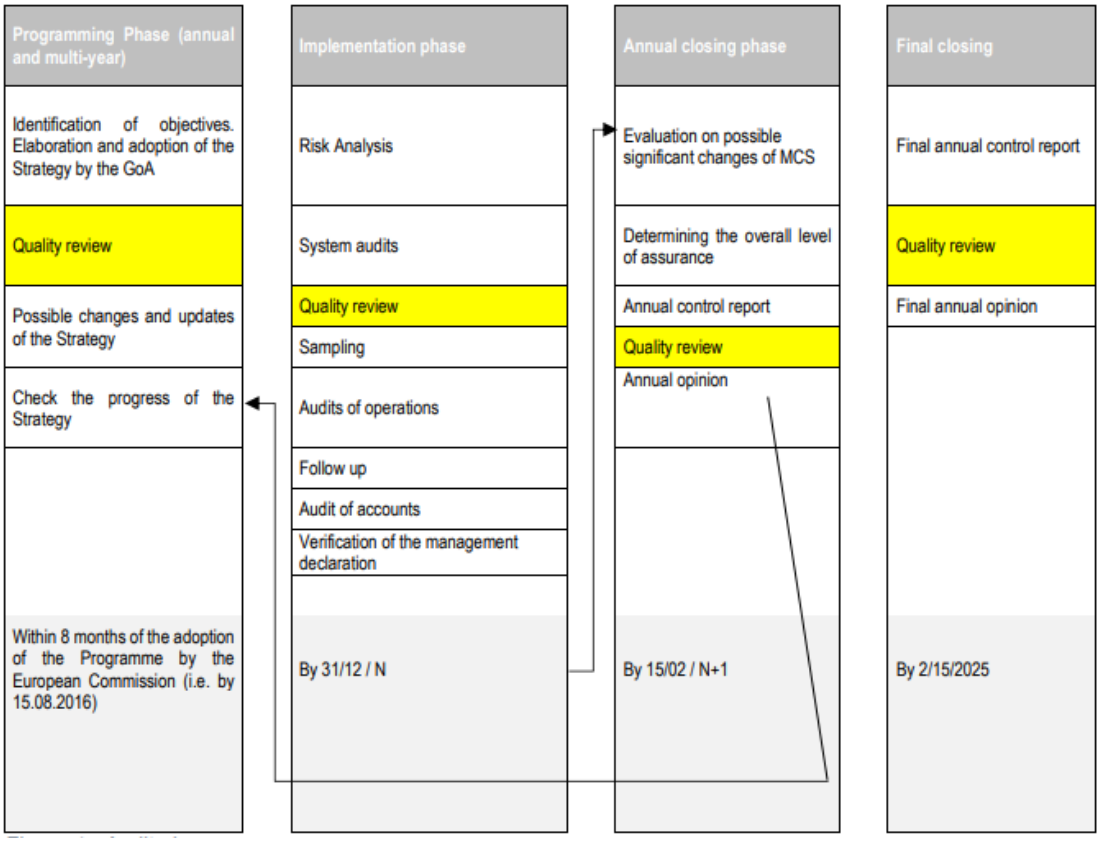


Figure 2 – Audit phases

The **first phase** of the audit began with the adoption of the Cooperation Programme by the European Commission. There are two main formal requirements of the regulations: 1) the establishment of the Group of Auditors within three months of the designation of the Managing Authority (art. 32.3 of the Reg. (EU) n. 897/2014); 2) approval of Audit Strategy within nine months of the signature of the fist financial agreement (art. 28.5 of the Reg. (EU) n. 897/2014).

With reference to the GoA, the first meeting to approve its Rules of Procedures will be probably held in September 2019, after the completion of the tender procedure to assign the service for the organization of the GoA meetings.

With reference to the Audit Strategy - a document which has the function of defining the audit methodology, the sampling method for audits of operations and the planning of audits activities in relation to the current accounting period and the two following accounting periods – it has been drawn up on the basis of Reg. (EU) No 897/2014 and according to the indications contained in the specific guidelines of EGESIF 14-0011-02 final. Its first version was adopted by the Audit Authority with decision No 12 of 20.09.2017, while the last updated version of the Strategy was adopted with decision No 253 of 27.02.2020 and transmitted to the EC on 27.02.2020. The Strategy will then be updated every year until 2024.

This phase included the launch of the procedure to appoint the AA by IGRUE, the Italian national coordinating body, which delivered a positive opinion with note No. 227047 of 18.10.2018.

The **second phase** is the implementation phase, during which the control activities programmed on the basis of the Strategy are carried out. It is cyclical and will last until 2024. The accounting year does not match the calendar year, as the former starts 1 July and ends June 30 of the following calendar year. For this reason, the audits carried out during each calendar year N refers to multiple accounting years; such activities are the basis for drafting the Audit Opinion and the Annual Audit Report to be presented by the 15th February of the calendar year N+1 (ref. the third phase). And precisely to help meet this deadline, work on the accounting year N-1 should ideally be finalised by 31th December of year N.

The objectives of this phase are:

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

The EGESIF 14-0011-02 guidelines propose several examples of temporal organization of work, based on three scenarios for the number of samples selected during the year and consequently on the division of the audit of operations in one or more periods.

The AA focuses on two choices: one sample or two samples during the year. Table 13 graphically illustrates these choices, highlighting how the activities can overlap during the year. Since the availability of the system audit results are preliminary to the sampling and the audit on operations, Table 13 describes the advantages and disadvantages of the two approaches.

Number of samplings	Suitable for:	Benefits	Disadvantages
1	Not particularly complex programs, with financial dimensions below 500 million Euros and with a limited number of certified operations	Minimum overlap between activities	Little time to carry out audits of operations
2	Not particularly complex programs, with financial dimensions between 500 million and 2 billion Euros and where the number of certified operations is not high	Audit of operations divided into two periods	Several overlaps between audit activities that relate to different accounting years, especially in the fall

Table 13 – Advantages and disadvantages relative to the number of samples in a year

The **third phase** must be closed by 15th of February with the submission of the Annual Audit Report and Audit Opinion by the AA, the contents of which will be reviewed later in this Manual. Since compliance with this deadline depends on coordination with the MA, it is crucial to carefully organize such coordination.

Table 14 clarifies why coordination between the authorities is crucial. The IR (EU) n. 897/2014 only stipulate:

- art. 2(t): start and end of the accounting year (01/07/N-1 and 30/06/N);
- art. 68.2: deadline for submission by the AA of Audit Opinion and Annual Audit Report (15/02/N+1), given that it is also a term for MA (Management Declaration and Annual Summary).

Since the AA requires input from MA to meet its regulatory obligations, EGESIF 14-0011-02 puts 31/12/N as deadline for the final version of the documents from MA. The need to coordinate and liaise with another Audit Body means that AA has to share, inside GoA, the Audit Opinion and the Audit Report, with the result that time needed to prepare these documents may be squeezed further.

Hypothesis 1: A Single sampling

	Accounting Year N-1												Accounting Year N											
	Calendar Year N-1						Calendar year N												Calendar Year N+1					
Activities	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
System Audits																								
Follow up of system audits																								
Sampling																								
Audits of operations																								
Any additional sampling																								
Audit of accounts																								
Annual Audit Report and Audit Opinion																								
Update of the Strategy																								

Meeting of the Group of Auditors																								
Hypothesis 2: two sample																								
	Accounting Year N-1													Accounting Year N										
	Calendar Year N-1						Calendar year N												Calendar Year N+1					
Activities	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
System Audits																								
Follow up of system audits																								
Sampling																								
Audits of operations																								
Any additional sampling																								
Audit of accounts																								
Annual Audit Report and Audit Opinion																								
Update of the Strategy																								
Meeting of the Group of Auditors																								

Legend	Accounting year N-2	Accounting year N-1	Accounting year

Table 14 – Possible distribution of activities during the year in the cases of one or two samples. A more defined schedule shall be prepared in agreement with MA

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

The **fourth phase** begins July 1, 2023 (beginning of the last financial year according to the rule N+3) and ends September 09, 2024, the date of submission of the Final Annual Audit Report and the Final Annual Opinion, in accordance with Annex VIII and IX of Reg. (EU) No. 207/2015 and the guidelines EGESIF 15-0002-04 final, "Guidance for Member States on Annual Audit Report and Audit Opinion".

The AA will pay particular attention in order to verify whether there are aspects which, in the course of the entire Programme, have not been the subject to in-depth audits, in order to cover these, regardless from the partial results of risk evaluation. This is necessary in order to give the Commission as exhaustive a picture as possible on the functioning of MCS.

Figure 3 - Programme workflow timeline

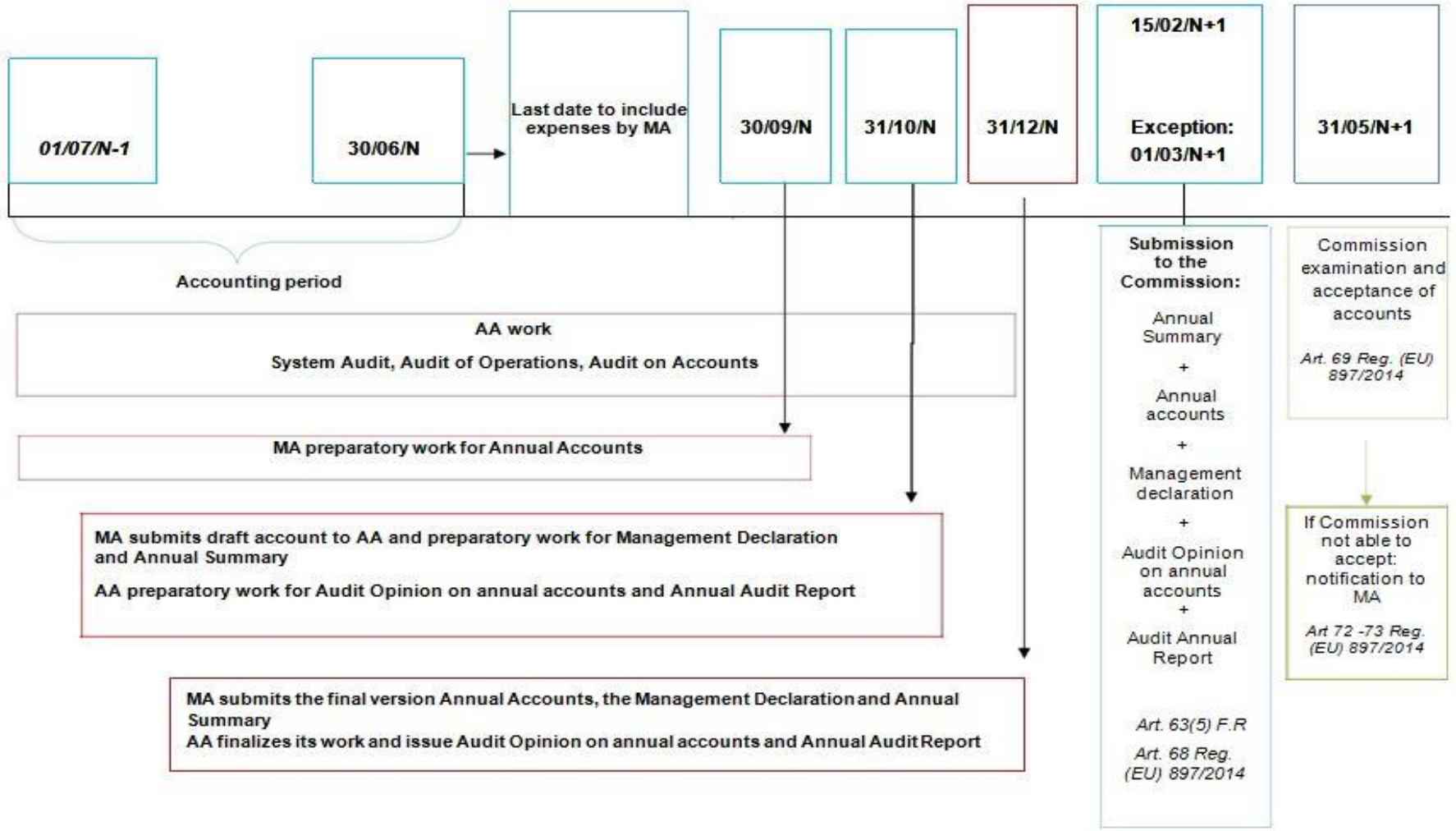
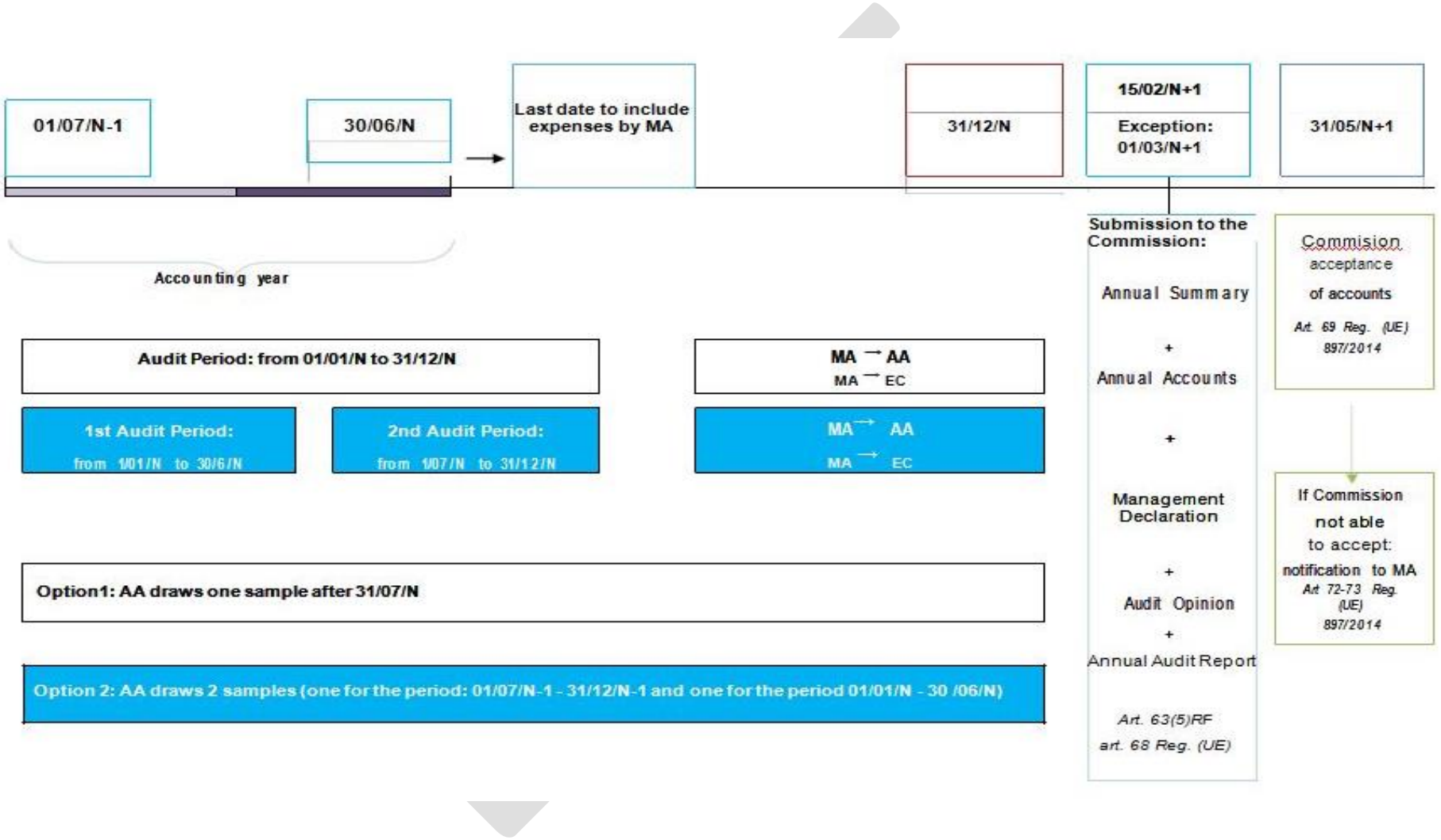


Figure 4 – AA standard workflow timeline



2.5. AA Technical Assistance expenditures – goods and services procurements

The AA, according to the OP ENI CBC MED budget approved by the European Commission, has its own resources dedicated to technical assistance, 100% financed by European funds. These resources grant AA financial independence from the MA of the ENI CBC MED Programme. The MA transfers to the AA the entire resources awarded for the whole duration of the Programme (7 years); this ensures that the AA is completely independent in programming and spending its own resources, provided that they are duly reported, for the purpose of annual accounts of the Programme drawn up by the MA.

The AA manages its financial resources by means of the Regional accounting system, inscribing incomes and expenses of equal amounts in specific chapters relating to the AA as a Centre of Responsibility, according to Italian Legislative Decree 118/2011, art. 51, par. 2, letter b.

In order to be reported and, then, reimbursed by the EC, such expenses must comply with the eligibility criteria as per art. 36 of the EC Reg. 897/2014, and therefore their regularity must be verified according to the principles stated in EGESIF_14_012_02 of 17/09/2015 “Guidance for Member States on Management verifications (Programming period 2014-2020)”

For this purpose, all AA procedurals and expenses documents must be submitted to management verifications on their accounting and administrative regularity (former first level controls), to be carried out by a third and independent part.

Such controls also include the verification of the compliance with community and national legislation in the context of state aid, environment, equal opportunities and non-discrimination, the compliance with community and national tendering rules, the compliance with information and advertising requirements.

The AA budget consists of the following items:

- Internal staff costs (salaries and benefits), to be verified, according to the ordinary procedures of the Region of Sardinia, by the bodies in charge of accounting controls: the Directorate General for personnel and the First Accounting control service within the Directorate General for Financial services;
- Travel costs, to be verified, too, according to the ordinary procedures by the abovementioned bodies in charge of controls;
- Functioning costs (goods and training procurements), to be managed according to the below threshold procedures, mainly by means of Sardinian electronic market system (SardegnaCAT) or by means of national electronic market system MEPA, and subjected to the first level control carried out by the MA through the Second Accounting control service within the Directorate General for Financial services;
- Costs for the organisation of Group of Auditors (GoA) activities and meetings, to be managed according to the below threshold procurement procedures, through SardegnaCAT or MEPA, and subjected to first level control carried out by the MA through the Second Accounting control service within the Directorate General for Financial services;
- Technical assistance costs related to System audits, Audits on the accounts and Audit on projects, to be managed in part according to the below threshold procurement procedures through SardegnaCAT or MEPA, and in part according to the above threshold procurement procedures by means of the Unique

Regional Central Purchasing Body; both procedures are subjected to first level control carried out by the MA through the Second Accounting control service within the Directorate General for Financial services;

With reference to the public procurement procedures aiming at the purchase of goods and services and financed through technical assistance funds, it should be stressed that, according to national and regional legislation, the abovementioned procedures are carried out by two distinct bodies of the Regional administration, on the basis of tender characteristics.

Namely, procedures related to below the European threshold tenders are entirely managed by the beneficiary body of the purchased good or service, that is AA.

By contrast, when referring to the above European threshold tender procedures, all activities such as drawing up and approving tender documents, publication of tenders, carrying out of the whole procedure and award of the contract, are in charge of the Unique Regional Central Purchasing Body, upon specific delegation by the AA. The latter is responsible for the scheduling, planning, preparation of the procurement documents including technical specifications, and it is also responsible for the contract's signing and for its execution.

Finally, it should be pointed out that, in both the below the threshold and the above the threshold tenders, the procedure takes advantage of different procurement instruments provided for by law (contracts, framework agreements, dynamic purchasing system, electronic auctions) in the context of CONSIP, the Italian Central purchasing body for public administrations, or in the context of SardegnaCAT, the electronic market system of the Unique Regional Central Purchasing Body for all regional public administrations.

2.6. Quality review

2.6.1. Purpose and objectives

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

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

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

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

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

Elements of this Programme include processes for:

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

The three different types of internationally accepted audit standards depict a quality control system based on the elements referred to the Figure 5 reported below:

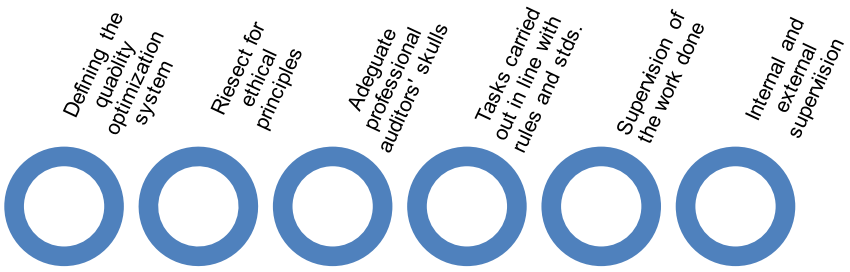


Figure 5 – Quality control system

Based on what provides the ISSAI 40 Standard (Quality Control for Supreme Audit Institutions) the AA quality control system shall instead be based on the following six points.

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

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

2. Relevant ethical requirements.

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

3. Acceptance and continuation of audit tasks.

The AA establishes procedures designed to reasonably ensure that only audits and other tasks are carried out, provided that the assigned personnel/GoA members/external firm experts:

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

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

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

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

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

5. Performing audits and other obligations.

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

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

6. Monitoring

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

- include a continuous consideration and assessment of the quality control system of the AA, including the verification of a sample of tasks completed within the range of tasks performed by the AA itself;
- provide that the responsibility for the monitoring process is assigned to an individual or individuals with sufficient and adequate experience and authority within the AA, such as to be able to assume such

responsibility;

- to provide that those who carry out the verification activities are independent (i.e., have not taken part in the work or other forms of quality control of the work).

Naturally, a quality assurance system must consider the characteristics of the specific Audit Authority, with reference to:

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

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

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

In this regard, an example of a Checklist for quality control of audit work is given in Annex 5.2 to this Manual. It is divided into sections relating to the different quality control activities corresponding to the various phases of the work typically carried out by the Audit Authority.

2.6.2. Planning Monitoring and internal evaluation

Table 15 presents the key elements of its own activities that the AA monitors using the checklists attached to the Manual. The aim of such monitoring is to verify whether: i) the activities are carried out with due professional care; ii) they are in accordance with the Regulations both from a formal and substantial point of view; iii) the results of the audits are used; iv) the planned deadlines are respected. These periodic findings may be carried out both in the form of self-assessment or by using another member of staff of the AA who possess enough knowledge on the matter.

In relation to each audit mission - it is the system audit, the audit on operations or the audit on accounts - and with specific reference to ethical requirements, each auditor in charge of a mission has a duty to disclose any conflicts of interest as well as the possible shortage of specific skills or material resources necessary to carry out the task assigned and therefore to refuse the assignment whenever these circumstances materialize. A model of declaration of absence of conflicts of interest is reported in Annex 2.7 of this Manual.

Stage of the life cycle of the Programme	Items to be monitored	
Start up	**Audit Strategy**	At the end of the preparation (and again after any update), before transmission to IGRUE
	Opinion on appointment of MA	After the procedure, before submitting the Opinion
Full Application	**System Audits**	At the end of the desk phase
		At the end of the on-the-spot phase
		After the preparation of the report
		After the possible follow-up
	Audits on operations	At the end of each desk phase
		At the end of each on-the-spot control
		After the preparation of each final report and before its submission
		After each possible follow-up
	Audits on accounts	Before the audit closing
		After the possible follow-up
	Verification of the Management Declaration and annual summary of the MA	Upon completion
	Annual Audit Report and Audit Opinion	After the preparation of documents and before they are sent
	Documentation filing	At the end of each of the preceding operations
At the end of the programming period	**Annual Audit Report and Audit Opinion**	After the preparation of documents and before they are sent

Table 15 – Planning of the monitoring periods

2.6.3. Training

With CIPE n. 114 of 23 December 2015, IGRUE's supplementary Programme for the governance of the MCSs 2014-2020 was approved, the aim of which is to strengthen the skills of government and the technical capabilities of the administrations involved to improve the effectiveness and transparency of the MCSs of public investment. The beneficiaries of the Programme also include the Audit Authority (Axis II). Among the types of actions funded, there are training and retraining of auditors based on the needs

identified. The training includes both specialized courses and generalists audit that focused on specific AA and thematic activities, such as concentrating particularly on the importance of public procurement and state aid.

The AA, in addition to any specific internal initiatives, will also make use of the training from the IGRUE Programme.

3. Designation of the Managing Authority

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

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

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

- Common Provisions of Structural Funds, Regulation (EU) 1303/2013, art. 125.5 and Annex XIII Designation criteria;
- "ToR for pillar assessments contracted by entities requesting to be entrusted with implementation of the EU budget under indirect management - guidance note". DEVCO.R2 Audit and Control;
- EGESIF_14-0013 "Guidance for Member States and Programme Authorities- Designation Procedure (under articles 123 and 124 of Regulation (EU) No 1303/2013 and article 21 of the Regulation (EU) No 1299/2013)", especially the check list for assessing compliance of MCS;
- EGESIF_14-0010 "Guidance on a common methodology for the assessment of Management and Control Systems in the Member States";
- Annex IV to CDR_480;

and, for some elements of the internal control:

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

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

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

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

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

performed for the designation.

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

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

3.1. Designation procedure of the Managing Authority

3.1.1. General process

The designation procedure, based upon TESIM *Guidance on methodology, designation criteria and audit opinion*, complies with Article 32 of the Financial Regulation (Regulation 966/2012) and ENI CBC Implementing Rules, including the Annex with the designation criteria (Regulation 897/2014) and takes into consideration what prescribed in:

a) Annex XIII – designation criteria – of Commission Regulation 1303/2013 (Common Provisions of Structural Funds);

b) ToR for pillar assessments contracted by entities requesting to be entrusted with implementation of the EU budget under indirect management - guidance note. DEVCO.R2 Audit and Control;

c) EGESIF_14-0013 Guidance for Member States and Programme Authorities - Designation Procedure (under Articles 123 and 124 of Regulation (EU) No 1303/2013 and Article 21 of the Regulation (EU) No 1299/2013), especially the check list for assessing compliance of MCS;

d) EGESIF_14-0010 Guidance on a common methodology for the assessment of management and control systems in the Member States.

The fundamental **legal base for the designation** is the ENI CBC IR Article 25:

"*1. The Managing Authority that has been selected by the participating countries of the Programme shall undergo a designation procedure in the Member State in which it is located by decision at the appropriate level.*

2. 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****, including the role of intermediate bodies therein, with the* ***designation criteria laid down in Annex I*** *to this Regulation. The audit body shall take into account, where relevant, whether the management and control systems for the Programme are similar to those in place for the previous programming period, as well as any evidence of their effective functioning.*

The independent audit body shall be the Audit Authority, or another public or private law body with the necessary audit capacity, which is functionally independent of the Managing Authority. It shall carry out its

work in accordance with internationally accepted audit standards.

3. The Member State shall submit the formal decision referred to in paragraph 1 to the Commission as soon as possible after the Programme adoption by the Commission.

4. *Within two months of receipt of the formal decision referred to in paragraph 1, the Commission may request the report and the opinion of the independent audit body and the description of the management and control system as regards, in particular, those parts concerning project selection. If the Commission does not intend to request these documents, it shall notify the Member State as soon as possible. If the Commission requests these documents, it may make observations within two months of receipt of these documents which shall be reviewed taking into account the observations. When the Commission does not have any initial or further observations it shall notify the Member State as soon as possible.*"

The Joint Operational Programme describes the designation procedure. The independent audit body responsible for issuing the report is the Audit Authority and the national institution designating the MA is the President of the Autonomous Region of Sardinia.

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

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

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

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

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

The AA plans and organises the work to be performed, taking into account the existence of common

systems for different programmes, the time and resources available for carrying out the assessment and any risks identified for particular programmes, authorities or other bodies, which should include the following elements:

- an **examination of the systems description** which should be in final form when the designation-related audit work starts. As setting up the systems and preparing the system description can sometimes be complex and lengthy, the AA may decide to start its work on available parts of the description before finalization of the entire document.
- the **examination of relevant documents** concerning the systems, such as code of ethics, job descriptions or manuals of procedure, including when relevant those of the institutions hosting the programme bodies.
- **verification of the consistency** between the systems description and the explanations obtained in the course of the work carried out.

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

The assessment shall take the following steps:

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

3.2. Designation criteria

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

A) Internal control environment:

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

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

III. Reporting and monitoring procedures for preventing, detecting and correcting irregularities and for recovering amounts unduly paid.

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

B) Risk management

Taking into account the principle of proportionality, a system for ensuring that an appropriate risk management exercise is conducted at least once per year, and in particular, in the event of major modifications of the activities.

C) Management and control activities

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

the projects shall be selected and awarded on the basis of pre-announced selection and award criteria which are defined in the evaluation grid. The selection criteria serve to assess the applicant's ability to complete the proposed action or work Programme. The award criteria are used to assess the quality of the project's proposal against the set objectives and priorities;

the grants shall be subject to ex ante and ex post publicity rules;

the applicants shall be informed in writing about the evaluation results. If the grant requested is not awarded, the Managing Authority shall provide the reasons for the rejection of the application with reference to the selection and award criteria that are not met by the application; any conflict of interest shall be avoided;

the same rules and conditions shall be applied to all applicants.

D) Information and communication

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

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

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

E) Monitoring

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

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

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

Key questions A & B

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

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

2. Internal control environment

Key question

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

3. Risk Management

Key question

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

4. Management and control

Key question

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

5. Information and communication

Key question

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

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

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

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

3.3. Report and Opinion on the designation and designation ending

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

A first initial draft of the ENI CBC MED 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").
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 OP, 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. Based on those documents, Sardinia regional government, as national competent body, has officially designated the Managing Authority of the ENI CBC MED 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 Ernst and Young as winning provider of the EC tender. Besides the cooperation due, it is worth mentioning that both the AA and the MA received precious suggestions to further improve their efforts towards the Programme implementation.

3.4. Ongoing monitoring of maintenance criteria for designation

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

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

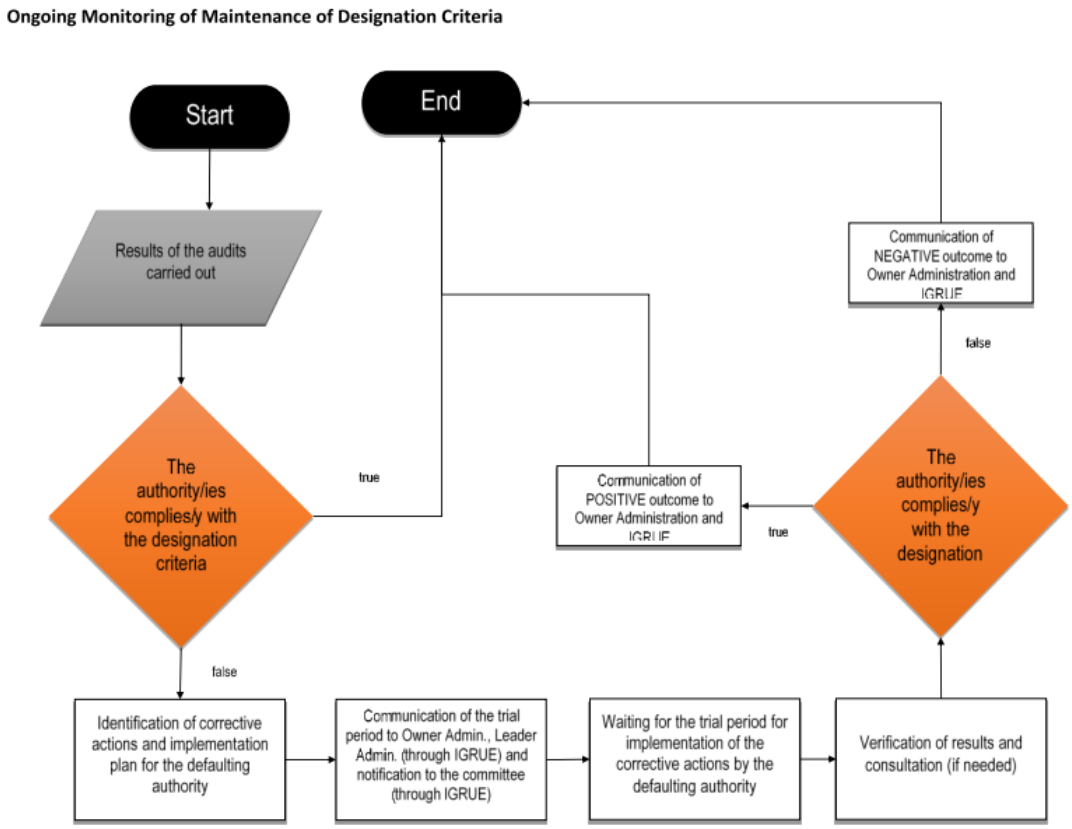


Figure 6 – Flow chart of the continuing monitoring process for designation criteria

4. Audit methodology and procedures

4.1. Audit Strategy 2014-2020

The Audit Authority, pursuant to art. 28 (5) of the EN IR, has the task of preparing, within 9 months of the signature of the first financing agreement in accordance with Article 8 (2) of the Regulation (EU) No 897/2014, its own Audit Strategy for the performance of the audit activity. This document indicates the bodies in charge of system audit activities, audit on operations and audit on accounts, the audit methodology used in these activities, the sampling method for the audit on operations and the planning of various control activities in relation to the current accounting period and the two following ones, in order to guarantee that all the bodies subjected to the audit are involved and that the control takes place uniformly. The Audit Strategy covers all tasks related to the programming period 2014-2020; thus, it determines directives regarding the audit activity to be performed by 2024.

