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## **ENI CBC MED AUDIT AUTHORITY**

### **ENI CBC MED JOINT OPERATIONAL PROGRAMME**

#### **PROGRAMMING PERIOD 2014/2020**

#### **ANNUAL AUDIT REPORT**

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

**Reference Period: 1 July 2018 - 30 June 2019**

**Reference Number: 02/2020**

Approved by the Audit Authority Decision n. 815 of 15<sup>th</sup> July 2020



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## **I. INTRODUCTION**

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

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

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

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

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

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

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

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

- Organisational and functional independence;
- Financial and instrumental independence;
- Independence of AA components and respect of conflicts of interest rules;
- Appropriateness and clearly defined allocation of functions;
- Competence and expertise of the human resources;
- Coordination of the work of other auditors.

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



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

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

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

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

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

Having regard to the requirement of financial independence, according to ENI CBC MSB OP financial plan as approved by the European Commission, for the execution of the entrusted tasks, the Audit Authority is assigned a quota of Technical Assistance (TA) funds as specified below (VAT included):

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

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

According to the AA working plan, this complex procedure is likely to be launched within mid 2020 and the winning provider is expected to be announced by the end of the same year.

Such additional tender aims to acquire due expertise to lead the finalisation of main audit tools, develop a tailored risk analysis and supply the implementation of AA work plan; it will therefore be launched soon at the beginning of 2020.

Thank to the recruitment of an expert in legal affairs and tender, the AA has been able to finally launch (June 2019) and award (end of July 2019) the first tender for the organization of 3 GoA meetings.



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

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

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

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

## **I.3. Reference period**

The annual audit report covers the period starting on **1 July 2018** and ending on **30 June 2019**.

## **I.4. Audit period**

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

- MA designation procedure from 8 June to 25 October 2018;
- Follow up on the MA designation procedure from 16.05.2019 to 01.10.2019;
- System audit on the Jordan Programme bodies started on 18 November 2019 and concluded with the drawing up of the System Audit Final Report (adopted with AA Decision n. 776 of 08.07.2020);
- Procedure on accounts started on 8 November 2019 and concluded with the drawing up of the Final Report on Audit on the Annual Accounts, the Annual Audit Report and the Audit Opinion as approved with AA Decision No. 231 of 25.02.2020);
- Conclusion of the follow up on the MA designation procedure on 19<sup>th</sup> February 2020;
- Supplementary audit activities started on 25.06.2020 and concluded with the drawing up of the updated Final Report on Audit on the Annual Accounts and Audit Opinion as approved with AA Decision No. 809 of 14.07.2020).

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

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

- June/October 2018 (Audit on the MA designation procedure);
- May/October 2019 (Follow up on the MA designation procedure);
- November 2019/June 2020 (System Audit Final Report on the Jordan Programme bodies);

and the audit on accounts activities carried out between:



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- November 2019/February 2020 (Final Report on Audit on the Annual Accounts, Annual Audit Report and Audit Opinion as approved with AA Decision No. 231 of 25 February 2020);
- June/July 2020 (Supplementary audit activities and drawing up of an updated Final Report on Audit on the Annual Accounts and Audit Opinion as approved with AA Decision No. 809 of 14.07.2020).

These activities are described in detail in paragraph IV.1, IV.2 and IV.4 of the present report.

