REGIONE AUTÒNOMA DE SARDIGNA
REGIONE AUTONOMA DELLA SARDEGNA

Audit Authority ENI CBC MED Programme

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

Audit Strategy

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

Adopted by the Audit Authority with decision no. 12 of 20 September 2017

SUMMARY

1. INTRODUCTION

1.1 General

This document explains the Audit strategy for the Mediterranean Sea Basin programme (ENI) 2014-2020 that was adopted by the European Commission on 17 December 2015, through decision no. C(2015) 9133.

The main reference rules are the following:
Regulation (EU) no. 232/2014 of the European Parliament and the Council of 11 March 2014, establishing a European neighbourhood instrument

Commission Implementing Regulation (EU) no. 897/2014 of 18 August 2014 laying down specific provisions for the implementation of the cross border cooperation programmes financed under Regulation 232/2014 of the European Parliament and the Council establishing a European neighbourhood instrument.

Accordingly, the Audit 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 covers all tasks related to the programming period 2014-2020; thus, it determines directives regarding the audit activity to be performed by 2025.

The strategy needs to be updated annually. This updated audit strategy shall be submitted to the European Commission as part of the annual report of the Managing Authority (MA).

The organisational unit of the Audit Authority follows up the fulfilment of objectives laid down in the audit strategy and performs a yearly revision of the Audit Strategy from 2018 to 2024.

The Autonomous Region of Sardinia, through decision no. 15/5 of 10 April 2015, has created a specific organisation, called “project unit”, entrusted with the functions of "Audit Authority of the ENI CBC MED Programme 2014-2020” 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 ENI CBC MED Audit Authority depends directly on the President of the Sardinia Region.

The Audit Authority governance and organisation are defined in accordance with the principle of effective organisational and functional independence from the Managing Authority and with reference to the criteria required and verified during the endorsement procedure conducted by the National Coordinating Body (Ministry of Finance, MEF-RGS-IGRUE), as based on its explanatory notes No 47832 of 30/5/2014 and No 56513 of 3/7/2014.

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 ENI Audit Authority shall be assisted by a Group of auditors (GoA) according to art. 28 of Reg. 897/2014 appointed by the national institutions.

When this document is being written, the GoA is not constituted yet since the appointment of most members is still missing; for this reason, that body has not been consulted about this strategy. It shall be submitted to the GoA in its first meeting, also with the aim of the yearly update.

The Audit Strategy of the Mediterranean Sea Basin ENI CBC Joint Operational Programme was prepared by the Audit Authority, with the observation of Article 28 (5) of Regulation (EU) No. 897/2014 (ENI CBC IR), and 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 (update May 2017) and EGESIF Guidance on Audit Strategy (14-0011-02)[1] as a source of inspiration.

The AA revises – and amends if necessary – the Audit Strategy each year, as required by article 28.5 of the ENI CBC IR and national regulations. When revising the Strategy, the AA takes changes in the management and control system (hereinafter: MCS) as well as modifications to legal and internal regulations into account, and uses risk assessment to compile the audit plan for system audits in next audit period.

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

When this document is being written, the Managing Authority has not put in place the managing and control system and the descriptive document (DMCS) yet, therefore the designation procedure has not started.

According the JMA planning the management and control system and the descriptive document is going to be set up within December 2017.

[1] EGESIF Guidelines are not compulsory in ENI; nevertheless they constitute a useful source of inspiration; therefore, this strategy is going to follow some specific aspects of them, when cited in the following paragraphs.

Since the Audit Authority is responsible for assessing the compliance of the DMCS, according to art. 25.2 of Reg. (EU) 897/2014, more conclusions can be drawn during the compliance assessment regarding the setup of the management and control system as well as well as the organisational structure and the functioning of the managing authority and the IT-system used.

The ENI CBC MED Programme Audit strategy has been drafted by the Audit Authority with an active contribution by TESIM and the Office for Statistics of the Directorate General for Presidency of Sardinia Region.

The audit strategy is based on the AA professional expertise as well as on the general experience from the previous programming period.

During ENPI CBC MED 2007-2013 Programme the Internal Audit Unit has carried out audits on several processes and circuits of the management and control system. The ENPI Internal Audit Unit has also reported about the follow-ups conducted every year onto recommendations expressed when auditing and still remaining after past reports; it has also given an account about report on the annual audit plan for projects (whose results are in the report drawn up by the external provider). Finally, the ENPI Internal Audit Unit carried out annual audit reports.

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

The Audit Authority shall ensure “that audits are carried out on the proper functioning” of the management and control system of the operational programme and on an appropriate sample of operations on the basis of the declared expenditure.

The Audit authority shall ensure that audit work takes account of “internationally accepted audit standards”.

The audit authority will involve an external audit company for the provision of audit tasks, in particular regarding audits to be carried out in several member states.

When these functions are delegated to other audit bodies, the AA ensures that audit bodies have the necessary functional and organizational independence.

The AA shall ensure that the other bodies that cooperate to carry out the audits own the necessary requirement of independence and autonomy according to the law and to the international audit standards.

Finally, the AA shall ensure that, when it works throughout the cooperation of other bodies, a stable coordination of all the activities of audit will be maintained.

1.2 Group of auditors

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

Its members, appointed by the national institutions competent in audit indicated in the JOP, meet criteria of independence and lack of conflicts of interest set up by international audit standards.

Art. 32.3 of ENI IR states that it shall be set up within three months of the designation of the Managing Authority, it shall draw up its own rules of procedures and it shall be chaired by the Audit Authority.

When drafting the audit strategy for the first time (Summer 2017), only a few members of the Group have been appointed by competent institutions, including those of some MPC that have already signed the financing agreement with the European Commission, and time constraint does not allow to constitute the Group itself. Therefore, the first draft of the strategy cannot be submitted to it.

The Group ordinarily meets once a year in order to discuss planning of audit activity and main audit results, in order to provide the Audit Authority highly qualified expertise, specifically indicated in the JOP par. 3.2.5, about the following:

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

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

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

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

The Group has an important role in audit systems: the Audit Authority is authorised to carry out directly its duties on the whole Programme territory, according to the modalities set up in this strategy, respecting relevant legislation of each country and modalities agreed upon with them. Therefore, when AA will conduct on-the-spot visits for system audits the assistance by the Group shall always consist in the participation of the member appointed by the country in which the audited subject is based, except when not possible for organisation reasons. Other Group members can participate, according to this strategy and the rules of procedure.

The Group respects audit standards defined in this strategy.