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

The first official version of the AS has been approved on 20.09.2017. The second version of the AS (Version 2.0) has been updated and adopted by the Audit Authority with decision No 111 of 14 February 2019 and sent to the EC on 15.02.2019.

This version of the AS covered the accounting year July 1, 2018 – Jun 30, 2019 and provided 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).

The last version of the AS (Version 2.1) has been released on 27.02.2020 with AA Decision No 253 and sent to the EC on 27.02.2020.

According to Article 28 (5) of the Regulation (EU) No 897/2014, the Audit Strategy is transmitted to the Commission and must be updated and reviewed annually starting from 2017 until end 2024, in order to take into account the changes related to the bodies in charge of the system audit activities, audit on operations and audit on accounts, audit methodology and sampling methods.

These changes may be the consequence of:

- *Changes in the Management and Control System, which may affect:*

– the organization of the Audit Authority;
– functions and responsibilities of the Audit Authority;
– degree of independence of the Audit Authority from the Managing Authority;
– modification of the Managing Authority;
– audit methodology with particular regard to risk assessment;
– audit priorities and objectives as a result of a change in the methodology and the results of the risk assessment (this element could also involve a change in the audit schedule);

– results of the system audit and reliability assessment of the Management and Control System;
– sampling parameters and execution of audits on operations;
– corrective actions pursuant to art. 25.5 of the ENI IR relating to the designation procedure, in compliance with the Note EGESIF 14-0011-02 final of 27.08.2015.

- *Results of the audit activities conducted, which may have effects on:*

– audit methodology with particular regard to risk assessment;
– audit priorities and objectives as a result of a change in the methodology and the results of the risk assessment (this element could also involve a change in the audit schedule);
– results of the system audit and reliability assessment of the Management and Control System;
– sampling parameters and execution of audits on operations.

- *Results of the checks carried out by the Managing Authority that can highlight critical issues with effects on:*

– sampling methodology with regard to the choice of the sampling method based on expected error rates compared to those envisaged when the Strategy was firstly drawn up;
– execution of the audit on operations.

- *Results of checks carried out by other control bodies, including the European Commission or the European Court of Auditors, which can highlight critical issues relating to the Management and Control System or to operations with effects on:*

– audit methodology with particular regard to risk assessment;
– audit priorities and objectives as a result of a change in the methodology and the results of the risk assessment (this element could also involve a change in the audit schedule);
– results of the system audit and reliability assessment of the Management and Control System;
– sampling parameters and execution of audits on operations.

- *Any other ordinary or extraordinary event that may in any way affect one or more elements of the Audit Strategy:*

– modification of the national regulatory framework;
– modification of the human resources used in the audit activity in terms of auditors/days or professional profiles.

Any update of the Audit Strategy must be included in the Annual Audit Report, as specified in art. 77 (4) of the Reg. (EU) n. 897/2014 and required by the "Guidance for Member States on Annual Control Report

and Audit Opinion"[2], reporting any changes made to the Audit Strategy and the related reasons.
The structure and contents of the Audit Strategy, as outlined in Annex VII of Reg. No. 207/2015 and the "Guidance on Audit Strategy for Member State - Programming period 2014-2020"[3], highlight a close interdependence and a strong conditioning with the activities implemented by the AA. The Audit Strategy is in fact a dynamic document that must necessarily be updated on the occasion of the final results of the audit activity, or in the presence of extraordinary events, as listed above. Among the fundamental aspects included in the Audit Strategy the activities planning consists in:

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

From the above, it emerges that within the Audit Strategy, the Audit Authority must indicate the audit priorities and the specific objectives in relation to the current accounting year and the two following ones, highlighting the links with the risk assessment activity.
Further details relating to the Audit Strategy can be found in the "Guidance on Audit Strategy for Member State - Programming period 2014-2020"[4] and in the Audit Strategy outline relating to the OP 2014/2020 prepared by the IGRUE for the benefit of the Audit Authorities[5].

4.2. 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 (see paragraph 4.3). 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 (see paragraph 4.4.1). Main steps are:

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

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

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

[5] Cfr. Schema IGRUE di Strategia di Audit, versione 2. del 5 guigno 2017

- 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 (see paragraph 4.4):

- 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 (see paragraph 4.5):

- 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. 897/2014 (see paragraph 4.7):

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 (see paragraph 4.10):

- 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 differentiated 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.

4.3. Annual planning of the audit activity

The preceding chapters described the time constraints affecting the audit activities; in particular, Figure 3 graphically outlines the relationship between the calendar year and the accounting year while Figure 4 compares the possible distribution of AA activities during a generic calendar year in the cases of one or two sample selections.

Indeed these indications provide the temporal perimeter of the audit work but no operational guidance on how to plan it: purpose of this section is to illustrate the principles which should inspire that planning and the related operational tools.

The IIA Standard 2010 states that the plan of activities should be based on a risk assessment, which, as further specified in the Standard 2010.A1, must be performed and documented at least once a year.

The risk can be defined as the possibility that an event having a negative effect on the achievement of objectives occurs. The risk is measured in terms of impact and probability.

The risk assessment helps set the audit work priorities but the planning has to take account of the human resources available: the IIA standard 2030 requires that, with reference to the approved plan, these resources are available and used effectively.

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

Figure 7 schematically illustrates the development of the annual planning process of audit engagements.

While the first two elements of Figure 7 are part of the Audit Strategy, the third element - the audit planning memorandum – illustrates the activities for the current accounting year with a greater level of detail.

According to art. 28 of the Reg. (EU) n. 897/2014, the Strategy should be revised annually in order to be able to report the updated results of the risk assessment as well as in response to other possible events, for which Table 16 offers a concise list. Whatever the reason, the changes to the Strategy should be reported and justified in the Annual Audit Report.

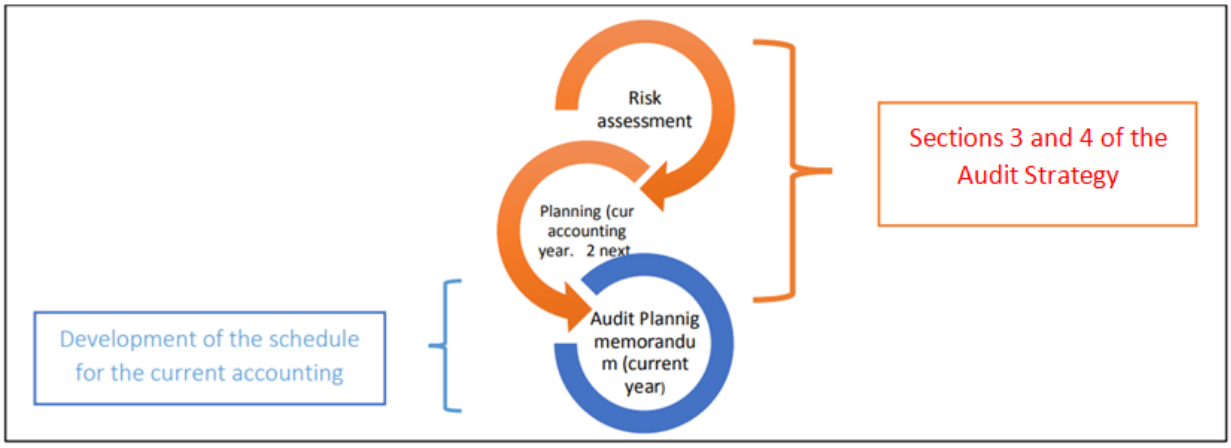


Figure 7 - Elements of planning

	Change to the Audit Strategy as a result of:					
With possible effects on:	Changes in MCS	Audit results	Results of MA controls	Results of other organisms audits	Results of AA audits on the accounts performed during the examination of the accounts	Other ordinary or extraordinary events which may affect one or more elements of the Strategy
Organization of the AA	X					X
Functions and responsibilities of the AA	X					X
Degree of independence of the AA from the MA	X					X
Replacement of the MA	X					X
Audit methodology with particular regard to the risk assessment	X	X		X	X	X
Audit priorities and goals following the modification of the methodology and results of the risk assessment results	X	X		X	X	X
System audit findings and assessment of the assurance of the MCS	X	X		X	X	X
Sampling methodology	X	X	X	X	X	X
Sampling Parameters	X	X	X	X	X	X
Audits of operations	X	X	X	X	X	X
Corrective actions following the designation procedure	X					

Table 16 - Possible reasons for changing the Audit Strategy and elements involved

4.4. System audit

Pursuant art. 28 (1) of the ENI IR, the AA carries on audits on the proper functioning of MCS. The items to be verified are clearly defined in the guide EGESIF 14-0010-final, which establishes a common methodology for the system audits. These items are summarized in Table 17.

Key requirements of the MCS		Number of associated criteria	Field of application	Authorities concerned
1	Adequate separation of functions and adequate systems for reporting and monitoring where the responsible authority entrusts execution of tasks to another body	6	Internal control environment	MA
2	Appropriate selection of operations	5	Management and control activities	
3	Adequate information to beneficiaries	3		
4	Adequate management verifications	5		
5	Effective system in place to ensure that all documents regarding expenditure and audits are held to ensure an adequate audit trail	3	Management and control activities/Monitoring	
6	Reliable system for collecting, recording and storing data for monitoring, evaluation, financial management, verification and audit purposes, including links with electronic data exchange systems with beneficiaries	3		
7	Effective implementation of proportionate anti-fraud measures	7	Management and control activities	
8	Appropriate procedures for drawing up the Management Declaration and annual summary of the final audit reports and of controls carried out	4		

Table 17 – Key requirements MCS from EGESIF 14-0010-final (in bold: Essential Key Requirements)

So, there are 8 Key Requirements for the MA. Each of them can be linked to a specific field of application. Furthermore, each key requirement is divided into a variable number of assessment criteria.

This verification must be carried out each accounting year following the designation of MA and it determines an estimate level of assurance level proceeded by the MCS. Assessing the level of assurance

is crucial for the definition of the level of confidence on the basis of which the sample size for the audit on the operation is calculated.

The AA may also plan to carry out audits targeted to specific thematic areas of the system, e.g. state aid, equal opportunities, respect for environmental legislation, etc.

The system audit is a complex process, consisting of several stages which can be divided into sub-processes. Figure 8 shows a flow chart of the system audit. For Annexes related to the system audit see Annex 1.1, 1.2, 1.3, 1.4, 1.5, 1.6, 1.7, 1.8, 1.9, 1.10, 1.11, 1.12, 1.13, 1.14 and 1.15.

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

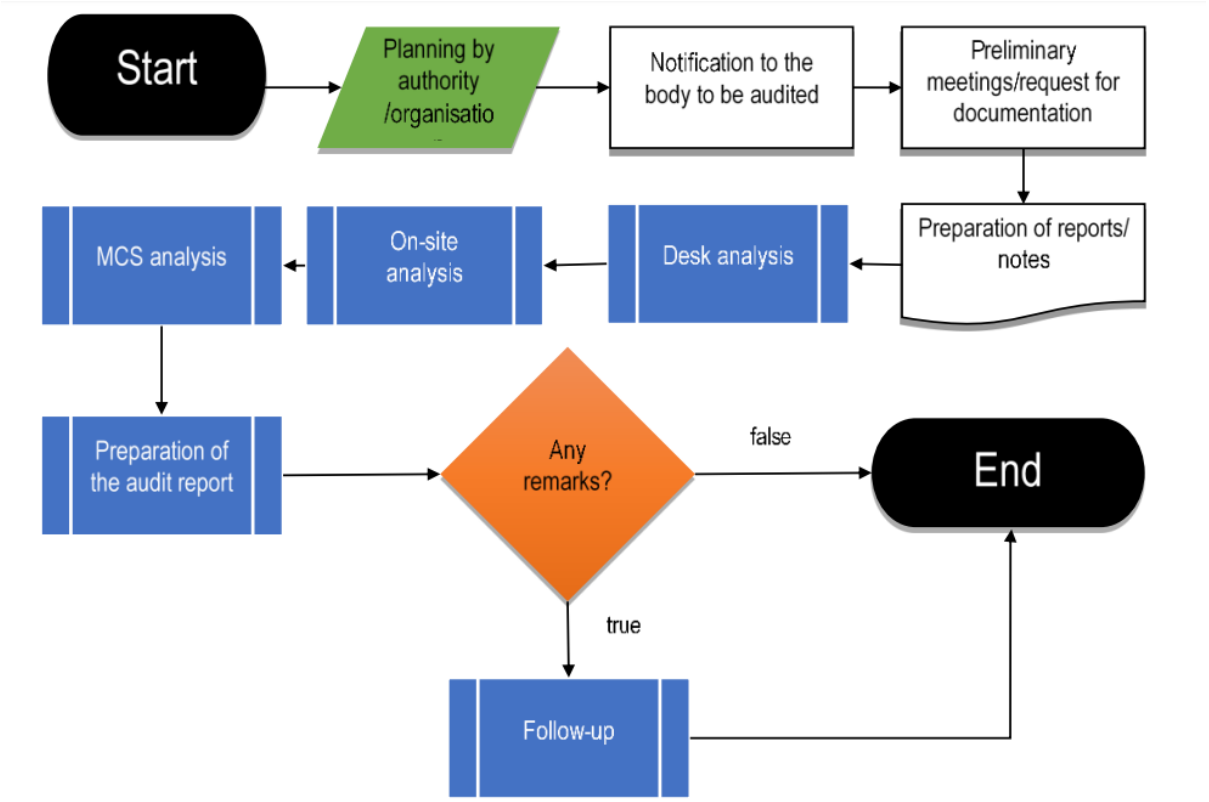


Figure 8 - Flowchart of the system audit

4.4.1. Risk assessment

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

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

The Audit Authority, as indicated by art. 28 of Reg. (EU) no. 897/2014, has the objective of ascertaining the effective functioning of the Programme management and control system also by carrying out activities on an appropriate sample of operations, selected on the basis of the expenses declared to the Commission, and on the annual accounts of the Programme, within the international recognised standards in this area. In this context, the Audit Authority shall operate in accordance with the Note EGESIF_14_0011_02 final of 27/08/2015[6], in order to ensure the correct performance of its own functions.

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

The risk assessment is performed by the Audit Authority during the drawing up of the Audit Strategy, which indicates the connection between the results of the Risk Assessment and the expected audit activity.

In particular, the Strategy indicates the considered risk factors and, in the light of the results of the assessment of these risks, identifies an order of priority among the thematic objectives (TO), the Program Bodies and the Countries which will be subjected to audit.

"The risk analysis is an ongoing exercise and, therefore, shall be reviewed on an annual basis and in any case when events which determine a change in the ENI CBC MED Programme Audit Strategy occur."

The risk analysis and assessment is the indispensable tool for a proper planning of audit activities, which allows to set priorities of system audits and audits of operations.

The EGESIF Note 14-0011-02 final of 27/08/2015, in providing indications to the Audit Authorities on the elaboration of the Audit Strategy, also proposes a methodology to elaborate the Risk Assessment. In section III of the above mentioned EGESIF a table to describe the results of the Risk Assessment is reported, in order to classify the main bodies of the Management and Control System, based on the risk level detected for each body.

The risk assessment methodology set out in the aforementioned EGESIF Note, although it represents a recommended practice, does not constitute the only admissible one, especially for small systems.

In this regard, IGRUE has developed a national methodology, available on the MyAudit information system, which includes some insights and some methodological variations compared to the methodology proposed by the aforementioned EGESIF Note.

Each Audit Authority, based on the specificities of the relevant Programs, can therefore adopt the methodology recommended by the EGESIF Note 14-0011-02 or the methodology developed at national level.

Even if, at the moment, the AA is not using the IT platform “MyAudit”, in order to perform the risk

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

assessment, the Audit Authority for the quantification of the individual risk factors adopts the same scale of value used by the application "MyAudit".

When it comes to planning audit activities, risk assessment is used to detect risky areas and identify which ones are more exposed to risk as well as which ones should undergo control as a priority.
Among the risk factors to take under consideration there are for example: amount, management skills, internal control quality, degree of variation of the control environment stability, complexity of the program and of the organisational structure, type of operations, type of beneficiaries, risk of fraud, etc.
Risk assessment is a cyclical activity and, for this reason, it has to be re-examined on the basis of the actual results of the former activity, to the extent that events modifying the Audit Strategy or the Management and Control System of the Programme occur.
Generally, the methodology underlying risk assessment envisages several activities, listed below:

- collecting and analysing the relevant documentation for risk assessment;
- analysing and understanding of the entity of the operating environment;
- analysing the Management and Control System and of significant processes linked to the lines of action;
- identifying the risk factors;
- analysing the risk level of the significant processes and the controls associated with it;
- judging about outstanding risks and controls in place.

The Audit Strategy indicates the relationship between the results of risk assessment and the audit planning activity.
In the context of the audit Strategy and its updates, the AA reports the identified risk factors and prioritizes the bodies and the processes, in light of the result of the assessment of these risks, as crosscutting aspects to be checked.
On the basis of Manual of the Audit Authority 1.0, approved by AA with Decision No. 721/31873 of 27th September 2018, as well as of the Strategy of audit ENI CBC MED, adopted by the Audit Authority with Decision No. 114 of 14th February 2019 and its updated version adopted with Decision No. 253 of 27th February 2020, in general, the main features of the methodology used are:

- to rely on what has already been done: the AA considers all existing materials, such as available audit reports, results of audit undertaken by other authorities, etc.
- to establish a clear risk assessment on specific risks: a complete risk assessment helps to identify the authorities responsible for the management of each type of risk and facilitate the identification of possible risk mitigation activities, corrective actions and emerging risks.

i. Collecting and analysing the relevant documentation for risk assessment

In order to perform risk assessment, the Audit Authority carries out a preliminary analysis of the following documentation:

- Operational Programme approved by European Commission Decision C (2015)9133 of 17th December 2015;
- Selection criteria for projects approved by the Joint Monitoring Committee pursuant to Art. 24, first subparagraph, letter c, of Reg. (UE) No. 897/2014;
- Description of the Management and Control System, in the version of October 2008 (transmitted to the European Commission for designation with Note 2811 of 25/10/2018);
- Decision of the Regional Council (DGR) No. 52/10 of 23rd October 2018, establishing the organisational structure of the Managing Authority;
- Decision No. 53/1 of 29/10/2018;
- Presidential Decree (DPR) No. 8, No. 2169/2019 of 24th January 2019, approving the new organizational structure;
- Decision No. 6/9 of 5/02/2019;
- Presidential Decree No. 5705/13 of 20/02/2019;
- Decision MA No. 886_72 of 26/06/2019 highly professional tasks;
- Decision MA No. 1308_133 of 28.08.2019 allocation of human resources to the MA services;
- Manual of the Audit Authority version 1.0, approved by AA with Decision No. 721/31873 of 27th September 2018;
- Report of the designation procedure, adopted by the Audit Authority with Decision No. 797 of 29th October 2018;
- Audit Strategy ENI CBC MED, adopted by the Audit Authority with Decision No. 114 of 14th February 2019;
- Compliance opinion and report, including the Action Plan, concerning the designation procedure of the Managing Authority approved by Decision No 36397 of 29 October 2018;
- Annual report of Control and Opinion of related audits of 18th January 2019;
- Final report of system audit (accounting period 01/07/2018-30/06/2019), of 01/10/2019;
- Audit reports/European Commission Communications – Notice Ref. Ares (2019) 3226739 of 16th June 2019;
- Information inferable from the assessments provided for in art. 26, paragraph 5 of the Regulation (UE) No 897/2014 (in particular from checklist or control reports);
- Any information inferable from controls made by other bodies, such as the Italian Court of Audit, the European Court of Auditors;
- Information inferable from the Risk Management Plan of 21st November 2019, approved by the Managing Authority with Decision No. 1821/215 of 25/11/2019
- UE legislation and other relevant UE documents (guide lines, communications, declarations, etc.);
- Legislation and other relevant documents from national sources;
- Guardia di Finanza reports;
- Various types reports (for example beneficiaries or ordinary citizens direct reports, etc.);
- Other documents relating to the Programme.

ii. Analysing and understanding of the entity of the operating environment

In accordance with the international auditing principle ISA 315 – "Identifying and assessing the risk of material misstatement through understanding the entity and its environment", the Audit Authority objective is to identify and evaluate the significant risks. The AA performs the assessment whether these risks are due to fraud or intentional behaviors or events, through the understanding of the subject/body and its operating environment, including its internal control as well as the use of the previous audit carried out even by other subjects as to define and put in place concrete answers to those significant risks and mistakes identified.

With respect to internal control, The Audit Authority also consider what is provided for by the International Standards on Auditing ISA 200 – "Overall objectives of the independent auditor and the conduct of an audit in accordance with international standards on auditing", which provides relevant definitions on the issue of auditing with specific regard to risks linked to internal control and risk assessment procedures.

From an operative point of view, the Audit Authority will perform this activity during competence assessments on the different Bodies to be audited.

In accordance with the reference auditing principles referred to above, therefore, the Audit Authority performs an analysis aimed to:

- to acquire and update the understanding of the functioning of the bodies to be assessed and of their operating environments, including their internal controls, sufficiently to identify and assess whether the possible risks are due to fraud or to unintentional behaviors or events;
- to establish and perform revision procedures to answer to identified and assessed risks.

As regard the Managing Authority and the programming cycle 2007-2013 of the Programme ENPI CBC MED, taking account of the risks previously identified, a maximum risk value will be attributed to the factor "Degree of change 2007-2013" as provided for by the control risk (for additional information next paragraph should be consulted: 1.1.3 Analysis of the Management and Control System and of the significant processes linked to the lines of action).

With reference to the operational environment of the Audit Authority, the following paragraphs report some characteristics aspects of the Programme ENI CBC MED 2014-2020 which define its complexity and should be taken into consideration for the risk assessment.

Generally, Cross-Border Programmes (CBC) follow Territorial Cooperation's (ETC) principles and model, taking account of the conditions established for external cooperation. They involve EU and non-EU States which share a border (including maritime borders), in order to face common challenges.

The Cross-Border Cooperation Programme ENI CBC MED 2014-2020 concerns, in particular, the regions which overlook the Mediterranean, gathering the costal territories of 13 EU States and partner States. The

programme and its interventions concern the regions that overlook the Mediterranean of the following States: Cyprus, Egypt, Greece, France, Israel, Italy, Jordan, Lebanon, Malta, Palestine, Portugal, Spain, Tunisia.

The Programme ENI CBC MED 2014-2020 aims to promote an economic, social, and territorial development which should be fair, equal and sustainable, promoting cross-border integration and enhancing territories and values of the participants. For this reason, it has two general objectives:

1. to promote economic and social development;
2. to face common challenges for the environment and four thematic objectives.

The thematic objectives are articulated in 11 priorities, as following:

Thematic objective A1 – Business and SME development.

Priority A.1.1 – Support innovative start-up and recently established enterprises, with a particular focus on young and women entrepreneurs, facilitate the protection of their intellectual property rights and commercialization where applicable;

Priority A.1.2 – Strengthen and support euro-Mediterranean networks, clusters, consortia and value-chains in traditional sectors and non-traditional sectors;

Priority A.1.3 – Encourage sustainable tourism initiatives and actions aimed at diversifying into new segments and niches.

Thematic objective A2 – Support to education, research, technological development and innovation.

Priority A.2.1 – Support technological transfer and commercialization of research results, strengthening the linkages between research, industry and other private actors;

Priority A.2.2 – Support SMEs in accessing research and innovation, also through clustering.

Thematic objective A3 – Promotion of social inclusion and fight against poverty.

Priority A.3.1 – Provide young people, especially those belonging to the NEETS, and women, with marketable skills;

Priority A.3.2 – Support social and solidarity economic actors, also in terms of improving capacities and cooperation with public administrations for services provision.

Thematic objective B.4 – Environmental protection, climate change adaptation and mitigation.

Priority B.4.1 – Support sustainable initiatives aimed at finding innovative and technological solutions to increase water efficiency and encourage use of non-conventional water supply;

Priority B.4.2 – Reduce municipal waste generation and promote source-separated collection and the optimal exploitation, particularly of its organic component;

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

Priority B.4.4 – Incorporate the Ecosystem-Based management approach to integrated coastal zone management into local development planning, through the improvement of intra-territorial coordination among different stakeholders.

The Programme ENI CBC MED 2014-2020 has an overall final allocation of 234,549,558.23 €, that is specified for each thematic objective as reported in the following table:

Funding source for thematic objective			
	EU funding	**Co-funding**	**Overall funding**
Thematic objective A.1	€ 45,156,487.39	€ 5,017,387.49	€ 50,173,874.88
Thematic objective A.2	€ 33,867,365.54	€ 3,763,040.62	€ 37,630,406.16
Thematic objective A.3	€ 33,867,365.54	€ 3,763,040.62	€ 37,630,406.16
Thematic objective B.4	€ 75,260,812.32	€ 8,362,312.48	€ 83,623,124.80
Technical assistance	€ 20,905,781.20	€ 4,585,965.03	€ 25,491,746.23
Total	**€ 209,057,812.00**	**€ 25,491,746.23**	**€ 234,549,558.23**

Table 18 – ENI CBC MED overall final allocation for each thematic objective

iii. Analysis of the Management and Control System and of the significant processes connected to the lines of actions

On the basis of the material gathered and useful for the risk assessment, the Audit Authority performs the analysis of the Document describing the Management and Control System, in its version of October 2018 (transmitted by the European Commission for the designation with Note 2811 of 25/10/2018) and the successive pertinent documents, with particular regard to the organisation, the procedures and controls implemented by the Managing Authority, also in the light of the results of the assessment of the designation criteria of the Managing Authority.

It is necessary to verify the existence of any changes to the Management and Control System not only in the case in which the MCS has been formally modified, but also in the cases in which the changes have already taken place but not yet formalized in MCS.

"In the presence, for example, of an act of reorganization of the offices/services where the MA is based, it is appropriate to re-evaluate the risks associated with the MCS in order to evaluate, for example, the risk related to possible changes regarding the independence and separation of functions".

The assessments on the changes in the MCS represent the risk factor "degree of change of the Management and control system" related to the risk assessment of the subjects which are part of the management and control.

The critical issues that emerge from the previous audit reports and from the annual audit reports, represent the factors which can be used for risk analysis related to the thematic areas and compliance tests.

Finally, it is also important to verify the ways in which the risks are identified and managed, and whether these are effective, sufficient and appropriate.

The risk analysis of the management and control system, although preliminary to the system audits, shall then be declined on a specific analysis of the management and control processes.
The investigation tools are listed below:

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

The on-spot visits give the opportunity to observe directly the development of the activities connected to the Management and Control System and to collect the elements attesting the smooth functioning of the controls. These visits should be necessarily planned. If it will be necessary to attain a higher degree of detail or to obtain specific clarifications, targeted interviews will be conducted. For a comprehensive view of the System, it is possible to conduct tests of compliance throughout selecting a sample of operations. For this sample, non-statistic and not particularly large, it will be sufficient a limited number of cases, but it will be essential to perform the risk analysis that this sample could allow a significant view of the processes. The control trails must guarantee that the correctness, regularity and eligibility of the expenditure should be closely monitored. The analysis of the control trails and the implementing processes represented in them shall verify the reliability of these latter and to allow a judgement regarding existing risks and controls. This analysis aimed to describe and represent the flows of activities, identifying risks and controls connected, to allow a more efficient allocation of human resources that will perform the controls considering the level of risk identified.
At the end of the specific analysis of the processes of Management and Control, the risk assessment will be updated on the basis of the related results and the number of audits carried out.

As foreseen by the Commission Regulation (CR) 897/2014, the ENI CBC MED 2014-2020 Programme is managed through a separation of functions among the following compulsory bodies:

- Joint Monitoring Committee (JMC);
- Managing Authority (MA);
- National authorities (NAs);
- Audit Authority (AA);
- Group of Auditors (GoA);
- Control Contact Points (CCPs).

Moreover, it has been established the following “optional” programme bodies to carry out specific functions to support the compulsory bodies:

- Joint Technical Secretariat (JTS);
- Branch Offices (BO);
- National Contact Points (NCPs);
- Project Selection Committee (PSC).

The Programme *governance* is illustrated below:

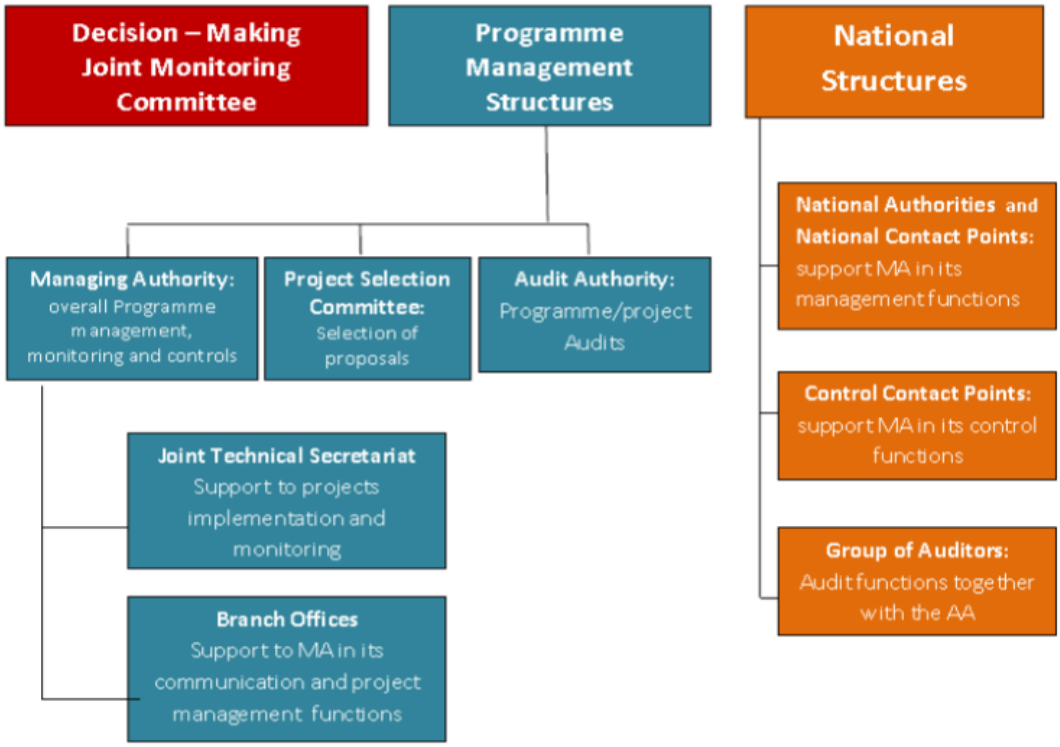


Figure 9 – ENI CBC MED Programme governance

For the purposes of the context analysis, the above-mentioned Programme's main bodies the Audit Authority shall be considered for the risk assessment by the AA.

iv. Identifying the risk factors

Following the analysis conducted on the relevant documentation (i), the operating environment (ii) and the Management and Control System (iii), the Auditor identifies specific Risk factors.

