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## **Audit Authority ENI CBC MED Programme**

Cross Border Cooperation within the European  
Neighbourhood Instrument

### **MEDITERRANEAN SEA BASIN PROGRAMME 2014-2020**

#### **Annex 3.6**

#### **Final Report on Audit on Annual Accounts**

# **Audit Manual**

Version 2.0

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



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**ENI CBC MED AUDIT AUTHORITY**  
**PROGRAMMING PERIOD 2014/2020**  
**ENI CBC MED JOINT OPERATIONAL PROGRAMME**  
**PROVISIONAL REPORT ON AUDIT ON THE ANNUAL ACCOUNTS**  
**(Article 28.1 of the Regulation (EU) 897/2014)**

<u>Joint Operational Programme Decision:</u>	European Commission n. C(2015)9133 of the 17 <sup>th</sup> December 2015
<u>Joint Operational Programme title:</u>	ENI CBC MED 2014-2020 European Neighborhood Instrument Cross (ENI) Cross-Border Cooperation (CBC) Mediterranean Sea Basin (MED)
<u>Audit period:</u>	01/07/2019 – 30/06/2020 (Accounting year 2019 – 2020)
<b>Audit Authority</b>	Regione Autonoma della Sardegna - Assessorato della programmazione, bilancio, credito e assetto del territorio  Direzione Generale dei servizi finanziari - Servizio Autorità di Audit PO ENI CBC MED  Via Cesare Battisti s.n. - 09123 Cagliari  Contact person: Dr. Enrica Argiolas  E-mail: <a href="mailto:eni.audit@regione.sardegna.it">eni.audit@regione.sardegna.it</a>
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<b>Managing Authority</b>	Presidenza della Regione Autonoma della Sardegna  Ufficio speciale dell'Autorità di Gestione Comune del PO ENI CBC Bacino del Mediterraneo  Via Bacareda, 184 - 09127 Cagliari
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Audit starting date	8 <sup>th</sup> September 2020
Check date	Starting date: 16 <sup>th</sup> October 2020 – Ending date: 22 <sup>th</sup> February 2021
Person in charge of the checks	Dr. Enrica Argiolas – Director – Audit Authority Dr. Linda Gorini - - Audit Authority officer Dr. Marcello Lubino - Audit Authority officer Dr. Severino Ostorero – Audit Authority officer
Audit Report release date	22 <sup>th</sup> February 2021



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## **EXECUTIVE SUMMARY**

### **• Preamble**

The ENI CBC MED 2014 – 2020 Audit Authority, hereinafter AA, based on the timetable as included in the ENI CBC MED 2014 - 2020 Audit Strategy version 2.1 in force (as adopted with Decision No. 253 of 27<sup>th</sup> February 2020), performed the audit on the Programme Annual Accounts of:

- the ENI CBC MED Programme 2014-2020, as established through EC Decision number C(2015) 9133 of 17 December 2015, as kept by the ENI CBC MED Programme Managing Authority (MA), which was designated through Regional Government Decision (DGR) 53/1 of 29<sup>th</sup> October 2018.

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

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

With Notice Ares (2020) 2761582 of 28/05/2020, DG Regio contested the choice of the Audit Authority of the ENI Programmes to verify the Technical Assistance expenditures of the Programme as part of the audit on the accounts instead of considering them as part of the Audit on projects (operations).

During a meeting organized by TESIM for the ENI AdAs held on 26.10.2020, DG Regio officially established that the Technical Assistance expenditures of ENI programmes shall be audited in the context of the Audit on projects (operations).

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

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



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As the revision implies a lot of time and efforts, as Audit Strategy, Audit Manual, procedures and many check lists and audit tools are going to be amended, but AA audit activities for the accounting year 2019-2020 needed to be carried out as soon as possible, the AA decided to perform audit on projects for the accounting period 2019-2020 following the new approach as established by DG Regio.

A new audit on project and sampling methodology was drafted by the AA and shared with DG Regio with email of 30.11.2020. The proposed methodology, which consisted in separately treating the verification of pre-financing and the verification of the TA expenditures, has been the following:

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

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

For these reasons, the audit on prefinancing has been carried out in this way:

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

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

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

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



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

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

This new approach provided by DG Regio and the consequent additional tasks generated some delays in the implementation of the activities related to the preparation of the Annual accounts. As a consequence, also following the official request of the AA (Prot. n. 1999 of 19.01.2021), the MA sent an official request to the EC on 29.01.2021, in order to extend the deadline set out in paragraph 1 of Article 77 of Commission Implementing Regulation (EU) N° 897/2014, as amended by Commission Implementing Regulation (EU) N° 2020/879, until 1 March 2021. This request has been accepted by the EC with Notice Ares(2021)937848 of 03.02.2021.

## • **Audit Opinion**

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

- the accounts give a true and fair view, **as established by Article 68(4) of Regulation (EU) No 897/2014;**
- the expenditure in the accounts, for which the clearing has been requested in the amount of **40.983.862,16 Euro** from the Commission is legal and regular.

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

## • **Objectives**

The general objective of this Audit on the Annual Accounts is to provide a reasonable assurance on the completeness, accuracy and truthfulness of the amounts declared in the accounts, in order to confirm that all the elements required by Article 68.4 of the Reg. (EU) 897/2014 are correctly included in the accounts and supported by the accounting documents kept by the Managing Authority of the Programme.



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Particularly, the Audit on Programme Annual Accounts intended to verify whether:

- the programme accounts give a true and fair view, the related transactions are legal and regular and the control systems properly put in place exist and function;
- the audit work as planned and performed by the Programme Audit Authority puts in doubt the assertions made in the Management Declaration referred in Article 68.4 of the Reg. (EU) 897/2014, point (b) of paragraph 2.

In this respect, it is worth to mention that for the accounting period ending on June 30,2019, no expenses on granted projects have been included (i.e., only technical assistance costs are declared by the MA).

- **Main checks**

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

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

- **Corrective measures**

With reference to corrective measures needed to overcome criticalities as detected, please refer to this Report (see below).

The Managing Authority must put in place all the necessary fulfillments and adopt the appropriate corrective measures to overcome all weakness as mentioned therein, within the related deadline.