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

- System audit for the MA designation procedure from June to September 2018;
- Discussion with the MA in October 2018;
- Drawing up of the Final System audit report in October 2018;
- Follow up of the MA designation procedure from May to July 2019;
- Drawing up of the Provisional System audit report in July 2019;
- Discussion with the MA to solve certain issues raised in the Provisional Report;
- Examination of the MA observations and drawing up of the Final System audit report in September 2019;
- System audit on the Jordan bodies of the Programme from November to December 2019;
- Drawing of the Provisional System audit report in January 2020;
- Examination of the observations/comments received from the Jordan Programme bodies and drawing up of the System Audit Final Report;
- Follow up of the MA designation procedure from November 2019 to February 2020;
- Audit on accounts started in January 2020, after the reception of the documents from the MA and the Programme Branch Offices;
- Drawing up of the Provisional Audit on accounts report in January 2020;
- Reception of MA observations/documental integrations in February 2020;
- Drawing up of the Final Audit on accounts report in February 2020;
- European Commission DG Regio Note "Analysis of the technical part of the Annual Report and of the documents submitted under Article 68 of Commission Implementing Regulation (EU) No 897/2014" (Ares(2020)2761582 dated 28/05/2020);
- Updated Final Report on Audit on the Annual Accounts and Audit Opinion as approved with AA Decision No. 809 of 14.07.2020.

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



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- MA designation Report, Opinion and follow-up;
- DMCS (October 2018);
- Results of the system audit activities;
- Results of the audit on the accounts, including the Annual Summary of Controls and the Management Declaration;
- Quality review on the TA expenditures and updated Final Report on Audit on the Annual Accounts and Audit Opinion as approved with AA Decision No. 809 of 14.07.2020.

## **II. SIGNIFICANT CHANGES IN THE MANAGEMENT AND CONTROL SYSTEM**

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

- recruitment of the Director of the Authorising Unit and the Director of the Accounting Unit within the MA;
- increasing the number of MA officers and updating of the MA organisational chart;
- improvement of the Monitoring and Information System.

## **III. CHANGES TO THE AUDIT STRATEGY**

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

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

The Audit Strategy considers all tasks related to the programming period 2014-2020; thus, it provides specific directives regarding the audit activity to be performed till the programme ending.

The AA has eventually approved the updated version of the Audit Strategy (Version 2.0) with decision No 111 of 14 February 2019 and transmitted it to the European Commission (DG Near), thus respecting the deadline of 15 February 2019 as foreseen by Art. 28 of the Reg. (EU) No 897/2014.

The 2.0 Version of the Audit Strategy relates to the accounting year as concerned (1.07.2018 – 30.06.2019) and to the following 2 accounting years.





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The AA is going to be updated the 2.0 Version Audit Strategy in force. The following main integrations will be reported in the new version of the Strategy:

- the risk analysis methodology, acquired through the support of a selected consultancy company;
- the updated functional chart of the Audit Authority, approved with Decision n. 597 of 22.05.2020;
- the time schedule concerning the audit activities for the 2020/2022 period.

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

Meanwhile, on 27 September 2018, the AA has approved its own Manual of audit procedures, which is a tool that implements the Strategy, as compulsory document also requested for the by Directorate General for the Financial Relationships with the European Union – Italian Ministry of Finance (IGRUE-MEF). The manual includes audit tools such as check-lists, audit trails and report templates.

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

#### **IV. SUMMARY OF AUDITS CARRIED OUT**

##### **IV.1. Managing Authority designation process and follow-up**

In accordance with art. 25 of the ENI CBC IR, the AA conducted the MA designation procedure from 8 June to 25 October 2018.

During the designation procedure, the AA assessed the MA compliance with the 5 designation criteria set out in the Annex of ENI CBC IR (Internal control environment - Risk management - Management and control activities - Information and communication - Monitoring).

At the end of the procedure, AA adopted the audit report and the Audit Opinion (**unqualified**, with emphasis of matter including a detailed action plan to implement) on 29 October 2018. As a consequence, ENI CBC MED MA has been officially designated by the Sardinian Regional Government on 29 October 2018.



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Furthermore, in December 2018, the AA was subjected to an on-the-spot verification on the MA designation procedure performed by Ernst & Young on behalf of the European Commission - DG Near (Result of the E&Y Report: **qualified opinion**).