Independence of the GoA members shall also be ensured. Accordingly, those concerned shall submit a certificate of independence to the AA, in which they declare that they perform their tasks independently from bodies involved in the management of the Programme as well as from all beneficiaries. It shall also be included in the certificates of independence that in case independence is not ensured – even if temporarily –, they will inform the AA immediately, in order to allow for necessary measures.

1.3 External auditors

In order to carry out its duties, the AA will be supported by a technical assistance service, which will be provided by the sub-contracted companies to perform part or all audit functions.

These companies are selected by the AA itself or on its behalf, through open calls for tenders, and will only report to the AA. Selection, contracting, monitoring, authorisation and payments are carried out under the sole responsibility of the AA and are funded with technical assistance resources. AA performs directly or through dedicated structures of the ARS administration, with exclusion of every intervention by the Managing Authority.

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

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

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

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

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

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

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

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

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

Providers shall submit an audit methodology, including audit tools (manual, check-list, report template, etc.) for audits assigned to them. The AA, after consulting the GoA and discussing the methodology with the provider itself, approves each methodology, in order to ensure effectiveness, efficiency and respect of the audit standards.

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

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

2. RISK ASSESSMENT

2.1 Audit risk models

According to art. 28.1 of Reg. 897, the Audit Authority shall ensure that audits are carried out on the management and control systems, on an appropriate sample of projects (based on claimed expenses) and on the annual accounts of the programme.

In accordance with the relevant methodology, paying attention to the guidance note on Audit Strategy No EGESIF_14-0011-02 risk assessment is used by Audit Authority to detect risky areas and identify structures and processes to audit firstly among those which the management system consists in. Considerations about risk apply to project audit and audit on accounts, too.

Audit risk is a function of the inherent risk, control risk and detection risk.

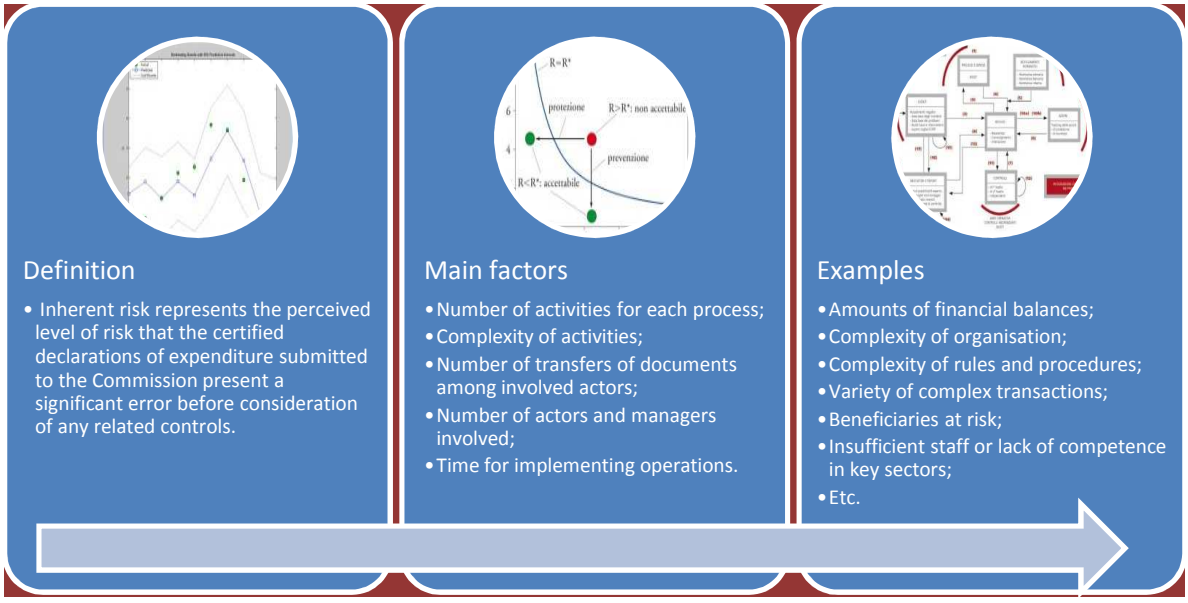
• Inherent risk is the risk associated with the nature of procedures, operations and management structures that there are errors or anomalies in financial management that, if not prevented or detected and corrected by internal control activities, may make the financial balances likely unreliable and associated transactions significantly ineligible or irregular or the financial management to be inadequate;

- Control risk is the risk that essential errors or deviations are not detected or corrected by the control system. It has to be considered that the control system can only to a limited extent prevent sources of human error, such as carelessness, distraction or misunderstanding. The circumstance must receive particular attention when assessing the individual errors detected.

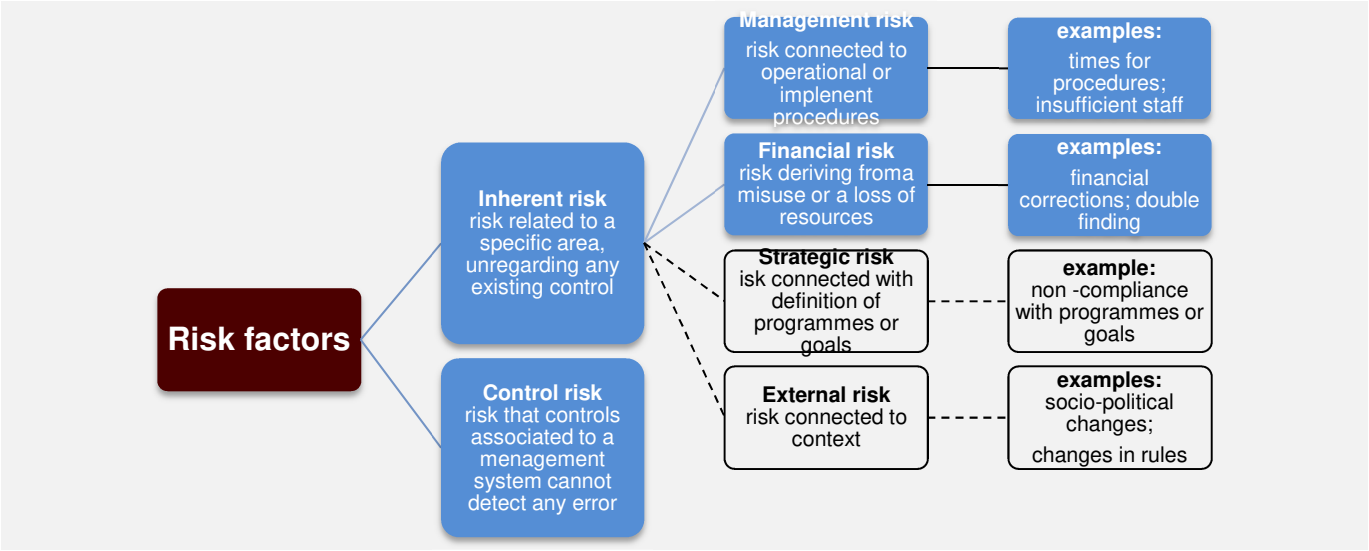
Control risk is determined on the basis of general consideration regarding the quality of management controls, financial controls and controls on projects. Assessment of control risk and planning of audit activity relating to projects have to be postponed to next years, because the first reports will presumably arrive in 2019-2020.