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## **AUDIT REPORT**

### **1. Legal basis**

The audit activity was carried out in accordance with EU legislation and the guidelines of the European Commission, and in particular:

- Regulation (EU Euratom) No. 1046/2018 of the European Parliament and of the Council (Financial Regulation);
- Regulation (EU) No. 1299/2013 of the European Parliament and of the Council of 17<sup>th</sup> December 2013;
- Regulation (EU) No. 1303/2013 of 17<sup>th</sup> December 2013;
- Regulation (EU) No. 232/2014 of 11<sup>th</sup> March 2014;
- Regulation (EU) No. 236/2014 of 11<sup>th</sup> March 2014;
- Commission Implementing Regulation (EU) No. 897/2014 of 18<sup>th</sup> August 2014;
- EGESIF 15-0016-02def - Guidance for Member States on Audit of accounts;
- EGESIF 15-0017-02 - Guidance for Member States on amounts withdrawn, recovered, to be recovered and irrecoverable amounts;
- EGESIF 15-0018-04 - Guidance for Member States on preparation, examination and acceptance of accounts;
- 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;
- EGESIF 150008-05 Guidance for Member States on the drawing of Management Declaration and Annual Summary;
- ENI CBC MED Programme 2014-2020 Audit Strategy adopted by the AA with Decision No. 111 of 14<sup>th</sup> February 2019;
- Audit Manual adopted by the AA with Decision No. 721/31873 of 27<sup>th</sup> September 2018.

The audit activities were also based on methodological criteria compliant with the following international control standards:

- International Standards for the Professional Practice of Internal Auditing (IIA) developed by The Institute of Internal Auditors;
- International Standards of Supreme Audit Institutions (ISSAI) developed by the International Organization of Supreme Audit Institutions (INTOSAI).





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The audit activity was carried out in accordance with EU legislation, as set by the Regulation (EU) No. 897/2014 of 18<sup>th</sup> August 2014. In particular, Article 28 paragraph 1 regarding the functions of the Audit Authority states that "The Audit Authority of the programme shall ensure that audits are carried out on the management and control systems".

The procedures for carrying out the audit as mentioned are included in the Audit Authority Manual version 2.0, as approved by the AA with Decision No. 666 of 12<sup>th</sup> June 2020, as well as in the ENI CBC MED Audit Strategy version 2.1, as adopted by the Audit Authority with Decision No. 253 of 27<sup>th</sup> February 2020.

The audit activities have been also based on methodological criteria in line with most relevant international standard on controls, as included in the above-mentioned AA Strategy in force.

## **2. Control environment**

The audit on the annual accounts of the ENI CBC MED Programme relates to the 2019/2020 accounting year (starting date: 01.07.2019 - ending date: 30.06.2020).

The audited bodies are the Managing Authority and the Programme bodies as concerned. The auditing activity has been carried out in compliance with the legal basis as mentioned in paragraph 1. With reference to the responsibilities and deadlines for the preparation of the annual accounts, an official agreement between the MA and the AA has been signed on 05.10.2020.

## **3. Scope/Objectives**

The main objective of this audit on annual accounts is to provide the European Commission with a reasonable assurance as regard to both the legality and regularity of the declared costs and the accuracy, completeness and truthfulness of the accounts.

In particular, the results of the audit work as performed by the AA on the accounts allow the MA to further adjust its accounts before the official transmission to the EC. With reference to the date to submit the annual audit report, audit opinion and accounts, which are due to be submitted on 15 February 2020, the MA sent an official request to the EC on 29.01.2021, in order to extend the deadline, set out in paragraph 1 of Article 77 of Commission Implementing Regulation (EU) N° 897/2014, as amended by Commission Implementing Regulation (EU) N° 2020/879, until 1 March 2021. This request has been accepted by the EC with Notice Ares(2021)937848 of 03.02.2021.



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The audit activities were conducted through a desk analysis approach, in compliance with the Sardinian Region provisions in force related to Sars-Covid 2 emergency.

#### **4. Performed audit activities**

The audit work focused on the following body:

- the Managing Authority (MA), as designated Authority for managing the ENI CBC MED 2014 - 2020 Joint Operational Program, as approved by the European Commission with Decision C (2015) 9133 of 17<sup>th</sup> December 2015.

Dr. Anna Maria Catte is the Director in charge of the ENI CBC MED Managing Authority.

According to the Article 26 of EU Regulation n. 897/2014, the Managing Authority is responsible for the financial management and control of the Programme, the selection and management of projects and ensures that the decisions of the Joint Monitoring Committee (JMC) of the Programme comply with the applicable law and provisions.

It is worth to remind that, in compliance EGESIF 150008-05 Guidance for Member States on the drawing of Management Declaration and Annual Summary, MA should promptly make available to the AA a copy of its final management declaration and the annual summary of the final audit reports and controls carried out including an analysis of the nature and content of errors and weaknesses identified in systems, as well as corrective actions taken or planned.

In this respect, such approach has been formally and informally stressed and recommended several times by the AA.

Thus, Programme authorities shall agree appropriate internal deadlines for the transmission of documents between them in a timely manner for the purpose of their respective responsibilities and deadlines.

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

- compliance with the deadline for the preparation and transmission of the accounts to the AA, in order to guarantee their presentation to the Commission within 01.03.2021;
- level of detail and aggregation of the data indicated in the accounts;
- correct preparation of the accounts according to the model set out by the EC;



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- completeness of the data contained in the accounts;
- adequate conservation of the documents used for the preparation of the accounts;
- accuracy and truthfulness of the data contained in the accounts;
- complete and correct consideration, within the accounts, of the corrections requested by the AA or by other subjects, including the European Commission and the European Court of Auditors if applicable;
- adequacy of the information and documentation available from the MA and Programme bodies as concerned.

## **DESK PHASE 1**

### **A. Audit on accounts**

#### ***A.1. 08.09.2020: Start of the procedure for the presentation of the annual accounts***

Given the absence of an agreement between the Audit Authority and the Managing Authority which establishes the timing relating to the Audit on the annual accounts, the AA started the procedure for submitting the annual accounts relating to the accounting year 2019 / 2020 with Notice Prot. N. 29096 of 08/09/2020 "Accounting year 2019 - 2020. Presentation of annual accounts. Financial data request", with which the documents relating to the annual accounts referred to the accounting year 2019 - 2020 were formally requested, with an indication of the respective deadlines.

#### ***A.2. 05.10.2020: Signing of the agreement between AA and MA***

The agreement between the AA and the MA for the preparation and transmission of the Reliability Package to the EU Commission and on the information flows of the ENI CBC MED OP, concerning the timing of the annual accounts submission procedure was signed on 5 October 2020.

#### ***A.3. 04.11.2020: Sending of the complete provisional accounts***

The Managing Authority, with Notice Prot. n. 2084 of 04.11.2020 (AA Prot. n. 38584 of 09.11.2020) sent the complete provisional accounts relating to TA expenses (a second version of the accounting report) together with:

- updated checklists relating to the checks carried out by the Accounting Unit on MA and AA "staff" and "travel and subsistence" costs, MA contracts and Assessor selection;
- additional control reports on AA contracts;
- additional control reports on MA contracts.