In particular a five days inspection (from 10 to 15 December 2018) involving both the MA and the AA staff has been performed by Ernest and Young as winning provider of the European Commission (DG NEAR) tender as assigned. Beside the full cooperation due, its worth to mention that the MA but also the AA received precious suggestions to further improve their efforts towards the programme implementation. The results of this on-the-spot verification was transmitted by the EC DG NEAR to the MA on 16 June 2019 through the Notice Ref. Ares (2019)3226739.

A follow up of the MA designation requirements has been carried out by AA from 16.05.2019 to 01.10.2019. The AA verified if the MA put in place all the necessary fulfilments and adopt the appropriate corrective measures to overcome the weakness indicated in the Action Plan drawn up by AA on 29.10.2018 and satisfied the requests of the EC DG NEAR dated 16.06.2019.

As a result of the follow.up of the MA designation procedure, the AA released a System Audit Final Report in which the Management and Control System has been rated "**Category 3 - it works partially, and substantial improvements are needed**". An updated Action Plan, including the corrective measures to overcome all weakness, has been drawing up.

Furthermore, Ernst & Young carried out a follow-up of the on-the-spot verification on the MA designation procedure on behalf of the European Commission in December 2019.

The final version of Ernst&Young system audit report has been finalized on May 11, 2020 and it has been sent to the MA, upon its request, on June 24 only. It has been forwarded to the AA the same day. Thus, the follow up of the Ernst&Young system audit will be performed within the end of 2020, following the procedures described in the Audit Manual Version 2.0, approved by the AA with Decision No 666 of 12<sup>th</sup> June 2020.

Following the AA Notice n. 37794 of 8 November 2019, in order to put in place the necessary fulfillments and adopt the appropriate corrective measures to overcome the weakness as mentioned in the System Audit Final Report, the MA sent several documents on 19 and 25 November 2019, 3, 6 and 14 February 2020.

Consequently, the AA released the Follow up Report on the System Audit and the Management and Control System has been rated "**Category 2 – it works but some improvements are needed**" an updated Action Plan has been drawing up and annexed to the above mentioned Report, highlighting the need of further additional corrective measures concerning the followings topics:

- the JTS actual setting;
- the Programme MIS completion;
- the enhancement of the Programme Internal Control System;



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- the updating of the DMCS in force (October 2018).

## **IV.2. System audits**

The AA started a system audit on 18 November 2019 (AA Notice No 39246) in order to ascertain the effective functioning of the ENI CBC MED 2014-2020 Management, Control, Certification and Monitoring System, with reference to the 2018-2019 accounting period and to the bodies of the OP in Jordan, respectively:

- National Contact Point – Ministry of Planning and International Cooperation;
- National Authority – Ministry of Planning and International Cooperation;
- Control Contact Point – Ministry of Finance;
- Branch Office of the MA in Jordan – Aqaba Special Economic Zone Authority.

This activity has been carried out by the AA staff and included both desk checks and dedicated on the spot visits which has been performed from 5 to 6 December 2019 in the above mentioned bodies.

A drawing of the Provisional System audit report and its related annexes on the Jordan Programme bodies have been issued on 16 January 2020 and each Jordanian institution has been asked to send its observations/comments/integrations both on the System Audit Provisional Report and on the concerned checklist no later than 31 of January 2020.

It is worth highlighting that AA received most of the requested additional documents beyond the assigned deadline (Jordan BO integrations has been sent on 10.02.2020, while those of the NA on 24.06.2020), when the AA staff was heavily involved in both the closure of the annual accounts presented very late by the MA and in the follow-up procedure of the AA's designation by MEF-IGRUE, the latter ended in mid-June 2020. Furthermore, due to the COVID-19 breakdown, the Italian Government declared the entire national territory as "red zone" on March 9, 2020 and from that date onwards the AA staff is carrying out its role on a smart working basis only. This unprecedented approach generated some initial difficulties on actual implementation of AA activities as planned.

For all the above-mentioned reasons, the Final System Audit Report on Jordan, including the ultimate version of checklists as annexed, has been released on 08.07.2020.