Detection risk basically consists thereof that essential errors are not detected during the audits. Whereas the inherent risk and the control risk cannot be influenced by the audit Authority, that risk can be considered by Audit Authority.

Picture 1: inherent risk outline



Picture 2: risk categories



After choosing and listing risks and controls relating to activities for each process, the core phase of risk assessment begins: the analysis of risk level. Identified risk categories can be classified in order to estimate their scope. Inherent risk and control risk have to be considered reciprocally independent parameters, in order to assess each of them most analytically and precisely.

Inherent risk level is measured in terms of both impact on achievements of purpose and frequency of the negative event. It is analysed through the following matrix.

Table 1: inherent risk matrix

Impact x Likelihood = Risk	Unlikely	Likely	Very likely
Severe impact	M	H	H
Moderate impact	L	M	H
Non-relevant impact	L	L	M

Table 2: inherent risk description and measure

Inherent risk level	Description	Measure
H – high	Immediate action is required in order to mitigate the risk to a tolerable level.	**1**
M – Moderate	A dedicated and effective procedure for managing the risk is required as well as constant monitoring.	**0,60**

L – low	A dedicated procedure is required. In some cases, if risk is very low, intervention may not be appropriate.	**0,40**

Table 3: control risk description and measure

Control risk level	Description	Measure
H – high	Risk level is high, no control for evaluating risk level is possible or available documents are not sufficient	**1**
M – Moderate	Risk is moderate, meaning that control is assessed as partly adequate and partly inadequate	0,55
L – low	Risk is low, controls are deemed adequate as for their number, quality and detail	0,30

Assessment of inherent (IR) and control risk (CR) level refers to each risk factor in the assessed field. Product IR x CR = RS generates the risk score for each factor: "Risk Score" = IR x CR x 100. The area risk level is calculated as the arithmetic average of each factor risk value.

Table 4: risk assessment

Bodies	Inherent risk factors[2]							Total score for inherent risk (maximum 100%)	Control risk factors[3]					Total score for control risk (maximum 100%)[4]	Total risk score (IR + CR)
	Organisational structure complexity[5]	Complexity of rules and procedures	Frequency and extent of controls performed by the MA	variety of complex transactions[6]	Beneficiaries at risk[7]	Insufficient staff or lack of competence in key sectors[8]	...		Reorganisation rate vs. 2007-2013[9]	Quality of internal controls (indicative basic requirements for MCS assessment)[10]					
										M.1	...	...	M.4		
MA	25%	25%	25%	25%	25%	25%			25%	25%	25%	25%	25%		

[2] For each factor, assess the risk in a scale fixing the maximum total score for inherent risk at 100%. With four risk factors, this scale can be: High 25%; Moderate 12,5%; Low 6,25%. With more risk factors, the scale ought to be modified consistently. Some factors could not be applicable to some bodies; in this case the scale ought to be regulated in order that for this body the inherent risk level can reach 100%, too.

[3] For each factor, assess the risk in a scale fixing the maximum total score for control risk at 100%. With two risk factors, this scale would be: High 50%, Moderate 25%, Low 12,5%. With more risk factors, the scale ought to be modified consistently.

[4] The total control risk score is obtained by adding the score given for each control risk factor. In the examples below, the maximum score for the "reorganisation rate vs. 2007-2013" is 50% and the highest score for "quality of internal controls (...)" is also 50%, resulting in a maximum of 100%. Of course, if necessary, this has to be adapted to the number of risk factors that AA decides to consider in the risk assessment.

[5] Complexity can be due to the number of involved actors or their relations (e.g. a small MA responsible for supervising several intermediate bodies or a new MA responsible for supervising expert intermediate bodies with actual power in the programme management).

[6] Complexity of transactions may be related to financial instruments, public procurement, state aid and other areas where a high level of judgment and professionalism is needed. The specific situation applicable to each programme should be explained in detail in a separate document, with reference to the risk assessment table.

[7] Beneficiaries with no experience in rules governing EU funding or beneficiaries with high error rates in previous audits.

[8] Specific situation in terms of human resources assigned to the MA has to be described in detail in a separate document, with reference to the risk assessment table.

[9] E.g. no reorganisation = 12,5%; some reorganisation = 25%; significant some reorganisation or new system = 50%.

[10] Assessment based on audit results of the 2007-2013 period or process of assessing designation criteria. E.g. Category 1: 5%; category 2: 20%; category 3: 35%; category 4: 50%.

As for the risk of control, the analysis focuses on controls designed to deal with inherent risks and their effectiveness. Control risk can be measured according to the following table.

Table 4 above describes the risk assessment performed according to annex III to EGESIF_14-0011-02 of 27.8.2015 on Audit Strategy.

An opinion about the severity of the risks and the effectiveness of the controls in mitigating risks is consequently possible with respect of the above. The overall rating of the risk level is the summary of the findings for each risk of the area. When first assessing risks, risk factors and scales indicated therein are used.

Based on the principle that the riskiest areas and related bodies will be checked first, the main objective of the risk assessment is a first analysis of the audit objects in order to plan audit activity.

The results of AA risk assessment are reported in a table where the main bodies and procedures included in the DMCS are classified by risk level. This table includes risk factors that AA considers relevant for the Programme. On the basis of the results of the risk assessment, the AA will be able to prioritize the system audits of procedures and bodies for which the detection risk is higher over the audit period. Such prioritization should cover also the specific thematic areas. The timing and scope of the audits are also influenced by the progress in programme implementation.

In the context of ENI CBC MED implementing rules deal specifically with projects and technical assistance. Audit on technical assistance expenses should therefore be carried out separately from the project audit, and considered as part of the audit of the accounts.