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It is worth specifying that the MA had previously sent the partial provisional accounts related to the sole Technical Assistance expenditures on 16.10.2020, with Notice Prot. n. 1968/2020 of 16/10/2020 "Transmission of provisional accounts relating to Technical Assistance expenditure from July 1, 2019 to June 30, 2020", together with:

- Documentation relating to the BO of AQABA;
- Documentation relating to the BO of Valencia;
- Documentation relating to "staff" and "travel and subsistence" costs with the related check lists used by the Accounting Unit;
- First level control reports on tenders and contracts.

***A.4. 16.11.2020: Communication regarding both the procedures for the acquisition of goods and services and the contracts in charge of the MA Authorising Unit***

The Director of Authorising Unit, with Notice Prot. n. 2138 of 16.11.2020 (AA Prot. n. 39964 of 16.11.2020), communicated the list of procedures of goods and services already started and to be launched soon.

***A.5. 18.11.2020: Sending of new tables of provisional accounts which replaced the previous versions***

Upon notification from the AA, the MA Accounting Unit sent, by email, the new tables of provisional accounts which replaced those previously sent. In particular, tables 3.1 Staff costs (Raffaella Melis monthly salary for June 2020 was missing) and 3.5 Subcontracted costs (the description of the individual contracts was integrated with an indication of the reference number and date) have been integrated. The formula for partial sums has been also corrected.

***A.6. 20.11.2020: Further documentation accompanying the annual accounts up to the definitive operation of the MIS***

The Director of the Accounting Unit, with Prot. n. 2173 of 19.11.2020 (AA Prot. n. 41062 of 20.11.2020) sent detailed documents, as foreseen by the agreement between AA and MA. In particular, the statements referred to in points a) b) c) f) were sent. It should be noted that the "travel and subsistence" expenses carried out by the staff referred to in table b), have not been included, since the detailed data can be found in the report already sent and referring to the accounting year 01.07.2019-30.06.2020.

In support of the annual accounts, the following data relating to:

- list of mandates from SIBEAR;



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- EC pre-financing;
- summary of personal expenses;
- summary of contract costs.

#### ***A.7. 01.12.2020: Further changes in the accounts***

Following some errors highlighted by the AA, the Director of the Accounting Unit, via email, declared the following:

“The correct amount for the "Incurred costs Certified by Auditor \* (EUR) - current reporting period" is 111.021,99 (cell D7 sheet 3), which corresponds to cell J 321 of sheet 3.1. Incorrectly, the amount in cell E7 corresponds to the amount paid by Aqaba in Euros and not to the amount certified by the Auditor. Therefore, the figure 135.239,43 shall be replaced with the figure 111.021,99 taken from cell J321”.

#### ***A.8. 22.12.2020: MA Notice to communicate the delay in sending the accounts***

The Director of the Accounting Unit communicated via email that the deadline foreseen by the Agreement signed between the MA and the AA for the sending of the final accounts of the ENI CBC MED Programme cannot be respected, since the first level control over staff costs was still ongoing.

#### ***A.9. 22.12.2020: Sending of the Summary of controls and the Management Declaration***

The MA, with Notice Prot. n. 48220 sent:

- Summary of controls and Management Declaration;
- Audit trail and check list on the Management Declaration;
- Check list on the existence and functioning of the ENI CBC MED Programme internal control;
- Signed check list on the existence and functioning of the internal control of ENI CBC MED Programme.

#### ***A.10. 04.01.2021: Sending of rectified accounts following the first level control of the external auditor***

The MA, with Notice Prot. n. 6/2021 of 04.01.2021, sent the complete rectified accounts relating to the Technical Assistance expenses of the ENI CBC MED Programme and the report of the first level controls on "staff" and "travel" expenditures.



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#### ***A.11. 12.01.2021: Request from the AA***

Following the MA Notice (Prot. n. 6 of 04/01/2021) and also considering the MA notable delay in the Annual Accounts preparation, the AA asked the MA by email to send again the Accounts. In this email, the AA also requested the MA to highlight all the changes made with respect to the previous Provisional Accounts official transmission, rectified by email of 18.11.2020 and already subjected to the AA checks.

#### ***A.12. 22.01.2021: Submission of further correction of annual accounts***

The MA sent a further version of the annual accounts, modified and corrected by the external first level auditor and which replaced the ones sent on 04.01.2021.

In the version sent on 04.01.2021, there were errors (a formula error for the salary of Raffaella Melis salary of September 2019 of € 5,356.50 instead of € 5,322.93. The Excel file was therefore corrected but in the audit report there is an error of about 30 euros).

The correct amount is the one ascribed in the “accounted costs” column (€ 5,322.93) while in the “Eligible cost in payment currency” column the wrong amount of € 5,356.50 was erroneously reported.

#### ***A.13. 26.01.2021: AA Notice requesting to receive all communications from the EC***

Upon specific request, the AA received by email the communication from DG REGIO, sent to the MA in December 2020 but never sent to the AA, which included the new annual accounts statement and the related explanatory note for the compilation.

The AA also highlighted to the MA the importance of transmitting and sharing all communications from the Commission relating to the Programme with the AA, in order to allow the latter to promptly fulfill the commitments and tasks foreseen by the Programme.

#### ***A.14. 03.02.2021: Transmission of the rectified complete provisional accounts relating to Technical Assistance expenses from 1 July 2019 to 30 June 2020***

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

The following documents have been attached to the MA Notice:

- Annex 1\_ENICBC\_Report\_from 07-2019 to 06-2020



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- Annex 2\_ENI CBC\_Financial report Accounting year 2019-2020\_signed
- Attachment 3 checklist
- Annex 4\_Reviewed report with evidence of declared ineligible expenditures
- Annex 4\_ENI CBC\_Financial report Accounting year 2019-2020

#### **A.15. 15.02.2021: Request of the Explanatory note on annual accounts**

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

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

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

#### **A.16. 18.02.2021: Transmission of the Complete Final Provisional Accounts**

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

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

#### **A.17. 19.02.2021: Sending of the Provisional Audit Report on the Complete Final Provisional Accounts**

On February 19, 2021, the AA anticipated by e-mail the MA with its provisional Report on annual accounts. In this respect, by considering the tight deadline for sending it to the Joint Monitoring Committee as part of the repliability package, the AA requested to transmit MA counterarguments by 22.02.2021 at the latest.



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Due limitation in the Regional information system as occurred for a massive update, the AA Note reference was sent with its Notice Prot. n. 6284 of 22.02.2021.