On the audit carried out, following the Audit Manual Version 2.0, approved by the AA with Decision No. 666 of 12<sup>th</sup> June 2020, the AA executed a quality review (QR), aimed at ensuring the reliability of the checks as performed.

On 6 July 2020, the AA Director formally assigned to an audit officer the task of performing the abovementioned QR, to be carried out using the procedure and the QR checklist, as included in the Audit Manual Rev. 2.0, (Annex 5.2.c "Check list quality review system audit - Final Audit Report").



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The Audit Manual outlined a specific procedure and defined tools to carry out quality review on performed audit work, to assess the efficiency and effectiveness of the audit activity and to identify opportunities for improvement, ensuring audit quality according to recommendations of internationally accepted audit standards.

The QR was performed on the system Audit carried out at:

- the National Contact Point of the ENI CBC MED in Jordan;
- the National Authority of the ENI CBC MED in Jordan;
- the Control Contact Point of the ENI CBC MED in Jordan;
- the Branch Office of the ENI CBC MED Managing Authority in Jordan.

Both provisional and definitive reports with annexed checklists were verified, assessing whether counterstatement were duly collected and taken into account, audit procedure and tools were correctly used and fully filled in, and conclusions in the definitive audit report were adequate, accurate and supported by the working documents.

As result of the additional work carried out, the performed QR has been formalized in the abovementioned checklist, duly filled in and signed by the appointed AA staff member. The QR work was then submitted to the AA Director on 8 July 2020, for the required assessment.

The Quality Review work did not highlight any irregularities and was closed with a positive result.

Following the system audit carried out on the controlled Jordanian Programme bodies, it was possible to ascertain that some deficiencies were found. These deficiencies have a moderate impact on the functioning of the assessed key requirements / authorities / system. Recommendations have been formulated for implementation by the audited body. An Action Plan has been annexed to the System Audit Final Report and the Jordanian system has been rated under *Category 2, since it works, but some improvements are needed*.

### **IV.3. Audits of projects**

Not relevant since the First standard call projects received the prefinancing in September 2019 and the first financial reports is foreseen to be presented in October 2020.

As audit on project is a key issue in the abovementioned DG Regio note Ares(2020)2761582 dated 28/05/2020, it is worth highlighting the AA working plan on the point.

Firstly it should be noted that in all main reference Programme documents in force (namely the ENI CBC MED Programme approved by the Commission, the Description of the Management and Control



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System (DMCS), the Audit Strategy and the AA Audit Manual) there is a clear distinction between expenditures incurred by granted projects, which are implemented in the 13 countries of the Programme, and TA expenditures.

Moreover, all these documents have been drawn up and organized according to the indications provided by EC DG NEAR on this subject, based on both the regulatory legal sources of the Programme and the specificities of the ENI framework.

It is worth to remind that, following art. 28 of the Regulation (EU) No. 897/2014 (hereinafter IR), the Audit Authority ensures that audits are carried out on:

- the management and control systems;
- an appropriate sample of projects;
- the annual accounts of the Programme.

Furthermore, the aforementioned Regulation, distinguishes two types of expenditures: "projects" and "TA", while the "operations" as specific category is not mentioned.

In particular, the term "project" is explicitly described in Title VII "Projects", article 38 (especially in art. 38.1 and art. 38.2) and only refers both to the operations implemented by the beneficiaries of the grants and to the procedural aspects related to this type of operations (for example, 38.2 - "Financial contributions by a Programme to projects shall be provided through grants"). Whereas the term 'TA' is described in Title VI 'Technical assistance', articles 34 and 35. In these articles (and others in the Title VI) there is no reference to the notion of 'project' and the concept of 'technical assistance' is consistently used throughout the articles in this title. A number of other articles in the IR also distinguish between the notions of 'projects' and 'technical assistance' (for example, article 71.1 'The Managing Authority shall make the financial corrections required in connection with individual or systemic irregularities detected in projects, technical assistance....').