This system includes the audit on accounts as a separate part of the assurance model. The reason for that is the need for a clear distinction between the terms ‘projects’ and ’technical assistance’ in the ENI CBC IR. The term ‘project’ is explicitly described in the Title VII ‘Projects’, article 38 (especially 38.1 and 38.2). These articles refer to the operations implemented by beneficiaries and to the procedural aspects that are related to projects (for example, 38.2 - 'Financial contributions by a programme to projects shall be provided through grants’).

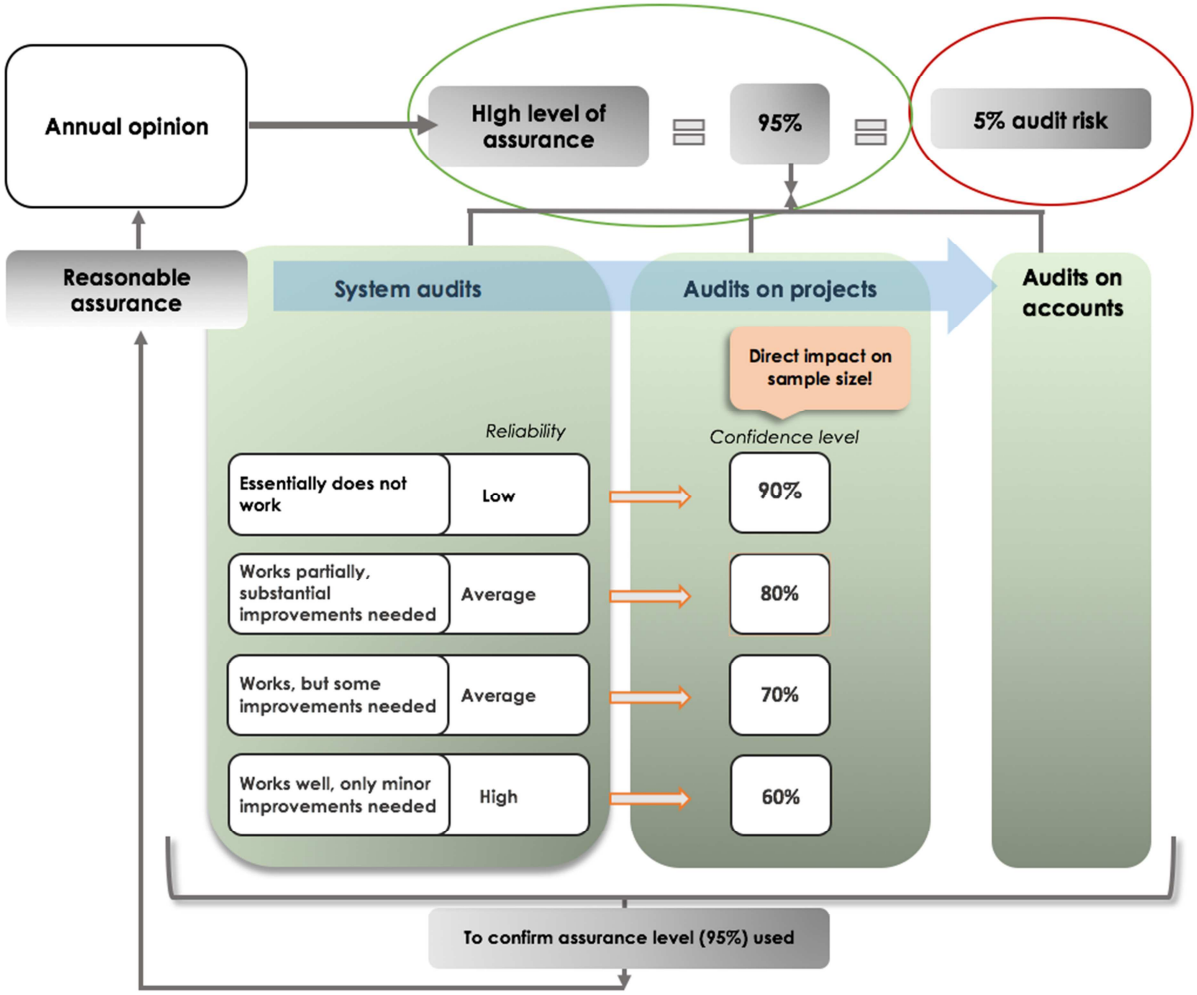
On the other hand, 'Technical assistance’ is described in Title VI ’Technical assistance’, article 34. In this article (and others in Title VI) there is no reference to the notion of ‘project’, and the concept of ’technical assistance’ is consistently used thorough the articles in this Title.

The total amount of the technical assistance expenses will serve as the sampling population for this specific audit (i.e. separate from the audit of projects), and it is up to the AA to decide on the sample size, sampling unit and other parameters. In the context of the audit on accounts, the sample size should be sufficient to allow establishing ‘whether the accounts give a true and fair view […]’ (article 68.4 of the ENI CBC IR).

The model illustrates the planned audits if the aim is to provide a high level of assurance (for example, 95%), then the audit risk (possibility for the auditor to issue an unqualified opinion while

in fact there are material misstatements in the annual report) has to be kept at the minimum level (5% in this example).

Picture 3: inherent risk outline for ENI CBC MED programme



2.2 Audit risk assessment

When this strategy is being written, as already stated, the governance and the DMCS has not been defined yet. A complete analysis of the management and control systems (inherent risk) has necessarily to be postponed to next strategy update.

Risk factors that influence inherent risk in the cross-border cooperation programmes, including any horizontal issues are the following:

1. *The complexity of the provisions applicable for the programme – including national regulations*.

The more complex these are, the greater is the risk of error. The complexity for the European territorial cooperation programme has to be classified as high, since many different legal provisions are applied, and moreover relating to 13 different countries, of which 6 non-EU.

2. *The management process foreseen for projects implementation*. The more complex the management process and the underlying agreements, the greater the risk of error. Management processes are very complex for the European cross border cooperation programmes due to the involvement of several countries.
3. *The kind of evidence for expenditure incurred* (e.g. the risk of payment/receipts on the basis of declarations of supply – e.g. own supply – is higher than in case of invoiced goods and services).
4. *The amount of grants* (absolute amount of grants and proportion of European fund resources in the total expenditure): the higher they are, the greater the risk of error. The inherent risk is thereby influenced since the European co-financing rates are comparatively high in this kind of programmes.
5. *The kind of project partners* (e.g. the risk for public or private, or for newly established ones). Based on experience from the past, all kind of project partners can be involved.
6. *Risk connected to taxation / financial risk*: grant of undue resources to a beneficiary, VAT, custom duties.