## **B. Audit on projects**

### ***B.1. 09.12.2020: Recruitment of an external auditor to carry out the administrative-accounting checks and the certification of the costs incurred under the ENI CBC MED Programme 2014-2020***

Pursuant to art. 36 paragraph 2 lett. a) Legislative Decree. 50/2011, the AA launched a tender for the recruitment of an external auditor to “perform the administrative-accounting checks and the certification of the costs incurred under the ENI CBC MED Programme 2014-2020” (AA Notice Prot. n. 44752 of 09.12.2020).

The external auditor (Dr. Maria Chiara Grasselli) signed the contract on 22.12.2020 and concluded her tasks on 16.02.2021, with the transmission of the Final Audit Report on the operations.

### ***B.2. 14.12.2020: First Sampling***

The AA analysed the provisional annual accounts sent by the MA with note n. 2084 of 04.11.2020 (see section Audit on accounts - point A.3), as further implemented with email of 18.11.2020 (see section Audit on accounts - point A.5), to identify the population of expenditures to be audited on a sample basis.

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

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





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

This led to the identification of a population of 661 units (operations). The AA extracted the pilot sample of 30 operations (see minutes of the 14.12.2021).

Due to the considerable delay consequent to the dispute with DG Regio on TA expenditures audit, and considering the other audit activities in place for the accounting period 2019-2020, the AA decided to outsource the audit on projects activities (see point section Audit on projects – point B.1).

### ***B.3. 27.1.2021: Main findings of the Provisional Audit Report on projects***

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

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

The AA performed an extensive examination of the issue, also shared with IGRUE and Tesim experts. The conclusion was that the criticality found by the external auditor should be considered as a mere administrative error (**clerical error**) and not as an irregularity affecting the sample error rate and having to be projected onto the final population.

### ***B.4. 01.2.2021: Implemented version of the Provisional Audit Report on projects***

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

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



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

#### ***B.5. 02.2.2021: Sending of the Provisional Audit Report on projects to the MA***

With note n. 3836 of 02.02.2021, the Audit Authority (AA) sent to the Managing Authority (MA) of the ENI CBC MED Programme the provisional report of the audit on projects on the pilot sample of technical assistance expenditures and its annexed check list, with the abovementioned recommendations.

#### ***B.6. 03.02.2021: MA counterarguments***

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

Based on the new data submitted, the AA made the consequent changes in the file used for sampling during the first stage of the procedure, and draw up a new list of statistical units to be retested, consisting of 619 statistical units, excluding those already extracted in the pilot sample (661 units in the initial population, minus 13 units deleted from MA, of which 1 included in the pilot sample, minus the other 29 units from pilot sample=661-13-29=619).

As no errors were found in the pilot sample (clerical errors are not to be *“not considered an error for the calculation of the TER”*, as already explained), it was not possible to obtain from the audit on the pilot sample an estimate of the parameters  $\sigma_e$  and  $AE$  of the population, as originally planned.

Therefore, based on its professional judgement and adopting a prudential approach, since the level of reliability of the management and control system of the Programme was assessed in Category 2 in the last system audit, the AA decided to extract a new sample of operations to be audited, setting the size of the final sample to be audited (including operations from the pilot sample) equal to 10% of the TA expenses and to at least 5% of the operations, applying by analogy the same recommended coverage for a non statistical random sampling (cfr. EGESIF\_16-0014-01 20/01//2017).



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In this respect, considering that the total amount of the new provisional accounts sent by the MA was € 3,593,257.31, that the total book value of the pilot sample consisting of 30 transactions was € 86,224.55 and that MA deleted one of the 30 transactions sampled, for a total of € 4,574.69, bringing the verified pilot sample to 29 units accounting for € 81,649.86, the objective of the new AA sampling was to randomly select a number of statistical units ensuring 10% of the total amount of the accounts, i.e. an additional € 277,675.87.

#### **B.7. 04.2.2021: Second sampling**

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

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

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

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

#### **B.8. 16.2.2021: Provisional Audit report of the second sample of operations**

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

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

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

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



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

### ***B.9. 17.2.2021: Final Audit Report of the second sample of operations***

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

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

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

With note n. 5806 of 17/02/2021 the AA sent to the MA the Final Report of the audit on projects for the accounting year 2019-2020 (amended with email of 18.2.2021 for mere clerical error).

The results of the audit on project have been the following:

- No irregularities were detected.
- A minor recommendation was issued:

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

## **DESK PHASE 2**

### **A. Audit on accounts**

#### **A.1. 22.02.2021: Transmission of the Complete Final and Definitive Accounts package**

Following the AA Note reference with its Notice Prot. n. 6284 of 22.02.2021 in compliance with the agreement in force between Authorities, with the official Notice (Prot. n 394 of 22.02.2021), the MA sent the Final and Definitive Annual Accounts of the ENI CBC MED Programme for the accounting year 01.07.2019-30.06.2020. The package as sent by the MA was composed by:

- The Summary of controls\_AY\_07.2019-06.2020\_22.02.2021
- The Management declaration\_AY\_07.2019-06.2020\_22.02.2021\_signed
- Annex 4\_ENI CBC\_Financial report Accounting year 2019-2020 22feb2021



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- Cartel1 (fg2 a colori)
- ENI CBC ACCOUNTS TEMPLATE (DECEMBER 2020) 22feb2021
- Relazione 18feb2021-convertito\_signed
- The transmission letter which highlighted the absence of counterarguments on the AA provisional report on the Complete Final Provisional Accounts (see point Desk Phase 1. A.17);

#### **A.1. 22.02.2021: AA completion of verification and of the Final Report on Audit on Annual Accounts**

Further to the receipt of the Complete Final and Definitive Accounts package (see previous point), on the same day the AA completed its verification and finalized the related Final Report on the Complete Final and Definitive Accounts.

#### **Results of Audit activities**

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

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

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

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



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

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

The overall amount of EU funding for clearing as declared by the MA in the OP accounts and audited by the AA is resumed in the following Table 1.

**Table 1 - EU funding for clearing in the Reporting Period**

ENI CBC MED Programme items	Total eligible expenditure in Euro declared by the MA as incurred and paid in the reporting period
<b>A) Project expenditure (concerning 41 1<sup>st</sup> prefinancings for Standard Call projects only)</b>	<b>38.459.489,28</b>
<b>B) Technical assistance expenditures</b>	<b>2.524.372,88</b>

Audit activities (desk based only) as performed on Project prefinancings and Technical Assistance expenditures as declared are detailed herein after.