Risk is an inherent concept to the Audit Activity. In fact, the International Standard on Auditing 200, at the paragraph "Inherent Limitations of an Audit" states that *"[t]he auditor is not expected to, and cannot, reduce audit risk to zero and cannot therefore obtain absolute assurance that the financial statements are free from material misstatement due to fraud or error. This is because there are inherent limitations of an audit, which result in most of the audit evidence on which the auditor draws conclusions and bases the auditor's opinion being persuasive rather than conclusive*."

On the basis of this international standard of auditing, the auditing work of the AA is subjected to a risk model which could be represented as in Figure 10.

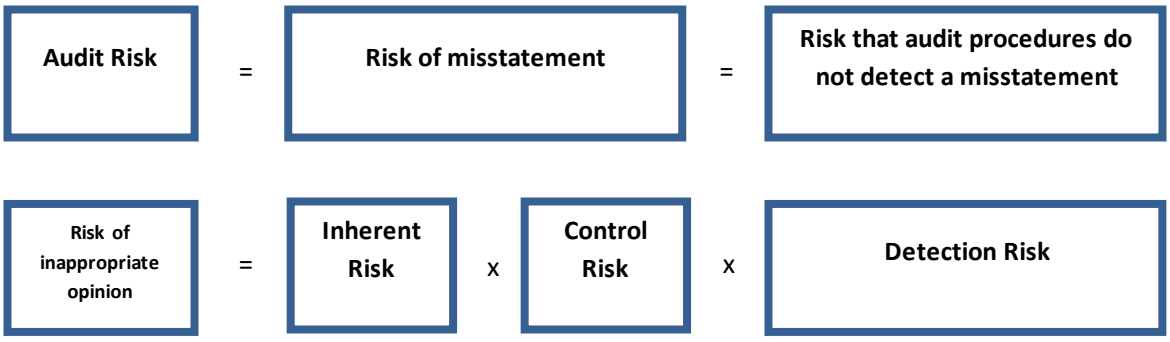


Figure 10 - Risk Model

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

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

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

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

Detection Risk - The risk that the procedures performed by the auditor to reduce audit risk to an acceptably low level will not detect a misstatement that exists and that could be material, either individually or when aggregated with other misstatements.

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

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

Taking account of the documents mentioned above and of the detailed information of procedures of Management and Control System, the risk assessment provides to detect the related risk factors, as shown in the subdivision in Figure 11.

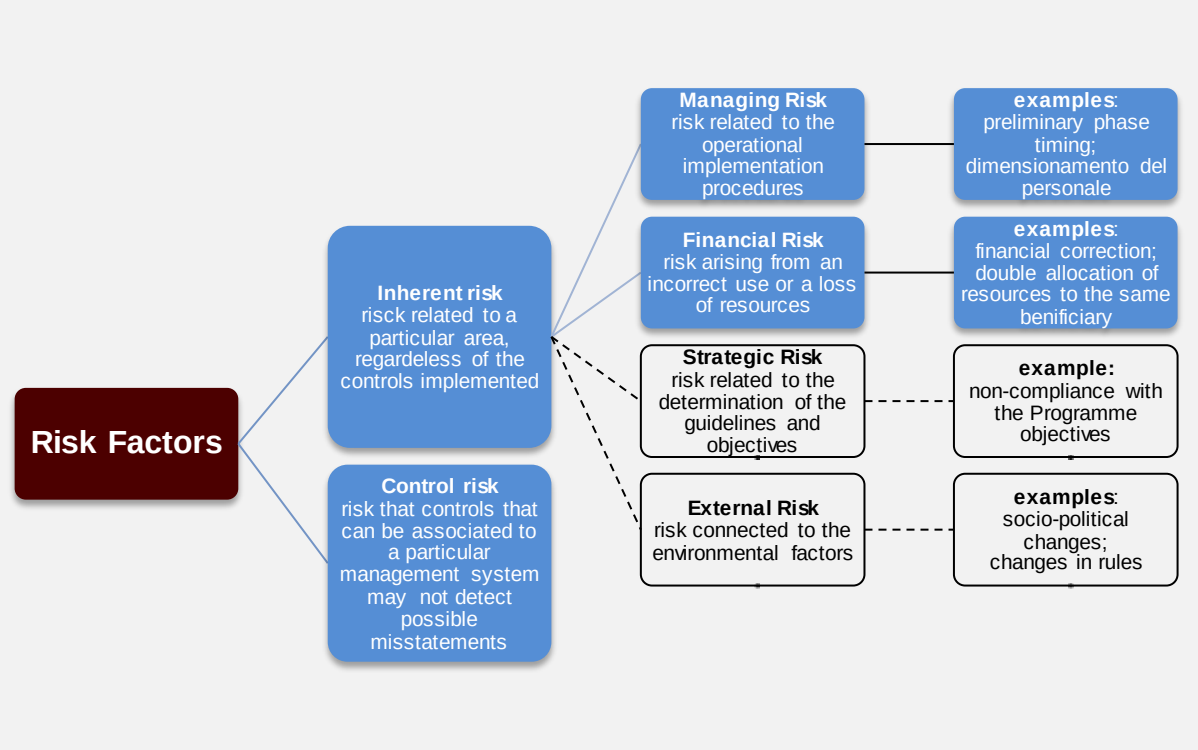


Figure 11 – Representation of the types of risk

It can be useful to state that *strategic* and *external risks* are not considered because they are not relevant whether planning audit activities. Inherent (managing and financial risks) and control risks deserve instead further examination, therefore, the main elements are described below.

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

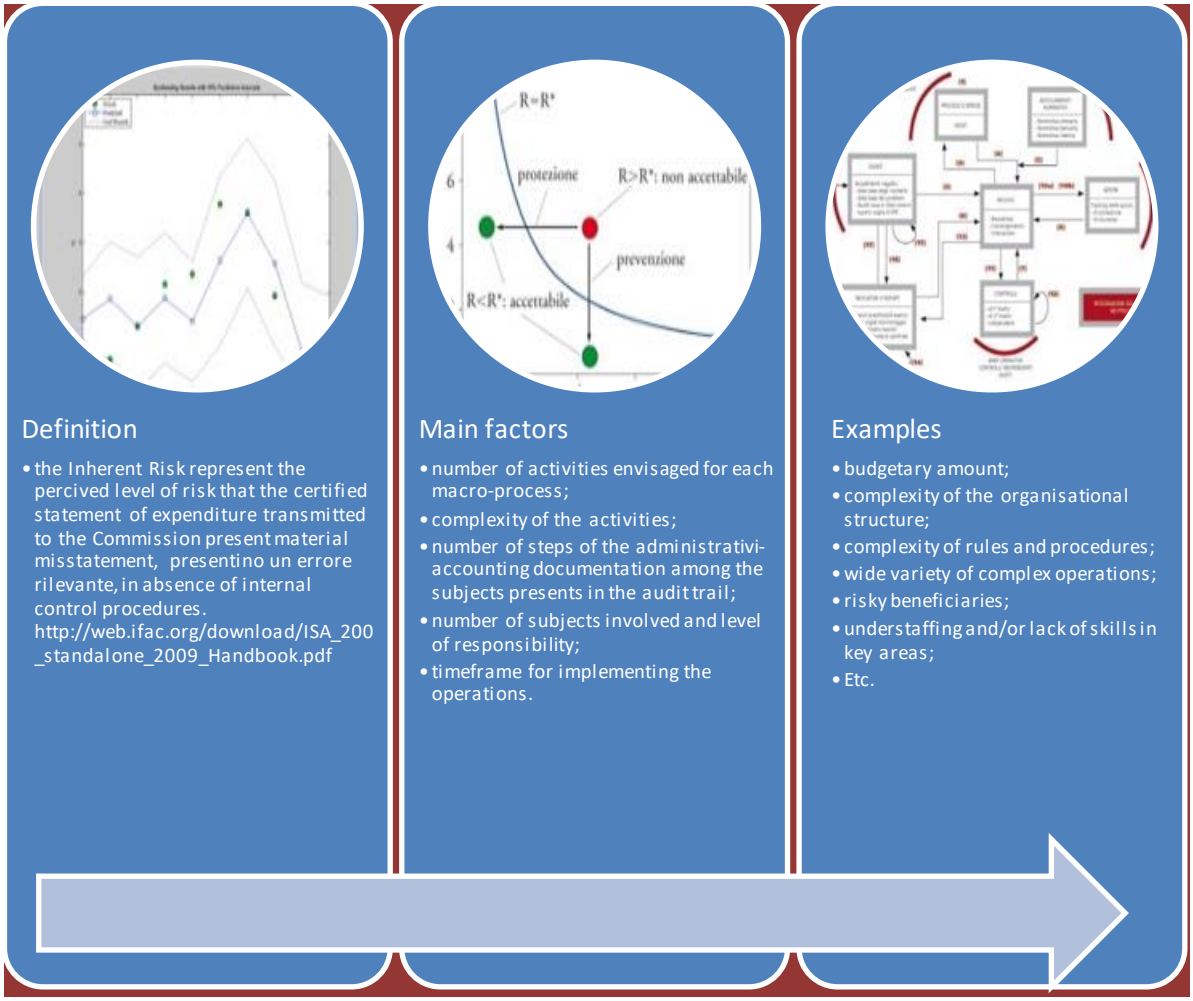


Figure 12 – Representation of the standard Inherent Risk ISA 200

The figure below (Figure 13) describes the contents of the **Control Risk**, indicating the main factors which could influence it and some examples of the implementation procedures of the operations.

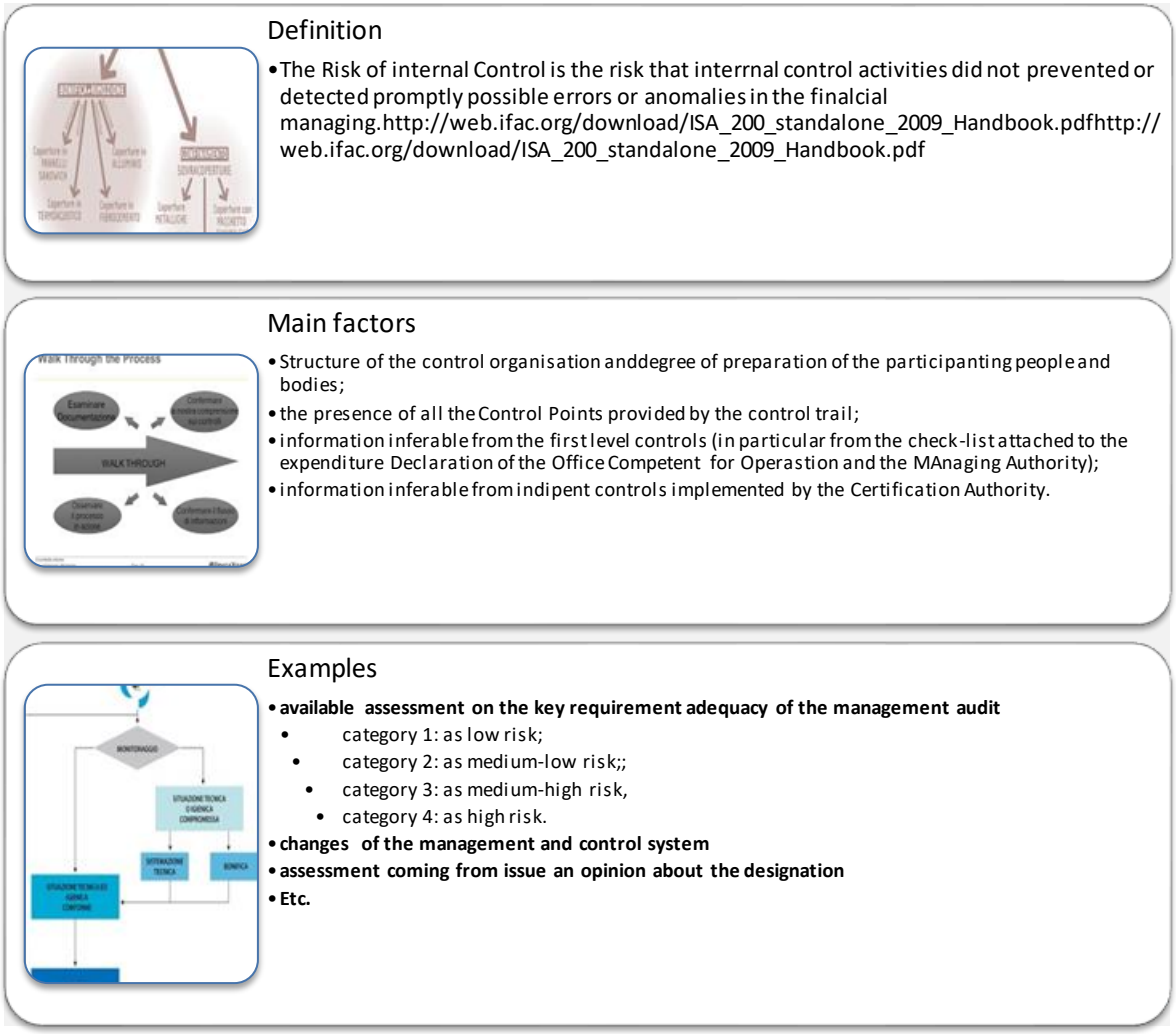


Figure 13 - Representation of the standard Control Risk ISA 200

The individual risk factors that could be considered by the Audit Authority are presented below.

The following paragraph describe the qualification method of the risk factors.

The Audit Authority, in order to **assess the inherent risk**, uses the risk factors provided for by the Annex III of the guidance EGESIF_14-0011-02 final of 27/08/2015, listed below:

1. budgetary amount for each body;
2. complexity of the organisational structure;
3. complexity of rules and procedures;
4. wide variety of complex operations;
5. risky beneficiaries;
6. understaffing and/or lack of skills in key areas.

Together with the inherent risk factors listed above, in order to perform the **Control Risk assessment**, the Audit Authority consider the following factors which have been recommended by the Annex III of the

guidelines EGESIF_14-0011-02 final of 27/08/2015:

1. Degree of change 2007-2013;
2. Key orientation requirements for the MCS assessment in Member States indicated in the Note EGESIF_14-0010-final of 18/12/2014.

- separation of the functions and monitoring of the tasks delegated to other bodies;
- selection of operations;
- information provided to beneficiaries;
- management assessment;
- control trail;
- information system of collect, recording and storage of data;
- implementation of the anti-fraud measures;
- preparation of the management declaration and the annual report of the implemented control.

In the System Audit field, they have been considered the key requirements of designation of the Annex of the Regulation (UE) 897 of 18th August 2014, on the basis of the indication defined in the Guidelines TESIM "*Adapted key requirements/assessment criteria for the management and control system audits*" – July 2019 and considering the Table of correlation among the key requirements and the designation criteria laid down in the Annex IV of the Note EGESIF_14-0010-final of 18/12/2014. In spite of all this, for the control risk assessment the Audit Authority chose to use the key requirements of the System audit, also in view of update of the Audit Strategy.

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

Once risks and controls connected to the activities of the different processes are determined and summarized, it moves to the central phase of risk assessment: the analysis of the risk level.
The risk types identified can be classified by the 2nd level auditor in order to quantify the extent of it.
The analysis process of the risk level includes the analysis of the inherent risk level and the analysis of the control risk level.
The two parameters should be assessed independently from each other, in order to evaluate them as analytically and precisely as possible.

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

Impact of the risk	**The impact or severity of the risk is the level with which the arising of risk may influence the achievement of the intervention objectives.**	
Level	**Meaning**	**Examples**
SEVERE	Significant impact on the achievement of the strategic objectives of the intervention	– Irregular reporting to the European Commission; – frauds/ systematic irregularities; – judicial problems; – loss of funds.
MODERATE	Inefficiency in normal operation with a limited effect on the achievement of the strategy and objectives	– interruptions or significant inefficiencies of processes; – temporary problems of quality/service; – inefficiency in the flows and in the Operations; – individual irregularities.
IRRELEVANT	No concrete impact on the strategy and objectives of the body	

Table 19 – Impact of the inherent risk

Assessment of the risk probability	**Assessment of the probability or the frequency of the arising of the risk. The best assessment of the frequency should be based on the experience and the sense of judgement.**	
Level	Meaning	Examples
HIGH	It is very likely that the risk arises more than once during the implementation of the Operation.	– Preliminary phase timing too long; – Misalignment between assessment criteria when choosing final Beneficiaries.
MEDIUM	There is the possibility that risk arises occasionally during the implementation of the Operation.	– Loss of image in respect of the beneficiaries during the preliminary phase; – Non-compliance with rules of public procurement.
LOW	It is unlikely that the risk arises during the implementation of the Operation.	– Non-compliance with duties on disclosure of ranking; – Non—compliance with the legislation on equal opportunities.

Table 20 – Assessment of the probability of the inherent risk

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

Since November 2016, as National body of coordination of the Audit Authority, the MEF-IGRUE has

implemented the IT platform called "MyAudit", in order to support the Audit Authority in every phase of the Audit activity: programming, risk management, extraction of the sample, production of the official documents prepared for the control implementing activities, and the production of the Audit Annual Report to be sent to the European Commission.

Even if, at the moment, the AA is not using the IT platform "MyAudit", in order to perform the risk assessment, the Audit Authority for the quantification of the individual risk factors adopts the same scale of value used by the application "MyAudit", which is described below:

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

Table 21 – Inherent risk: quantification of the individual risk factors

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

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

Table 22 – Inherent risk: scale of the scores awarded to risk factors

With these factors of inherent risk, in order to perform the control risk assessment, the Audit Authority will consider the following factors recommended in the Annex III of the guidelines EGESIF_14-0011-02 final of 27/08/2015:

1. Degree of change 2007-2013;
2. Key orientation requirements for the MCS assessment in Member States, indicated in the Note EGESIF_14-0010-final of 18/12/2014

For the quantification of the individual risk factors, the Audit Authority adopt the same scale of value used by the application "MyAudit", which is described below:

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

Table 23 – Control risk: quantification of the individual risk factors

To the individual factors it is given a maximum percentage value (weight) so that the sum of the values of the individual factors should guarantee a maximum score for the control risk of 100%. In particular, the Degree of change 2007-2013 and the key requirements are assessed separately. In the case of the Managing Authority, to the weight adopted to assess the degree of change 2007-2013 is given a maximum percentage value (weight) which correspond at 20%; while at the weight for the assessment of the 8 key requirements of the MA is given a maximum percentage value (weight) of 10% so that the sum of the weights attributable to the key requirements is 80%. The following table illustrate the scale of the scores awarded to the degree of change 2007-2013:

Level of control risk	Quantification of risk (A)	Weight (B)	Quantification of the weighted risk (AxB)
H - High	100.00%	20.00%	20.00%
M/H – Medium/High	80.00%	20.00%	16.00%
M/L – Medium/Low	45.00%	20.00%	9.00%
L - Low	30.00%	20.00%	6.00%

Table 24 - *Control risk: scale of the scores awarded to the degree of change 2007-2013*

The following table illustrate the scale attributable to the 8 key requirements:

H - High	100.00%	10.00%	10.00%
M/H – Medium/High	80.00%	10.00%	8.00%
M/L – Medium/Low	45.00%	10.00%	4.50%
L - Low	30.00%	10.00%	3.00%

Table 25 – Scale attributable to the 8 key requirements

vi. Judgement about risks and controls in place

In this phase, the Auditor prepares a general assessment of the level of risk, in terms of summary of the assessments detected for each risk factor associated with each subject/area being assessed. This summary judgment considers the different assessment attributed to the intrinsic risks and control risks associated with each subject/area to be assessed.

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

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

where NAC = number of the audits closed.

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

The results of the risk assessment performed by the Auditor on each Programme Authority/Body or specific thematic area shall be documented and illustrated in the Audit Strategy. The table to be used, according to the methodology referred to in EGESIF Note 14-0011-02, is reported below in Annex 5.1 to this Manual.

vii. Planning of the Audit Activities

On the basis of the results obtained from the risk assessment associated with each subject/object to be verified, the AA plans the audit activities and procedures, which will be specifically aimed at verifying the main risky areas (priority to checks bodies and thematic objectives for which a higher risk was identified in the reference accounting period).

4.4.2. Evaluation of the reliability of the system

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 Manual 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 paragraph 1.3 of the Manual 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 Manual is presented in the Annex 5.3 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.

4.4.3. System reliability evaluation and Anti-fraud measures and fraud risk assessment carried out by the MA and the AA audits

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

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

Accordingly, art. 30 (1) subparagraph g) of the same Regulation clearly state that the management and

control systems of the OP shall include procedures for prevention, detection and correction of irregularities, including fraud and the recovery of amounts unduly paid, together with any interest.

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

As far as expenditure is concerned, for **fraud** it is intended[7] any intentional act or omission relating to:

- the use or presentation of false, incorrect or incomplete statements or documents, which has as its effect the misappropriation or wrongful retention of funds from the general budget of the European Communities or budgets managed by, or on behalf of the European Communities;
- non-disclosure of information in violation of a specific obligation, with the same effect;
- the misapplication of such funds for purposes other than those for which they were originally granted.

For **irregularity** it is instead intended[8] :

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

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

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

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

This analysis must be carried out in accordance with the guidelines contained in Note EGESIF 14-0021-00

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

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

of 16.06.2014" Fraud Risk Assessment and Effective and Proportionate Anti-Fraud Measures".
The methodology for this fraud risk assessment has five main steps as detailed in the following figure:

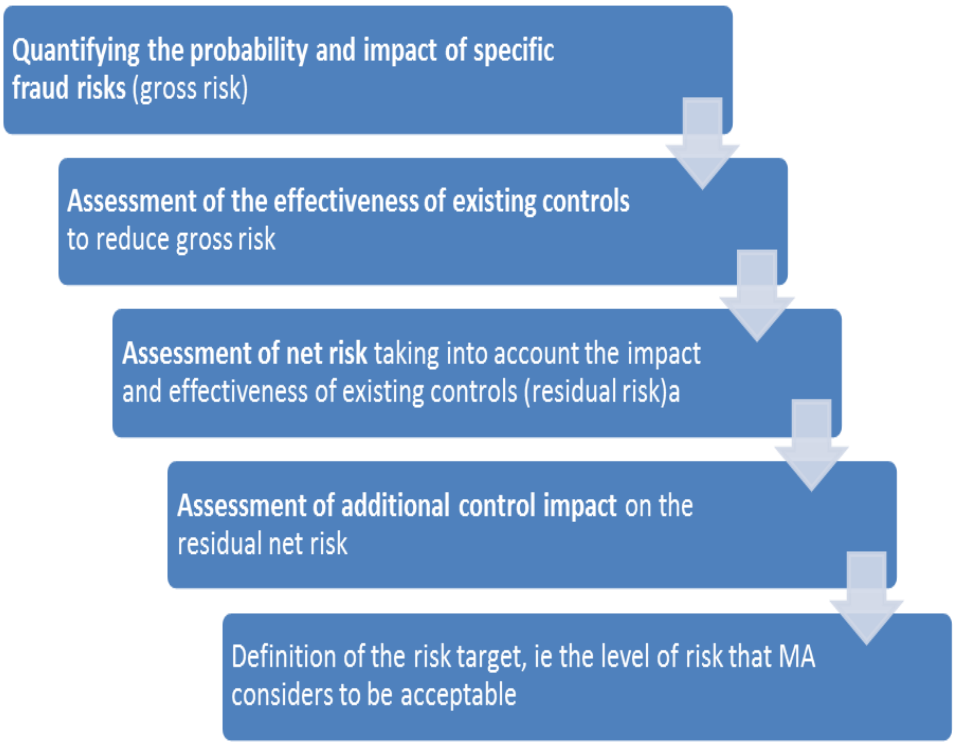


Figure 14 - Methodology for this fraud risk assessment

For each of the specific risks, the overall objective is to assess the 'gross' risk of particular fraud scenarios occurring, and then to identify and assess the effectiveness of controls already in place to mitigate against these fraud risks either from occurring or ensuring that they do not remain undetected. The result is a 'net' current risk which leads to an internal action plan to be implemented when the residual risk is significant or critical in order to improve controls and further reduce the exposure of the Programme to negative consequences (i.e. putting in place any additional effective and proportionate anti-fraud measures, as necessary[9]).

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

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

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

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

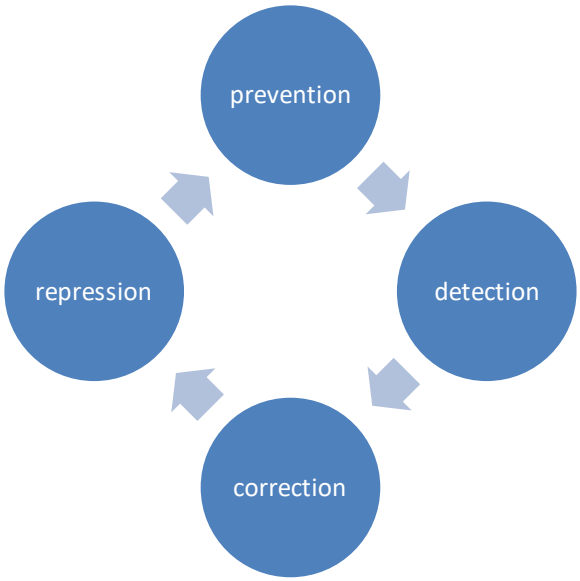


Figure 15 - Key elements of fight against fraud approach

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

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

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

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

Procedure/Action	Responsible bodies
Define adequate and harmonised procedures both at the Programme and national level	MA&NA
Define clear rules on eligibility of expenditure (including procurement procedures) and treatment of revenue in the application pack for the calls for proposals and technical assistance	MA&NA
Elaborate a detailed on-line Project Implementation Manual, including national specificities	MA&JTS&NA
Train staff of all Programme bodies and national institutions concerned with Programme implementation	MA & AA, in collaboration with EC
Train potential beneficiaries during the calls for proposals on the programme rules	MA, JTS & NA
Train beneficiaries of approved projects before starting, and during, implementation	MA, JTS & NA
Define a good project internal control system	Lead beneficiary and beneficiaries
Train auditors of the projects	MA, CCP & NA
Inform relevant Programme bodies about recurrent and systemic errors	MA for JTS, CCP & NA
Inform project beneficiaries about recurrent and systemic errors	MA, JTS & NA
Provide a question-and-answer section in the Programme web-site on applicable rules and procedures	MA & JTS
Provide on-going support by JTS officers to project beneficiaries and controllers	MA & JTS
Conduct a risk analysis	JTS, MA & AA with input from CCP, NA, GoA or any other actor

Table 26 - Main procedures and actions for prevention and responsible bodies

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

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

Table 27 - Main procedures and actions for the detection of fraud and responsible bodies

Actions pertaining to the correction and repression phases follow accordingly.

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

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

These audits can be conducted using the checklist already used for system audits (Annex 1.8 of this Manual) that contains all the checkpoints provided for in the checklist proposed in Annex 4 of the EGESIF Note n. 14-0021-00 of 16.06.2014 "Verification of the Managing Authority's compliance with article 125.4 c) regarding - Fraud risk assessment and effective and proportionate anti-fraud measures for 2014-2020". In fact, this audit must be conducted in parallel with the audits on the functioning of the management and control systems.

The results of this audit is reported in Section 4 (System Audit) of the Annual Audit Report (see Annex 4.1 to this Manual).

4.4.4. Evaluation of indicators

Pursuant art. 26 of Reg. (EU) No. 897/2014, the MA is required to inform the JMC of data relating to the progress of the Programme in order to verify the achievement of expected results and the objectives as set. On the basis of the data communicated by the Beneficiaries at the operational level, the management verification ensure that the data, aggregated or micro, relating to indicators and target values at the investment priority, priority or level of the Programme, are timely, complete and reliable.
The monitoring of Programme enhancement and progress in the implementation of projects through the revision of indicators is an activity to be carried out in the context of the verification of payment claims submitted by the same beneficiary.
In the reimbursement phase, the MA checks whether the information on the contribution obtained and the results of the indicators are provided by the Beneficiaries, verifies as well that all agreed indicators have been reached and, where appropriate, requires justification whenever difference between the commitment and the actual contribution occurred.
Moreover, on-the-spot verifications shall verify the correctness of the data communicated by the Beneficiaries in relation to the indicators. If the Beneficiary is responsible for the inclusion of information on indicators in the OP information system, the correctness of this process will also be subject to on-the-spot verification.

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

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

AA Checklist on data reliability, including a related worksheet on indicator compliance testing, is listed in Annex 1.15 of this Manual.

4.5. Sampling

4.5.1. Introduction

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

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

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

Moreover, considering the territorial distribution of the projects, the Audit Authority intends to ensure that in the whole Programme duration, beneficiaries of all participating countries are audited. Therefore, since the 3rd sampling year, a cluster shall be created for a supplementary sample, made of reports submitted by beneficiaries from countries not selected in previous samplings.

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

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

It should be noted that 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. Therefore, not only expenditure regularity but also the Managing Authority checks on effectiveness will be verified.

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

For all statistic and sampling issues, the AA will be supported by a **technical assistance service (TA)**, provided by senior professionals/consultants with specific competence in the abovementioned subjects. A dedicated call for tenders is being issued by the AA in June 2020.

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

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

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

With the aid of TA, all activities related to sampling will be fully detailed by the AA in the Audit Strategy, specifying the chosen sampling methodology.

The AA will explain the use of its professional judgement used to choose sampling methods. All sampling activities will be carefully planned, with particular reference to sampling parameters, calculation on sample dimension and selection of operations to be audited, in order to demonstrate the appropriateness of the followed procedure.

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

Pending TA entrustment, hereafter are described the procedures and the general principles the AA intends to comply to in order to assure proper sampling methods are applied when performing audits on operations.

4.5.2. General Legal Framework

As stated in art. 127 of the Regulation (EU) 1303/2013, the AA shall ensure that audits are carried out on the proper functioning of the management and control system of the operational Programme and on an ***appropriate sample*** of operations, on the basis of the declared expenditure.

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

The general methodology to be used as regards the selection of the sample is provided for in compliance with article 28 of the Regulation (EU) n. 480/2014 (CDR), as amended by the Regulation (EU) 886/2019.

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

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

Taking into account the abovementioned EU Regulations and the peculiarities of the ENI CBC MED Programme, the general methodology for the selection of the sample of operations can be described as follows:

1. The AA, with the assistance of TA and GoA, shall establish the method for the selection of the sample ("the sampling method") in accordance with the rules set up in the EU Regulations, taking into account the internationally accepted auditing standards, INTOSAI, IFAC or IIA, ISA.
2. In addition to the explanations provided in the "Audit Strategy", the AA shall keep a record of the documentation and professional judgment used to establish the sampling methods, covering the planning, selection, testing and evaluation stages, in order to demonstrate that the established method is suitable.
3. A sample shall be representative of the population from which it is selected and enable the AA, with the assistance of TA and GoA, to draw up a valid audit Opinion. The sample may be selected during or after the accounting year.
4. A sampling method is statistical when ensures:
    - a random selection of the sample items;
    - the use of probability theory to evaluate sample results, including measurement and control of the sampling risk and of the planned and achieved precision.
5. The sampling method shall ensure a random selection of each sampling unit in the population by using random numbers generated for each population unit in order to select the units constituting the sample, or through systematic selection, by using a random starting point and applying a systematic rule to select additional items.
6. The sampling unit shall be determined by the AA, with the assistance of TA and GoA, based on professional judgment. The sampling unit may be an operation, a project within an operation or a payment claim by a beneficiary. Information on the type of sampling unit determined and on the professional judgment used for that purpose shall be included in the Audit Report.
7. Where the total expenditure relating to a sampling unit for the accounting year is a negative

amount, it shall be excluded from the population referred to in point 3 above, and shall be audited separately. The AA, with the assistance of TA and GoA, may also draw a sample of this separate population.