Based on previous experience in ENPI CBC MED OP further risk areas are:

- Definition of functions among the various bodies involved in Programme management and control (especially between MA and JTS generating uncertainty and length in procedures)
- Exhaustiveness of Monitoring and information system: there is no information about the technical assistance procedures and expenses
- Project auditors reliability: the detected error rate is higher than any tolerable threshold (the deviation rate from the positive hypothesis of project auditor full reliability reaches 54,1%. It is a rate higher than the tolerable deviation rate, fixed at 20%)
- Project payment procedures: the timing for checking and paying project reported expenses is double than the foreseen one.

Other risk factors, moreover, relate to ENI new rules with respect to previous ENPI system; among them:

- active role played by all participating countries, through NA, CCP etc. with a high number of actors involved at Programme level and different operational schemes
- control functions by the MA: in ENI it explicitly has new specific duties to perform, such as the yearly plan of on-the-spot checks,.

Taking into account what said above and the Programme starting phase, the most suitable order of audits on Programme bodies and procedures is reported in Annex I.

The audit authority shall cover those areas progressively when they are implemented. The first two areas will be audited in the first year of activity plan.

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

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

3 - AUDIT METHODOLOGY

3.1 Overview

3.1.1 Methodological approach

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

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

Specific audit objectives include the following actions.

1. Audit activity planning. In this phase information is gathered about the correct functioning of the Programme MCS in order to correctly perform the audit activity itself.
2. Risk assessment. Main steps are:
    - selecting inherent and control risk factors
    - risk analysis and assessment
    - spotting audit priorities with respect to assessed risks;
    - defining of audit scope and methodology;
    - identifying necessary resources (auditors, technicians and specialists, travels, timing, costs);
    - approval of audit activities plan (procedures, timing, purpose, sample size).
3. System audit:
    - verification of monitoring of projects, , accounting and information systems, organisational structure and procedures; special attention shall be given to MA

monitoring internal control and risk management since they are newly explicitly stated functions for the MA. System audit is carried out through desk analysis, interviews with the audited body staff and control tests on key requirements, on a sample basis;

- sampling for control tests on requirements in the annex of ENI CBC IR, based on judgmental selection that takes into account administrative and financial data and any information about involved actors, according to the methodology of the EGESIF note 14-0010 of 18.12.2014, "Guidance on a common methodology for the assessment of management and control systems in the Member States";
- assessment of system reliability: the conclusions are going to serve also for the size and representativeness of project sample.

4. Sample audit on projects:

- sampling: sample size and definition depends on the confidence level fixed according to the assessment of management and control system reliability;
- audit implementation on a sample of projects suitable for the verification of claimed expenses; this phase includes also any additional audit needed to best define error rates.
- analysis of irregularities: whether they are systemic, what their causes are, which preventive and corrective measures are to be recommended.

5. Audit on annual accounts according to art. 28.1 and 68.4 of Reg. 897. This audit is performed by the Audit Authority with reference to each accounting period. It provides a reasonable assurance on truth, completeness, accuracy and regularity of amounts claimed in accounts; the Audit Authority especially considers outcomes of system audits and audits on projects.

6. Monitoring: follow-up and corrective measures:

- verification of corrective measures adopted by the Managing Authority to solve identified weaknesses;
- deadlines for answering to audit reports, evaluation of observations or counter-deductions and follow-up activation where relevant (or formal acceptation of risk by the Managing Authority).

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

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

this Audit Strategy is being written, the DMCS has not been approved yet, nor, therefore, could MA designation procedures start.

As for project audit the manual and templates shall be proposed by the audit providers and approved by the Audit Authority; with the same procedure and at Audit Authority demand, they can be modified and adapted during the Programme implementation as the need may arise.

All audit tools shall be checked during the Programme implementation period in order to ensure that they keep responding to actual needs.

3.1.2 Audit standards

The audit work respects international standards on audit.

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

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

Among them, apart from the Practice Notes to ISA detailed hereafter, the following are especially relevant:

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

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

Main ISA regarding the audit work are the following:

ISA 200	Overall objective of audit
ISA 220	Quality control for audit work
ISA 230	Audit documentation
ISA 240	The auditor's responsibility to consider fraud in an audit of financial statements
ISA 250	Consideration of laws and regulations in an audit of financial statement
ISA 300	Planning an audit of financial statements
ISA 315	Understanding the entity and its environment and assessing the risk of material

ISA 320	Materiality in planning and performing an audit
ISA 450	Evaluation of misstatements identified during the audit
ISA 500	Audit evidence
ISA 530	Audit sampling
ISA 600	The use of the work of other auditors
ISA 620	Using the work of an Auditor's Expert
ISA 700	Forming an audit opinion
ISA 705	Modifications to the opinion in the independent auditor's report
ISA 706	Emphasis of matter paragraphs and other matter paragraphs in the independent

In system audits, IPPF (*International professional practices framework*) will also apply, as far as compatible with ISSAI. IPPF are issued by the IIA (The Institute of Internal Auditors).

For IT audits, ISACA ITAF (A Professional Practices Framework for IS Audit/Assurance) and their COBIT can also be used as a source of inspiration.

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

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

3.2 Audits on management and control systems.

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

The objective of system audits is the comprehensive examination of the regular, efficient and effective functioning of the systems involved in the use of EU funds, especially the management, implementation, reporting and control. This goal is achieved primarily through the audit of the key requirements and compliance tests selected through risk assessment. Compliance can only be tested after the actual start of the programme implementation.

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

The AA activity shall be first oriented to the compliance of the respect of criteria for MA designation and the assessment on the DMCS. System audits should be carried out as from the first year of implementation of the programme, after the designation process.

When drawing this audit strategy, the Managing Authority has not put in place the managing and

control system and the descriptive document (DMCS) yet, therefore the designation procedure has not already started.

In line with chapter 2 “risk assessment of the audit strategy”, system audits cover each component of internal control indicated in the annex of ENI CBC IR and each organization in the MCS at least once throughout the programming cycle. In particular, they will focus on bodies: Managing Authority (MA), Joint Technical Secretariat (JTS), Antennae of Aqaba and Valencia, Project Selection Committee (PSC), National Authorities (NA), National Contact Points (NCP), Control Contact points (CCP).

Thematic audits are planned as part of the yearly audit planning process on the basis of available information and audit experience.

The AA should ensure that all the key components of internal control are covered regularly through full audits or follow up audits.