**A) Project expenditure (concerning 41 1st prefinancings for Standard Call projects only)**

A1) Reperforming on 1<sup>st</sup> prefinancings

Following the methodology as approved by DG REGIO (see Preamble Section) the AA decided to carry out a reperforming of the prefinancing procedure in the context of the system audit 2019-2020, in order to verify the only projects-related costs for this accounting period.

The test was carried out on a sample basis.



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A total of 41 projects were approved under the first call for standard projects and all of them received a prefinancing within 30.6.2020, so this was considered as the population to be sampled. This low number of operations did not allow for statistical sampling so a non statistical random sampling method was applied. Following EGESIF\_14-0010 of 18/12/2014 and EGESIF\_16-0014-01 20/01/2017 guides, and considering an evaluation on the management and control systems equal to “2 - Works. Some improvements needed” (as obtained from the last system audit, see assurance package of February 2020, as amended in July 2020), the AA decided to audit 10% of the operations, so 4 projects were selected from the population of 41 projects.

On 11.1.2021 the random sampling of prefinancing to projects took place, carried out by AA staff, resulting in the selection of the following projects:

<b>Project Reference</b>	<b>Beneficiary name</b>
A_B.4.1_0249 MEDISS	Palestinian Wastewater Engineers Gr (PWEG)
A_B.4.3_0146 GreenBuilding	Region of Peloponnese focus BMP1/1/2
A_A.1.2_0306 ORGANIC ECOSYSTEM	Organic-ecosystem project
A_A.3.2_0286 MoreThanAJob	An-Najah National University

On the same day, an email was sent to the MA, announcing the AA intention to carry out the reperforming activities on the prefinancing, the results of the sampling activities, and asking for the documentations about the 4 sampled projects, in order to verify the prefinancing procedure.

On 11, 12 and 14 January 2021 the MA sent all the requested documents. After a preliminary assessment, further documents and explanations were required by AA on 18.1.21 through email. The same day the MA provided all the explanations and missing documents.

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

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



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

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

In particular, the AA examined the following documents for all the selected projects:

- Project Selection Committee (PSC) evaluation report step 2 and its annexes
- MA decision n. 105/2 of 01/02/2019 and its annexes, reporting the list of the selected projects under the first call for standard projects
- Letter transmission grant contract
- Grant contract and its annexes
- Addendum to contract, if the case may be (only for MEDISS)
- Formal acts of commitment and payment
- Check lists on commitment and payment procedure
- MA decision n. 887/73 of 26.6.2019 and its annexes, establishing criteria for financial guarantee and risk analysis
- Financial Identification Form (FIF)
- State aid check
- State aid declaration, if the case may be (Organic ecosystem)
- Financial guarantee, if the case may be (only for MoreThanAJob)
- Anti-mafia certification (MoreThanAJob)
- Commitments, payments, accounting registrations

The results of the reperforming on the 4 projects can be summarized as follows:

- the prefinancing process was carried out as described in the DMCS and in compliance with the rules and requirements of the ENI OP and the JOP;
- the check lists and documentation of the process, as provided by the MA, are exhaustive and correctly filled in;





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- a report of the verifications carried out by the MA as regard the prefinancing process is missing.

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

The 5<sup>th</sup> project of the list from the abovementioned sampling procedure was then selected:

<b>Project Reference</b>	<b>Beneficiary name</b>
A_A.3.2_0376 TEC-MED	Universidad de Sevilla

and a formal email to MA was sent on 22 January 2021, announcing the AA decision and asking for the documentations about the 5<sup>th</sup> project.

Same controls as described in the above section for the former selected projects were made on this project too, and same results were obtained and confirmed.

#### A2) Administrative verifications

As part of the administrative checks on pre-financing disbursed, on 16/12/2020, the AA extracted from the OP Information System (MIS) the summary data of the projects financed by the Programme.

The extraction and its outcome were preparatory to the subsequent audit carried out with the aim of punctually verifying the following elements:

- the actual percentage of pre-financing disbursed in relation to the project budget;
- the presence of non-standard cases compared to the usual contractual conditions for the first pre-financing (i.e., Article 7 - Payment arrangements 7.1 -Payments shall be made according to the following procedure: *“A first pre-financing instalment of EUR [...], Corresponding to ...% (40%) of the total ENI contribution (as specified in Article 3.2) shall be paid to the Lead Beneficiary within 30 working days, as from the date of reception by the Managing Authority of the signed Contract accompanied by the financial guarantee, if required. The signed Contract serves as payment request.”*)”



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- the reasons for the specific case of Project A\_A.1.1\_0181 IPMED as already reported in the OP provisional accounts transmitted by MA 18/11/2020, and indicated as recovery case in section "2.2 Recoveries, waivers" for EUR 645,081.29 from first pre-financing transfer indicated as "*in excess*".

In this regard, after extraction, concealing of not relevant cells and filtering of standard the 41 projects financed under the standard call, 3 additional columns and ad hoc excel functions have been inserted on the right side of the file, allowing the identification of potentially priority cases in the audit of the accounts with respect to the need for reconciliation with OP data in final accounts file, namely:

- cases of rounding (where appropriate, the methodology used in committing/liquidating the amounts to the beneficiaries was verified);
- special cases for procedural and documentary verification of percentages other than the standard one for the first pre-financing as reminded and the reasons for this.

The results of this audit activity are shown in Table 2 below.