8. Where conditions for the proportional control provided for in art. 148 (1) of Regulation (EU) n. 1303/2013 apply, the AA, with the assistance of TA and GoA, may either exclude the items referred to in that Article from the population to be sampled or maintain the items in the population to be sampled and replace them if selected. The decision to use either exclusion or replacement of sampling units should be taken by the audit authority based on its professional judgement.
9. All expenditure declared to the Commission in the sample shall be subject to audit. However, depending on the characteristics of sampling unit, the audit authority may decide to apply sub-sampling. The methodology for selection of the sub-sampling units shall follow the principles allowing projection at the level of the sampling unit.
10. The AA, with the assistance of TA and GoA, may stratify a population by dividing a population into sub-populations, each of which is a group of sampling units which have similar characteristics, in particular in terms of risk or expected error rate or where the population includes operations consisting of financial contributions to financial instruments or other high-value items.
11. The AA, with the assistance of TA and GoA, shall evaluate the reliability of the system as high, average or low, taking into account the results of systems audits to determine the technical parameters of sampling so that the combined level of assurance obtained from the systems audits and audits of operations is high. For a system assessed as having high reliability the confidence level used for sampling operations shall not be less than 60%. For a system assessed as having low reliability the confidence level used for sampling operations shall not be less than 90%. The maximum materiality level shall be 2% of the expenditure referred to in point 3.
12. Where irregularities or a risk of irregularities have been detected, the AA, with the assistance of TA and GoA, shall decide on the basis of professional judgment whether it is necessary to audit a complementary sample of additional operations or parts of operations that were not audited in the random sample in order to take account of specific risk factors identified.
13. The AA, with the assistance of TA and GoA, shall analyze the results of the audits of the complementary sample separately, draw conclusions based on those results and communicate them to the Commission in the Annual Audit Report. Irregularities detected in the complementary sample shall not be included in the calculation of the projected random error of the random sample.
14. On the basis of the results of the audits of operations for the purpose of the AO and AAR, the AA, with the assistance of TA and GoA, shall calculate a total error rate, which shall be the sum of the projected random errors and, if applicable, systemic errors and uncorrected anomalous errors, divided by the population.

The detailed methodology for the selection of the sample has also to consider the guidelines of the European Commission; the last official document over this is the “Guidance on sampling methods for audit authorities - Programming periods 2007-2013 and 2014-2020” (EGESIF_16-0014-01 20/01/2017).

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

- EGESIF_15-0007 final of 09 October 2015 "Updated Guidance for Member States on treatment of errors disclosed in the annual control reports";
- EGESIF_14-0011-02 final of 27 August 2015 "Guidance for Member States on Audit Strategy (Programming period 2014-2020);
- EGESIF_14-0010-final of 18 December 2014 "Guidance for the Commission and Member States on a common methodology for the assessment of management and control systems in the Member States";
- EGESIF_15-0002-02 final of 9 October 2015 "Guidance for Member States on the Annual Control Report and Audit Opinion (Programming period 2014-2020)";
- REGULATION (EU) No 1303/2013 of 17 December 2013 (applied by analogy to ENI OP);
- REGULATION (EU) No 480/2014 of 3 March 2014 (applied by analogy to ENI OP);
- REGULATION (EU) No 886/2019 of 12 February 2019, amending and correcting Regulation (EU) No 480/2014 (applied by analogy to ENI OP);
- IGRUE document "Audit Procedure Manual (Article 127 of Regulation No 1303/2013) – Programming period 2014-2020", 12 July 2019, Rev. 6;
- Ares note (2016)1658902 - 07/04/2016
- the last "Audit Strategy" (Version 2.1) adopted by the Audit Authority with decision No 253 of 27.02.2020.

4.5.3. Sampling methods and general statistic concepts

The sampling method consists of two elements: the ***sampling design*** (e.g. equal probability, probability proportional to size) and the ***projection (estimation) procedure***. Together, these two–elements provide the framework to calculate sample size.

4.5.3.1. General overview of sampling and selection methods

An overview of the most commonly used and suitable sampling methods, taking into accounts international auditing standards and updated sampling theory, provides guidance on the use of audit sampling as a mean of selecting items for testing, when designing audit procedures.

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

A statistical sampling method has the following characteristics:

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

This is in line with the abovementioned definition given in the Article 28 (4) of Regulation (EU) No 480/2014.

The **selection method** can belong to one of two broad categories:

- Statistical selection;
- Non-statistical selection.

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

Within statistical sampling, the major distinction between methods is based on the **selection probabilities:**

- *equal-selection probabilities methods* (including simple random sampling and difference estimation)
- *probability proportional to size methods,* where the well-known monetary unit sampling (MUS) method stands out. Monetary unit sampling (MUS) is in fact a probability-proportional-to-size (PPS) method. The name comes from the fact that operations are selected with probabilities proportional to their monetary value. The higher the monetary value, the higher the probability of selection.

Statistical selection includes two possible techniques:

- Random selection;
- Systematic selection.

In *random selection*, random numbers are generated for each population unit in order to select the units constituting the sample.

Systematic sampling uses a random starting point and then applies a systematic rule to select the additional items (e.g. each 20th item after the random starting point).

Usually the equal probability methods are based on random selection and MUS is based on systematic selection.

Non-statistical sampling does not allow the calculation of precision, consequently there is no control of the audit risk and it is impossible to ensure that the sample is representing the population. Therefore, the error has to be assessed empirically.

According to Article 127(1) CPR and in Article 28 CDR, non-statistical selection is considered appropriate for cases where statistical selection is impossible, e.g. associated to very small populations or sample sizes.

Non-statistical selection covers the following possibilities (among others):

- Haphazard selection
- Block selection
- Judgement selection
- Risk based sampling combining elements of the three possibilities above

Haphazard selection is "false random" selection, in the sense of an individual "randomly" selecting the items, implying an unmeasured bias in the selection (e.g. items easier to analyse, items easily assessed,

items picked from a list displayed particularly on the screen, etc.).

Block selection is similar to cluster sampling (as of groups of population units), where the cluster is picked non-randomly.

Judgment selection is purely based on the auditor's discretion, whatever the rationale (e.g. items with similar names, all operations related to a specific domain of research, etc.).

Risk-based sampling is a non-statistical selection of items based on various intentional elements, often taking from all three non-statistical selection methods.

4.5.3.2. Conditions of applicability of the different sampling designs

As a preliminary remark on the choice of a method to select the operations to be audited, whilst the criteria that should lead to this decision are numerous, from a statistical point of view the choice is mainly based on the expectation regarding the variability of errors and their relationship with the expenditure.

The table below gives some indications on the most appropriate methods depending on those criteria.

Sampling Method	Favourable conditions
Standard MUS	Errors have high variability and are approximately proportional to the level of expenditure (i.e. error rates are of low variability). The values of expenditure per operation show high variability.
Conservative MUS	Errors have high variability and are approximately proportional to the level of expenditure. The values of expenditure per operation show high variability. Proportion of errors is expected to be low. Anticipated error rate has to be smaller than 2%.
Difference estimation	Errors are relatively constant or of low variability. An estimate of the total corrected expenditure in the population is needed.
Simple random sampling	General proposed method that can be applied when the previous conditions do not hold Can be applied using mean-per-unit estimation or ratio estimation (guidelines for choosing between these two estimation techniques can be found in EGESIF note 16-0014-01 of 20/01//2017)
Non-statistical methods	If the application of statistical method is impossible
Stratification	Can be used in combination with any of the above methods It is particularly useful whenever the level of error is expected to vary significantly among population groups (subpopulations)

Table 28 - Conditions of applicability of different sampling designs

Although the previous advices should be followed, actually no method can be universally classified as the only suited method or even the "best method". In general, all methods can be applied. The consequence of

choosing a method that is not the most suitable for a certain situation is that the sample size will have to be larger than the one obtained when using a more appropriate method. Nevertheless, it will always be possible to select a representative sample through any of the methods, provided that an adequate sample size is considered.

Stratification can be used in combination with any sampling method. The reasoning underlying stratification is the partition of the population in groups (strata) more homogeneous (with less variability) than the whole population. Instead of having a population with high variability it is possible to have two or more subpopulations with lower variability. Stratification should be used to either minimize variability or isolate error-generating subsets of the population. In both cases stratification will reduce the needed sample size.

As stated before, statistical sampling should be used to draw conclusions about the amount of error in a population. However, there are special justified cases where a non- statistical sampling method may be used on the professional judgement of the audit authority, in accordance with internationally accepted audit standards.

In practice, the specific situations that may justify the use of non-statistical sampling are related to the population size. In fact, it may happen to work with a very small population, whose size is insufficient to allow the use of statistical methods (that is less than 150).

The audit authority will use all possible means to achieve a sufficiently large population, for example by using as the unit the beneficiaries' periodic payment claims. AA will also consider that even in an extreme situation where the statistical approach is not possible in the beginning of the program period, it should be applied as soon as it is feasible.

The Following Table shows a summary of the abovementioned sampling methods:

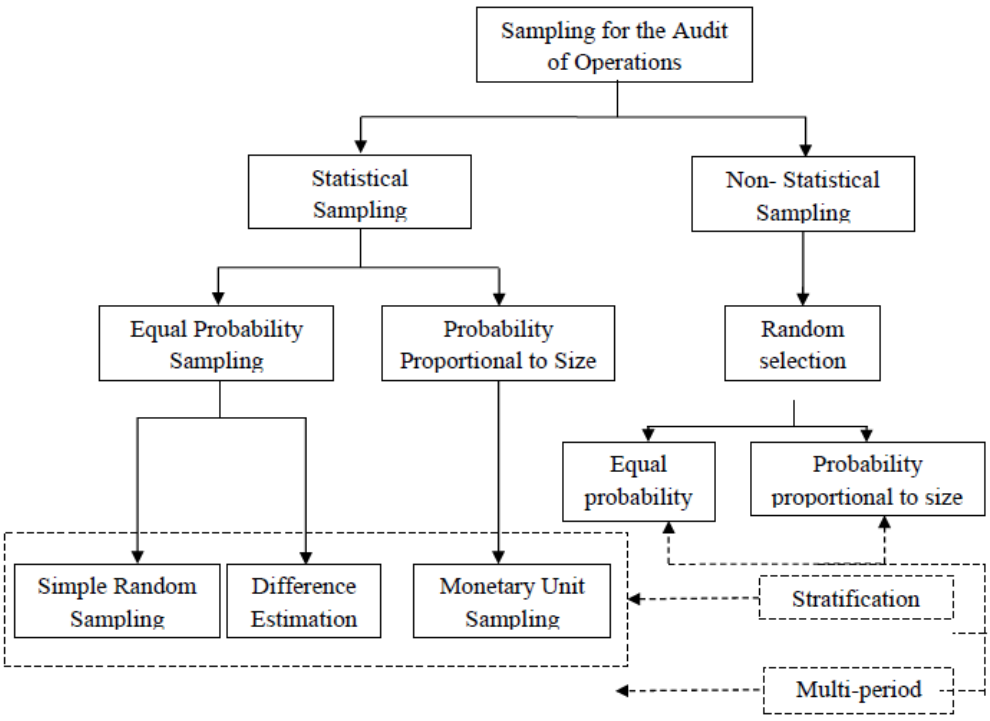


Table 29 - Sampling methods for the audit of operations

The choice of a particular sampling method provides a formula to compute the sample size and a framework for projecting results.

It should be noted that the specific formulas for sample size determination vary with the chosen sampling method. Nevertheless, despite the chosen method, the sample size will depend on three parameters:

1. The confidence level (the higher the confidence level, the larger the sample size)
2. The variability of the population (i.e. how variable are the values of the population; if all the operations in the population have similar values of error, the population is said to be less variable than a population where all the operations show extremely different values of error). The higher the variability of the population, the larger the sample size.
3. The planned precision set by the auditor; this planned precision is typically the difference between the tolerable error of 2% of the expenditure and the anticipated error. Assuming an anticipated error below 2%, the larger the anticipated error (or the smaller the planned precision) the larger the sample size.

Specific formulas for determining sample size are offered in the following paragraphs. Nevertheless, the AA will comply to the general rule stating that **it should never be used a sample size smaller than 30 units** (in order that the distributional assumptions used to create confidence intervals will hold).

4.5.3.3. Projection (estimation)

As stated before, the final goal when applying a sampling method is to **project** (extrapolate or estimate) the level of error (misstatement) observed in the sample to the whole population. This process will allow to conclude whether a population is materially misstated or not and, if so, by how much (an error amount). Therefore, the level of error found in the sample is not of interest by itself, being merely instrumental, i.e. a mean through which the error is projected to the population.

Sample statistics used to project the error to the population are called **estimators**. The act of projection is called estimation and the value calculated from the sample (projected value) is called the estimate. Clearly, this estimate, only based on a fraction of the population, is affected by an error called the sampling error.

4.5.3.4. Sampling error and precision

Sampling error is an indication of the difference between the sample projection (estimate) and the true (unknown) population parameter (value of error). This is the error that arises because we are not observing the whole population. In fact, sampling always implies an estimation (extrapolation) error as we rely on sample data to extrapolate to the whole population. It represents, in fact, the uncertainty in the projection of results to the population. A measure of this error is usually called **precision** or **accuracy** of the estimation. It depends mainly on sample size, population variability and in smaller degree population size.

A distinction should be made between **planned precision** and **effective precision**.

The **planned precision** is the maximum sampling error accepted for the projection of errors in a certain reference period, i.e. the maximum deviation between the true population error and the projection produced

from sample data. It should be set by the auditor to a value lower than the tolerable error, because otherwise the results of sampling of operations will have a high risk of being inconclusive and a complementary or additional sample may be needed.

The **effective precision** is an indication of the difference between the sample projection (estimate) and the true (unknown) population parameter (value of error) and represents the uncertainty in the projection of results to the population.

The **tolerable error** is the maximum acceptable error rate that can be found in the population for a certain reference period. With a 2% materiality level this maximum tolerable error is therefore 2% of the expenditure declared to the Commission for that reference period.

The most adequate way to settle the planned precision is to calculate it equal to the difference between the **tolerable error** and the **anticipated error** (the projected error that the auditor expects to obtain at the end of the audit). This anticipated error will of course be based on the auditor professional judgment, supported by the evidence gathered in the auditing activities in previous years for the same of similar population or in preliminary/pilot sample.

It should be noted that the choice of a realistic anticipated error is important, since the sample size is highly dependent on the value chosen for this error.

The **sample error rate** is computed as the ratio between total error in the sample and total book value of the sampled items; the **projected error rate** is computed as the ratio between **projected population error** and total book value.

Again, it should be stressed that the sample error is of no interest by itself as it should be considered a mere instrument to calculate the **projected error**.

4.5.3.5. Confidence interval and Upper Limit of Error

The confidence interval is the interval that contains the true (unknown) population value (error) with a certain probability (called confidence level). The confidence interval's general formula is as follows:

[EE-SE; EE+SE]

where

- EE represents the projected or extrapolated error; also corresponds to the Most Likely Error (MLE) in the MUS terminology;
- SE represents the precision (sampling error);

The projected/extrapolated error (EE) and the Upper Limit of Error (EE+SE) are the two most important instruments to conclude whether a population of operations is materially misstated or not. Of course, the ULE can only be calculated when statistical sampling is used; hence, for non-statistical sampling the EE is always the best estimate of the error in the population.

When statistical sampling is used, the following situations can arise:

- If EE is larger than the materiality threshold (hereafter 2%), then the AA concludes that there is material error;
- If EE is lower than 2% and the ULE is lower than 2%, the AA concludes that the population is not misstated by more than 2% at the specified level of sampling risk;
- If EE is lower than 2% but the ULE is larger than 2%, the AA concludes that additional work is needed. Accordingly to the INTOSAI Guideline n° 2318, the additional work can include:
  - *"requesting the audited entity to investigate the errors/exceptions found and the potential for further errors/exceptions. This may lead to agreed adjustments in the financial statements;*
  - *carrying out further testing with a view to reducing the sampling risk and thus the allowance that has to be built into the evaluation of results;*
  - *using alternative audit procedures to obtain additional assurance."*

The AA, with the assistance of TA and GoA, should use its professional judgment to select one of the options indicated above and report accordingly in the AAR.

Attention is drawn for the fact that, in most cases where an ULE is well above 2%, this could be prevented or minimized if the AA considers a realistic anticipated error when calculating the original sample size.

When following the third option (projected error is lower than 2% but the ULE is higher than 2%), in some cases, the AA may find that the results are still conclusive for a smaller confidence level than the planned one. When this recalculated confidence level is still compatible with an assessment of the quality of the management and control systems, it would be safe to conclude that the population is not materially misstated even without carrying out additional audit work.

4.5.4. Sampling process and projection of results

Despite the specific sampling method that is selected, auditing the operations through sampling should always follow a basic common structure:

1. **Define the objectives of the substantive tests:** usually the determination of the level of error in the expenditure declared to the Commission for a given year for a Programme based on a projection from a sample.
2. **Define the population:** expenditure declared to the Commission for a given year for the Programme, and the sampling unit, which is the item to be selected to the sample (usually the operation, but other possibilities are available as the payment claim).
3. **Define population parameters,** namely**:**
   a) the confidence level (taking into account the audit risk model)
   b) materiality level (the tolerable error, usually 2% of the population)
   c) the anticipated error (expected by the auditor, also on the basis of previous programmes)
   d) a measure of population variability (usually the standard deviation)
4. **Determine the sample size**, according to the sampling method used. It is important to note that the final sample size is always rounded up to the nearest integer.

5. **Select the sample and perform the audit**.
6. **Project results, calculate precision and draw conclusion**: this step covers the computation of the precision and projected error and comparing these results with the materiality threshold.

This process will be analyzed in more detail in the following paragraphs.

4.5.4.1. Define the objectives of the substantive tests: projection (estimation)

As stated before, the final goal when applying a sampling method is to project (extrapolate or estimate) the level of error (misstatement) observed in the sample to the whole population. This process will allow to conclude whether a population is materially misstated or not and, if so, by how much (an error amount). Therefore, the level of error found in the sample is not of interest by itself, being merely a mean through which the error is projected to the population.

Sample statistics used to project the error to the population are called ***estimators***. The act of projection is called **estimation** and the value calculated from the sample (**projected value**) is called the **estimate**. Clearly, this estimate, only based on a fraction of the population, is affected by an error called the sampling error.

4.5.4.2. Define the population

4.5.4.2.1 Population

As already mentioned, the population for sampling purposes includes the expenditure declared to the Commission for operations within a Programme in the reference period, except for negative sampling units, as will be explained in the following sections of this manual. All operations included in that expenditure should be comprised in the sampled population, except where the proportional control arrangements set out by Article 148(1) CPR and Article 28(8) of the Delegated Regulation (EU) No 480/2014, as amended by the Delegated Regulation (EU) No. 886/2019, apply in the context of the sampling carried out for the programming period 2014-2020.

It should be noted that, notwithstanding proportionate control arrangements, the Audit Authority will carry out audits of operations in the event that:

- on his professional judgement, the Audit Authority believes that it is not possible to give an audit opinion based on either statistic or non-statistic sampling methods, without performing more than one audit on a specific operation;
- a risk assessment or an audit by the European Court of Auditors establishes a specific risk of irregularity or fraud;
- in the case of evidence of serious deficiencies in the effective functioning of the management and control system of the operational Programme concerned.

As regards the Article 28(8) of the Delegated Regulation (EU) No 480/2014, it should be remembered that, pursuing amendments made by the Delegated Regulation (EU) No. 886/2019, the Audit Authority may

decide, when dealing with proportionate control arrangements, whether excluding the items referred to in that Article from the population to be sampled, or keep them in the population and replace the operation/s concerned, using an appropriate random selection, only if selected in the sample.

In the case of replacement of sampling units, these sampling units should be replaced in the sample by selecting an additional sample with a size equal to the number of the operations replaced. The "replacement units" should be selected using the same methodology as for the original sample.

In the case of both replacement and exclusion, the sample size is calculated based on the population parameters corresponding to the original population.

The decision to use either exclusion or replacement of sampling units should be taken by the AA based on professional judgement, with the assistance of TA and GoA.

The AA may decide to widen the audit to other related expenditure declared by the selected operations and concerning the previous reference period, in order to increase the efficiency of the audits. The results from checking additional expenditure outside the reference period should not be taken into account for determining the total error rate. In general, all the expenditure declared to the Commission for all the selected operations in the sample should be subject to audit. Nevertheless, whenever the selected operations include a large number of payment claims or invoices, the AA may apply two-stage sampling, as explained in the following sections.

4.5.4.2.2 Stratification

Stratification is when the population is divided in sub-populations called “strata” and independent samples are drawn from each stratum.

The main goal of stratification is two-folded: on one hand usually allows an improvement of precision (for the same sample size) or a reduction of sample size (for the same level of precision); on the other hand ensures that the subpopulations corresponding to each stratum are represented in the sample.

Whenever we expect that the level of error (misstatement) will be different for different groups in the population (e.g. by region, intermediate body, risk of the operation) this classification is a good candidate to implement stratification.

Different sampling methods can be applied to different strata. For example, it is common to apply a 100% audit of the high-value items and apply a statistical sampling method to audit a sample of the remaining lower-value items that are included in the additional stratum or strata. This is useful in the event that the population include a few quite high-value items, as it lowers the variability in each stratum and therefore allows an improvement of precision (or reduction of sample size).

4.5.4.2.3 Sampling unit

In the programming period 2014-2020, determination of the sampling unit is regulated by Commission Delegated Regulation No 480/2013. In particular, Article 28 of this Regulation stipulates:

"The sampling unit shall be determined by the audit authority, based on professional judgement. The

sampling unit may be an operation, a project within an operation or a payment claim by a beneficiary…"
As already explained, using application of payment claim as the sampling units helps increasing the population size to the threshold enabling the use of a statistical sampling method (this threshold is between 50 and 150 population units).
Information on the type of selected sampling unit and on the AA evaluation according to its professional judgment underlying this choice will be fully included into the AAR.

4.5.4.2.4 Negative sampling units

It can happen that there are sampling units (operations or payment claims) that are negative, in particular due to financial corrections applied by national authorities.
In this case, the negative sampling unit should be included in a separate population and should be audited separately with the objective of verifying if the amount corrected corresponds to what has been decided by the Member State or the Commission. If the AA concludes that the amount corrected is less than what was decided, then this matter will be disclosed in the Annual Audit Report, in particular when this non-compliance constitutes an indication of weaknesses in the Member State's corrective capacity.
In this context, when calculating the total error rate, the AA only considers the errors found in the population of positive amounts and this is the book value to be considered in both the projection of random errors and in the total error rate. Before calculating the projected error rate, the AA will verify that the errors found are not already corrected in the reference period (i.e. included in the population of negative amounts, as described above). If this is the case, these errors should not be included in the projected error rate.
Concretely, the AA has to identify, in the total population of sampling units (i.e. operations or payment claims) to be sampled, the ones with a negative balance and audit them as a separate population.
In summary, there are three approaches concerning separation between positive and negative sampling units:

- Negative amounts are included in the positive population if the sum of negative and positive amounts within the sampling unit is positive.
- All positive amounts are included in the positive population and all negative amounts are included in the negative population.
- Negative amounts related to the previous sampling periods (such as corrections of amounts declared in previous years) are included in the negative population, whereas negative amounts correcting/adjusting the positive amounts in the positive population of the current sampling period are included in the positive population.

In the Commission's view, options 2 and 3 are recommended.
For the purposes of the "Table for declared expenditure and sample audits" included in the AAR, the AA should present in the column "Expenditure declared in reference period" the population of positive amounts. The AA should present in the AAR a reconciliation of the expenditure declared (net amount) with the population from which the random sample of positive amounts was drawn.

The artificial negative sampling units (clerical errors, reversal entries in the accounts not corresponding to financial corrections, revenues of revenue-generating projects and transfer of operations within a Programme, unrelated with irregularities detected in that operation) will also be included in the negative population. Alternatively, a sample of such units could be selected from a specific population of artificial negative sampling units. The AA will record the nature of the negative sampling units (in particular, allowing the distinction between financial corrections resulting from irregularities and artificial negative sampling units) on a regular basis for the purposes of ensuring that only financial corrections are included in the annual reporting on withdrawals and recoveries (for 2014-2020 programming period, this reporting is included in the accounts). Therefore, the audit of the negative sampling units should include verification of correctness of such recording for the selected units.

Any errors found among the decertified amounts should be corrected and they do not take part in determining the total error rate. However, the AA may decide to extend the verifications, and audit also the amounts decertified over previous periods, in order to increase the efficiency of audits. In this case as well, the results of the verifications carried out on the amounts decertified over previous period should not be taken into consideration for the determination of the overall error rate.

It should be noted that the calculated error rate will not be affected by results of the audit of negative sampling units. However, it is recommended that the negative sampling units are selected at random. Financial corrections derived from irregularities detected by the AA or the EC that are constantly monitored by the AA could be excluded from the random sample on negative units.

The audit of negative sampling units will be included in the audit of accounts.

4.5.4.3. Define population parameters

As already mentioned in the above section, in order to define the sample dimension, it is firstly necessary to define the desired values of the following sampling parameters:

1. confidence level and its coefficient
2. materiality level
3. anticipated error rate
4. a measure of population variability (standard deviation)

4.5.4.3.1 Confidence level

Setting an appropriate confidence level is a critical issue for the auditing of operations, as sample size is strongly dependent on this level (the higher the confidence level the larger the sample size for substantive tests).

The easiest way to interpret the meaning of confidence level is the probability that a confidence interval produced by sample data contains the true population error (unknown). For example, if the error in the population is projected to be 6,000,000€ and the 90% confidence level interval is [5,000,000€; 7,000,000€],

it means that there is 90% probability of the true (but unknown) population error is between these two bounds.

The confidence level is strictly connected to the risk model.

Audit risk is the risk that the auditor issues an unqualified opinion, when the declaration of expenditure contains material errors. Auditors evaluate risk components based on knowledge and experience, using terms such as Low, Moderate/Average or High rather than using precise probabilities.

The assurance model is the opposite of the risk model. If the audit risk is considered to be 5%, the audit assurance is considered to be 95%.

The use of the audit risk/audit assurance model has two purposes:

- providing a high level of assurance: when assurance is provided at a certain level, e.g. 95% assurance, audit risk is then 5%.
- performing efficient audits: given a high assurance level, for example 95%, this allows the audit team to reduce audit effort in some areas and to focus on the more risky areas to be audited.

If major weaknesses are identified during the systems audit, one can say that the risk of material error is high (control risks in combination with inherent risks) and as such the assurance level given by the system would be low. The note EGESIF 16-0014-01 of 2017 indicates that if the assurance level obtained from the system is low the confidence level to be applied for sampling of operation would be not less than 90%.

If no major weaknesses in the systems exist the risk of material errors is low, the assurance level given by the system would be high, meaning that the confidence level to be applied for sampling of operations would be not less than 60% (as stated in the abovementioned EGESIF note).

Assurance/confidence levels depend mainly on the quality of the system of internal controls.

The audit authority will establish criteria used for system audits in order to determine the reliability of the management and control systems. These criteria will include a quantified assessment of all key elements of the systems (key requirements) and encompass the main authorities and intermediate bodies participating in the management and control of the operational programme.

By performing System audits, the AA will assess the functioning of the MCS. In this evaluation process, four reliability levels are foreseen:

- Works well. No, or only minor improvements are needed;
- Works. Some improvement(s) needed;
- Works partially. Substantial improvements needed;
- Essentially does not work.

The confidence level for sampling is determined according to the reliability level obtained from the system audits.

One could consider three levels of assurance on systems: high, average and low. The average level effectively corresponds to the second and third categories of the methodology for evaluation of the management and control systems, which provide a more refined differentiation between the two extremes of high/“works well” and low/“does not work”.

The recommended relationship is shown in the table below:

Reliability levels for the evaluation of the MCS	Level of assurance from the system audit	Confidence level	Detection Risk
1. Works well. No, or only minor improvement(s) needed	High	Not less than 60%	Less or equal to 40%
2. Works. Some improvement(s) are needed.	Average	70%	30%
3. Works partially. Substantial improvements needed.	Average	80%	20%
4. Essentially does not work.	Low	Not below 90%	Not greater than 10%

Table 30 - Confidence level for the audit of operations according to the assurance from the system

It is expected that at the beginning of the programming period, the assurance level is low as no or only a limited number of system audits will have taken place. The confidence level to be used would therefore be not less than 90%. However, if the systems remain unchanged from the previous programming period and there is reliable audit evidence on the assurance they provide, the Member State could use another confidence level (between 60% and 90%). The confidence level can also be reduced during a programming period if no material errors are found or there is evidence that the systems have been improved over time. The methodology applied for determining this confidence level will have to be explained in the audit strategy and the audit evidence used to determine the confidence level will have to be mentioned.
The following chart shows the functioning of the Assurance model:

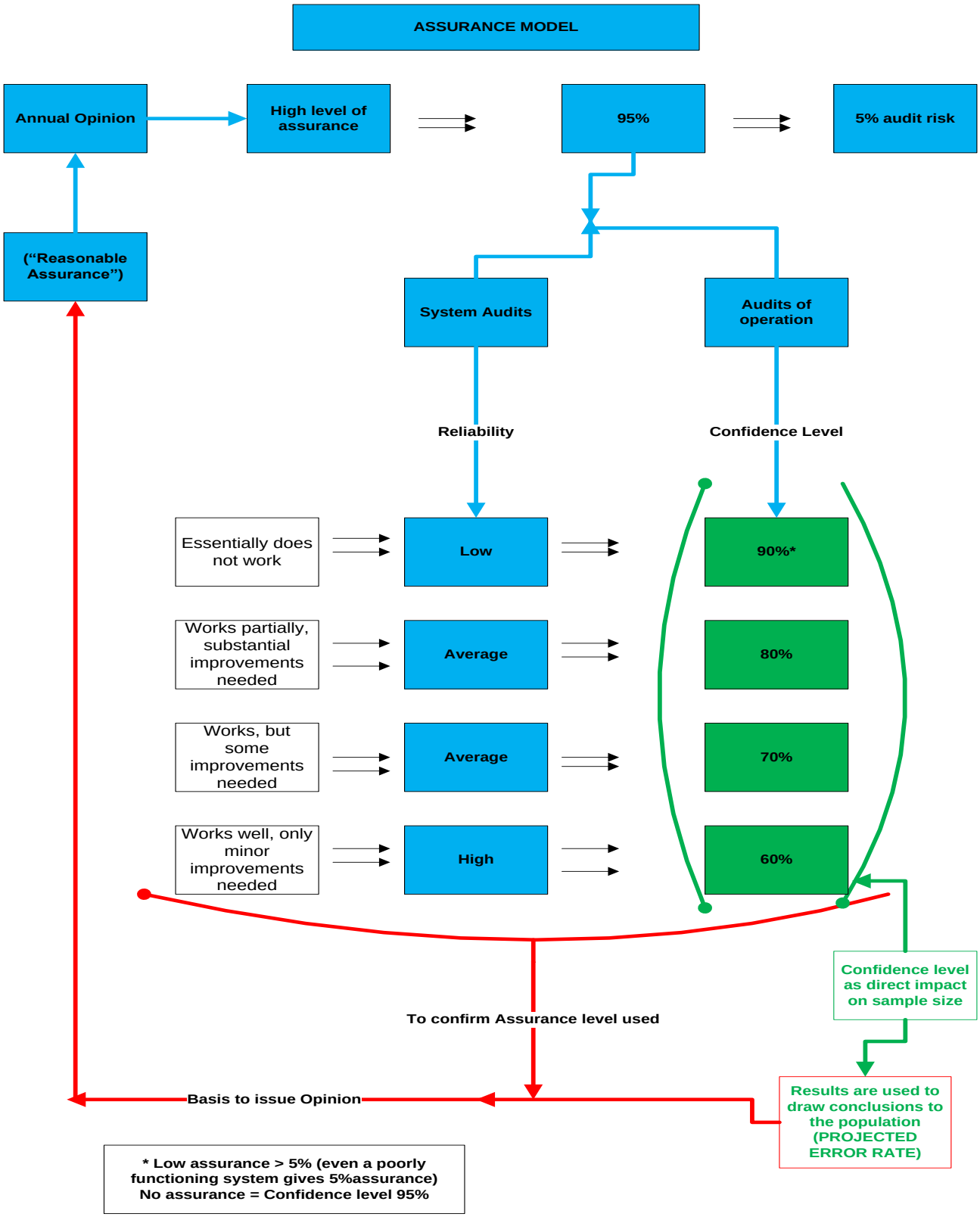


Figure 16 – Assurance model

4.5.4.3.2 Materiality level

According to art. 28 of the Regulation (ERU) n. 480/2014, materiality level will be set to 2% maximum of the expenditure of the programme declared to the Commission in the reference period (positive population). The AA can consider reducing the materiality for planning purposes (tolerable error).
The materiality is used:

- As a threshold to compare the projected error in expenditure
- To define the tolerable/acceptable error that is used for determining sample size

4.5.4.3.3 Anticipated error (AE)

As already mentioned, the anticipated error (AE) is the projected error that the auditor expects to obtain at the level of the operations at the end of the audit. This error will be set by the AA on the basis of:

- auditor professional judgment;
- information acquired on the population to be sampled and known facts/events;
- evidence gathered in previous auditing activities for the same of similar population;
- results from compliance tests performed during system audits.