In the ENI CBC Programmes, the internal control key components are the ones described in the Annex of ENI CBC IR “designation criteria for the Managing Authority” i.e. :

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

This may be complemented whit focused system audits where and when considered necessary in order to the remaining key requirement provided by the “Guidance on a common methodology for the assessment of management and control systems in the Member States", EGESIF 14-0010_final of 18.12.2014

During site work of system audit, the auditor shall obtain sufficient and reliable evidence that the MCS in place functions effectively and as described. Test of controls shall apply – it may include walkthrough tests of the relevant documents held by the authorities concerned, interviews with relevant staff and examination of a sample of transactions.

The methodology used for the sample selection for tests of controls (such as attribute sampling or judgmental selection) should be decided upon by the AA. The methodology used for determining the sample size for tests of controls should be in line with internationally accepted audit standards listed at par. 3.1.2 of this document and to the Commission Guideline on sampling techniques for system audits.

The results of these tests combined with other qualitative elements and audit procedures form the basis for the assessment in order to provide an assessment of the system. The auditors should draw their conclusions first for each assessment criterion, then for each key requirement, then for

each authority. Eventually the AA draws its conclusion on the MCS, on the basis of the following categories:

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

In accordance with the JOP, "the AA is authorised to carry out directly, or through its sub contracted audit company its duties on the whole Programme territory, according to the specific modalities to be agreed upon with the AA and the relevant legislation".

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

As a general rule, system audits are performed annually so as to provide adequate information for the planning of the sample audit of projects, for the establishment of sampling parameters used for the selection of audited items, and for the substantiation of the annual audit opinion.

The aim of the audits is to verify whether the audited elements and processes of the MCS provide for the legal and regular use of funds in line with the funding objectives. As a result of the system assessment, the MCS is classified into categories. During the process, the following factors serve as the basis of classification:

- examination of the selected components of internal control and assessment criteria and effectiveness evaluation based on test elements; assessment of changes in the MCS and the relating regulations in the audited period;

- follow-up of previous audit findings relating to each component of internal control and assessment criterion;
- mitigating factors and compensatory controls.

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

3.3 Audits on a sample of projects and sampling method

3.3.1 Sampling methodology

The Audit Authority shall assure that expenditure done by ENI CBC MED Programme for which reimbursement has been requested from the Commission is legal and regular.

Verifications by Audit authority focus on expenditure reported by each project beneficiary and already certified by the Managing Authority. As a consequence, as said above, not only expenditure regularity but also the Managing Authority checks on effectiveness are verified.

The aim is a sample of at least 5% of projects and 10% of claimed expenses in the whole ENI MED Programme. The actual sample size depends on the system audit output (control risks) and inherent risks detected during the risk analysis phase.

The aim of sample survey is estimating the error rate, i.e. the ratio between irregular expenditure and expenditure certified by the Managing Authority. Confidence level, therefore, shall be related to the system reliability in order to have statistically reliable project audit results. An example is reported in the following table.

Table 5: sample size according to risk

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

Sampling methodology for selecting projects to audit is defined by the Audit Authority on the basis of population characteristics (expenditure certified by the Managing Authority in the referred accounting year) and of error level and dispersion. Following the population analysis and system audit outputs, sampling methods presented in the Guidance on sampling methods for audit authorities shall be assessed in order to apply the most suitable one (statistical or not statistical, random, MUS, stratified, etc.)[11].

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

Sample size will thus depend on TER.

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

In this case, sample size is defined as follows:

$$n = [(N \times z \times \sigma) / (TE - AE)]^2$$

where

n sample size (number)
N population size
z is a parameter from a normal distribution related to the system reliability level determined from system audits and the connected confidence level
σ estimation of standard deviation, as measure of population dispersion and variability (expenditure of each audited item – average expenditure certified by the Managing Authority)
TE maximum acceptable materiality level of error: it is fixed at 2% as said above
AE anticipated error, obtained from historical data (projected error in past period); on the base of AE the irregularity rate can be esteemed.

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

On the basis of the experience of previous 2007/2013 programming period with the ENPI CBC MED OP, that is similar as for resources granted by the Commission, for participating countries and for managing structures, number of projects could not allow a statistical sampling, considering the project consolidated report as the sampling unit especially in the first years. In ENPI three calls for projects 95 projects have been selected and financed overall, with not more than 200 project

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

interim and final reports (155 reports until 31.12.2016). Since the sampling unit had to be the consolidated report submitted by the project lead beneficiary, statistical sampling has not been possible. On the contrary, had the auditors be allowed to consider the 798 partners/beneficiaries involved in projects as sampling units, reports are more than 1200 and would have allowed a statistical sampling since the 4th project implementing year, with more than 150 units.

Therefore, the Audit Authority intends to use reports submitted by each beneficiary and certified by the MA as sampling units, in order to apply a statistical method and to extend audit results to the entire population. In doing this, the Audit Authority follows suggestions by the Commission in its "Guidance on sampling methods for audit authorities" (par. 6.3).

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

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

In case of irregularities or irregularity risk, the Audit Authority can decide, based on its professional judgement, to audit a complementary sample of projects or project parts not audited within the random sample: the aim of the complementary sampling is considering specific risk factors.

Sampling methodology shall be reassessed at least once a year, before each sampling.

A non-statistical sampling method can be used following professional judgement by the Audit Authority in specifically justified cases and when the number of projects in an accounting period has not a sufficient size to apply a statistical method: this means that sample size that would be advised by the application of appropriate formulas is not achievable. It is not possible to state the exact population size below which non-statistical sampling is needed as it depends on several population characteristics, but it is safe to state that this threshold is somewhere between 50 and 150 population units.

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

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

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

Finally, on the basis of the results of the project audits, the Audit Authority calculates the error rate of the sample and the total error rate, (the sum of the extrapolated casual errors and any the systemic and anomalous errors not corrected, adjusted according to the population). At the end of the controls, the possible errors found in the context of the project audits will be analyzed.

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

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

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

3.3.2 Project audit methodology

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

use of EU funds are in place and function adequately, that the funds have been used in a legal, regular and efficient way and in line with the funding objectives, and that the payment applications submitted to the European Commission are correct.

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

Due to the variety of this situation, the Audit Authority is going to perform project audits through an external provider, as foreseen in the JOP par. 3.2.5. The Audit Authority shall specifically monitor the providers' activity and its outputs, especially as far as respect of approved methodology, ethic requirements and audit standards is concerned. The Audit Authority shall retain the responsibility of final audit decisions and thus shall supervise the audit work according to applicable international standards previously indicated, by whoever should it be performed (Audit Authority, Group of Auditors, selected providers, external auditors).