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Call	Reference number	Acronym	ENI contribution (€)	Total project budget (€)	Co-financing (€)	Procedural status	Transferred prefinancing (€)	RECONCILIATION OF THE 1ST PREFINANCING	TEST <40,00%>	NOTE BY AA
1 CALL STD	A_B.4.1_0027	AQUACYCLE	2.354.799,29 €	2.328.665,88 €	289.866,59 €	Money transferred to	1.021.924,88 €	40,00%	CONFIRMED	
1 CALL STD	A_B.4.3_0034	BERLIN	2.381.440,71 €	2.369.267,46 €	286.826,75 €	Money transferred to	1.032.576,29 €	40,00%	CONFIRMED	
1 CALL STD	A_B.4.2_0038	CEOMED	2.872.408,51 €	3.391.539,45 €	319.135,95 €	Money transferred to	1.148.961,46 €	40,00%	CONFIRMED	
1 CALL STD	A_B.4.2_0070	CLIMA	2.353.067,54 €	2.326.741,72 €	289.674,17 €	Money transferred to	1.021.227,02 €	40,00%	CONFIRMED	
1 CALL STD	A_B.4.2_0095	DECOST	2.710.108,30 €	3.011.231,44 €	301.123,14 €	Money transferred to	1.084.048,32 €	40,00%	CONFIRMED	
1 CALL STD	A_A.1.2_0132	FRSHMEDNET	2.017.918,35 €	2.342.131,50 €	234.213,15 €	Money transferred to	807.167,34 €	40,00%	CONFIRMED	
1 CALL STD	A_B.4.3_0146	GreenBuilding	1.984.382,00 €	2.215.980,00 €	221.598,00 €	Money transferred to	797.752,80 €	40,00%	CONFIRMED	
1 CALL STD	A_A.2.2_0148	GREENinMED	1.422.122,29 €	1.580.135,88 €	158.013,59 €	Money transferred to	368.848,92 €	40,00%	CONFIRMED	
1 CALL STD	A_A.3.1_0155	HELIOS	2.512.289,72 €	2.791.437,46 €	279.143,75 €	Money transferred to	1.004.917,48 €	40,00%	CONFIRMED	
1 CALL STD	A_A.2.2_0172	INNOMED-UP	2.879.186,72 €	3.189.096,35 €	319.909,64 €	Money transferred to	1.151.674,89 €	40,00%	CONFIRMED	
1 CALL STD	A_A.3.1_0175	InnovAgroWomEd	2.469.208,95 €	2.828.171,21 €	368.962,26 €	Money transferred to	967.683,58 €	40,00%	CONFIRMED	
1 CALL STD	A_A.2.1_0190	LIVINGAGRO	2.999.847,35 €	3.333.168,72 €	333.316,37 €	Money transferred to	1.199.938,94 €	40,00%	CONFIRMED	
1 CALL STD	A_A.1.3_0210	MedPearls	2.713.619,40 €	3.015.132,67 €	301.513,27 €	Money transferred to	1.085.447,76 €	40,00%	CONFIRMED	
1 CALL STD	A_B.4.4_0229	MED4EBIM	2.979.213,84 €	3.310.237,60 €	331.023,76 €	Money transferred to	1.191.685,54 €	40,00%	CONFIRMED	
1 CALL STD	A_A.1.2_0261	MedSNAIL	1.825.926,97 €	2.028.807,74 €	202.880,77 €	Money transferred to	730.370,79 €	40,00%	CONFIRMED	
1 CALL STD	A_A.3.2_0265	MedTOWN	2.979.779,45 €	3.444.831,73 €	465.052,28 €	Money transferred to	1.191.911,78 €	40,00%	CONFIRMED	
1 CALL STD	A_A.3.2_0286	MoreThanAJob	1.846.437,30 €	2.051.597,00 €	205.159,70 €	Money transferred to	738.574,92 €	40,00%	CONFIRMED	
1 CALL STD	A_B.4.1_0290	NAWAMED	2.928.397,59 €	3.253.775,10 €	325.377,51 €	Money transferred to	1.171.339,04 €	40,00%	CONFIRMED	
1 CALL STD	A_A.1.2_0306	ORGANIC ECOSYSTEM	2.183.996,47 €	2.428.831,64 €	242.835,16 €	Money transferred to	874.386,59 €	40,00%	CONFIRMED	
1 CALL STD	A_A.3.2_0376	TEC-MED	2.998.102,80 €	3.331.225,33 €	333.122,53 €	Money transferred to	1.199.241,12 €	40,00%	CONFIRMED	
1 CALL STD	A_B.4.3_0033	BEEP	1.740.786,06 €	1.984.184,51 €	198.418,45 €	Money transferred to	696.306,42 €	39,99%	PLEASE VERIFY	
1 CALL STD	A_A.2.1_0035	BESTIMEDGRAPE	2.658.891,66 €	3.323.614,57 €	664.722,91 €	Money transferred to	1.063.536,66 €	39,99%	PLEASE VERIFY	
1 CALL STD	A_B.4.4_0075	Co-Evolve4BG	2.639.973,37 €	2.993.308,74 €	299.330,37 €	Money transferred to	1.055.731,05 €	39,99%	PLEASE VERIFY	
1 CALL STD	A_B.4.4_0080	COMMON	2.001.079,33 €	2.223.421,48 €	222.342,15 €	Money transferred to	800.481,73 €	39,99%	PLEASE VERIFY	
1 CALL STD	A_A.1.3_0090	CROSSDEV	2.256.890,53 €	2.307.636,15 €	230.765,61 €	Money transferred to	902.756,21 €	39,99%	PLEASE VERIFY	
1 CALL STD	A_B.4.3_0123	ESMES	2.999.999,13 €	3.333.332,37 €	333.333,24 €	Money transferred to	1.199.999,65 €	39,99%	PLEASE VERIFY	
1 CALL STD	A_A.1.1_0142	GIMED	2.369.795,66 €	2.623.106,29 €	262.310,63 €	Money transferred to	947.918,26 €	39,99%	PLEASE VERIFY	
1 CALL STD	A_A.1.1_0181	IPMED	1.075.135,48 €	1.124.594,98 €	119.459,50 €	Money transferred to Beneficiary	430.054,19 €	39,99%	PLEASE VERIFY	RECOVERY ORDER IN OP ACCOUNTS
1 CALL STD	A_A.2.2_0195	MAIA-TAQA	2.850.717,01 €	3.167.469,34 €	316.746,33 €	Money transferred to	1.140.286,80 €	39,99%	PLEASE VERIFY	
1 CALL STD	A_A.1.3_0209	MEDGAIMS	2.143.114,23 €	2.381.238,04 €	238.123,80 €	Money transferred to	857.345,69 €	39,99%	PLEASE VERIFY	
1 CALL STD	A_B.4.3_0218	Med-EcoSuRe	2.641.371,03 €	2.994.836,70 €	299.465,67 €	Money transferred to	1.056.548,41 €	39,99%	PLEASE VERIFY	
1 CALL STD	A_B.4.2_0221	MED-InA	2.143.099,36 €	2.381.221,51 €	238.122,15 €	Money transferred to	857.239,74 €	39,99%	PLEASE VERIFY	
1 CALL STD	A_A.1.2_0234	MedArtSal	2.969.101,02 €	3.289.001,13 €	329.900,11 €	Money transferred to	393.820,20 €	19,99%	PLEASE VERIFY	
1 CALL STD	A_B.4.1_0248	MEDISS	2.238.375,95 €	2.487.084,39 €	248.708,44 €	Money transferred to	783.481,63 €	35,00%	PLEASE VERIFY	
1 CALL STD	A_A.1.1_0262	MEDSt@rts	2.547.935,73 €	2.821.039,71 €	282.103,97 €	Money transferred to	1.019.174,29 €	39,99%	PLEASE VERIFY	
1 CALL STD	A_A.1.3_0267	MEDUSA	2.963.583,01 €	3.317.314,45 €	331.731,45 €	Money transferred to	1.194.233,20 €	39,99%	PLEASE VERIFY	
1 CALL STD	A_B.4.1_0276	MINAWARA	2.613.525,26 €	2.903.916,95 €	290.391,70 €	Money transferred to	1.045.410,10 €	39,99%	PLEASE VERIFY	
1 CALL STD	A_B.4.1_0317	PROSIM	2.999.998,46 €	3.333.331,62 €	333.333,16 €	Money transferred to	1.199.999,38 €	39,99%	PLEASE VERIFY	
1 CALL STD	A_A.3.1_0329	RESMILE	1.977.522,78 €	2.197.247,54 €	219.724,75 €	Money transferred to	368.362,09 €	18,62%	PLEASE VERIFY	
1 CALL STD	A_A.1.2_0335	SMB4SMARTOTTIES	2.242.189,53 €	2.481.299,48 €	248.129,95 €	Money transferred to	896.867,81 €	39,99%	PLEASE VERIFY	
1 CALL STD	A_A.1.2_0379	TEX-MED ALLIANCES	2.540.480,45 €	2.821.739,83 €	282.273,38 €	Money transferred to	340.421,70 €	13,39%	PLEASE VERIFY	