4.5.4.3.4 Variability (σ)

The variability of the population is a very influential parameter on sample size and is usually measured by a parameter known as standard-deviation.
The standard-deviation can be defined as a measure of the variability of a population around its mean. It can be calculated using errors or book-values. When calculated over the population, it is usually represented by σ; when calculated over the sample, it is represented by s. The larger the standard deviation, the more heterogeneous is the population (or the sample). The variance (σ^2) is the square of the standard deviation. The standard-deviation is more easily understandable than variance, because it is expressed in the same units of the variable for which we seek to measure variability.
The sample size needed to audit a population of low variability is smaller than the one needed for a population of high variability. In the extreme case of a variance of 0, a sample size of one operation would be sufficient to project the population error accurately.
As it is not possible to know the standard deviation for the whole population, the AA will estimate its value on the basis of historical data (standard-deviation of the errors for the population in the past period) or on a preliminary/pilot sample of low sample size (sample size is recommended to be not smaller than 30 units) upon which and a preliminary estimate of the variance of errors is calculated.

4.5.4.4. Determine the sample size and select the sample

As already mentioned in the above section 4.5.4.3, despite the chosen method, the sample size will

depend on three parameters:

1. The confidence level (the higher the confidence level, the larger the sample size)
2. The variability of the population (he higher the variability of the population, the larger the sample size)
3. The planned precision set by the auditor (assuming an anticipated error below 2%, the larger the anticipated error (or the smaller the planned precision) the larger the sample size)

Before presenting the main sampling methods to determine sample size for audit of operations, it is useful to define a set of concepts related to sampling that are common to all the methods. Thus:

- ***z*** is a parameter from the normal distribution related to the ***confidence level*** determined from system audits. Values of z will be used to determine the sample size.
  The possible values of ***z*** are presented in the following table. A complete table with values of the normal distribution can be easily found.

Confidence level	**60%**	**70%**	**80%**	**90%**	**95%**
System assurance level	High	Moderate	Moderate	Low	No assurance
z	0.842	1.036	1.282	1.645	1.960

Table 31 – Values of z related to the confidence level

- N is the population size (e.g. number of operations in a programme or payment claims); if the population is stratified, an index h is used to denote the respective stratum, Nh,h=1,2,…,H and H is the number of strata;
- n is the sample size; if the population is stratified, an index h is used to denote the respective stratum, nh,h=1,2,…,H and H is the number of strata;
- TE be the maximum tolerable error admissible by the regulation, that is, 2% of the total expenditure declared to the Commission (the Book Value, BV);
- BVi,i=1,2,…,N is the book value (the expenditure declared to the Commission) of an item (operation/payment claim);
- $CBVi$,i=1,2,…,N is the corrected book value, the expenditure determined after auditing procedures of an item (operation/payment claim);
- $Ei=BVi-CBVi$,i=1,2,…,N, is the amount of error of an item and is defined as the difference between the book value of the *i*-th item included in sample and the respective corrected book value; if the population is stratified an index h is used to denote the respective stratum, $Ehi=BVhi-CBVhi$,i=1,2,…,Nh,h=1,2,…,H and H is the number of strata;

- AE is the anticipated error defined by the auditor based on the expected level of error at the level of the operations (e.g. an anticipated error rate times the Total expenditure at the level of the population). AE can be obtained from historical data (projected error in past period) or from a preliminary/pilot sample of low sample size (the same used to determine the standard deviation).

4.5.4.4.1 Sample size and sample selection with statistical sampling methods

When conditions for a statistical sampling method applies (see the above section 3.1.2.a), the AA will select among the following:

a) *equal-selection probabilities methods*
   - simple random sampling
   - difference estimation

b) *probability proportional to size methods,*
   - monetary unit sampling (MUS)

For an exhaustive explanation of the correct use of these methods, the AA will refer to the note EGESIF 16-0014-01 of 20/01/2017.

Hereafter will be given a general explanation of the main sampling rules and methods used by the AA.

4.5.4.4.1.1 Equal-selection probabilities methods:

Simple random sampling is the most well-known among the equal probability selection methods. It aims to project the level of error observed in the sample to the whole population.

The statistical unit to be sampled is the operation (or payment claim). Units in the sample are selected randomly with equal probabilities. Simple random sampling is a generic method that fits different types of populations, although, as it does not use auxiliary information, usually requires larger sample sizes than MUS (whenever the level of expenditure varies significantly among operations and there is positive association between expenditure and errors).

Difference estimation is also a statistical sampling method based on equal probability selection. The method relies on extrapolating the error in the sample and subtracting the projected error to the total declared expenditure in the population in order to assess the correct expenditure in the population (i.e. the expenditure that would be obtained if all the operations in the population were audited).

This method is very close to simple random sampling, having as main difference the use of a more sophisticated extrapolation device.

This method is particularly useful if one wants to project the correct expenditure in the population, if the level of error is relatively constant in the population, and if the book value of different operations tends to be similar (low variability). It tends to be better than MUS when errors have low variability or are weakly or negatively associated with book values. On the other hand, tends to be worse than MUS is when errors have strong variability and are positively associated with book values

Hereafter we will focus on the simple random sampling method, as it is the most well-known and it fits different types of populations.

4.5.4.4.1.1.a Simple random sampling method - standard approach

Computing sample size n relies on the following information:

- Population size N
- Confidence level determined from systems audit and the related coefficient z from a normal distribution
- Maximum tolerable error TE (usually 2% of the total expenditure)
- Anticipated error AE chosen by the auditor according to professional judgment and previous information
- The standard deviation σ_e of the errors.

The **sample size** is computed as follows:

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

where σe is the standard-deviation of errors in the population. Note that this standard-deviation of the errors for the total population is assumed to be known in the above calculation. In practice, this will almost never be the case and audit authorities will have to rely either on historical data (standard-deviation of the errors for the population in the past period) or on a preliminary/pilot sample of low sample size (sample size will be not smaller than 30 units). In the latter case a preliminary sample of size np is selected and a preliminary estimate of the variance of errors (square of the standard-deviation) is obtained through:

$$\sigma_e^2 = \frac{1}{n^p - 1}\sum_{i=1}^{n^p}(E_i - \bar{E})^2,$$

where Ei represent the individual errors for units in the sample and $\bar{E} = \frac{\sum_{i=1}^{n^p} E_i}{n^p}$ represents the mean error of the sample.

Simple random sampling method can be combined with **stratification**.

In stratified sampling methods, the population is divided in sub-populations called strata and independent samples are drawn from each stratum.

Candidate criteria to implement stratification should take into account that in stratification we aim to find groups (strata) with less variability than the whole population. The stratification by level of expenditure per operation is usually a good approach, whenever it is expected that the level of error is associated with the level of expenditure. Other variables that we expect to explain the level of error in the operations are also good candidates for stratification. Some possible choices are regions, intermediate bodies, classes based on the risk of the operation, etc.

If stratification by level of expenditure is implemented, it is possible to identify a high-value stratum, apply a 100% audit of these items, and apply sampling to audit samples of the remaining lower-value items that are included in the additional stratum or strata. This is useful in the event that the population included a few high-value items. In this case, the items belonging to the 100% stratum should be taken out of the population and all the steps considered in the remaining sections will apply only to the population of the low-value items. It is not mandatory to audit 100% of the high-value stratum units. The AA may develop a strategy based on several strata, corresponding to different levels of expenditure, and have all the strata audited through sampling. If a 100% audited stratum exists, it is to stress that the planned precision for sample size determination should be however based on the total book value of the population. Indeed, as the only source of error is the low-value items stratum, but the planned precision refers to the population level, the tolerable error and the anticipated error should be calculated at population level, as well.

The sample size is computed as follows

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

where $\sigma_w{}^2$ is the weighted mean of the variances of the errors for the whole set of strata.

As already mentioned, this value can be based on historical knowledge or on a preliminary/pilot sample of low sample size as previously presented for the standard simple random sampling method.

Once the total sample size, n, is computed, the allocation of the sample by stratum is as follows:

$$n_h = \frac{N_h}{N} \times n.$$

This is a general allocation method, usually known as proportional allocation. Many other allocation methods are available.

4.5.4.4.1.1.b Simple random sampling method – two periods

The audit authority may also decide to carry out the sampling process in **several periods** during the year (typically **two semesters**). The major advantage of this approach is not related with sample size reduction, but mainly allowing spreading the audit workload over the year, thus reducing the workload that would be done at the end of the year based on just one observation.

With this approach the year population is divided in two sub-populations, each one corresponding to the operations and expenditure of each semester. Independent samples are drawn for each semester, using one of the two above mentioned sampling approach.

First semester

At the first period of auditing (e.g. semester) the global sample size (for the set of two semesters) is computed as follows:

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

where σ_{ew}^2 is the weighted mean of the variances of the errors for in each semester:

$$\sigma_{ew}^2 = \frac{N_1}{N}\sigma_{e1}^2 + \frac{N_2}{N}\sigma_{e2}^2$$

and σ_{et}^2 is the variance of errors in each period t (semester). The variance of the errors for each semester is computed as an independent population as:

$$\sigma_{et}^2 = \frac{1}{n_t^p - 1}\sum_{i=1}^{n_t^p}(E_{ti} - \bar{E}_t)^2, t = 1,2$$

where E_{ti} represent the individual errors for units in the sample of semester t and $\bar{E_t}$ represent the mean error of the sample in semester t.

Note that the values for the expected variances in both semesters values have to be set using professional judgments and must be based on historical knowledge, or a preliminary/pilot sample may also be implemented (at least 30 operations).

The formula for sample size calculation requires values for N_1 and N_2, i.e. number of operation in the population of the first and second semesters. When calculating sample size, the value for N_1 will be known, but the value of N_2 will be unknown and has to be imputed according to the expectations of the auditor (also based on historical information).

Once the total sample size, n, is computed the allocation of the sample by semester is as follows:

$$n_1 = \frac{N_1}{N}n$$

$$n_2 = \frac{N_2}{N}n$$

Second semester

At the first observation period, some assumptions were made relatively the following observation periods (typically the next semester). If characteristics of the population in the following periods differ significantly from the assumptions, sample size for the following period may have to be adjusted.

In fact, at the second period of auditing (e.g. semester) more information will be available:

- The number of operations active in the semester N_2 is correctly known;
- The sample standard-deviation of errors s_{e1} calculated from the sample of the first semester could be already available;
- The standard deviation of errors for the second semester σ_{e2} could now be more accurately assessed using real data.

If these parameters are not dramatically different from the ones estimated at the first semester using the expectations of the analyst, the originally planned sample size, for the second semester (n_2), won't require any adjustments. Nevertheless, if the auditor finds that initial expectations significantly differ from the real

population characteristics, the sample size may have to be adjusted in order to account for these inaccurate estimates. In this case, the sample size of the second semester should be recalculated using:

$$n_2 = \frac{\left(z.N_2 \ .\sigma_{e2}\right)^2}{(TE - AE)^2 - z^2.\frac{N_1^2}{n_1}.s_{e1}^2}$$

where s_{e1} is the standard-deviation of errors calculated from the sample of the first semester and σ_{e2} an estimate of the standard-deviation of errors in the second semester based on historical knowledge (eventually adjusted by information from the first semester) or a preliminary/pilot sample of the second semester.

Once sample size is calculated, the AA will extract, for each period, the random sample of operations to be audited.

4.5.4.4.1.2. Probability proportional to size methods

4.5.4.4.1.2.a Monetary unit sampling – standard approach

Monetary unit sampling is the statistical sampling method that uses the monetary unit as an auxiliary variable for sampling. This approach is usually based on systematic sampling with probability proportional to size (PPS), i.e. proportional to the monetary value of the sampling unit (higher value items have higher probability of selection).

This is probably the most popular sampling method for auditing and is particularly useful if book values have high variability and there is positive correlation (association) between errors and book values. In other words, whenever it is expected that items with higher values tend to exhibit higher errors, situation that frequently holds in the audit framework.

Whenever the above conditions hold, i.e. book values have high variability and error are positively correlated (associated) with book values, then MUS tends to produce smaller sample sizes than equal probability based methods, for the same level of precision.

It should also be noted that samples produced by this method will typically have an over representation of high value items and an under representation of low value items. This is not a problem by itself as the method accommodates this fact in the extrapolation process, but makes sample results (e.g. sample error rate) as non-interpretable (only extrapolated results can be interpreted).

Computing sample size *n* within the framework of monetary unit sampling relies on the following information:

- Population book value (total declared expenditure) *BV;*
- Confidence level determined from systems audit and the related coefficient z from a normal distribution;
- Maximum tolerable error *TE* (usually 2% of the total expenditure);

- Anticipated error *AE* chosen by the auditor according to professional judgment and previous information;
- The standard deviation σr of the error rates (produced from a MUS sample).

The **sample size** is computed as follows:

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

where σ_r is the standard-deviation of error rates produced from a MUS sample. To obtain an approximation to this standard-deviation before performing the audit the AA will rely either on historical knowledge (variance of the error rates in a sample of past period) or on a preliminary/pilot sample of low sample size, np (sample size for the preliminary sample is recommended to be not less than 30 operations).

As high value items are more frequently chosen to the sample, and sample results could be non-interpretable, as explained before, in the framework of MUS the estimation of the standard-deviation σ_r will be usually based on historical data, in order to avoid the need to select a preliminary sample.

Sample selection

After determining sample size, it is necessary to identify the high value population units (if any) that will belong to a high value stratum to be audited a 100%. The cut-off value for determining this top stratum is equal to the ratio between the book value (*BV*) and the planned sample size (*n*). All items whose book value is higher than this cut-off (if BVi>BV/n) will be placed in the 100% audit stratum.

The sampling size to be allocated to the non-exhaustive stratum, n_s , is computed as the difference between n and the number of sampling units (e.g. operations) in the exhaustive stratum (n_e).

Finally the selection of the sample in the non-exhaustive stratum will be made using probability proportional to size, i.e. proportional to the item book values BVi. A popular way to implement the selection is through systematic selection, using a sampling interval equal to the total expenditure in the non-exhaustive stratum (BVs) divided by the sample size (n_s), i.e.

$$SI = \frac{BV_s}{n_s}$$

Stratification may also be used. In stratified monetary unit sampling, the population is divided in sub-populations called strata and independent samples are drawn from each stratum, using the standard monetary unit sampling approach.

As usual, candidate criteria to implement stratification should take into account that in stratification we aim to find groups (strata) with less variability than the whole population. Therefore, any variables that we expect to explain the level of error in the operations are also good candidates for stratification. Some possible choices are regions, responsible bodies, classes based on the risk of the operation, etc.

In stratified MUS, the stratification by level of expenditure is not relevant, as MUS already takes into account the level of expenditure in the selection of sampling units.

For the use of this method the AA will refer to the EGESIF “Guidance on sampling methods for audit

authorities".

4.5.4.4.1.2.b Monetary unit sampling – two periods

The audit authority may decide to carry out the sampling process in several periods during the year (typically two semesters). As happens with all other sampling methods, the major advantage of this approach is not related with sample size reduction, but mainly allowing spreading the audit workload over the year, thus reducing the workload that would be done at the end of the year based on just one observation.

With this approach, the year population is divided in two sub-populations, each one corresponding to the operations and expenditure of each semester. Independent samples are drawn for each semester, using the standard monetary unit sampling approach.

Sample size

First semester

At the first period of auditing (e.g. semester) the global sample size (for the set of two semesters) is computed as follows:

$$n = \left(\frac{z \times BV \times \sigma_{rw}}{TE - AE} \right)^2$$

where ${\sigma_{rw}}^2$ is a weighted mean of the variances of the error rates in each semester, with the weight for each semester equal to the ratio between the semester book value (BVt) and the book value for the whole population (BV):

$$\sigma_{rw}^2 = \frac{BV_1}{BV}\sigma_{r1}^2 + \frac{BV_2}{BV}\sigma_{r2}^2$$

The variance of the errors rates is computed for each semester as:

$$\sigma_{rt}^2 = \frac{1}{n_t^p - 1}\sum_{i=1}^{n_t^p}(r_{ti} - \bar{r}_t)^2, t = 1,2$$

where $r_{ti} = \frac{E_{ti}}{BV_{ti}}$ represent the individual error rates for units in the sample of semester t and $\bar{r_t}$ represent the mean error rate of the sample in semester t.

Values for the expected standard-deviations of error rates in both semesters have to be set using professional judgments and must be based on historical knowledge. The option to implement a preliminary/pilot sample of low sample size is also available, but can only be performed for the first semester. In fact, at the first moment of observation expenditure for the second semester has not yet taken place and no objective data (besides historical) is available.

Once the total sample size, n, is computed the allocation of the sample by semester is as follows:

$$n_1 = \frac{BV_1}{BV} n$$

$$n_2 = \frac{BV_2}{BV} n$$

Second semester

At the first observation period, some assumptions were made relatively the following observation periods (typically the next semester). If characteristics of the population in the following periods differ significantly from the assumptions, sample size for the following period may have to be adjusted.

In fact, at the second period of auditing (e.g. semester) more information will be available:

- the total book value in the second semester BV_2 is correctly known;
- the sample standard-deviation of error rates s_{r1} calculated from the sample of the first semester could be already available;
- the standard deviation of error rates for the second semester σ_{r2} can now be more accurately assessed using real data.

If these parameters are not dramatically different from the ones estimated at the first semester using the expectations of the auditor, the originally planned sample size, for the second semester (n_2), won't require any adjustments. Nevertheless, if the auditor considers that the initial expectations significantly differ from the real population characteristics, the sample size may have to be adjusted in order to account for these inaccurate estimates. In this case, the sample size of the second semester should be recalculated using

$$n_2 = \frac{\left(z \times BV_2 \times \sigma_{r2}\right)^2}{(TE - AE)^2 - z^2 \times \frac{BV_1^2}{n_1} \times s_{r1}^2}$$

where s_{r1} is the standard-deviation of error rates calculated from the sample of the first semester and σ_{r2} an estimate of the standard-deviation of error rates in the second semester based on historical knowledge (eventually adjusted by information from the first semester) or a preliminary/pilot sample of the second semester.

Sample selection

In each semester, the sample selection will exactly follow the procedure described for the standard monetary unit sampling approach.

4.5.4.4.2 Sample size and sample selection for non-statistical sampling

Statistical sampling should be used, as a general rule, to audit the declared expenditure and draw conclusions about the amount of error in a population. Non-statistical sampling does not allow the calculation of precision, and consequently there is no control of the audit risk. Consequently, non-statistical sampling may be used, on the professional judgement of the AA, and in accordance with internationally

accepted audit standards, only *in cases where statistical sampling is not possible* to implement, usually related to the limited population size.

In summary, non-statistical sampling is considered appropriate for cases where it is not possible to achieve an adequate sample size that would be required to support statistical sampling. EGESIF note 16-0014-01 of 20/01/2017 indicates this threshold somewhere between 50 and 150 sampling units. The final decision should of course take into consideration the balance between the cost and benefit associated with each of the methods.

Sample size

For 2014-2020, the regulation sets criteria to be respected when non-statistical sampling is applied, namely to cover a minimum of 5% operations and 10% of the expenditure declared (Article 127(1) CPR). This may lead in practice to sample sizes equivalent to the ones obtained by statistical sampling methods. In such situations, the AAs will use statistical methods instead.

Even in the situations where the AA applied a non-statistical sampling method, the sample shall be selected using a random method. The size of the sample must be determined taking into account the level of assurance provided by the system, and must be sufficient to enable the AA to draw a valid audit opinion on the legality and regularity of the expenditure (cfr. Art. 127 (1) CPR). The AA should be able to extrapolate the results to the population from which the sample was drawn.

There is no fixed rule to select the sample size based on the assurance level from the system audits, but as a reference, the AA, when defining the sample size under non-statistical sampling, will consider the following indicative thresholds (as per the abovementioned EGESIF note of 2017):

Assurance level from the system audits	Recommended coverage	
	on operations	on expenditure declared
Works well. No, or only minor improvement(s) needed.	5%	10%
Work. Some improvement(s) needed.	Between 5% - 10% (to be defined by the AA on the basis of its professional judgement)	10%
Works partially. Substantial improvement(s) needed.	Between 10% and 15% (to be defined by the AA on the basis of its professional judgement)	Between 10% and 20% (to be defined by the AA on the basis of its professional judgement)
Essentially does not work.	Between 15% and 20% (to be defined by the AA on the basis of its professional judgement)	Between 10% and 20% (to be defined by the AA on the basis of its professional judgement)

Table 32 - Sample size for non-statistical sampling methods

Sample selection

The sample from the positive population shall be selected using a random method. In particular, the selection can be made either using:

- equal probability selection (where each sampling unit has equal chance of being selected regardless of the amount of expenditure declared in the sampling unit), as in simple random sampling;
- probability proportional to size (expenditure) (where a random selection is made of the first element for the sample and then subsequent elements are selected using an interval until the desired sample size is reached; it uses the monetary unit as an auxiliary variable for sampling) as done for the MUS case.

Stratified non-statistical sampling

When implementing non-statistical sampling, the AA will consider stratifying the population by dividing it into sub-populations, each one being a group of sampling units with similar characteristics, in particular in terms of risk or expected error rate or where the population includes specific types of operations (e.g. financial instruments). Stratification is a very efficient tool to improve the quality of the projections and it is strongly recommendable to use some kind of stratification in the framework of non-statistical sampling.
Whenever one expects that the level of error will be different for different groups in the population this classification is a good candidate to implement stratification.
It should be noted that although stratification is not obligatory, such a design can help the AA to ensure the recommended coverage of the expenditure declared required for the programming period 2014-2020.
For stratification, according to EGESIF 16-0014-01 of 2017, the following procedure applies:

1. determine the cut-off value of expenditure for items that will be included in the high value stratum. The commonly used practice to establish the cut-off value equal to the maximum tolerable error (2% of the total expenditure) of the population. This cut-off will be changed in accordance to population characteristics and will determined by AA professional judgments;
2. perform a 100% audit of the high value items;
3. the sampling size to be allocated to the non-exhaustive stratum is computed as the difference between the total sample size and the number of sampling units in the high-value stratum.

If it is not possible to identify any stratification criteria (that in the opinion of the auditor may contribute to create more homogeneous subpopulations in terms of the expected errors or error rates) and in particular if one cannot observe any significant variability in the expenditure of the population items, then the option may be to use a non-stratified non-statistical sampling design. In this case, the sample is selected directly from the whole population without considering any subpopulations.

4.5.4.5. Project results, calculate precision and draw conclusion

4.5.4.5.1 Projected error, precision and evaluation for simple random sampling method

Hereafter a general description will be given about methodologies to be used when assessing projected error, precision and evaluation for simple random sampling method. Similar methodologies can be used for

difference estimation sampling method, as fully described in the abovementioned EGESIF 16-0014-01 of 20/01/2017 note. The AA will refer to this guide when difference estimation sampling method should be used.

Projected error

There are two possible ways to project the sampling error to the population. The first is based on mean-per-unit estimation (absolute errors) and the second on ratio estimation (error rates).

- *Mean-per-unit estimation (absolute errors)*: multiply the average error per operation observed in the sample by the number of operations in the population, yielding the projected error:

$$EE_1 = N \times \frac{\sum_{i=1}^{n} E_i}{n}.$$

- *Ratio estimation (error rates)*: Multiply the average error rate observed in the sample by the book value at the level of the population:

$$EE_2 = BV \times \frac{\sum_{i=1}^{n} E_i}{\sum_{i=1}^{n} BV_i}$$

The sample error rate in the above formula is just the division of the total amount of error in the sample by the total amount of expenditure of units in the sample (expenditure audited).

It is not possible to know *a priori* which is the best extrapolation method as their relative merits depend on the level of association between errors and expenditure. As a basic rule of thumb, the second method should just be used when there is the expectation of high association between errors and expenditure (higher value items tend to exhibit higher errors) and the first method (mean-per-unit) when there is an expectation that errors are relatively independent from the level of expenditure (higher errors can be found either in units of high or low level of expenditure). In practice this assessment can be made using sample data as the decision about the extrapolation method can be taken after the sample is selected and audited.

The above described ways to project the sampling error on the population are used also when stratified sampling methods and/or when sampling process occurs in **several periods** during the (accounting) year. The AA will refer to the note EGESIF 16-0014-01 of 20/01/2017 for specific formulas.

Precision

Precision (sampling error) is a measure of the uncertainty associated with the projection (extrapolation). It is calculated differently according to the method that has been used for extrapolation.

The AA will refer to the note EGESIF 16-0014-01 of 20/01/2017 for specific formulas.

Evaluation

To draw a conclusion about the materiality of the errors, the upper limit of error (ULE) should be calculated. This upper limit is equal to the summation of the projected error EE itself and the precision of the extrapolation

$$ULE=EE+SE$$

Then the projected error and the upper limit should both be compared to the maximum tolerable error to draw audit conclusions:

- If projected error is larger than maximum tolerable error, it means that the auditor would conclude that there is enough evidence to support that errors in the population are larger than materiality threshold:
- If the upper limit of error is lower than maximum tolerable error, then the auditor should conclude that errors in the population are lower than materiality threshold.
- If the projected error is lower than maximum tolerable error but the upper limit of error is larger than the maximum tolerable error, this means that the sampling results may be inconclusive and further analysis are needed.

4.5.4.5.2 Projected error, precision and evaluation for MUS – standard approach

Hereafter a general description will be given about methodologies to be used when assessing projected error, precision and evaluation for monetary unit sampling standard approach. Similar methodologies can be used for monetary unit sampling conservative and stratified approach, as fully described in the abovementioned EGESIF 16-0014-01 of 20/01/2017 note. The AA will refer to this guide when the second and latter of those sampling methods should be used.

Projected error

The projection of the errors to the population will be made differently for the units in the exhaustive stratum and for the items in the non-exhaustive stratum.

For the exhaustive stratum, that is, for the stratum containing the sampling units with book value larger than the cut-off, $BV_i > \frac{BV}{n}$, the projected error is just the summation of the errors found in the items belonging to the stratum:

$$EE_e = \sum_{i=1}^{n_e} E_i$$

For the non-exhaustive stratum, i.e. the stratum containing the sampling units with book value smaller or equal to the cut-off value, $BV_i \leq \frac{BV}{n}$ the projected error is

$$EE_s = SI \sum_{i=1}^{n_s} \frac{E_i}{BV_i}$$

To calculate this projected error:

1) for each unit in the sample, calculate the error rate, i.e. the ration between the error and the respective expenditure $\frac{E_i}{BV_i}$
2) sum these error rates over all units in the sample
3) multiply the previous result by the sampling interval (SI)

The projected error at the level of population is just the sum of these two components:

$$EE = EE_e + EE_s$$

Precision

Precision is a measure of the uncertainty associated with the extrapolation. It represents sampling error and should be calculated in order to subsequently produce a confidence interval.

The precision is given by the formulas illustrated I n the abovementioned EGESIF note.

Note that the sampling error is only computed for the non-exhaustive stratum, since there is no sampling error to account for in the exhaustive stratum.

Evaluation

To draw a conclusion about the materiality of the errors the upper limit of error (ULE) should be calculated. This upper limit is equal to the summation of the projected error EE itself and the precision of the extrapolation

$$ULE = EE + SE$$

Then the projected error and the upper limit should both be compared to the maximum tolerable error to draw audit conclusions:

- If projected error is larger than maximum tolerable error, it means that the auditor would conclude that there is enough evidence to support that errors in the population are larger than materiality threshold:
- If the upper limit of error is lower than maximum tolerable error, then the auditor should conclude that errors in the population are lower than materiality threshold.

If the projected error is lower than maximum tolerable error but the upper limit of error is larger, the AA will conclude that additional work is needed. Accordingly to the INTOSAI guideline n° 23, the additional work can include:

- *"requesting the audited entity to investigate the errors/exceptions found and the potential for further errors/exceptions. This may lead to agreed adjustments in the financial statements;*
- *carrying out further testing with a view to reducing the sampling risk and thus the allowance that has to be built into the evaluation of results;*
- *using alternative audit procedures to obtain additional assurance."*

The AA should use its professional judgment to select one of the options indicated above and report accordingly in the AAR.

4.5.4.5.3 Projected error, precision and evaluation for MUS – two-periods

Projected error

The projection of errors to the population is calculated differently for units belonging to the exhaustive groups and for items in the non-exhaustive groups.

For the exhaustive groups, that is, for the groups containing the sampling units with book value larger than the cut-off value, $BV_{ti} > \frac{BV_t}{n_t}$, the projected error is the summation of the errors found in the items belonging to those groups.

In practice:

1) for each semester t, identify the units belonging to the exhaustive group and sum their errors
2) sum the previous results over the two semesters

For the non-exhaustive groups, i.e. the groups containing the sampling units with book value lower or equal to the cut-off value, $BV_{ti} \leq \frac{BV_t}{n_t}$, the projected error is calculated as follows:

1) in each semester t, for each unit in the sample calculate the error rate, i.e. the ratio between the error and the respective expenditure $\frac{E_{ti}}{BV_{ti}}$
2) in each semester t, sum these error rates over all units in the sample
3) in semester t, multiply the previous result by the total expenditure in the population of the non-exhaustive group ($BVts$); this expenditure will also be equal to the total expenditure of the semester minus the expenditure of items belonging to the exhaustive group
4) in each semester t, divide the previous result by the sample size in the non-exhaustive group (n_{ts})
5) sum the previous results over the two semesters

The projected error at the level of population is just the sum of these two components:

$$EE = EE_e + EE_s$$

Precision

As for the standard MUS method, precision is a measure of the uncertainty associated with the extrapolation. It represents sampling error and should be calculated in order to subsequently produce a confidence interval.

The sampling error is only computed for the non-exhaustive groups, since there is no sampling error arising from the exhaustive groups.

The AA will refer to the EGESIF note for specific formulas.

Evaluation

Evaluation for MUS – two periods is carried out according to the same methodology above described for MUS – standard approach.

4.5.4.5.4 Projected error and evaluation for non statistical sampling

Projection and precision

When projecting the errors observed in the sample to the population with non-statistical sampling, the AA will take into account the sampling design, i.e. the existence of stratification or not, the type of selection (equal probability or probability proportional to size), and any other relevant characteristics of the design. The projected error should follow the projection methods coherent with the chosen sampling design, as already described in the above section.

The use of simple sample statistics (as the sample error rate) is only possible in very specific circumstances where the sampling is compatible with such statistics. For example, the sample error rate can only be used to project the errors to the population under a design without any level of stratification, based on equal probability selection and ratio estimation.

The only significant difference between statistical and non-statistical sampling is that for the last the level of precision and consequently the upper error limit are not calculated.