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

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

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

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

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

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

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

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

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

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

The activity planning is going to be organised in coming years according to the actual project implementation and reporting, both as for periodicity of sampling and for the audit phases over time. The first call for projects has been launched by MA on 19 July 2017 and will be open until 9 November; the selecting, negotiating and contracting phases will then take place; therefore projects will not start before mid-2018 and are likely going to issue first report in accounting year 2019-2020. The project audit activity is thus not going to start before 2020.

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

3.4 Audits on annual accounts of the programme and verification of the management declaration

3.4.1 Audit on annual accounts of the programme

Audit of accounts is the responsibility of the Audit Authority according to art. 28.6.a, 68.2.d and 68.4 of Reg. 897 (ENI implementing rules) and art. 59.5 of Reg. 966/2012 (financial regulation). It aims at obtaining reasonable assurance on the truth, completeness, accuracy and eligibility of the amounts declared in the accounts. As an output issue of this activity, the Audit Authority shall issue an audit opinion establishing whether the accounts give a true and fair view, whether claimed

expenditure is legal and regular, and whether the control systems put in place function properly; the opinion shall also state whether the audit work puts in doubt the assertions made in the management declaration.

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

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

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

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

- Summary overview and follow-up of the recommendations of system audits relating to the accounting year which is subject of the accounts, paying special attention to the errors and deficiencies revealed in relation to the MA and to the follow-up of the implementation of any relating corrective measures. Audit of whether the recommendations made for the audited organisations have been fulfilled based on the available evidence, with the content required by the audit; and accordingly, what impact they have on the assurance level stemming from the management and control system.

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

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

  Audits on projects are also followed up by the AA. In this respect, it is important to check whether any established irregularities have been excluded from the accounts, and whether

each revealed case have been appropriately indicated in the w+r records (waived and recoveries) and in appendices of the accounts.

- Study of the relevant reports by the EC and the ECA. Check of whether these reports contain any findings relating to the drawing-up of the accounts or any errors, deficiencies or anomalous cases relating to the functioning of the system, and follow-up of the measures taken in order to correct the errors and irregularities revealed by the EC and ECA. Also in this case does the follow-up cover the check of whether the established irregularities form part of the accounts, and whether they are appropriately included in the w+r records.
- Audit on the accounts submitted by the MA. Check of whether the documentation has been compiled in line with applicable provisions on form and content, with the content required by the MA methodology and within the defined deadlines.
- If it required based on professional judgement, testing may be carried out for the purposes of the audit of accounts submitted by the MA. The AA carries out a desk based audit on expenditure items selected randomly – taking the principles laid down in the EC guidance on sampling into account –, to establish whether the data included in the submitted accounts are in harmony with the content of the IT system and with the records of the organisations in the MCS. It also assesses whether follow-up is made possible and whether there is a complete audit trail. In case there are discrepancies, AA shall assess what causes the difference, whether the explanation is indicated in the document and whether it is justifiable and acceptable in the auditor's opinion.
- Check of whether the accounts are in line with the final interim payment application submitted for the accounting year at priority level. In case there are discrepancies, it shall be assessed what causes the difference, whether the explanation is indicated in the accounts (also taking into consideration the information included in the annual summary) and whether it is justifiable and acceptable in the audit's opinion.
- Test based check of the amounts withdrawn, recovered, to be recovered and irrecoverable. Desk based review of randomly selected items (primarily irregularity decisions), check of whether the data in the IT system is in line with those in the submitted accounts and whether they can be followed up in the records of the organisations in the MCS. Assessment of the completeness of the audit trail.
- Test based check of whether the expenditure affected by ongoing irregularity procedures does not form part of the accounts.
- Examination of the main findings established in relation to the management declaration and the annual summary of the MA, which may have an influence on the completeness, accuracy and veracity of the accounts.

From the above listed tasks, the AA starts its assessment with the follow-up of closed system audits and audits on projects. However, the scheduling of the audit of accounts shall be in line with the deadlines included in the ENI CBC Regulations and depends on those established in an

internal protocol with MA. Based on this first version of the document, the AA starts the comparison of the accounts to the interim payment applications and to the w+r records. Based on findings finalised afterwards, and also taking the results of the audit and reconciliations on the first draft accounts, the MA compiles the final accounts.

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

3.4.2 Verification of the management declaration

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

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

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

- audit of the form and content of the management declaration: examination of whether the documentation was compiled in line with relevant requirements on form and content, containing the data required by the methodology of the MA and within the required deadline;
- • the Audit Authority should obtain adequate assurance that the methodologies and procedures of the Managing Authority for drawing up the management declaration provide a sound basis for issuing the document. To achieve this, the AA needs to assess whether the relevant procedures were developed within the required deadline, in accordance with applicable regulations, in adequate detail and quality; this procedure shall be included in the framework of the system audit of the first year when auditing the component of internal control no. 3.viii “procedures for drawing up the accounts ensure that they are true, complete and accurate and that the expenditures complies with applicable rules” (annex to ENI IR). When carrying out the follow up, the Audit Authority shall confirm the fulfilment of recommendations regarding any identified deficiencies or errors, and assess the satisfactory implementation of corrective actions prior to drawing up the first draft of the management declaration. In the following years the requirement to follow up any open findings and assess changes affecting the component of internal control shall continue to apply.

Based on the content of the management declaration, the assessment of deficiencies, errors and corrective actions identified during administrative and on-the-spot verifications is crucial,

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

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

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

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

4. ANNUAL REPORT AND AUDIT OPINION

The Audit Annual Report, drawn up by the Audit Authority providing to summary of audits carried out, including an analysis of the natures and extent of errors and weakness identified, both at system level and for projects, as well as the corrective actions taken or planned with reference to a specific inclusive accounting period among the 1 July of the year N-1 and the 30 June of the year N.

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

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

- system audit for the evaluation of the reliability of the MCS;

- sampling activity;

- audit on projects;

- analysis, within the 31.10 of every year or in the terms that will be arranged between the Authorities, of:

  - the first draft of the accounts;
  - the preparatory work for the management declaration;

- preparatory work for the elaboration of the annual audit report and the audit opinion on the accounts;

- acquisition, every year, in the terms arranged between the Authorities, of:

  - the final version of the accounts predisposed by the MA with incorporated the most recent results of AA audits;
  - the management declaration;

- audit of the accounts and examination of the management declaration.

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

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

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

In turn, the audit opinion verifies if the accounts furnish a fair view, if the operations related to the accounts were legitimate and regular and if control's systems opportunely predisposed work;

besides it specifies if audit puts in doubt the assertions made in the management declaration, information are correctly introduced, complete and exact, the expenses have been effected for the foreseen purposes and the control systems put in place assure that the related transactions are legal and regular.