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**In conclusion, having regard to the 41 pre-financings of granted standatd projects, the reperforming activity enlightened the correctness of the prefinancing process. Moreover, as for administrative verification, considering that figures for project's pre-financings as mentioned in the OP accounts package are unchanged, at the end of the AA verifications carried out, reconciliation with Programme accounts having regard to pre-financins is confirmed as well since no irregularities were found.**

## **B) Technical assistance expenditures**

### **B1) Audit on Project (operation)**

Having developed a new methodology for sampling and auditing projects in line with indications as received, the Audit Authority (AA) sent it to DG Regio on 30.11.2020 and, having received a positive opinion, on 10.12.2020, the AA adopted it through its decision n. 1475 of 16/12/2020.

Thus, based on this methodology, the AA started the audit on projects, including Technical Assistance expenditures only, which was carried out as follows:

- on 14.12.2020 the extraction of the pilot sample of 30 operations to be audited,
- on 18.12.2020 the AA formally entrusted an external auditor to carry out the audit,
- on 22.12.2020 the audit formally started by sending the opening letter including the list of operations extracted,
- on 27.01.2021, the external auditor in charge sent her provisional audit report to the AA, highlighting a specific cut-off issue related to the accounting imputation of a transaction of 1 out of the 30 operations verified.

In this respect, due to the actual payment of a monthly pay slip (September 2019) of € 4,574.70 the related HR cost was considered as non-eligible for the accounting period 01/07/2019-30/06/2020, such ineligibility depending on the actual date of disbursement, which occurred on 21/10/2020 and therefore outside the accounting period as mentioned.

By considering the external auditor report regarding the criticality found, first informally anticipated on 24.1.2021, and then formally sent on 27.1.2021, the AA performed an extensive examination of the issue, observing the following:



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- According to the ENI legal framework the Managing Authority does not submit periodic payments applications to the European Union, as is the case for ESIF programmes, because expenses are incurred in advance by the Sardinia Region and subsequently reimbursed by the Commission upon presentation and approval of the Programme annual accounts. Thus, only at that time misstatements as detected may become irregularities i.e., affecting the budget of the European Union.
- For the 2019-2020 accounting year, the annual accounts have not yet been submitted to the European Commission and therefore no prejudice to the EU budget occurred so far.
- The Sardinia Region actually incurred the cost related to the monthly payment of September 2019 in question and no other breaches of REG (UE) 897/2014 occurred. Thus, the cost as declared shall only be correctly re-booked to the right accounting period 2020-2021.
- EGESIF\_15-0002-04 Guide of 19/12/2018 defines the error as follows: "*an error/misstatement is a quantifiable overstatement of the Expenditure declared to the Commission due to an irregularity*".
- Regulation (EU) No 897/2014 of 18 August 2014, art.2, lett. m) defines the irregularity as follows: "*irregularities" means any infringement of a financing agreement, a contract or of applicable law resulting from an act or omission by an economic operator involved in the implementation of the programme, which has, or would have, the effect of prejudicing the budget of the Union by charging an unjustified item of Expenditure to the budget of the Union*".

From the above, the expenditure in question should not constitute an error within the time limits set out in the aforementioned EGESIF\_15-0002-04 Guide 19/12/2018 and therefore cannot contribute to determining the sample error rate, as the same guide states in par. 2, point 2.1, p. 42: "*The overstatement of Expenditure not related to irregularities (such as clerical mistakes made for example when copying or writing information manually) is not considered an error for the calculation of the TER.*"

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



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• on 1.2.2021, following a request from the AA to provide further information on the nature of the findings, the external auditor confirmed the AA observations as mentioned by sending an implemented version of the provisional audit report, which precises that: *“La spesa non ammissibile individuata risulta di incerta ascrivibilità alle irregolarità di cui all’art.2, lett. m) del REG (EU) 897/2014: condizione che non permette allo stato di determinare i parametri necessari a calcolare l’ampiezza del campione finale”*.

Based on these arguments, in its provisional Report AA addressed the Managing Authority with the following recommendations:

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

Therefore, based on the result of AA provisional report on projects which concerned a pilot sample only, on 2.2.2021, the Audit Authority (AA) sent to the Managing Authority (MA) of the ENI CBC MED Programme the provisional report on the audit of projects carried out on the pilot sample of technical assistance expenditures (Prot. N. 3836 del 02/02/2021).

In the counterarguments phase, with prot. n. 220 of 3.2.2021, the MA sent a new file of Programme provisional accounts for the 2019-2020 accounting year, correcting some items and deleting 15 cost items as well, bringing the total number of statistical units of the population to 648.

Based on the new data submitted, the AA made the consequent changes to the file used for sampling during the first stage of the procedure (see the sampling report by the AA of 14.12.2020) and to draw up a list of statistical units to be retested, eliminating those already selected from the first sampling.

Therefore, the new file therefore consisted of 619 statistical units, excluding those already extracted in the pilot sample.

On 04.2.2021, the new sampling of technical assistance expenditure took place to be verified as part of the audit of ENI CBC MED Operational Programme projects for the 2019-2020 accounting year.



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Following the audit findings on the first pilot sample, which showed an error rate of 0, it was not possible to determine the size of the final sample to be audited using the statistical formula for simple random statistical sampling, as originally planned, as the necessary parameters (standard deviation and AE) could not be determined. Thus, it was decided, on a prudential basis and since the level of reliability of the management and control system of the Programme was assessed in Category 2 in the last system audit, that the new sample should have been extended, up to both 10% of the total expenditure entered in the provisional accounts and 5% of the total population.