Starting from the analysis of all the abovementioned points, as a consequence, the ENI CBC MED Programme Management and Control System, including the MIS, was built under this distinction and the AA, in its main planning documents (namely the Audit Strategy and the Audit Manual), has foreseen the control of TA expenditures in the context of the Audit on annual accounts only.

Indeed in the AA Audit Manual, version 2.0, adopted with AA decision n. 666 of 12/06/2020, audit on the accounts and audit on projects are performed by the AA according to different and specific procedures, outlined in all its programming and working documents (especially Strategy and Manual).



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As regards the audit on projects, a fully detailed description of procedures and statistical methods to be applied when performing sampling of projects is given in the AA Audit Manual, version 2.0, adopted with AA decision n. 666 of 12/06/2020.

Section 4.5. of this manual is dedicated to define, in line with EGESIF\_16-0014-01 20/01/2017 note “Guidance on sampling methods for audit authorities - Programming periods 2007-2013 and 2014-2020”, statistic procedures and methods for sampling, calculation, treatment and projection of error, reconciliation of the population value with the amount of expenditure declared to the Commission in the reference year that the AA will apply to audit on projects.

But since no project expenditures have been reported in the considered accounting year, no audit on projects has been carried out so far. And as TA expenditures were audited when auditing the accounts, no sampling process was applied to TA expenses, no TA sample was extracted and audited, no ER was calculated and thus it is not possible, for the present, to calculate TER and RTER, nor provide a reconciliation of the population value with the amount of expenditure declared to the Commission in the reference year.

This issue will be fully discussed with the EC and DG Regio, with the support of TESIM experts, and the AA will adopt the official final position that will result as a result of the discussion.

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

Not relevant.

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

Not relevant.

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

Not relevant.



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

Not relevant.

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

Not relevant.

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

Not relevant.

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

Not relevant.

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

Not relevant.

#### **IV.4. Audit of accounts**

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

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



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

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

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

For the accounting period ending on June 30,2019 expenditures included in the Programme annual accounts exclusively refer to TA costs and, in particular, to the following cost categories:

- i) for the MA: staff cost, travel and subsistence, subcontracted services;
- ii) for the AA: staff cost, travel and subsistence;
- iii) for the Programme Branch Offices (BO) in Aqaba (Jordan) and Valencia (Spain): staff cost, travel and subsistence costs, subcontracted services, other costs (bank transfer fees for Aqaba BO).

Given that the MA has not signed yet the specific agreement on responsibilities and deadlines for the preparation of the annual accounts whose draft has been sent by the AA on 1 August 2019 and solicited on 25 September 2019, the procedure on annual accounts started with AA Notice N. 37794 of 8 November 2019, asking the MA the transmission of several documents.

In addition, on 28 November 2019, AA sent an official request to the BO of Aqaba, asking to send copies of supporting documents and related proofs of payment, on expenditures as incurred during the accounting period 01.07.2018 - 30.06.2019, which have been checked by Mr. Ibrahim Khatib, as external auditor in charge, and declared to the Programme Managing Authority, namely:

- **Under “Staff” cost category:**

- the recruitment procedure dossier for both external staff employees in charge;
- the related gross salary sheets for the period October-December 2018;
- the related pay slips for the same period;
- the related proofs of payment.

- **Under “Travel and Subsistence” cost category for BO staff: mission to Cairo for 5th JMC Meeting:**

- the travel internal regulation in force;





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- the authorization to travelling issued before the travel;
- the receipts of expenses;
- event-related documents;
- the related proofs of payment/reimbursement.

- **Under “Subcontracting” cost category:**

- the procurement procedure dossiers as far as the framework contract for the organization of 7 Programme events as mentioned;
- the related activity reports with deliverables issued by the service provider;
- the related certificates of proper execution issued by the BO as contracting body, approving the submitted “Activity Report” and deliverables;
- the invoices on provided services;
- related proofs of payments.