Evaluation

For the evaluation of the error in the population, the projected error is compared to the maximum tolerable error (materiality times the population expenditure):

- if below the tolerable error, then we conclude that the population does not contain material error
- if above the tolerable error, then we conclude that the population contains material error

Despite the constraints (i.e. it is not possible to calculate the upper limit of error and consequently there is no control of the audit risk), the projected error rate is the best estimation of the error in the population and can thus be compared with the materiality threshold in order to conclude that the population is (or not) materially misstated.

4.5.5. Sub-sampling

In general, all the expenditure declared to the Commission for all the selected operations in the sample should be subject to audit. However, depending on the characteristics of sampling unit, the audit authority may decide to apply sub-sampling.

Sub-sampling usually applies whenever the selected operations include a large number of payment claims or invoices, thus offering the possibility to significantly reduce the audit workload, allowing to still control the reliability of the conclusions.

The amendment of the art. 28 of Reg. (EU) n. 480/2014 by the Reg. (EU) n. 886/2019, allows the AA for more freedom when applying sub-sampling methods: the only rule to be followed is that the methodology

for selection of the sub-sampling units shall follow the principles allowing projection at the level of the sampling unit.

Whenever a sub-sampling is followed, the AA will record the sampling methodology in the audit report or working papers, explaining in depth the reasons behind this choice.

It is important to stress that only the expenditure of the secondary units selected to the subsample is audited; this means that in the AAR the audited expenditure is only the one selected to the sample and not the whole expenditure of the selected operation.

A very simple approach to the determination of sub-sample sizes is to use the same sample size determination formulas that are proposed to the main sample under the several sampling designs and based on parameters compatible with expected operation characteristics. Here, it will be acknowledged that the reference population is now the operation inside which the subsample is selected and that the population parameters used for the determination the sub-sample size should, whenever possible, reflect the characteristics of the corresponding operation. Despite the sampling methodology used to determine sample sizes, a basic rule of thumb is to never use sample sizes smaller than 30 observations (i.e. invoices or payment claims from beneficiaries).

The AA may choose to use any statistical sampling methods for selecting the claims/invoices within the operations. In fact the sampling method used at the sub-sample level does not need to be equal to the one used for the main sample. For example, it is possible to have a sample selection of operations based on MUS and a subsample of invoices within one operation based on simple random sampling. Therefore, the whole range of sampling methods (including stratification of claims/invoices by level of expenditure, selection based on probabilities proportional to size as in MUS or selection based on equal probabilities) may be applied at this subsample level. Nevertheless, the subsampling strategy (sampling within the primary unit) should always be statistical (unless the sampling of primary units is not itself statistical).

Once the sub-sample is selected and audited, the observed errors have to be projected to the respective operation using a projection method compatible with the selected sampling design. For example, if the expenditure items have been chosen with equal probabilities, then the error may be projected to the operation using the usual mean-per-unit estimation or ratio estimation.

Finally, once the errors have been projected for every operation in the sample that has been sub-sampled, the projection for the population and the subsequent evaluation follows the usual procedure (as if one had observed the whole expenditure of the operation).

4.5.6. Additional sampling

4.5.6.1. Complementary sampling

Article 28(12) of Regulation (EU) No 480/2014 referes to complementary sampling: "*Where irregularities or a risk of irregularities have been detected, the audit authority shall decide on the basis of professional judgement whether it is necessary to audit a complementary sample of additional operations or parts of*

operations that were not audited in the random sample in order to take account of specific risk factors identified."

The results of the random statistical sampling have to be assessed in relation to the results of the risk analysis of the programme. Where it is concluded from this comparison that the random statistical sample does not address some high-risk areas, it should be completed by a further selection of operations, i.e. a **complementary** sample.

The audit authority should make this assessment on a regular basis during the implementation period.

In this framework, the results of the audits covering the complementary sample are analysed separately from the results of the audits covering the random statistical sample. In particular, the errors detected in the complementary sample are not taken into account for the calculation of the error rate resulting from the audit of the random statistical sample. However, the results of the complementary sample should be reported to the Commission in the Annual Control report immediately following the audit of a complementary sample.

In any case, a detailed analysis must also be done of the errors identified in the complementary sample, in order to identify the nature of the errors and to provide recommendations to correct them.

4.5.6.2. Additional samplings (due to systemic error risk)

Pursuant to Art. 27(5) CDR_480, where problems detected appear to be systemic in nature and therefore entail a risk for other operations under the operational Programme, the audit authority shall ensure further examination, including, where necessary, additional audits to establish the scale of such problems, and shall recommend the necessary corrective actions.

Whenever dealing with such a risk, the AA will assess whether systemic errors detected in the sample are such that additional sampling is necessary. The process for determining whether further actions are needed, includes an analysis of the nature and cause of the errors found, through additional audit activities.

In this respect, it is useful to remember that the AA opinion on the proper functioning of the MCS is built from the AA's work on system audits as well on the audits of operations and any complementary audits judged necessary by the AA based on their risk assessment, taking into account the audit work carried out during the programming period. As a general rule, the detection of an irregularity can be considered an isolated event only if the system has been rated highly reliable. In that case, the AA can consider that irregularity rather insignificant for the purposes of determining the error rate and, therefore, subject to correct in its uniqueness, pending the confirmation of the correctness of the opinion expressed. If, in fact, during the next sampling period, the AA were to find a lower error rate, the irregularity identified previously could be considered an isolated phenomenon; otherwise, it will constitute a risk to be taken into account during the following system audit.

Generally, a proper system audit allows to identify the risk factors which, added to any risks that emerged from previous audits of operations linked to previous sampling, can justify additional audit activities to be performed.

Additional audits will be performed through additional sampling. The operations to be audited will be selected by the AA taking into account all available information, especially those based on the results of previous controls, on the population characteristics, and on any further useful elements.

The additional sample will be extracted from the original population of certified operations, using the same sampling method of the ordinary sample.

Once additional sampling has been performed, the AA, with the assistance of GoA, will analyse separately the results of the audit on the additional sampling, will draw its own conclusions on the basis of these results and will inform the European Commission in the AAR. The irregularities detected in the additional sampling are not included in the calculation of the error rate extrapolated from the random sample.

In overall terms, it can be concluded that the additional sampling is to be considered as a "safety" sample:

- to better outline a follow-up in relation to the risks detected with the ordinary sample;
- to establish the nature of the errors found and, in some cases, define the error rate.

Both samples, ordinary and additional, are therefore integrated for the purposes of the evaluation work that the AA, with the assistance of GoA, has to carry out in order to draw up the Annual Audit Report and the Audit Opinion for the audited accounting year.

It should be noted that, in this context, proportional control arrangements set out by Article 148(1) CPR and Article 28(8) of the Delegated Regulation (EU) No 480/2014, as amended by the Delegated Regulation (EU) No. 886/2019, apply (see above sections).

4.5.6.3. Additional sampling (due to inconclusive results of the audit)

Whenever the results of the audit are inconclusive, typically, when the projected error is below the materiality but the upper limit is above, additional work is needed: an option is to select an additional sample.

For this, the projected error produced from the original sample should be substituted in formulas for sample size determination in the place of the anticipated error (in fact the projected error is at that moment the best estimate of the error in the population). Doing this, a new sample size can be calculated based on the new information arising from the original sample.

The size of the additional sample needed can be obtained by subtracting the original sample size from the new sample size. Finally, a new sample can be selected (using the same method as for the original sample), the two samples are grouped together and results (projected error and precision) should be recalculated using data from the final grouped sample.

4.6. Audit on projects (operations)

4.6.1. Introduction

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

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

In this task, the AA will be assisted by the Group of Auditors, acting on behalf of the nominating national authority (see above section 2.3.1).

The GoA will be of particular importance during on-the-spot checks, as will be thereafter explained.

Audit on the sample of projects is an integral part of the overall control system. It ensures that the Audit Authority is in the position to issue the audit opinion and the annual audit report as required in the article 68 of the ENI CBC IR.

As per art. 32 (1) of ENI CBC IR, during the audit on the sample of projects, expenditure declared by the beneficiary in support of a payment request shall be examined by the AA, to obtain assurance that the costs declared and the revenue generated by the project are verified and can be considered as real, accurately recorded and eligible in accordance with the grant contract signed between the Managing Authority and the lead beneficiary.

It is important to stress that the audit on projects will be carried out by the AA (or its representatives) on the expenditures declared by the beneficiaries and already paid by the MA. This means that audit on projects will check not only eligibility of costs, but it will also verify whether the MCS is properly functioning, whether procedures of the Programme are effective, (for example, payment procedure timing and respect of set deadlines), the control being extended to every aspect of each audited project.

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

The contractor will help the AA with sampling procedures and the selection of the sample of projects to be audited (see above section 4.5), and it will also assist the AA with the following tasks:

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

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

The audit on projects should be conduct in compliance with the following principles:

- the selection of the operations to be audited should start from the population of expenditures declared to the Commission with regard to one specific accounting period or a part of it and it may, if appropriate, include: one part of randomly selected operations and one part of operations selected on the basis of a weighed assessment of the risks so as to focus the audit on the operations in which the risk of errors is higher (please refer to the paragraphs on sampling treated in the previous sections);
- the evidences and results of each audit should be properly documented:
  1) in the pertinent audit checklists (see Annex 2.8 to this Manual);
  2) in the on-the-spot verification reports (see Annex 2.1 to this Manual);
  3) in the operation audit reports (see Annexes 2.2, 2.3 and 2.4 to this Manual).

  The final outcomes of the audit should always be based on certain evidence;
- it should guarantee a minimum level of on-the-spot verifications required for the purposes of an efficient risk management, increasing that level if necessary. The aforementioned minimum level can be reduced in the event that MCS is functioning properly and if the error rate is maintained at an acceptable level.

Audits on projects shall be carried out on the basis of supporting documents constituting the audit trail and shall verify the legality and regularity of expenditure declared to the Commission, including the following aspects:

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

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

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

For this purpose, when planning the audit of operations, the reference context should be taken into account as for example the following specific factors:

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

The audits shall cover at least the following issues:

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

The audit of operations generally consists of two phases:

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

The on-the-spot verification is therefore determined by the need to verify the physical implementation of the operation on the spot. The on-site verification of the physical implementation is compulsory, except for the cases in which such verification is impossible (e.g. for reasons of security of access to the site where the intervention is performed) or in the case of projects that do not require a physical implementation. When the on-the-spot verification of the implementation of the intervention is not possible, the auditors will need to obtain evidence of implementation of the intervention and on the objectives met through the supporting documents that constitute the audit trail.

The audit phase at the Beneficiary consequently assumes particular relevance in that it shall allow to verify as much as possible the actual execution of the operation with all plausible evidence.

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

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

The audit on projects process can be described as follows:

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

These phases will be thereafter fully described.

Table 33 shows the flow chart of the audit on projects process.

AUDIT ON PROJECTS FLOW CHART					
ACTIVITY		IMPLEMENTING BODY	CONTROL BODY	EXTERNAL BODY	EUROPEAN COMMISSION
1	Sampling procedure and definition of the sample of projects to be audited				
2	Planning of audit on projects activities				
3	Written notice to the auditee, requesting documents relating to the sampled operations				
4	Submission of the requested documents to the AA within 20 days from the reception of the letter				
5	Desk analysis of supporting documents sent by the auditee that constitute the audit trail				
6	Announcement letter to the auditee foreseeing the on-the-spot check				
7	On the spot visits and request of additional documentation				
8	Contradictory procedure and submission of additional documentation to the AA within 15 days				
9	Transmission of the Provisional Audit Report on operations within 15 days from the reception of additional documentation				
10	Submission of observations/comments within 15 days from the reception of the Provisional Audit Report on operations				
11	Submission of the Final Audit Report on operations to the Beneficiary within 15 days from the reception of observations/comments				
12	Monitoring of the implementation of the corrective measures				
13	Verification of the implementation of the suggested corrective measures (Follow up starting) through desk and/or on the spot phases				
14	Submission of other possible documentations				
15	Submission of the Final Follow up Audit Report on the operations				

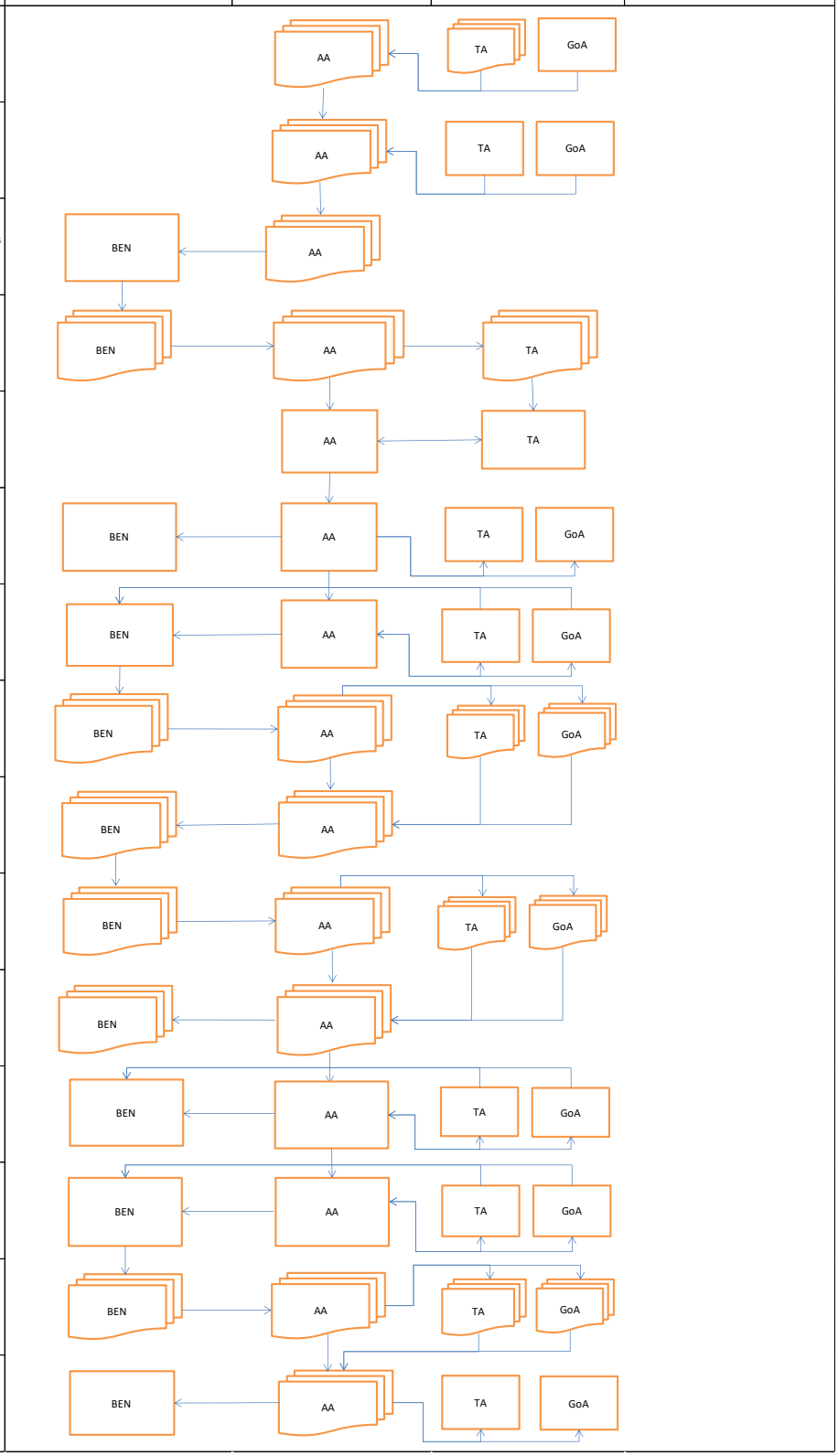


Table 33 - Audit on projects process

4.6.2. Selection of the sample of projects to be audited

The selection of the sample of projects to be audited will be carried out in accordance with principles and methodologies already described in section 4.5.

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

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

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

4.6.3. Planning

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

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

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

Prior to the activity, it is considered a good operating practice to convene a meeting or meetings with all the people charged to the audit activities, with the presence of the responsible of the quality review, in order to clarify the essential aspects such as:

- the prepared engagement programme contents;
- the workload assigned to each auditor;
- the objectives to be achieved and the operating methods;
- the timing to be respected;

- the methods of documentation acquisition;
- how to review the work done.

The auditor shall ensure the following activities:

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

For each audit, a dossier must therefore be prepared to retain all the documentation gathered and checked during audit activities, including the on-the-spot documentation, communications with the MA and the Beneficiary, the operational control checklist (detailed), the verifications minutes if present and the operation audit report. The dossier may have an internal specific structure as a function of the intervention area, the subjects involved and their responsibility, the implementation timing, etc.

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

The operational control checklists are normally organized according to standardized formats separated in relation to the operation types/audit trails, such as:

- goods and services acquisitions;
- public works;
- funds provision;
- State aid (de minimis);

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

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

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

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

4.6.4. Analysis of documents

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

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

With regards to the above-mentioned activities, it has to be ensured the following controls:

A. verification of the correct procedure as regards information to the potential beneficiaries in accordance with EU Regulations (in particular if calls for publications are advertised in order to reach all potential beneficiaries and contain a clear description of the selection procedure used and the rights and obligations of the beneficiaries);
B. verification of the existence of an adequate procedure to acquire and protocol the applications (in particular if all received applications are registered on receipt, evidence of receipt delivered to each applicant and records kept of the approval status of each application).

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

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

For the audits of projects, this Manual provides a general checklist for the operations (see Annex 2.8) which shall be used for the different typologies of expenditures incurred in the implementation of the projects.

This is a generic check list which shall necessarily be adapted to the specific characteristics of each Programme Country. This specification will be made before the start of the Audit on projects, which will be scheduled not earlier than 2021, with the support of the technical assistance provider selected for carrying out the audits and the on the spots verifications.

In drafting the operational control checklist, the following issues should be and need to be considered as

part of such a checklist:

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

Check subject:

with this check, that regards mainly public contracts, the existence of the following acts is established:

- the appointment act of the manager in charge of the procedure;
- the existence of public notice or bid documents;
- the existence of the public notice/bid documents alert recruitment decree or determines to contract;
- the successful Decree or determines publication in official bulletins/journals;
- publication of an extract through the press or other disclosure means, if this is applicable;
- the matching of information procedures used (instruments, minimum, alerts forwarding) with what may be required by the legislation and cooperation Programme;
- the correct application, if this is applicable, of the dissemination/information activities (internet services, answering services, FAQ sections) to support candidates for the instances preparation.

Control reference documents:

- cooperation Programme;
- the acts adopted in accordance with the specific national rules on public procurement;
- the appointment act of the manager in charge of the procedure;
- public notices/bid documents;
- acts recruitment decree or determines to contract;
- copy of the Official Bulletin/journal, when publication by such means is mandatory;
- copies of newspapers or other disclosure means where provided.

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

Check subject:

with this check the existence of the following acts/facts/elements is established:

- a written procedure for receipt and protocol instances;
- explicitly stating in public notices/bid documents of the place where instances should be delivered, the precise deadline for submission (day, time) and unequivocal nature of that deadline with respect to holidays, anniversaries, etc. and then the calculation of days granted for the presentation;
- the precise and unequivocal indication of the requests transmission mode by the Beneficiaries;
- the precise indication of the responsible office/staff for collecting the requests and operation

hours;

- the indication of the place dedicated to the instances and procedures storage, that ensure the proper storage in compliance with the documentation receipt order;
- the provision of appropriate tools/procedures for the registration number allocation and the simultaneous notice of the same to the interested parties.

Control reference documents:

- manual or management procedures (with reference to the sections regarding the internal procedures for protocol, document storage and retention);
- public notices/bid documents;
- protocol list or register.

C. *Check the appropriate organisation of the evaluation of applications (i.e. the appointment of the Project Selection Committee) and its compliance with EU regulations and with the arrangements planned for the cooperation Programme.*

Check subject:

with this check the existence of the following acts/facts/elements is established:

- the existence of the evaluation committee nomination acts;
- the correct publication of the proceedings as well as the obligations taken to inform those concerned;
- compliance with the principles of independence and autonomy required by the regulations in the committee members' selection and appointment and the possession by those members of the necessary expertise, competence and fairness requirements;
- compliance with the adopted procedure rules and the provisions contained in the cooperation Programme and public notices/tender documentation;
- if pertinent, the adoption by the Project Selection Committee of an internal regulation, setting out the procedures for carrying out the evaluation.

Control reference documents:

- cooperation Programme;
- public notices/bid documents;
- if pertinent, internal regulation setting out the procedures for carrying out the evaluation;
- the further acts to be adopted in accordance with the specific national rules on public procurement.

D. *Check of the proper implementation of selection and evaluation criteria, in accordance with both the national and EU rules (with particular reference to those regarding public contracts and procurement), as well as the compliance of adopted criteria with the ones resulting from the cooperation Programme.*

Check subject:

- the existence of a report proving the evaluator or evaluation commission work;
- compliance with the start and conclusion assessment activity terms;
- compliance with procedures for opening the packages containing the participation instances, as stipulated in the notice, in the tender documents or in the invitation letter, with particular reference to receipt order of the same, where relevant;
- the check modalities for each tender examined, the exclusion conditions, with particular attention to meeting the requirements declared by the beneficiaries;
- the respect of the cooperation Programme selection criteria;
- the correct attribution of the scores provided in the bid documents notices;
- an exact indication, in the minutes, of the tenders examined for each evaluation session;
- the correct overall assessment of the tenders by the evaluation committee;
- the adoption of the measures relating to the communication of the evaluation results to those concerned;
- if adopted, the correct wording, in the communication to the candidates concerned, of the request
- for additional documentation, with particular attention to timing;
- the successful recruitment or formal definitive awarding decision of awarding a contract or admission to funding and the consequent communication to the candidates concerned;
- publication of the results in the manner prescribed by the relevant regulations.

Control reference documents:

- cooperation Programme;
- cooperation Programme selection criteria adopted by the JMC;
- public notices/bid documents;
- tenders submitted;
- evaluation committee's proceedings minutes.

E. *Check the supporting expenditure documentation completeness and consistency (receipted invoices or accounting documents of equivalent probative value) in accordance with national and EU rules, the cooperation Programme, the selection notice/call for tender, the contract/convention and its possible variants.*

Check subject:

in this phase are established:

- the correspondence between the total sum of the expenditure supporting evidence amounts and the total amount accounted for the operation/project;
- the consistency of each expenditure document with the activities required for the control object, resulting in the agreement/contract relative to the operation/project;

- the correspondence of the expenditure documentation with orders, assignments, contracts for delivery;
- the correspondence of the expenditure documentation with that relating to the payment of the same;
- the formal validity of the documentation proving the payments execution;
- the correspondence of the expenditure documentation and the related payments for the work carried out, the purchased/supplied goods/services, training intervention realized.

Control reference documents:

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

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

Check subject:

in this phase are established:

- the correct filling of the supporting expenditure documentation from a fiscal and statutory point of view;
- the correct determination of each action cost, with particular regard to VAT taxes treatment and any additional charges;
- the correct accounting registration in the budget books.

Control reference documents:

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

G. *Check the eligibility of expenditure incurred during the period allowed by the cooperation Programme, the selection/tender notice, the contract/agreement and its possible variants.*

Check subject:

- correspondence with the dates shown on each expenditure document with the period required for operation implementation;
- the suitability or correspondence of the effective works realization or procured goods/services purchase date with that indicated in the supporting documents;
- for the training programs, the training performance dates matching with the educational institution's training schedule and presented with the dates indicated in the supporting documents (especially with regard to the remuneration for teachers and the teaching material production);
- validity of the documentation concerning the payments implementation compared with the period required for operation implementation.

Control reference documents:

- cooperation Programme;
- public notices/bid documents;
- agreement/contract between MA and the Beneficiary;
- any approved convention/contract variants;
- orders, assignments, contracts for delivery;
- for training initiatives, contracts with internal and external staff involved in various capacities in the training intervention implementation (teachers, tutors, consultants, coordinators, etc.);
- for the training programs, educational calendars and records of attendance;
- expenditure payment documents;
- reporting and application for refund documents.

H. *Check of expenditure eligibility related to the spending types allowed jointly by national and EU rules, cooperation Programme, selection/tender notice, contract/agreement and its possible variants.*

Check subject:

- Match of each expenditure item to the eligible expenditure types indicated in the cooperation Programme, selection/tender notice, contract/agreement and its possible variants

Control reference documents:

- cooperation Programme;
- the acts prescribed by rules on expenditure eligibility;
- public notices/bid documents;
- agreement/contract between MA and the Beneficiary;

- any approved convention/contract variants;
- orders, assignments, contracts for delivery;
- contracts with internal and external staff involved in various capacities in the training intervention implementation (teachers, tutors, consultants, coordinators, etc.);
- supporting expenditure documentation;
- expenditure payment documents;

I. the further acts to be adopted in accordance with the specific national rules on public procurement.
Check of compliance with allowable spending limits contribution under EU and national regulatory frameworks (i.e. by the aid scheme which it refers), the cooperation Programme, the selection announcement/invitation to tender, the contract/agreement and its possible variants.

Check subject:

- that the total expenditure incurred and reported respects the allowable spending limits provided, jointly by national and EU rules (with a focus on the specific aid scheme to which the transaction refers), the cooperation Programme, the selection announcement/invitation to tender, the contract/agreement and its possible variants;
- that the individual expenditure items are consistent with the completed works, goods/services purchased or provided;
- the correct determination of overheads in proportion to total expenditure through a method that complies with EU rules

Control Reference Documents:

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

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

Check subject:

- correct reporting of expenditure documentation and related payments to the Beneficiary;
- correct reporting of expenditure documentation and the related financed operation payments, including by verifying whether the original documentation has got an appropriate marking that shows the cooperation Programme expenditure traceability, the programming period, the Axis and Thematic Objective under which the operation is financed.

Control Reference Documents:

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

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

Check subject:

- check, on the original supporting documentation, the presence of an appropriate marking that shows the cooperation Programme expenditure traceability, the programming period, the Thematic Objective and the Priority under which the operation is financed and, in any case, the presence of suitable coding with reference to electronic invoices;
- check the activity completion, carried out to establish the presence of any other funding sources to cover the transaction costs.

Control Reference Documents:

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

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

Check subject:

- adoption by the Beneficiary of an accounting system or a separate accounting system inside the

beneficiary accounting system that ensures the fast tracing of all transactions related to the co-financed operation/project;

- the system's ability to ensure the detachability of the transactions related to the operation/project funded from those related to other activities;
- check the ability of the system to trace individual spending accounted amount related to the operation/project for evidentiary documents.

Control reference documents:

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

M. *Check that the works, goods or services covered by the co-financing fund comply with the EU and national legislation requirements, the cooperation Programme, the call/public notice for operation selection and the agreement/contract between MA and Beneficiary.*

Check subject:

- compliance of the works, goods and services with expenditure types authorized by EU and national rules, the cooperation Programme, the selection/tender notice, the contract/agreement and its possible variants.

In particular, in case of training interventions it is necessary to ensure:

- correspondence of expenditure items contained in the documents (invoices) with the made agreement object and the signed contracts with internal and external staff;
- correspondence of the course content with what is established in the cooperation Programme, the call/notice, the training project, and the agreement between the MA and training organization;
- the training performance in classrooms communicated by the trainer;
- the educational material produced;
- the existence of attendance registers, duly completed and signed both for the beginning and the end, and correspondence check between what is indicated in the register and what is in the classroom at the control time (teachers, tutors, students present, lessons in progress);
- correspondence of teachers, tutors and students present at on-the-spot verification with teachers and tutors indicated in the contracts and in the training course program/schedule as well as with the list of selected students and enrolled in the course;
- the existence of the teaching material and its compliance with the lesson content as required by the training project;
- correspondence of the stage (if required by the training project) as established in the cooperation Programme, call/public notice, training project and convention.

Control reference documents:

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

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

Check subject:

- for the specific transaction type, compliance with any information obligations under EU rules, the cooperation Programme and the specific Communication Plan.

Control reference documents:

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

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

Check subject:

- for the specific operation type, compliance with obligations and conditions provided for in EU,

national and regional legislation regarding environmental protection and equal opportunities and non-discrimination.

Control reference documents:

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

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

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

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

The AA may consider to include extra information on the necessary content of the announcement letter. Due to the tight time frame, it is very important that on-the-spot checks can be done efficiently. This is only possible if the auditees prepare all necessary documents and if the responsible persons are available during the on-the-spot check.
The GoA shall be included in the copy of the announcement letter. The GoA member representing the auditee's country will assist the AA during on-the spot checks performed, providing assistance throughout all the audit process. He/she will help with the planning of on-the-spot visits and controls, with drawing up specific checklists with regards the country and the auditee, with providing and analysing documents, with communications with the auditee, and with everything needed to assure proper audit is performed.
For each audit, the dossier already prepared during document analysis and retaining all the documentation gathered and checked during audit activities, will be implemented to include the on-the-spot documentation, such as checklists, the verifications minutes if present and the audit report. The operational control checklist has to be considered an essential document for audit purposes and can be adapted and developed even during the work, in presence of unforeseen or unforeseeable elements in the early audits stages planning.
When executing the on-the-spot checks, the AA shall complete the following worksteps:

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

The auditor shall carry out a short opening meeting with the auditee at the beginning of the on-the-spot check. The aim is to inform the auditee on the nature and purpose of the on-the-spot check, to get an introduction to the project and the documents available at the auditees premises as well as to identify relevant personnel of the auditee. In addition, the auditor shall inform the auditee about the next steps of the audit process and reporting.

The auditor shall inform the auditee on the process and deadlines of the contradictory procedure. He/she shall make clear that the audit must be completed on the spot, including the audit of all supporting documents, and that the contradictory procedure serves only the purpose of ensuring a common understanding of the audit results, giving the auditee the opportunity to present his/her point of view.

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

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

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

1. General procedures
   - access to the grant contract and partnership agreement;
   - rules for selection of expenditure and principles and criteria for verification coverage;
   - financial Report for the Grant Contract;
   - rules for Accounting and Record keeping;
   - exchange rates.
2. Costs declared are real, accurately recorded and eligible
   2.1. Whether the costs are real?
   - examination of supporting documents.

   2.2. Whether the costs are accurately recorded?
   - examination of the accounting system.

   2.3. Whether the costs are eligible?
   - compliance with budget of the Grant Contract (check of the budget in force);
   - compliance with direct cost categories;
   - compliance with implementation period;
   - compliance with sound financial management principles;
   - compliance with tax and social legislation;
   - retroactive award in infrastructure projects.
3. Non-eligibility, indirect cost and procurement rules
   - indirect costs;
   - compliance with procurement, nationality and Origin Rules;
   - non-eligible costs.

4. Non-profit character of the project
   - revenues, income and profit.
5. Compliance with contractual conditions
   - compliance with visibility rules;
   - other contractual conditions.

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

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

The Auditor will also draw a minute of on-the-spot verifications, containing all information on the auditee, date of audit, auditor, checked operations, checked documents, missing documents if case may be, causes which might have limited access to documents if case may be. A model of the on-the-spot verification minutes can be found in Annex 2.1 to the present Manual.