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

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

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

Table 6: audit opinion according to audit results

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

* The results of system audits are the following: Category 1. Works well. No or only minor improvement(s) needed; Category 2 Works, but some improvement(s) are needed; Category 3; Works partially; substantial improvement(s) are needed; Category 4. Essentially does not work. See par. 3.2

All activities described in this Strategy, including the annual report and audit opinion, can be object of cooperation with the European Commission according to art. 29 of Reg. 897.

5. AUDIT WORK PLAN

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

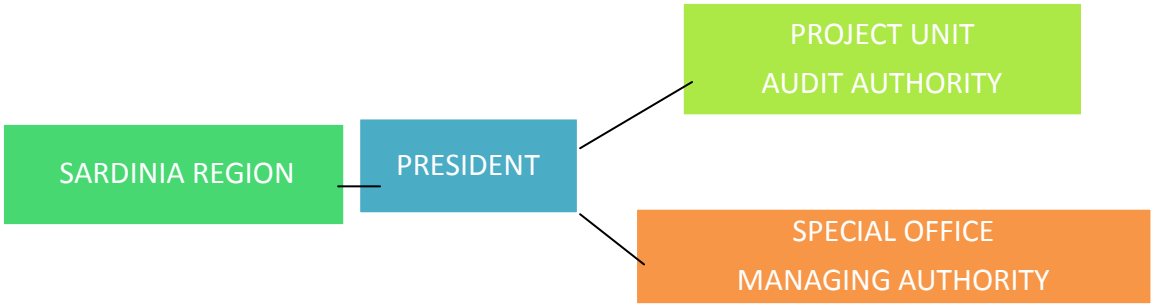
Tasks relating to the audits to be carried out in the period between 2018 and 2020 are presented in Annex I of this Strategy.

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

6.AUDIT RESOURCES

The Audit Authority, established as a project unit that directly refers to the President of the Sardinia Region, is independent of the ENI CBC MED Programme Management Authority, under both the hierarchical and functional profiles.

Picture 4: Sardinia Region organisational chart.



While writing this document, the AA structure is being submitted to evaluation for the endorsement by the Italian National Coordinating Body (IGRUE, Ministry of Finance), according to its explaining note no. 47832 of 30.5.2014 "Procedure for the release of the opinion on the endorsement of the Audit Authorities of EU Programmes 2014/2020".

The Ministry verifies, among other things, adequacy of the office human resources, both as for number of staff and as for their expertise. Furthermore, functional independence and respect of the rules for avoiding conflicts of interest are required.

The activity carried out by the Audit Authority is performed by internal staff with full time permanent contracts. As for specific expertise not available within the office, the AA is activating cooperation with other regional offices in order to benefit from their specialised staff. Moreover, it is going to start operational technical support and consultancy on specific issues related to ENI CBC MED Programme 2014-2020 through qualified external providers, under AA coordination and supervision.

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

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

Staff complimentary expertise and working group flexibility in cooperation with other regional offices ensure that the Authority meet the requirements for the audit function.

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

For the first year of activity, the AA employs its own staff, and pro quota the staff of other regional offices.

When drafting this strategy, the total resources available for carrying out the audit activity, in relation to the current accounting period 2017-2018 correspond to 3 human resources, including the coordinator, and cooperation with other regional offices on specific expertise as statistics, information technology and bookkeeping recording.

Further resources for the execution of system audits and advice on specific issues related to the ENI CBC MED 2014-2020 programme will be provided through contracts for audit services and through specialized professional services and / or other flexible forms of work allowed by law.

Providers will be paid by the dedicated funds of the programme for technical assistance.

In the organisational chart (annex II) the internal AA structure roles and functions are reported.

Audit Authority ENI CBC MED Programme

Coordinator Enrica Argiolas

Officers Silvia Zedda, Vincenzo Amat di San Filippo

Annex I **Work plan**

Authorities/bodies to be audited	2018 (July 2017- June 2018)	2019 (July 2018- June 2019)	2020 (July 2019- June 2020)
Managing Authority Joint Technical Secretariat Branch Offices Project selection committee National Contact points Control Contact Points	**SYSTEM AUDIT** **1.** designation of the MA (since 2018) - audit on the DMCS - audit on MA, Accounting and Payment unit, Authorising unit, JTS, Project selection committee (PSC) 2. a selection of the following ongoing procedures - MIS procurement - MIS implementation - project assessors recruitment - JTS recruitment - First call for standard projects 3. audit tools manuals of procedures, check-lists, reports **AUDIT ON ANNUAL ACCOUNTS** - Internal protocol with MA on annual accounts deadlines **TECHNICAL ASSISTANCE AA** External auditors (system and account) procurement GoA meeting and travel provider procurement	**SYSTEM AUDIT** - follow-up - audit on updated DMCS - audit on reliability of project auditors - audit on branch offices, - procedures to endorse national auditors - TA providers procurement **PROJECT AUDIT** - sampling methodology (updating) - audit tools manuals of procedures, check-lists, reports **AUDIT ON ANNUAL ACCOUNTS** - Audit on a sample of operations **TECHNICAL ASSISTANCE AA** External project auditors procurement	**SYSTEM AUDIT + FOLLOW-UP** - follow-up - audit on updated DMCS - audit on control contact point, national contact point. **PROJECT AUDIT** - 1st sampling of expenditure reported by project beneficiaries and certified by MA - Audits on the sampled reports at the beneficiaries premises **AUDIT ON ANNUAL ACCOUNTS** - Audit on a sample of operations **TECHNICAL ASSISTANCE AA**

Annex II

Audit resources

Structure	Profile	Education	Specialized expertise needed for designation by IGRUE	Experience in activities relates to European Programmes (planning/management/control/report/audit/ monitoring) – more than:	Time dedicated to ENPI MED 2007/2013 OP (%)	Time dedicated to ENI MED 2014/2020 OP (%)	Total	year of activity
Audit Authority of ENI CBC MED Programme	permanent director	post MA level	registered accountant; member of the official registrar of auditors	20 years	40%	60%	100%	**I-II-III**
	permanent officer	post MA level	structural funds	10 years	40%	60%	100%	**I-II-III**
	permanent officer	post MA level	audit	10 years	40%	60%	100%	**I-II-III**
Ufficio ispettivo (Inspectors' Office)	permanent assistant	high-school certificate	supporting functions		10%	20%	30%	**I-II-III**

ACRONYMS AND ABBREVIATIONS

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