Moreover, in the framework of Audit on Account activities, an official request (AA Notice n. 867) was sent to the other Branch Office of the Programme, based in Valencia (Spain) on 13 January 2020.

In particular, the AA asked the Valencia BO to send copies of the following supporting documents and related proofs of payment, on expenditures as incurred during the accounting period 01.07.2018-30.06.2019, which have been checked by Mr. Miguel Angel Sánchez Àleman, the Audit Manager of Juan Carlos Tomas Auditores S.L, as external auditor in charge, and declared to the Programme Managing Authority, namely:

- **Under “Staff” cost category:**

- > the gross salary sheets for external and internal staff in force, for the period October- December 2018;
- > the related timesheets for staff not fully devoted to the programme;
- > the related pay slips and proofs of payment for the same period.

- **Under “Travel and Subsistence” cost category for BO staff: mission to Cairo for 5th JMC Meeting:**

- > the travel internal regulation in force;
- > the authorization to travelling issued before the travel;
- > the receipts of expenses;
- > event-related documents;
- > the related proofs of payment/reimbursement.



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- **Under “Subcontracting” cost category:**

- > the procurement procedure dossiers as far as the National Info Day Italy (Rome) on 14 May 2019 – Catering;
- > the related activity reports with deliverables issued by the service provider along with the certificate of proper execution issued by the BO as contracting body;
- > the invoices on provided services;
- > the related proofs of payments.

The documents received from the BO of Valencia by e-mail on 15 January 2020 have been examined by the AA staff who requested some clarifications on some expenditures registered on “Travel and Subsistence category cost”.

The requested clarifications has been sent by BO of Valencia to the AA email address on 29 January and 5 February 2020 and solved the open issues.

On 9 January 2020 the AA received a first informal partial and provisional draft of Annual Account Report from the MA.

As a result, also by considering the heavy delay and forthcoming binding deadlines for the Programme, with its Notice n. 1325 of 16 January 2020, in compliance with Article 68 of EU Regulation n. 897/2014, the AA asked officially the MA to provide the following official documents:

- the final draft of the Programme Annual Account;
- the Management declaration;
- the Programme Annual Summary of Controls.

The AA received the final draft of the Programme Annual Accounts on January 21,2020 while the Annual Summary of Controls and a draft of the Management Declaration have been received on January 27,2020.

The Provisional Report on Audit on the Annual Accounts, including several remarks and recommendations, has been released to the MA through AA Notice No 2996 of 30 January 2020 for observation if any.

By considering the limited time for transmission of the Final Report to the Joint Monitoring Committee (JMC) of the ENI CBC MED Programme, the AA requested the MA to submit the counter-deductions to the AA remarks and recommendations as mentioned within 31 January 2020.

On 31 January 2020, the MA sent by email an updated version of the Financial Report composed by the following file Excel:

- Annex 4\_ENI CBC\_Financial report Accounting year 2017-2019 def (31/01/2020);
- Annex E\_Estimate of costs incurred from 1 July to 31 December 2019 al 22 01 (31/01/2020).



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This Financial Report included the corrections requested by the AA, particularly:

- bank interest has been eliminated;
- the two invoices incorrectly uploaded to BO Valencia staff cost have been moved and now allocated in the Provisional Budget section;
- the staff costs of the MA relating to the months of November-December 2019 have been inserted.

Furthermore, with Notice No 3422 of 4 February 2020 (MA /2020), the MA replied on the main findings detected by the AA and sent the following annexes:

- Final version of the Financial Annual Accounting Report 2018-2019;
- Table E “Estimate of costs incurred from 1 July to 31 December\_2019\_final, updated with the estimation related to the MA staff costs for November and December 2019;
- Check-list and results of the controls on the Valencia BO financial statements;
- Check-lists used by the Operational and Authorising Unit:
  - Projects:
    - A0\_Check list\_Project selection;
    - A1\_Check list\_Project selection\_Negotiation and contractualisation;
    - A2\_Check list Project implementation\_Commitments and Payments;
    - A3\_Check List Financial guarantee;
    - A4\_Check List \_Project implementation\_on the spot check.
  - Technical Assistance:
    - B1\_Check list procedure for the recruitment of external experts and management of contracts;
    - B2\_Check list procedures for the goods and services acquisition and management of contracts;
    - B3\_Check list Management of agreements with the BOs\_ Commitments and Payments.
- Check lists used by the Accounting Unit:
  - Check list related to the commitments verification:
    - C1\_Check list commitments\_projects;
    - C2\_Check list commitments\_BOs;
    - C3\_Check list commitments Technical Assistance;
  - Check lists related to the payments verification:
    - D1\_Check list Payments\_Projects;
    - D2\_Check list Payments\_BOs;
    - D3\_Check list Payments Technical Assistance.



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Furthermore, on 6 February 2020, the MA sent further documents, as indicated below:

- Management Declaration check list;
- TA Check list for the Valencia BO elaborated by the Authorising Unit;
- MIS updated report.

In addition, on 14 February 2020, the MA sent another Notice (Prot. No. 5119 of 17 February 2020) providing information and clarifications on the following open issues:

- types of control carried out on the Branch Offices, ensuring that errors similar to those committed in the preparation of the financial report for the 2018/2019 accounting year were avoided;
- updated Management Declaration check-list, drawing up on the basis of the revised checklist format.

Finally, on 19 and 20 February 2020, the AA requested appropriate corrections of the final version of the Financial Annual Accounting Report 2018-2019 transmitted by the MA, since some material errors were detected.

In compliance with further informal exchanges on the issues as tackled, with Notice No. 5992 of 24 February 2020, the MA sent the final version of the Financial Annual accounting report 2018-2019 where the errors detected by the AA were properly corrected.

Following its ultimate verification and controls, on February 25, 2020 AA released the Final Report on Audit on Programme Accounts and provided it to MA on February 27, 2020 for the uploading in SFC 2014 system.

On May 28, 2020 the MA forwarded to the AA the EC\_DG Regio Note Ares(2020)2761582 - 28/05/2020 which:

- informed both authorities that, in line with Article 69 of Commission Implementing Regulation (EU) No 897/2014 (CIR), the Commission services examined the quality of the submitted documents, highlighting their observations on versions as provided, as well as their recommendations for future reports,
- confirmed that the Commission services were unable to conclude that the accounts of the Programme as provided were complete, accurate and true and were thus unable to accept them.



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

- either to carry out additional work or explain the quality review and supervision carried out on the work of the internal control offices, in order to provide an opinion in line with article 68(4) of the CIR and inform the Commission on the result of this work.
  
- to submit on SFC 2014 system (through the MA) a revised Annual Audit Report and Audit Opinion once amended, in compliance with the EC note as mentioned.

In this respect, after informal consultation with:

- the General Director and Accounting Unit Director of the MA,
- TESIM (Technical Support to the Implementation and Management of ENI CBC Programmes by the EC) experts,
- Sardinian Region experts on ESI funds;

the AA decided for the Quality review option, by formalizing and explaining the quality review and supervision as carried out on the work of the internal control offices. The related motivation is detailed in the Final Report on Audit on the Annual Accounts.

Further to some informal discussions and exchanges, on 07 July 2020, the following documentation was provided by the Director of MA Accounting Unit:

- Decision no. 169 prot. No. 1311 of 07.07.2020 for the approval of the check list format and related attachments;
  
- the following completed checklists (CL) related to the accounting period as concerned:
  - CL for MA staff expenditures;
  - CL for MA business trip expenditures;
  - CL for AA staff expenditures;
  - CL for AA business trip expenditures.