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

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

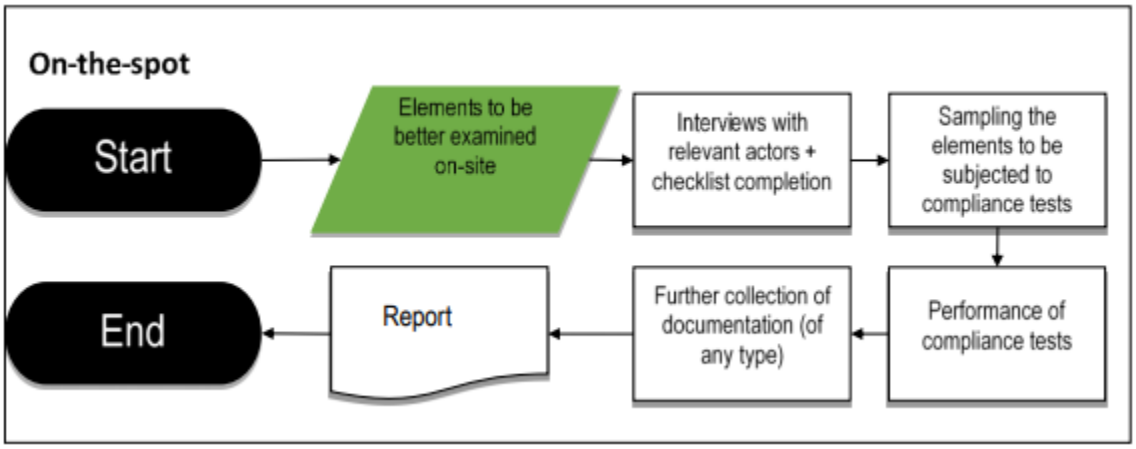


Table 34 – Flowchart diagram of on-the-spot analysis

4.6.6. Audit Reports and follow up

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

The reporting instruments make up the fundamental supporting evidence

- for a possible contradictory procedure;

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

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

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

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

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

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

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

The presence of irregularities or the need for further investigation determines the drafting of a Provisional Report that allows also the formulation of counterclaims by the audited bodies within 15 days from the reception of the Provisional Report and the possible opening of *inter partes* proceedings. These comparisons should be conducted in a way to allow the recipient to integrate the missing documentation and to present their own arguments against the observations raised within the time allowed.

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

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

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

a) prior to the audits:
   - ensure that all requested documents are available and properly arranged for the date of the audits;

b) during the audits:
   - guarantee the presence of the respective financial and technical manager and, if feasible and relevant, also of its first level controller in order to give the necessary clarifications;
   - guarantee to have access to the internal accounting system and provide further documents

requested on-the-spot;

- to have clearly understood, if applicable, the results/findings that have been raised by the auditors; this does not necessarily imply agreement;

c) after the audits:

- promptly address the requests for action put forward by the Programme bodies.

The processing of any irregularities is carried out in accordance with EU guidelines, more precisely in accordance with EGESIF_15-0007-02 final of 09.10.2015 entitled “Updated Guidance for Member States on treatment of errors disclosed in the annual control reports”.

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

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

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

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

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

The analysis and treatment of errors will be fully described on the following section 4.6.8 to this Manual.

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

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

4.6.7. Specific Areas

4.6.7.1. Public tenders

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

The EU policy on public procurement is considered a fundamental tool for establishing the single market and ensuring the efficient use of public funds, particularly in the context of implementing the Cohesion Policy. From the special report of the European Court of Auditors (ECA) of 15 July 2015 on procurement[10], prepared on the basis of audits carried out in the context of the Cohesion Policy, it emerged that further effort is needed in this sector, since the failure to comply with public procurement rules constitutes a constant and significant source of errors.

In order to facilitate the execution of audits concerning operations carried out through public procurement, it is emphasized that the national and EU regulatory framework on public procurement provides for four main regulations:

1. the new Public Procurement Code, Legislative Decree 18 April 2016, no. 50[11], implementing directives 2014/23 / EU, 2014/24 / EU and 2014/25 / EU;
2. the so-called "Corrective" to the new Public Contracts Code: Legislative Decree 56/2017 of 19/04/2017;
3. the so-called "Unblock Construction Sites Decree", law of 14 June 2019, no. 55 "Conversion into law, with amendments, of the decree-law 18 April 2019, n. 32 ";
4. the Public Procurement Code, Legislative Decree 12 April 2006, n. 163, implementing the Directives 2004/17 / CE and 2004/18 / CE, and its Implementation Regulation, DPR 5 October 2010 n. 207, in the applicable parts.

In consideration of the nature of the Programme, art. 52-56 of the Implementing Regulation (EU) no. 897/2014 of the Commission of 18 August 2014, concerning the contracts awarded by the beneficiaries involved in the implementation of the projects, are also applicable.

Firstly, the auditor shall identify the discipline applicable to the case being audited and therefore verify that the relevant legislation has been complied with. The regulations in question are presented later in this paragraph.

The following documentation shall also be taken into account:

- European Commission Decision C (2019) 3452, "Guidelines for determining financial corrections to be made to expenditure financed by the Union for non-compliance with the applicable rules on public procurement", defines the financial corrections that the European Commission applies in case of violation

[10] Available on: http://www.eca.europa.eu/Lists/ECADocuments/SR15_10/SR_PROCUREMENT_IT.pdf

[11] Legislative Decree 18 April 2016, n. 50: "Implementation of Directives 2014/23 / EU, 2014/24 / EU and 2014/25 / EU on the award of concession contracts, on public contracts and on the procurement procedures of providers in the water, energy, transport and postal services, as well as for the reorganization of the current regulations on public contracts relating to works, services and supplies "(Official Journal no. 91 of 19 April 2016).

of the rules on public procurement;

- the document of the European Commission "Guidelines for officers responsible for procurement on the most common errors to avoid in projects financed by the European Structural and Investment Funds"[12], aimed at supporting the Beneficiaries in carrying out procurement procedures and preventing any irregularities.

1) Assignments for which the provisions of Legislative Decree no. 163/2006 are applied

As required by the press release of 11 May 2016 of the President of the National Anti-Corruption Authority (ANAC, which replaces the AVCP - Supervisory Authority for Public Procurement), following the requests for clarifications in relation to i) the legislation to be applied for some award procedures governed by Legislative Decree 163/2006, ii) the operation of some rules introduced by Legislative Decree 50/2016 and iii) the transitional period relating to the transition from the old to the new Code, please find below the tenders for which the provisions of Legislative Decree no. 163/2006 are applied:

a. tenders awarded before the date of entry into force of the new Code, for which they are arranged, without prejudice to the general prohibition of tacit renewal and contract extension: renewal of the contract or contractual changes deriving from renewals already provided for in the calls for tenders; complementary deliveries, works and services; repetition of similar services; technical extensions - provided they are limited to the time strictly necessary for the award of the new tender; variants for which there is no provision for a new tender. This, regardless of the fact that the acquisition of a new Tender Identification Code (CIG) is envisaged for these cases, as these are cases relating to award procedures carried out before the new Code comes into force;

b. negotiated procedures launched, starting from 20/04/2016, in application of articles 56, paragraph 1, lett. a) and 57, paragraph 2, lett. a) of Legislative Decree 163/06, in the cases, respectively, of previous tenders announced under Legislative Decree 163/06 which have been deserted, due to the submission of irregular or inadmissible offers and the absolute lack of offers, provided that the negotiated procedure has promptly started;

c. negotiated procedures for the contracts referred to in Annex II B of the Code and for contracts with an amount lower than the European relevance thresholds for which the Contracting Authority has published, pursuant to Legislative Decree 163/06, an exploratory notice (market investigation) aimed at finding operators interested in being invited to tender, provided that the date of publication of the notice is certain (for example because it occurred in the Official Journal of the European Union or of the Italian Republic), the negotiated procedure is started within a reasonable period from the date of receipt of the expressions of interest and no acts have intervened which have suspended, canceled or revoked the tender procedure;

d. direct assignments or negotiated procedures in implementation of Framework Agreements awarded prior to the entry into force of the new Code;

is. adhesions to agreements entered into before the new Code comes into force.

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

2) Assignments for which the provisions of Legislative Decree 50/2016 are applied

The new Public Contracts Code, Legislative Decree n. 50/2016, was published on April 18, 2016 and, therefore, applies from April 19, 2016. In this regard, the National Anticorruption Authority (ANAC) press release of May 11, 2016 containing "Operational indications for contracting stations and economic operators following the entry into force of the Public Contracts Code, Legislative Decree 50 of 18.4.2016 "clarifies the regime applicable in the transitional period of entry into force of the new public procurement regulations.

The role of the National Anticorruption Authority (ANAC)

ANAC, as an independent administrative authority in the field of public contracts, carries out activities aimed at promoting efficiency, disseminating best practices, facilitating the exchange of information between Contracting Stations and supervising public procurement and concession. The functions of the ANAC can be summarized in:

- regulation functions;
- functions for the adoption of guidelines such as guidelines, standard tenders, standard contracts and other flexible regulatory instruments, also with binding efficacy;
- active administration functions: keeping all the registers envisaged (i.e. SOA, Register of tender Commissioners, Register of referees); qualification of economic operators; management of the qualification system of the Contracting Stations and of the central purchasing bodies; keeping lists of aggregators and contracting stations which carry out in-house assignments;
- information functions (management of the public contracts database and keeping of the public contracts IT register);
- consultative functions;
- supervisory functions, including inspection and control powers, instructors, precautionary intervention, deterrence and sanctions;
- para-jurisdictional functions, which are carried out in the preparation of binding contentious opinions and through powers of recommendation.

Legislative Decree 50/2016 provides the adoption by ANAC of general acts aimed at implementing the provisions of this Code and / or offering operational and interpretative indications to operators in the sector (Contracting stations, contractors, certification bodies, etc.), with a view to pursuing the objectives of simplifying and standardizing procedures, transparency and efficiency of administrative action, opening up competition, guaranteeing the reliability of the executors, reducing litigation.

In case of application of Legislative Decree 50/2016, the auditor shall also check the compliance with the regulations defined by ANAC. In this regard, it should be noted that the so-called "Unblock Construction Sites Decree", (conversion law of 14 June 2019, no. 55) provides the adoption of a single Regulation in place of the soft law which consists of the ANAC guidelines and provisions and detailed ministerial provisions. To date, the Single Regulation is not yet in force.

3) Assignments for which the provisions of Legislative Decree 56/2017 is applicable

On 19/04/2017, the Legislative Decree no. 56/2017, so-called "Corrective" to the Public Contracts Code, which amends Legislative Decree 50/2016, entered into force.

As provided by art. 216 "Transitional and coordination provisions", paragraph 1, of Legislative Decree 56/2017 "*without prejudice to the provisions of this article or the individual provisions of this Code, the Code applies to the procedures and contracts for which the notices, where the contractor's choice procedure is indicated, are published subsequently at the date of its entry into force and, in the case of contracts without publication of notices, the procedures and contracts in relation to which, at the date of entry into force of this Code, the invitations to submit the offers have not yet been sent*".

4) Assignments for which the provisions of Legislative Decree n. 32 of 18/4/2019 "Unblock Construction Sites Decree", convert in Law 14 June 2019, n. 55 is applicable

Three different application regimes are envisaged:

• notices published before 19/04/2019 shall comply with Legislative Decree 50/2016:

• calls published from 19/04/2019 but before 17/06/2019 shall comply with Legislative Decree 50/2016, as amended by Legislative Decree 32/2019;

• notices published from 18/06/2019 onwards shall comply with Legislative Decree 50/2016, as amended by L.n. 55/2019.

Please see Annexes 2.11, 2.12 and 2.13 for the check lists related on MA expenditures.

4.6.7.2. State aids

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

• de minimis aid, or the so-called minor aid, such as minimum financial aid granted by the EU Member States to a business, which is not substantially considered state aid as it does not affect free competition. The legislation on this type of aid consists of the following regulations:

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

4.6.7.3. Simplified Cost Options

The so-called Simplified Cost Options (SCOs) consist of procedures of calculating eligible costs according to a predefined method based on outputs, results, or some other costs. In the ENI MED OP these

procedures are governed by article 50 of Reg. (EU) 874/2014. Moreover articles 47 and 52 of the same regulation define a general framework for specific type of operation. Further requirements, which may limit the application of SCOs to certain operations or provide additional options, could be included in the call for proposal guidelines.

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

It may take any of the following forms:

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

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

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

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

- **the correctness of the calculation method (to be verified within system audits carried out by the AA),**

- **whether the conditions for reimbursement set in the agreement between the beneficiary and MA have been met and that the agreed methodology has been correctly applied to (be verified within audit of operations).**

Verification on the correctness of the calculation method for SCOs

In analogy with art. 67(5) of the CPR several methods for calculating simplified costs: some of them are based on statistical data, others on data of the beneficiaries or elements included in the regulation. Some

give a lot of flexibility, while others offer strong legal certainty or can be established with a limited administrative burden. For simplified cost options, it is important to ensure proper ex ante assessment and related documentation of the method, where necessary, since it is only the control of the achievements that is done ex-post.

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

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

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

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

(ii) the verified historical data of individual beneficiaries;

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

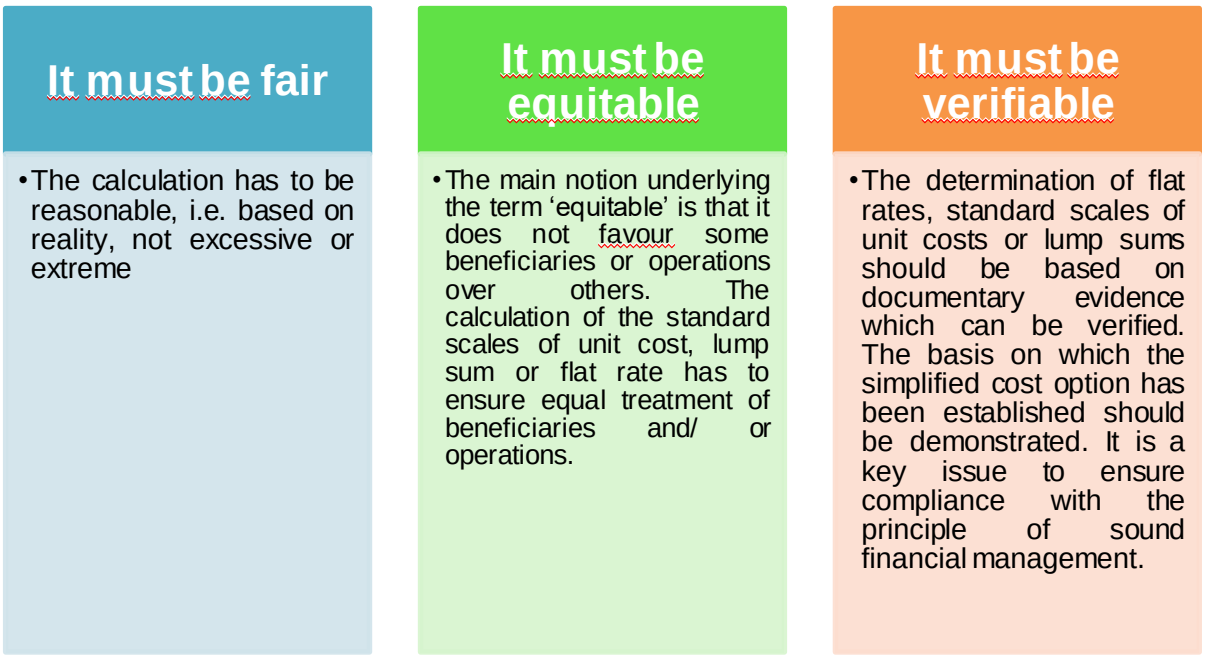


Figure 17 – Method for SCOs' calculation

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

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

LUMP SUMS

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

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

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

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

FLAT RATE FINANCING

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

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

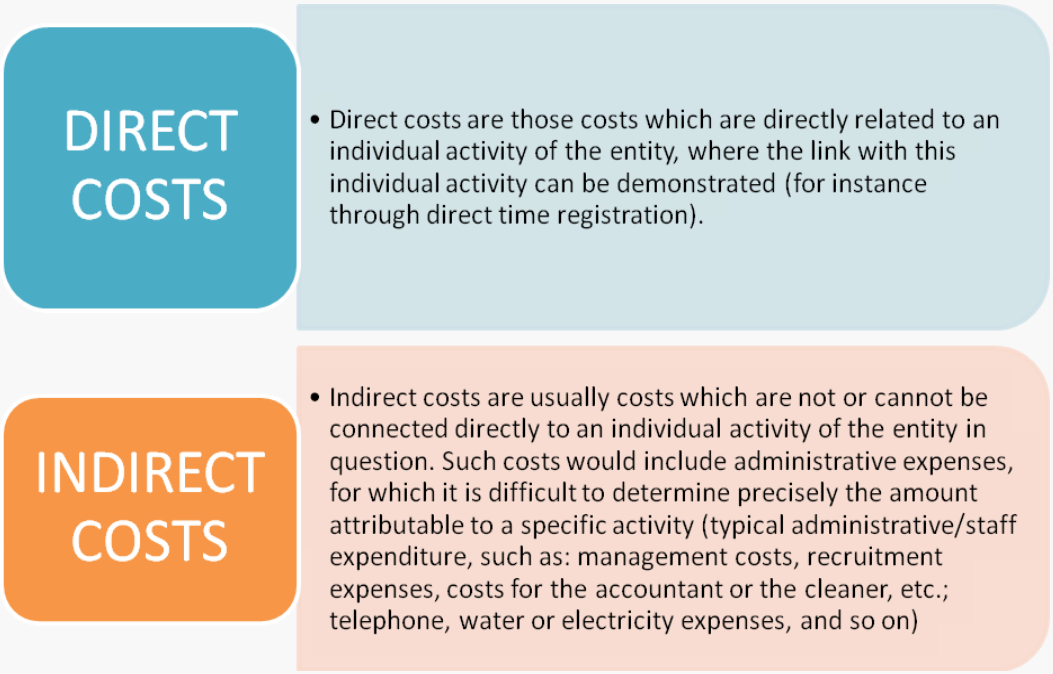
Type 1: categories of eligible costs on whose basis the rate is to be applied to calculate the eligible amounts.

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

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

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

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



STANDARD SCALES OF UNIT COSTS

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

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

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

Table 35 - Individual Simplification Cost Options

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

LUMP SUMS

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

FLAT RATE FINANCING

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

STANDARD SCALES OF UNIT COSTS

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

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

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

In this regard, the auditor shall verify

the basis for calculating the grant due have been adequately proven (e.g. the outputs realized),

the effective application of the methodology established by the MA in relation to the outputs / results of the project in the case of unit costs and lump sums, or at the rate to be applied in case of flat rates; thus the auditor verifies that the calculation of the grant due to the Beneficiary and of the expenditure certified to the EC is correct.

With reference to point 1), the auditor shall also verify the presence of an adequate audit trail that includes the documents on the method of defining the SCOs regarding the co-financed operations and that, allows:

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

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

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

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

Table 36 – Method for SCO's calculation

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

A checklist to verify the correct application of Simplified Cost Options is provided within Annex 2.14 to this Manual.

4.6.7.4. Principles of equal opportunities and non-discrimination

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

- "ensure that equality between men and women and the integration of the gender perspective are taken into account and promoted at all stages of the preparation and execution of the programs, also in connection with the monitoring, preparation of reports and evaluation "(Principle of equal opportunities), in implementation of the general principles pursuant to art. 157 of the Treaty on the Functioning of the European Union (TFEU);

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

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

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

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

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

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

- integration of the principle of equal opportunities and non-discrimination as a transversal priority, as far as applicable, for all types of interventions supported by the European Structural Investments (ESI) Funds.

Without prejudice to the specificities connected with the type of operation, the auditor will therefore have to verify in particular that:

- the operation respects and takes into consideration the principles of equal opportunities and non-discrimination as cross-cutting priorities ("mainstreaming"), if the intervention is not directly aimed at the implementation of these principles;
- the principles of equal opportunities and non-discrimination, including accessibility for people with disabilities, have been taken into consideration and promoted at all stages of the operation.

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

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

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

Notions of direct and indirect discrimination:

1) Provision, criterion, practice, act, pact or behavior, as well as the order to put in place an act or a behavior, which produces (directly) a prejudicial effect, discriminating individuals or groups according to their gender, race or ethnic origin, religion or belief, disability, age or sexual orientation, as well as a less favorable treatment compared to that one addressed to another individual or group in a similar situation;

2) Provision, criterion, practice, act, pact or apparently neutral behavior that nevertheless puts or can put individuals or groups of a determined sex, (or race, ethnic origin, religion, personal belief, disability, age and sexual orientation in a position of particular disadvantage with respect to individuals or groups of other sex (or race, ethnic origin, religion or belief, disability, age, sexual orientation), except where such provision, criterion, etc. concerns essential requisites (e.g. to perform work activities), provided that the objective is legitimate and the means used to achieve it are appropriate and necessary.

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

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

- the Management and Control System favors the promotion and respect of the principles of equal opportunities and non-discrimination, providing for example that the manuals and documentation prepared by the MA contemplate: i) Thematic Objectives, Priorities and Specific Objectives, ii) indications for the integration of the principles of equal opportunities and non-discrimination in the implementation of the Program, with reference both to actions directly dedicated to the promotion of these principles, and to actions that can indirectly contribute to this purpose;
- the procedures for the selection of operations take into account the compliance of the operations with the EU's cross-cutting policies;

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

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

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

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

In Annex 2.9 to this Manual is reported a model Checklist for the audit of operations related to the principle of equal opportunities and non-discrimination.
As previously indicated, various aspects relating to the implementation of these principles can be examined already during the system audit phase. Also in this case, the auditor may use the aforementioned Checklist.

4.6.7.5. Principle of sustainable development

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

policies and actions of the Union, in particular with a view of promoting sustainable development".
Sustainable development means an economic and social development compatible with social equity, environmental protection and the rights of future generations.
The principle of sustainable development is one of the basic principles of the Europe 2020 Strategy, one of whose priorities is dedicated to the promotion of sustainable growth in the EU, which means a more efficient economy in terms of resources, environmental protection and more competitive. One of the objectives of the Europe 2020 Strategy is the "20/20/20 target", which includes:

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

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

With reference to ENI CBC MED SB Programme (adopted to the European Commission with Decision No C(2015) 9133 on 17.12.2015) its overarching objective “Address common challenges in environment” and the correspondent Thematic Objectives (TO-B) titled “Environmental protection, climate change adaptation and mitigation”, promotes operations which undertake measures for anticipating and mitigating the adverse effects of climate change (such as improving water and energy efficiency) and enhancing environmental protection (through more sound management of wastes, and integrated ECAP-based planning for coastal areas).
This TO focuses on the following four priorities:
B.4.1: Support sustainable initiatives targeting innovative and technological solutions to increase water efficiency and encourage use of non-conventional water supply.
B.4.2: Reduce municipal waste generation, promote source-separated collection and its optimal exploitation, in particular its organic component.
B.4.3: Renewable energy and energy efficiency - Support cost-effective and innovative energy rehabilitations relevant to building types and climatic zones, with a focus on public buildings.
B.4.4: Integrated Coastal Zone Management - Incorporate the Ecosystem-Based management approach to ICZM into local development planning, through the improvement of intra-territorial coordination among different stakeholders.

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

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

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

In this regard, the Commission Notice "Guidance on ensuring the respect for the Charter of Fundamental Rights of the European Union when implementing the European Structural and Investment Funds (2016/C 269/01)" is also a useful support to carry out the audit activities, providing examples of the implementation of these rights in the various phases of management and control of the SIE Funds.
Furthermore, this Notice recalls that the UNECE (United Nations Economic Commission for Europe) Convention on information access, public participation in decision-making processes and access to justice in environmental matters (Aarhus Convention) has been approved by the EU with Decision n. 2005/370/CE of the Council of the European Union and it is also applicable in the Member States.

4.6.7.6. Fraud contrast

Audits of operations, such as system audits, also include verification that all necessary measures have been taken, in compliance with relevant legislative, regulatory and administrative measures, in order to protect the EU's financial interests and for the prevention, detection and correction of any irregularities and fraud, albeit with regard to the specific operation being audited.
To this end, during the audit of operations the auditor in charge shall verify that the anti-fraud measures established by the Management Authority following the related Fraud Risk Assessment have been applied as for the operation being audited. During the system audit, in fact, the Audit Authority verifies that the Management Authority has carried out such assessment of the risks of fraud, taking into account the model referred to in Annex 1 to the EGESIF Note n. 14-0021-00 of 16/06/2014, 2014 "Assessment of the risks of fraud and effective and proportionate anti-fraud measures" in order to assess the impact and likelihood of any risk of fraud affecting the EU's financial interests in the case of the relevant Operational Programme.
For each risk identified in this assessment, the Managing Authority must put in place appropriate measures and verifications for the mitigation of this risk, considering the suggestions of Annex 2 of the EGESIF Note as mentioned.
Consequently, at the time of the audits on the operations, the auditor verifies whether there is actual

evidence of the implementation of the anti-fraud measures as defined by the Management Authority following its Fraud Risk Assessment. Related tools and reports are set accordingly.

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

Examples of anti-fraud measures to apply in audits of operations
Instructions to the Beneficiary on possible anti-fraud measures in the implementation of operations. Instructions to the Beneficiary on the correct and transparent implementation of procurement procedures. Informing the Beneficiary by raising awareness of the fight against fraud. Training and further training in fraud. Proper implementation of anti-mafia discipline in the case of the audited operation. Correct verification of the reliability of the declarations made in the case of the operation being audited. Specific control points in first-level control checklists. Recording of information on the types of risks encountered for operation audited within the system adopted by the MA, to support the identification of projects potentially exposed to risks of fraud, conflicts of interest and irregularities. Consideration of fraud in the type of operations covered by the operation audited in the context of risk assessment within the sampling methodology adopted by the MA.

Table 37 – Example of anti-fraud measures to apply in audits of operations

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

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

Another tool available to the auditor for detecting possible cases of suspected fraud is the analysis of specific indicators, the so-called "Red Flags", which may support the detection of possible fraudulent activities (a Note on this subject, although related to the previous Programming period, is Note COCOF 09/0003/00 of 18/02/2009, "Information note on fraud indicators for the ERDF, the ESF and the CF" [13]). It is worth to remind that, only cases classified as such by a final judgment of the judicial authority are considered as established fraud cases.

Further supporting elements for the auditor in the detection of cases of suspected fraud are provided by the Information Notes of the European Anti-fraud Office (OLAF) on, for example, conflicts of interest and counterfeiting of documents, and the Collection of Anonymous Fraud Cases published by OLAF itself.

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

As part of the document checks, in order to identify possible fraudulent activities, the auditor also refers to the European Commission's Note on "Detection of documentary fraud in the framework of structural actions - Practical guide for Managing Authorities" [14], drawn up by a group of experts from the Member States coordinated by the OLAF Fraud Prevention Unit".

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

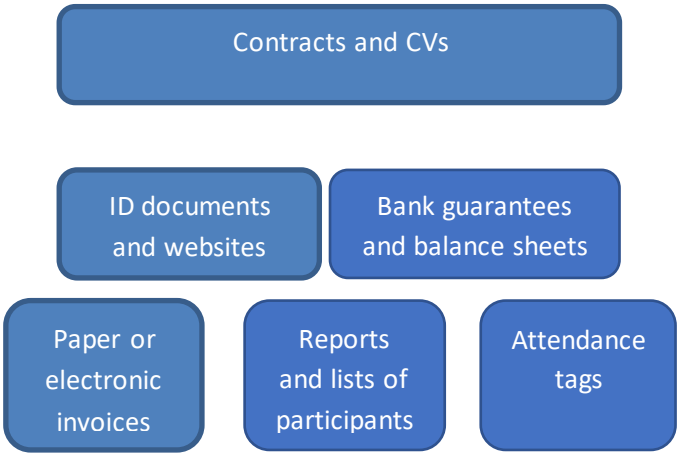


Figure 18 – Documents exposed to risk of counterfeiting

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

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

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

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

2. the MA has carried out an examination of the assessment of the irregularity, ascertaining whether the irregularity occurred. In this regard, reference shall be made to the "Classification table of types of irregularity" in Annex 2.15 to this Manual; this table combines the type of irregularity found (description) with a code identifying the irregularity itself, in order to be properly integrated into the OP MIS,

3. in the event of an actual irregularity, suspected fraud or fraud, the MA has fulfilled its communication obligations under art. 122 del Reg. (UE) n. 1303/2013 and art. 3 del Reg. (UE) n. 1970/2015 integrating the Regulation (EU) n. 1303/2013.
In particular, the auditor shall verify that any irregularity, suspected fraud or fraud found in audited operation (subject to a first administrative or judicial finding) has been included in the communication that the MA sends to the EC within two months following the end of each quarter pursuant in analogy with art. 72, comma 1, h) del Reg. (EU) n. 1303/2013. The MA must in fact have transmitted electronically, through the system of management of irregularities established by the European Commission Irregularity Management System (IMS), information on all irregularities reported by the competent bodies and found as such in the assessment phase.
The auditor then checks that the irregularity, suspected fraud, or fraud found in audited operation have also been the subject of an OLAF File within the IMS system, if the impact on the EU budget is equal to or higher than EUR 10,000.
In case of lower sums, communication is only envisaged if the EC explicitly requests it, but appropriate documentation must be kept and inserted on the information system by the MA.
In the event of suspected fraud or criminal conduct, the provisions of the Criminal Procedure Code will also apply in relation to the news of the crime, with the consequent obligations of communication to the Judicial Authority or the Judicial Police,

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

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

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

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

4.6.7.7. Use of the euro

According to art. 32 of Reg. (EU) 897/2014 expenditure incurred in a currency other than the euro shall be converted into euro by the Managing Authority and by the beneficiary using the monthly accounting exchange rate of the Commission[15] of one of the following:

(a) the month during which the expenditure was incurred,

(b) the month during which the expenditure was submitted for examination in accordance with Article 32(1) of the abovementioned regulation,

(c) the month during which the expenditure was reported to the lead beneficiary.

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

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

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

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

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

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

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

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

- **Random error**: this corresponds to a generic error of neither anomalous nor systemic nature and, therefore, representative of errors that could also be present in the population. As such, the random error is extrapolated according to the sampling method chosen by the AA for the execution of the audits of operations (so called “projection”);

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

- **Systemic error**: corresponds to a systemic irregularity i.e. errors found in the audited sample which have an impact on the entire sampled population and occur under defined and similar circumstances. Such errors are associated with ineffective control procedures within the MCS of the programme; therefore, the identification of a systemic error implies the carrying out of activities necessary to identify its total scope and its quantification, in such a way as to allow the delimitation of its effect on the entire population. If the systemic error has been correctly delimited, determining the exact impact on the population, the systemic error is not extrapolated, but added in absolute value to the amount of error found for other types of error for the calculation of the TER. If, on the other hand, the extent of the systemic error has been only partially delimited, it is considered random and therefore contributes to the extrapolation for the purpose of calculating the TER;

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

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

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

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

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

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

Once the TER is defined, the AA also calculates the precision (SE), as a measure of the uncertainty

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

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

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

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

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

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

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

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

4.7. Audit of the accounts

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

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

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

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

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

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

The following chart shows the Audit on the accounts process:

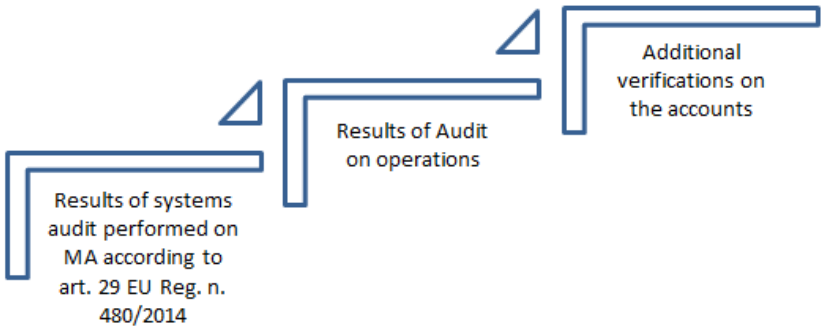


Table 38 – Audit on accounts flow chart

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

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

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

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

It may be considered that, starting from the results of control tests performed on the Key requirement n. 13, and, more broadly, on other requirements referring to accounting, it is possible to obtain reasonable

assurance concerning the procedures adopted by the MA, also with reference to the reliability of the accounts, on the basis of the specific checklist for system Audit.

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

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

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

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

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

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

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

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

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

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

- the total amount of eligible expenses declared and registered by the MA in their accounting systems. In particular, expenses referring to technical assistance are verified, also by means of a representative sample;
- other items ((withdrawals, recovers, amounts to be recovered by the end of the accounting period, and irrecoverable amounts); the AA performs further verifications on single recordings, taking into account outcomes of system audits and audits on operations. The AA performs by sample and for every typology, verifications on the accuracy of accounting recordings;

- the advances paid in the context of State aids, including compliance to certifying conditions for this kind of advances, if needed;
- the effective correction of irregularities, through the verification of the correct inclusion in the accounts of the results of controls performed by the AA, or by other bodies, including the Commission and the European Court of Auditors (ECA). Such verification is very important also for the purposes of handling of error rate, to be reported in the Annual Audit Report.