In this respect, considering that the total amount of the new provisional accounts sent by the MA was € 3,593,257.31 and that the total amount of pilot sample consisting of 30 transactions was € 86,224.55 and that MA deleted one of the 30 transactions sampled, for a total of € 4,574.69, bringing the verified pilot sample to 29 units for € 81,649.86 (2.27% of total operations), the objective of the new AA sampling was to randomly select a number of statistical units ensuring 10% of the total amount of the accounts, i.e. an additional € 277,675.87 (7,73 %).

The final sample was then identified by the AA consisting of a total of n. 55 units, for € 288,093.33 (equal to 8.02% of the total, rounded up).

The result of the sampling was then sent to the external auditor on 04.02.2021, followed by the documentary exchange phase and requests for clarification to the MA concluded on 15.02.2021.

The report of the external audition on the operations so sampled was received by the AA on 16.02.21.

**In conclusion, having regard to Technical Assistance expenditures as declared, by considering that at the end of verifications carried out by the external auditor in charge, who concluded its report with positive result as no irregularities were found, the AA confirms a positive evaluation.**



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## 5. Remarks and Recommendations

Following the assessment described in the previous section main findings as detected could be mentioned as follow:

Reference Document/s	Findings	Potential impact	Observation by the MA	Corrective measures	Deadline
1) The Programme accounts EC template for the accounting year (Article 68.2.(a) and 2.(f) of EU - Regulation n. 897/2014).	Missing information. In compliance with TESIM Note " <i>How to fill in the programme's annual financial report</i> " - December 2020 Section 2.2.2. <i>Amounts excluded from clearing of current year of Annual Report - II. Financial Part Article 68(2) of the Commission Implementing Regulation (EU) No 897/2014 – Ref. ARES (2020) 7538023 of 11/12/2020, shall also include includes any financial correction decision taken after June and before the date of issuing of the report, as well as any potential decision on</i>	Information on accounts is not properly presented, complete and accurate	Integration provided	Integration of data and consequent updated Annual Report - II. Financial Part Article 68(2) of the Commission Implementing Regulation (EU) No 897/2014 – Ref. ARES (2020) 7538023 of 11/12/2020, are needed, by considering the results of Audit on operation Final Report n. 2/2021 adopted by the AA	22/02/2021





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	a financial correction that has not yet been taken by MA. The body who identified the pending or decided correction must be indicated as well.			Decision n. 185 of 17th February 2021	
2) The Programme management declaration signed by the representative of the Managing Authority confirming that: (i) the information is properly presented, complete and accurate (Article 26 and 68.2.(b) of EU - Regulation n. 897/2014).	See previous point 1)	The completeness, accuracy and veracity of the accounts is not assured.	No observation	See previous point 1)	See previous point 1)
The Programme management declaration signed by the representative of the Managing Authority	NA	The intended purpose of expenditures as declares is not consistent with OP objectives		NA	NA



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<p>confirming that: (ii) the expenditure was used for its intended purpose (Article 68.2.(b) of EU - Regulation n. 897/2014).</p>					
<p>4) The Programme management declaration signed by the representative of the Managing Authority confirming that: (iii) the control systems put in place give the necessary guarantees concerning the legality of the underlying transactions (Article 68.2.(b) of EU - Regulation n. 897/2014).</p>	<p>a) Further updating of the DMCS in force (February 4, 202 version) and the reorganization and formal adoption of manuals and tools (i.e., checklists, etc.) is needed. In addition, it is also requested that minor implementations are made on the description of the first level controls carried out for all financial items (projects, MA&amp;BO TA, AA TA) and revision of the “on the spot checks procedure” (Annex 4 DMCS) to better define controls, category of</p>	<p>The legality of the underlying transactions is not guaranteed by the systems put in place by the MA.</p>	<p>No observation</p>	<p>Ensure proper updates to reinforce reasonable assurance.</p>	<p>31/03/2021</p>



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	<p>operations to be controlled, methodology for each control, etc. Moreover, statistical methodology for the selection of the operations to be controlled, as per EGESIF_16-0014-01 20/01/2017 guide, should be further defined and implemented;</p> <p>b) There is no confirmation of the regular updating of the accounting records in the OP computerized system (MIS) since: the area of the MIS devoted to the Programme account in general and to technical assistance funds in particular, as described in OP DMCS, is not implemented yet. Moreover, a proper and efficient organisation for all MA accounting documents</p>		<p>No observation</p>	<p>The completion of OP MIS shall be granted.</p>	<p>30/06/2021</p>
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	<p>shall be assured (e.g., for project files, checklists in use, audit trail, etc.) to facilitate control activities.</p> <p>c) Actual implementation of current Agreement with the AA for the accounting year ending on 30/06/2020 shows significant delays, only partly justified because of DG REGIO policy changes on ENI programmes reporting including accounts. Proper and respected internal deadlines and tools along with a prompt update of the agreement as mentioned (October 2020 version) are mandatory, in compliance with the last available set of guidelines and supporting documents for MA and AA as released by TESIM (See <a href="https://tesim-enicbc.eu/library/">https://tesim-enicbc.eu/library/</a>).</p>		<p>No observat ion</p>	<p>Ensure adequate and respected internal deadlines and tools along with a prompt update of the agreement with the AA to reinforce reasonable assurance.</p>	<p>30/04/2021</p>
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<p>5) The Programme annual summary of the controls carried out by the Managing Authority, including an analysis of the nature and extent of errors and weaknesses identified in systems, as well as corrective action taken or planned (Article 68.2.(c) of EU - Regulation n. 897/2014).</p>	<p>NA</p>	<p>The completeness, accuracy, and veracity of the Programme annual summary of controls carried out by the Managing Authority is not assured.</p>			<p>NA</p>
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## 6. Conclusions and Audit Opinion

Following the audit on annual accounts carried out, in accordance with **i)** the scope of the control and the objectives, **ii)** the assessments expressed and the corrective actions defined in this report, it was possible to ascertain that, despite the necessity of implementation of some improvement actions:

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



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

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

## 7. Follow up

The ultimate and necessary corrective measures and related deadlines as baseline for follow up audit activities are detailed in Section 5 of this Report.

Cagliari, 22 February 2021

### The AA officers

<b>Linda Gorini</b>	
<b>Marcello Lubino</b>	
<b>Severino Ostorero</b>	

### The Head of AA Unit

<b>Enrica Argiolas</b>	
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Annexes: 5.2\_Checklist Quality review- Final Report on Audit on Annual Accounts

**This Report is composed by 38 pages.**