The AA, with its official Note No. 22994 of 13 July 2020, sent the Provisional Report on Audit on the Annual Accounts and a meeting between the AA Director and the MA General Director, the Accounting and Payment Unit Director and the Authorising Unit Director has been held on 14.07.2020



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at h. 10,00 at the MA headquarter, in order to collect the MA counter-arguments and observations in relation to the above mentioned Provisional Report.

Taking into account the MA counter-arguments and observations, the AA issued the Final Report on Audit on the Annual Accounts referred to the accounting period 01.01.2018 – 30-06-2019 on 14 July 2020 (Prot. No. 809 of 14.07.2020).

Based on the audit on the Programme Annual Accounts as carried out and by considering the results of AA supplementary audit work as performed and detailed in compliance with the above-mentioned EC DG Regio Note, the AA issued an *Unqualified Opinion with emphasis on matter paragraph* since some limited improvement actions are requested on the following topics:

- the signature and application of a formal agreement with AA on responsibilities and deadlines for the preparation of the Programme annual accounts;
- a proper and timely update of the DMCS in force;
- the Programme MIS current settings as regards TA expenditures”.

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

The MA has not signed yet the specific agreement on responsibilities and deadlines for the preparation of the annual accounts as recommended by EGESIF 15\_0018-04 and EGESIF 15\_002-04, which was drawing up by the AA and sent to the MA on 1 August 2019 and solicited on 25 September 2019.

The checks carried out on the accounts mainly concerned:

- the correct preparation of the accounts according to the model requested by the Commission;
- the completeness of the data contained in the accounts;
- the non-existence in the presented accounts of recovered amounts, amounts to be recovered or not recoverable amounts;
- the complete and correct integration, within the accounts, of the corrections requested by the AA on the accounts first draft prepared by the MA. The main findings as detected could be mentioned as



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follow:

1) As far as the Programme accounts EC template for the accounting year (Article 68.2.(a) and 2.(f) of EU - Regulation No. 897/2014):

- it is worth to remind that Programme Annual Accounts were submitted by the MA to the AA extremely late and required several interventions by the same Authority both in terms of contents and format.

Moreover, they are part of the reliability package to be prior approved also by the Joint Monitoring Committee of the Programme before the uploading on SFC 2014 system. This could have effect on the AA for an efficient and effective verification as due according to Reg. (UE) 897/2014;

2) As far as 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 No. 897/2014):

- the OP DMCS in force (October 2018) is not update. In particular, all details on management and level control procedures, including those for TA expenditures, as set, adopted, and implemented by the MA shall be included.

Moreover, the update shall consider all remarks and recommendation by the AA and EC, as provided in the framework of the designation process, system audit and audit on accounts as performed.

- as far as Technical Assistance expenditures are concerned, there is no confirmation that current setting of Programme computerized system (MIS) includes all details of TA expenditures as incurred and paid in the framework of the Programme implementation, as well as the regular updating of related accounting data, (both were due to be finalized by the end of February 2020, task not yet completed so far).

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

No problems have been considered to be systemic in nature.

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

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



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

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

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

According to Article 28.2 of the Regulation (EU) No 897/2014, the Audit Authority shall be assisted by a Group of Auditors comprising a representative of each participating country in the programme. Therefore, the GoA is an advisory body whose function consists in supporting the AA, especially in the update of the Audit Strategy, in the definition of the criteria for selecting external audit providers, in establishing directives and criteria for audits, in the discussion of main audit results and in drafting the annual reports.

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

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

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

## **VI. OTHER INFORMATION**

Not relevant.

## **VII. OVERALL LEVEL OF ASSURANCE**





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

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

1. MA designation follow-up (System audit): the Management and Control System is rated **Category 2 – it works but some improvements are needed**;
2. Audit of projects: not relevant;
3. Audit on accounts: the MA accepted to implement the corrective measures indicated by the AA.

For the above mentioned reasons, an unqualified opinion with emphasis of matter paragraphs is expressed.

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

Not relevant.

Cagliari, 15<sup>th</sup> July 2020

**The Audit Authority**  
Enrica Argiolas