When performing Audit on the accounts, the AA carries out also a sample verification on the expenses referring to Technical Assistance, as a rule by the non-statistical sampling method as per the EGESIF_16-0014-01 of 20/01//2017 – "Guidance on sampling methods for audit authorities Programming periods 2007-2013 and 2014-2020". In Annex 3.2, the format to drawn up the on-the-spot checks minutes is reported.

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

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

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

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

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

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

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

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

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

According to internal deadlines agreed with the MA, after receiving drafts of the Management declaration of assurance and of the Summary of controls, the AA assesses the following items:

- verification of the accuracy of the Management declaration of assurance and of the Summary of controls;

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

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

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

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

For OP ENI CBC MED the flow should take into proper account that it doesn't exist a Certification Authority separated by the MA, and that all documents must be submitted to the Joint Monitoring Committee ahead of the transmission to the Commission.

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

1. MA within 31/10/N

- submits draft of accounts reporting:

1. Calculation of the annual balance

1.1. Pre-financing request

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

1.3. Payments from European Commission

1.4. Payments from participating countries at programme level

1.5. Reconciliation with the financial table of the JOP

1.6. Bank accounts

1.7. Co-financing

2. Projects

2.1. Payments

2.2. Recoveries, financial corrections and waivers

2.3. Revenue

3. Technical Assistance

3.1. Staff costs
3.2. Staff costs
3.3. Travel costs
3.4. Equipment& supplies
3.5. Administrative costs
3.6. Subcontracted services
3.7. Other costs
3.8. Recoveries from Technical Assistance
3.9. Revenue from Technical Assistance

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

2. AA, on the basis of internal deadlines:

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

– certified items of expenditure;
– other items (withdrawals, recoveries, amounts to be recovered and irrecoverable amounts);
– calculation of the final payment;
– the effective correction of irregularities;

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

3. MA within 15/12/N:

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

– the AA;
– the EC;
– the ECA.

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

– the AA;
– the EC;
– the ECA.

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

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

- verifies that all the observations and recommendations are implemented by the MA;
- includes the results of the audits on the accounts in the Annual Audit Report (final audit opinion on the accounts may be unqualified in the event that the MA makes in the accounts all the corrections deemed necessary by the AA)

- activates appropriate procedures in order to monitor the implementation of recommendations or corrective measures, in the event that criticalities or recommendations are detected when performing audits on the final accounts.

5. MA within 15/01/N+1

- submits the accounts package to the JMC

6. JMC within 10/02/N+1

- verifies the accounts package sent by the MA

7. MA within 15/02/N+1

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

The following chart shows the flow of activities and deadlines concerning audit on the accounts:

ANNUAL ACCOUNTS FLOW CHART				
ACTIVITIES	IMPLEMENTING BODIES	CONTROL BODIES	EXTERNAL BODIES	COMMISSION
Draft of the accounts, draft of the managing declaration and of the summary of controls				
Additional verifications on the draft of the accounts, verifications on the managing declaration and on the summary of controls				
Submission to the MA of observations and/or recommendations in view of the final version of the accounts, the Management declaration and the Summary of controls				
Development of the account model on the basis of potential new facts and anyway of the observations and recommendations arising from the controls of the AA, the EC and the ECA				
Final draft of the accounts				
Updating of the Summary of controls				
Submission of the final draft of the Managing declaration and of the Summary of controls				
Verification that all the observations and recommendations are implemented by the MA				
Opinion on the accounts				
Inclusion of the results of audits on the accounts in the Annual Control Report				
Monitoring the implementation of recommendations or corrective measures				
Submission of the accounts package to the JMC				
Verifications on the accounts package				
Approval of the account package				
Submission of the accounts package to the EC, through SFC 2014-2020				

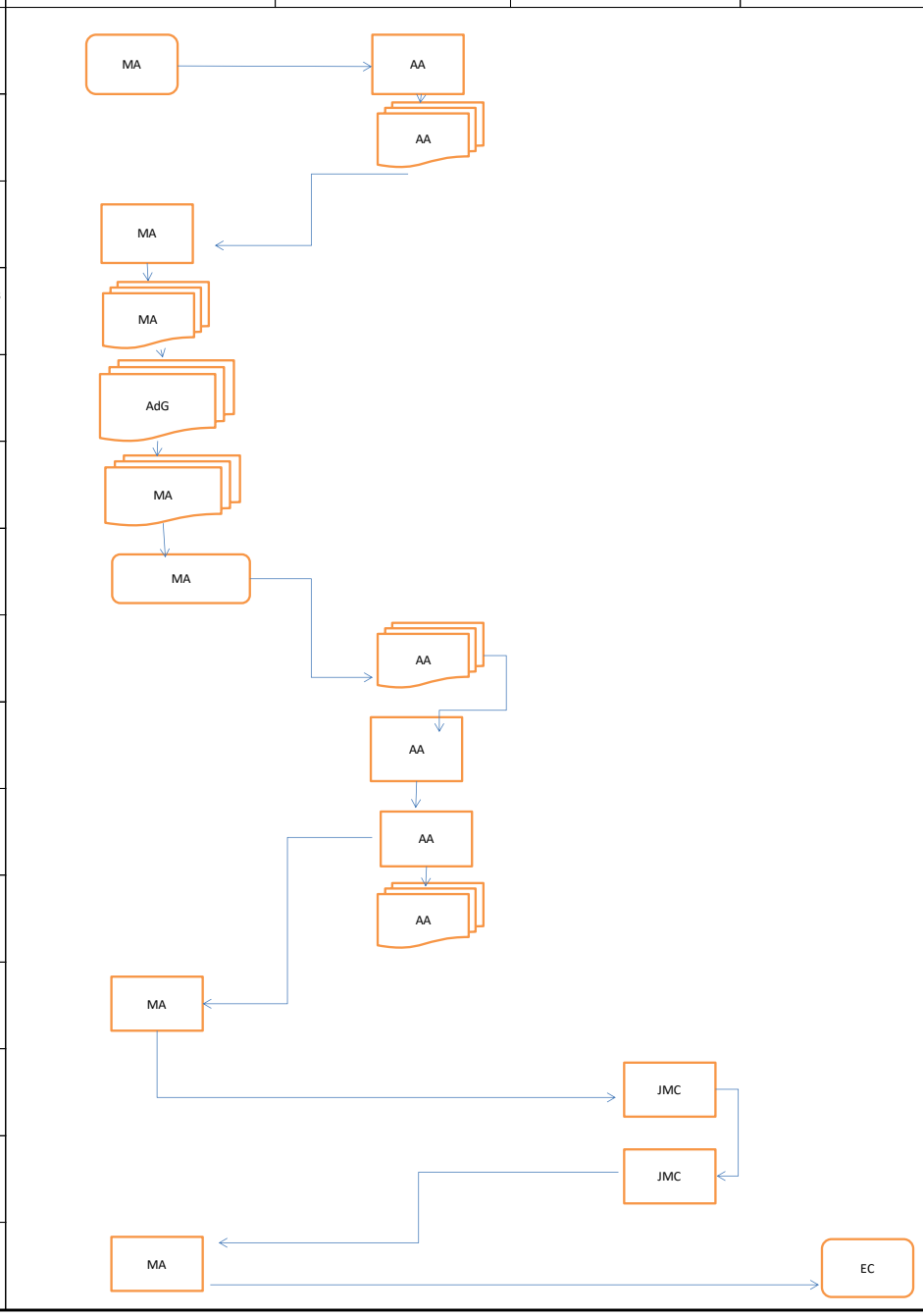


Figure 19 – Audit on accounts flow chart

4.8. Analysis of audit findings

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

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

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

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

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

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

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

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

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

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

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

It should be immediately noted the importance of the clarity in drawing up the audit reports, both of the systems and of the operations, drawn up after the investigations; they represent the fundamental supporting on which to base the analysis of audit outcomes for the purposes of the subsequent drafting of the Annual Audit Report and of the Audit Opinion according to art. 28.6 of the ENI IR.

In particular, it is necessary that the analysis of the results of audit activities highlight whether potential detected irregularities are systemic or isolated and therefore whether the error is applicant and due to serious failings in the MCS, enough to require its revision, or, on the contrary, it is consequence of

occasional and abnormal default. Please refer to the subsequent paragraphs for a more detailed discussion on the matter, also on the basis of the note EGESIF 15-0007-02 final of 09.10.2015 entitled “Updated Guidance for Member States on treatment of errors disclosed in the annual audit reports”.

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

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

4.9. Reporting activity

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

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

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

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

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

irregularities revealed into account.

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

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

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

These tools are:

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

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

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

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

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

In the transmission note of the provisional reports, the Audit Authority shall specify the times established for

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

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

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

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

System audit tools	
1	**System audit Minute**
	Brief report containing the essential information relating to the control such as: • date of checks execution; • documentation verified during the audit and/or documentation acquired during the on the spot visit; • staff interviewed; • any limitations on the control activity. The report shall be signed by the auditor and the audited body.
2	**System Audit Provisional Report**
	The provisional report contains: • executive summary; • the indication of the performed control tests; • introduction; • workplace and controlled body; • regulatory framework;

	• objectives of the audit; • description of the audit work carried out and assessments made; • description of any discrepancies found in the Management and Control System or description of any discrepancies found with respect to the previous audit and the Annual Audit Report in the event that the system audit is being updated; • description of any emerged critical issues and areas for improvement, outlining possible corrective actions; • provisional audit opinion. The provisional report shall be signed in original by all the auditors, countersigned by the Audit Authority and sent to the controlled body for its counterarguments.
3	**System Audit Final Report**
	Following the counterarguments received from the controlled body, the AA proceeds to draft the final report on the system audit. The final report integrates the content of the provisional one, mentioning the counter-deductions of the body under control (if any), provides the consequent assessments and contains the conclusions, indicating whether the critical issues have been overcome, or indicating the necessary changes to resolve the critical issues emerged during the audit and not resolved with the cross-examination (to be verified during the follow-up). The final report includes the opinion on the functioning of the Management and Control System. The final report shall be signed in original by all the auditors, countersigned by the Audit Authority and sent to the audited body.

Table 39 – System audit tools

Audit on operations tools	
1	**Minute on the spot checks**
	Brief summary report containing the essential information relating to the control such as: • date and place of checks execution; • controlled subject; • controlled operation; • controlled documentation and/or documentation acquired during the on the spot visit; • any missing documentation; • causes which possibly have limited access to the documentation. The report shall be signed by the auditor and the Beneficiary which is responsible of the operation subject to control.
2	**Audit on operations Provisional Report**
	The provisional report contains the following information: • executive summary; • code and title of the operation; • identification of the Beneficiary which is subject to audit;

	• subjects who represented the Beneficiary during the verification; • period during which the check was carried out; • place of inspection; • brief description of the project being verified; • objectives and scope of the audit; • audit work carried out, including indication of the checklists used; • result of the check; • controlled amount (% of the certificate); • amount considered ineligible and relative percentage rate; • any recommendations and corrective actions. The provisional report will be signed by the auditors and by the Audit Authority and sent to the MA (for its counterarguments).
3	**Audit on operations Final Report**
	Following the counterarguments, the AA proceeds to draft the final report on audit on operations. The final report integrates the content of the provisional one, mentioning the counter-deductions of the MA (if any), provides the consequent assessments and contains the conclusions, specifying if the outcome is positive or indicating the necessary financial corrections to carryout (to be checked during follow-up). The final report shall be signed in original by the auditors, countersigned by the Audit Authority and sent to the MA.

Table 40 – Audit on operations tools

Audit on accounts tools	
1	**Audit on accounts Minute**
	Brief report containing the essential information relating to the control such as: • date of checks execution; • documentation verified during the audit and/or documentation acquired during the on the spot visit; • staff interviewed; • any limitations on the control activity. The report shall be signed by the auditor and the audited body.
2	**Audit on accounts Provisional Report**
	The provisional report contains: • executive summary; • introduction; • the indication of the performed control tests;

	• introduction; • workplace and controlled body; • regulatory framework; • objectives of the audit; • description of the audit work carried out and assessments made, including the indication of the adopted checklists; • description of any discrepancies found in the Management and Control System or description of any discrepancies found with respect to the previous Audit and the Annual Audit Report in the event that the System Audit is being updated; • description of any emerged critical issues and areas for improvement, outlining possible corrective actions; • provisional audit opinion. The provisional report shall be signed in original by all the auditors, countersigned by the Audit Authority and sent to the controlled body for its counterarguments.
3	**Audit on accounts Final Report**
	Following the counterarguments received from the controlled body, the AA proceeds to draft the final report on the accounts. The final report provides the assessments performed on the Accounts, contains the conclusions, indicating whether the critical issues have been overcome, or indicating the recommendations deemed necessary to resolve the critical issues that emerged during the audit and still not resolved. The report supports the correct release of the opinion with reference to the accounts. The report shall be signed in original by the auditors, countersigned by the Audit Authority and sent to the audited body.

Table 41 – Audit on accounts tools

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

- controlled entity;
- date of the check;
- any critical issue;
- findings code;
- any irregularities found;
- error rate;
- date of sending the report to the controlled subject;
- follow-up updates (in the case of irregularities).

4.10. Follow-up and monitoring of corrective actions

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

As regards the follow up of the system audits, the Audit Authority shall verify that the corrections proposed in the Final Report have been implemented within the established deadlines.
As regards the follow up of the audit on operations, the Audit Authority shall closely monitor the application of the proposed financial correction.
In particular, the financial adjustment has the following consequences:

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

With reference to both the follow up of the Audit on accounts and the verification of the reliability of the management declaration, the AA activates appropriate procedures in order to monitor the implementation of preventive or corrective recommendations, in order to ensure that the accounts comply with all conditions established in art. 68.4 of Reg. (EU) n. 897/2014 and that the reliability of the management declaration does not contain inconsistencies and contradictions with respect to the results of the Audit performed by the AA.
It should be noted that the follow-up procedures also regard any recommendations relating to the accounting period preceding the one in relation to which the Audit was carried out and whose implementation has not yet been completed.
Furthermore, the AA also monitors the implementation of the observations of the European Commission and other national and EU control bodies (e.g. Italian Finance Police, Italian Court of Auditors, European Court of Auditors, OLAF).
In order to verify the information on follow-ups, together with all the other information collected during the various audit activities, this information shall be adequately documented and archived in an information system.
For this purpose, the AA shall transmit a schedule containing the list of controls subject to follow-up procedures to the bodies required to implement the corrective measures (in case of corrective action indicated in the system audit final report, the body subject to Audit; in case of corrective action indicated in the final report on audit on operations, the Managing Authority; in case of corrective action indicated in the report on reliability of the management declaration, the MA).
This schedule, duly completed and signed by the interested parties, shall be returned to the AA in order to update the AA on the adoption of corrective measures within a specific deadline.
An example of a follow-up schedule is reported in the table below:

Joint Operational Programme: European Neighbourhood Instrument Cross (ENI) Cross-Border Cooperation (CBC) Mediterranean Sea Basin (MED) Follow-up Schedule – System Audit	
System audit period:	Accounting year XXXX - XXXX
System audit starting date	**XX/XX/XXXX**
Check date	
Person in charge of the checks	
Controlled body	
Audit Report Reference (Final Report number, issue date, transmission details)	
Detected criticality and detection date	
Requested corrective actions	
Deadline to implement the corrective action	
Follow-up information that the recipient body is required to transmit to the Audit Authority no later than xx.xx.xxxx	
Implemented corrective actions	
References and summary of the documentation certifying the adoption of the corrective action	

Table 42 – System audit follow up schedule

Joint Operational Programme: European Neighbourhood Instrument Cross (ENI) Cross-Border Cooperation (CBC) Mediterranean Sea Basin (MED) Follow-up Schedule – Audit on operations	
Operation code	
Operation title	
Check date	
Person in charge of the checks	
Beneficiary	
Responsible body (MA, body)	
Audit Report Reference (Report number, issue date)	
Detected criticality and detection date	
Details of reporting to OLAF (if applicable)	
Requested corrective actions	
Deadline to implement the corrective action	
Follow-up information that the recipient body is required to transmit to the Audit Authority no later than xx.xx.xxxx	
Implemented corrective actions	
References and summary of the documentation certifying the adoption of the corrective action	
Certification correction references (date and act)	

Table 43 – Audit on operations follow up schedule

Joint Operational Programme: European Neighbourhood Instrument Cross (ENI) Cross-Border Cooperation (CBC) Mediterranean Sea Basin (MED) Follow-up Schedule – Audit on accounts	
Audit date	
Person in charge of the checks	
References relating to the final account (number and date of the final version of the accounts)	
Detected criticality and detection date	
Requested corrective actions	
Deadline to implement the corrective action	
Follow-up information that the recipient body is required to transmit to the Audit Authority no later than xx.xx.xxxx	
Implemented corrective actions	
References and summary of the documentation certifying the adoption of the corrective action	

Table 44 - Audit on accounts follow up schedule

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

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

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

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

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

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

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

The flow-charts with a description of the follow-up procedures and relative indicative timelines for the three types of Audit (Systems, Operations and Accounts) are reported in Annex 1.14, Annex 2.10 and Annex 3.11 to this Manual.

4.11. AA documentation management and archiving

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

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

SIBAR Protocol

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

The fundamental acts, such as the Audit Reports, the Activity Programs, the Audit Manual, the updating of the Audit Strategy as well as the correspondence and the service orders (i.e. organizational provisions), are adopted through the Service Director's Decision and progressively numbered and kept in the SIBAR.

Audit reports also have a progressive number per calendar year.

Shared folders

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

• access to work tools, with considerable utility for all users;

• homogeneity and sharing of the same information;

• the availability of the documentation in digital format to all AA auditors and Head of Unit, allowing a process of substantial standardization of all documents which are produced.

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

Physical storage

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

5. Performance concerning the audit activity

5.1. Annual Audit Report

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

The Annual Audit Report is drawn up in analogy to the model referred to in Annex IX of Reg. (EU) No. 207/2015, as integrated by Reg. (EU) n. 277/2018, of 23 February 2018, along with the indications as mentioned in the specific document provided in the framework of the TESIM project, namely Annual audit report_Template_20180108_Sent EC. This report is the summary of the audits carried out with reference to a specific accounting year between 01/07 of year N-1 and 30/06/ of year N.
Moreover, the AA makes reference to the guidelines set out in the “Guidance for Member States on the Annual Audit Report and Audit Opinion”. EGESIF 15-0002-04 of 19 December 2018.

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

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

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

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

1.	Preliminary verification of the system audit report submitted to the European Commission for the previous period and its follow-up.
2.	Update of the previous period system audit: risk analysis.
3.	Implementation of the system audit.
4.	Provisional description of the phenomena detected, description of the areas of criticality detected and formulation of first improvement hypotheses i.e. possible discrepancies from the management and control model represented in the description of the Management and Control System; discrepancies from what was found for the previous accounting period during the system audits and the AAR; etc. From this analysis areas of concern and recommendations for improvement which are described a provisional audit report shall arise.
5.	Counter-deductions and final system audit report.
6.	Quantitative estimates on the reliability of the systems, which could feed the number of operations to be checked within the related audits.
7.	After completion of audits of operations, while the procedure for collecting observations and counter-deductions by the audited bodies takes place, formulation of further improvement hypotheses to be applied on the systems that may have emerged from the audits on operations and their sending to the MA. Possibility for the latter to make observations and counter-observations in writing.
8.	Consideration of counter-claims and comments of interested parties to any further recommendations made following audits of operations (decision on this and disclosure to interested parties) as well as follow-up of the recommendations included in the previously submitted system audit report, in order to provide the most up-to-date information in the AAR.
9.	Carrying out audits of the Accounts, for which the Audit Authority takes into account, in particular, the results of the system audits and audits of operations; highlighting any improvements to the Management and Control System that may arise when auditing the Accounts.
10.	Comparative examination of the results of the system audit, the audit of the operations and the audit of the Accounts and formulation of the draft AAR, including the final formulation of improvement actions, possible corrective etc., with identification of roles and timing, as for improvements still to be achieved by a maximum of 1 year at the latest.
11.	Sharing the draft of the AAR with the MA: observations, counter-deductions, proposals.
12.	Drafting of the Annual Audit Report.

Table 45 - Procedures relating to the preparation of the AAR - Systems Audits

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

Table 46 - Procedures relating to the preparation of the AAR - Audit of operations

1.	The MA by 31/10/N presents the Draft Accounts based on the bilateral agreement between MA and AA in force.
2.	The AA verifies the reconciliation of expenses.
3.	Based on internal deadlines, the AA carries out additional checks on Draft of Accounts with reference to i. certified expenditure items; ii other items (withdrawals, recoveries, amounts to be recovered and irrecoverable amounts); iii. State aid compliance iv. reconciliation of expenditure; v. the actual correction of irregularities.
4.	AA transmits to MA its observations recommendations for the final version of the Accounts.
5.	By 31/12/N, MA prepare and send to the AA the Accounts on the basis of new facts and, in any case, of the observations and recommendations deriving from the AA' audits, the EC, the European Court of Auditors.
6.	The AA within 31/01/N+1 verifies that all observations and recommendations have been taken on board by the MA, includes the results of the audits of the Accounts in the AAR and issues an Opinion without reservation in the event that the MA reflects in the final accounts all the corrections deemed necessary by the AA. If critical issues are identified, appropriate procedures are in place to monitor the implementation of recommendations of a preventive or corrective nature.

Table 47 - Procedures relating to the preparation of the AAR - Audit of Accounts

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

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

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

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

5.2. Annual Audit Opinion

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

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

- that expenditure was incurred during the relevant reference period and that it was incurred for the intended purpose as defined in the Programme,

- that the amounts for which recovery procedures are in progress or have been completed are correctly carried over, that any irregular expenditure has been reduced and recovery procedures have been initiated with the beneficiary,

- that the control systems in place ensure the legality and regularity of the operation underlying the payment application.

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

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

Likewise for the AAR, in compliance with art. 68 of Reg. (EU) no. 897/2014, such report has to be submitted to MA in time in order to let it transmit its annual report to the competent services of the European Commission by 15 February of N+1 of each year. This deadline may exceptionally be extended by the Commission until 1 March, upon notification by the MA sent to the Commission no later than 15 February, duly motivating the extension request.
Given that the last accounting year runs from 1 July 2023 to 30 June 2024, pursuant 77, paragraph 5 of Reg. (EU) no. 897/2014, the last audit opinion will be expressed by 30 September 2024, unless extension arise.

The AO is drawn up in analogy to the model referred to in Annex VIII of Reg. (EU) No. 207/2015, as integrated by Reg. (EU) n. 277/2018, of 23 February 2018, along with the indications contained in the specific document provided in the framework of the TESIM project. The model of the AO is reported in Annex 4.2 to this Manual.

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

In analogy with the model provided for in Annex VIII of Reg. (EU) 207/2015, the AO is divided into the following section:
1. Introduction;

2. Responsibilities of the MA;
3. Responsibilities of the AA;
4. Limitations of audit scope;
5. Opinion: this is based on the conclusions drawn, following the results of the audit activities.

Audit opinion on legality and regularity of expenditure and proper functioning of MCS	AA's assessment on				
	Functioning of MCS*		Legality and regularity of certified expenditures	Accounts	Implementation of the required corrective measures ***
	System Audit result	TER (results from audits of operations)	RTER **		
1. Unqualified	Category 1 or 2	and TER ≤ 2%	and RTER ≤2%	and accounts correction/revision ≤2%	Corrections of individual errors in the implemented sample
2. Qualified *(remarks/revision having a limited impact)*	Category 2	and/or 2% <TER ≤ 5%	NA	NA	Corrections of individual errors in the implemented sample. Improvements to overcome any deficiencies in the MCS
3. Qualified *(remarks/revision having a significant impact)*	Category 3	and/or 5% <TER ≤ 10%	and RTER > 2%	and/or accounts correction/revision	Extrapolated financial corrections to bring the RTER below or equal to 2%, considering the corrections already applied following the AA audits (including corrections of individual errors in the sample) + corrective action plan to overcome any deficiencies in the MCS + implementation of the adjustments to be made to the Accounts
4. Adverse	Category 4	and TER ≥ 10%	and RTER > 2%		

Table 48 - Parameters for issuing the Audit Opinion

* Results of system audits confirmed or corrected by the results of operations audits, TER or/and improvements to overcome deficiencies in MCS.

** Results of audits of operations mitigated by financial corrections implemented prior to the submission of accounts to the EC.

*** Based on the AA conclusions in the AAR (Financial corrections or system improvements / procedural or both).

The AA express its opinion by choosing between three well-defined types of opinions provided for by the abovementioned Annex VIII, namely:

A. **Unqualified opinion** whenever the AA considers that:

- the accounts give a true and fair view, as established by art. 68 of Reg. (EU) no. 897/2014,
- the expenditure in the accounts is legal and regular,
- the management and control system put in place functions properly,
- the audit work carried out does not put in doubt the assertions made in the management declaration.

B. **Qualified opinion** whenever the AA considers that:
- the accounts give a true and fair view, as established by art. 68 of Reg. (EU) no. 897/2014,
- the expenditure in the accounts is legal and regular,
- the management and control system put in place functions properly, except in the following aspects:
  - ✓ in relation to material matters referring to the accounts and/or
  - ✓ in relation to material matters referred to the legality and regularity of the expenditure in the accounts and/or
  - ✓ in relation to material matters referring to the functioning of the management and control system
- the audit work carried out does not put in doubt the assertions made in the management declaration.

In the case of qualified opinion, the AA:
- ✓ details and explain the qualifications,
- ✓ estimates their impact: limited or significant,
- ✓ quantifies the impact, in relation to the expenditure declared and in absolute terms.

The estimation of the impact of a qualification as "limited" is deemed appropriate when it relates to irregularities (not yet corrected in the accounts) corresponding to expenditure above 2% but below or equal to 5% of the total expenditure certified in these accounts. If those irregularities exceed 5% of the total expenditure certified in these accounts, the corresponding qualification should be estimated as "significant".

The same reasoning applies when the exact amount of the irregularities cannot be quantified precisely by the AA and a flat rate is used; this may be the case of system deficiencies.
The quantification of the impact may be defined either on the basis of the TER (or the RTER, where corrective measures have been implemented before the AAR is finalized) established for the accounting year, or on a flat-rate basis, taking into account all the information available to the AA.

In this respect, the AA provides details whether the qualifications relate to the accounts, the legality and regularity of expenditure, or the management and control systems.

C. **Adverse opinion** which is due if following circumstances occur simultaneously or not:

- the accounts give / do not give a true and fair view, as established by art. 68 of Reg. (EU) no. 897/2014,
- the expenditure in the accounts is / is not legal and regular,

- the management and control system put in place function / does not function properly,
- the audit work carried out does not put in doubt the assertions made in the management declaration.

This adverse opinion can be based on the following aspects:

- for material matters referring to the accounts and/or,
- for material matters referring to the legality and regularity of the expenditure in the account and/or,
- for material matters referring to the functioning of the management and control system,
- for specific issues that put in doubt the assertions made in the management declaration.

The AA may also include emphasis of matter, not affecting its opinion, as established by internationally accepted auditing standards.

Where a **limitation of scope** is identified in the audit opinion, the impact (if any) of the limitation on the expenditure declared is estimated. In case the impact is estimated as material, an unqualified opinion cannot be given.
In cases of qualified or adverse opinion, the AA is expected to indicate the corrective actions planned or taken by the MA. The AA follows up if these actions have been implemented and reports them in its AAR.

While establishing the audit opinions and setting the levels of assurance, appropriate professional judgment applies to decide whether the gravity of findings justifies a qualified or an adverse opinion.

Disclaimer of opinion
In exceptional cases, the AA can release a disclaimer of opinion.
This is the case when the AA is not able to audit the accounts, the expenditure declared or the functioning of the management and control system due to external factors outside the responsibilities of the AA. In such cases, the AA explains why it could not reach an audit opinion.

The annual Audit Opinion is of outmost importance, since, pursuant art. 62 and 72 of the Reg. (EU) no. 897/2014 if a qualified or adverse opinion is due, the European Commission could decide to suspend the whole or part of the payments at Programme level to contain the risk of improper use of EU funds.

5.3. Submission of closure documents and payment of the final balance

Pursuant art. 77 of the Reg. (EU) no. 897/2014, by 15 February the Managing Authority shall submit an annual report approved by the Joint Monitoring Committee to the Commission. That annual report is composed by a technical and a financial part covering the preceding accounting year.

The financial part, including the AAR and the AO, is prepared in accordance with art.68, paragraph 2 of the

Reg. (EU) no. 897/2014.

By 30 September 2024, the Managing Authority shall submit a final report approved by the Joint Monitoring Committee to the Commission. This final report contains *mutatis mutandis* the information requested under paragraphs 2 and 3 of the abovementioned art. for the last accounting year and for the entire duration of the Programme.

In this respect, it is worth to mention that, according to art 19 of the Reg. (EU) no. 897/2014, only activities linked to the closure of the Programme may be carried out between 1 January 2023 and 30 September 2024.

Moreover, a Programme shall be considered closed when:

- ✓ all contracts concluded under the Programme have been closed;
- ✓ the final balance has been paid or reimbursed;
- ✓ remaining appropriations have been de-committed by the Commission.

The closure of the Programme is not prejudicing the Commission's right to undertake, at a later stage, financial corrections vis-à-vis the Managing Authority or the beneficiaries if the final amount of the Programme or the projects has to be readjusted as a result of controls or audits carried out after the closure date.

Following MA final payment request as set in art 64 of the Reg. (EU) no. 897/2014 the final balance is paid no later than three months after the date of clearance of accounts of the final accounting year or one month after the date of acceptance of the final implementation report, whichever date is later.

Consequently, given the above regulatory provisions, with the exception of the Final Implementation Report of the OP whose responsibility is *prima facie* to the MA, the Final Audit Report and the Final Audit Opinion shall not differ from those transmitted for the previous accounting periods.

6. Annexes

System Audit

1.1: System audit starting letter

1.2: Minutes on the spot checks system audit

1.3: Transmission letter of the Provisional Report

1.4: System audit Provisional Report

1.5: Transmission letter of the Final Report

1.6: System audit Final Report

1.7: Follow up Report

1.8: System audit check list

1.9: Conformity test check list

1.10: Branch Office System audit check list

1.11: Control Contact Point System audit check list

1.12: National Authority System audit check list

1.13: National Contact Point System audit check list

1.14: System audit Follow up flow chart

1.15: Indicators audit check list

Audit on operations

2.1: Announcement Letter on the spot checks audit on operations

2.2: Minutes on the spot checks audit on operations

2.3: Transmission letter Provisional Report audit on operations

2.4: Provisional Report audit on operations

2.5: Final Report audit on operations

2.6: Follow up form audit on operations

2.7: Declarations of absence of conflict of interest

2.8: Declarations of absence of conflict of interest for GoA delegates

2.9: Audit on operations check list

2.10: Audit on operations follow up flow chart

2.11: Check list for MA service and supply expenditures

2.12: Check list for MA in house commitments

2.13: Check list MA human resources and travel expenditures

2.14: Simplified Cost Option check list

2.15: Table of classification of types of irregularity reported

Audit on accounts

3.1: Audit on accounts starting letter

3.2: Minutes on the spot checks audit on accounts

3.3: Transmission letter Provisional Report

3.4: Provisional Report audit on accounts

3.5: Transmission letter Final Report

3.6: Final Report audit on accounts

3.7: Follow up form audit on accounts

3.8: Check list audit on accounts

3.9: Check list Annual Summary of controls

3.10: Check list Technical Assistance expenditures

3.11: Follow up flow chart audit on accounts

Annual Audit Report

4.1: Annual Audit Report model

4.2: Audit Opinion model

Others model

5.1: Risk assessment form

5.2: Quality Review check list

5.3: Audit Planning Memorandum