



## **ENPI CBC Mediterranean Sea Basin programme**

### **Audit Authority**

## **Annual audit report 2017**

Audit object: procedures and internal circuits of the Joint managing authority

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Final report

(the annual report is only draft in its final version)

By virtue of the nature of annual report, interim or follow-up reports 63-66 are prior acts, even though they maintain their characteristics of autonomous and distinct acts.

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## 0. INTRODUCTION

### 0.1 PURPOSE OF THE REPORT

The annual audit report is founded upon Art. 29 of the Implementing Rules for the European Neighbourhood and Partnership Instrument<sup>1</sup>. According to the above, “the internal audit service of the Joint Managing Authority shall each year implement a control programme to check the internal circuits and ensure procedures have been correctly applied within the Joint Managing Authority” and “it shall draw up an annual report and send it to the representative of the Joint Managing Authority.”

Within the ENPI system, the aim of the internal audit is not only to give assurance to stakeholders (Joint Monitoring Committee, participating countries, European Commission etc.) that procedures tend to be correct, but also to contribute to their correctness, by highlighting any weakness or malfunction and making recommendations for their correction. In general terms, the purpose of the internal audit is defined as “add value and improve an organisation’s operations”<sup>2</sup>.

In this regard, we have reviewed the report format with respect to the previous one, in order to improve the effectiveness. Issues detected in previous years, the analysis conducted and the follow-up of recommendations are presented synthetically and simply for a better clarity. Issues on the managing and control system are analysed according to the possibility of solving them in the current final phase of the Programme, thus improving its effectiveness and efficiency. Therefore the focus is on actual issues, while some recommendations refer to the future, as there is no time or no similar procedure left to implement the recommended actions: in this case no follow-up was possible and the old recommendation is closed. In any case, the Managing Authority must consider them in arranging the monitoring and control system of the ENI CBC MED Programme 2014/2020.

By virtue of the nature of annual report, this whole document report is a synthesis of interim reports issued by JMA Internal Audit Unit and by ourselves during the years, to which we refer to for details about audit contents and recommendations.

### 0.2 INTERNAL AUDIT FUNCTIONS: THE INDEPENDENT AUDIT AUTHORITY

Through deliberation of Regional Government N. 8/9 of 19 February 2016, ARS attributed internal audit functions to the “Project Unit ENI CBC MED OP Audit Authority (“Autorità di audit del programma ENI CBC Bacino del Mediterraneo”), created through deliberation N. 15/5 of 10 April 2015. The Audit Authority is a body functionally independent of the Managing Authority, according to art. 14.6 of Reg. (CE) 951 of the Commission of 9 August 2007.

Follow-up activity, foreseen in 2017 Audit Programme, has been performed jointly by director Enrica Argiolas and officers Silvia Zedda and Vincenzo Amat di San Filippo.

### 0.3 AUDIT PROGRAMME AND AUDITS CARRIED OUT

The basis for this report is the activity carried out after last year annual report according to 2016 annual audit programme: the recovery process of Aqaba branch office, while the audit on the infrastructures realised by projects has been postponed to 2017. Moreover, we also report about the

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<sup>1</sup> Commission Regulation (EC) N. 951/2007 of 9 August 2007 laying down implementing rules for cross-border cooperation programmes financed under Regulation (EC) N. 1638/2006 of the European Parliament and of the Council laying down general provisions establishing a European Neighbourhood and Partnership Instrument.

<sup>2</sup> The institute of internal auditors, *International professional practices framework (IPPF)*, 2013: *Definition of internal auditing*, page 2.

follow-ups conducted this year onto recommendations expressed when auditing the general JMA organisation, the external auditor selection, the external audit process, the joint technical secretariat, the branch office in Aqaba, the project operational management, the project financial management, the first-level control, the monitoring system, the expenditure control, the communication plan, the expenditure reimbursement circuit, the recovery processes, the antifraud measures, the project auditors' reliability, the authorising section and the first call for standard projects and still remaining after last year annual report; other audits have already been cleared, i.e. no more recommendations remain. Finally, we give an account about our report on the annual audit plan for projects (whose results are in the report drawn up in 2016 by the external provider).

## **0.4 REPORT SUBJECT AND STRUCTURE**

This introduction briefly describes the scope of the present report, the appointment of the independent Audit Authority with the internal audit functions and the audit carried out after the 2016 internal audit annual report. Thereafter, the report breaks down into twenty chapters dedicated to the follow-up performed, one chapter for the audit implemented in 2016 and finally one chapter about the internal audit report issued on the project sample audit (based on the annual report drawn up in 2016 by the external provider).

Each critical issue noticed in interim and follow-up reports (and not already solved in a previous follow-up) is briefly depicted. After that, for issues discussed in follow-ups the follow-up result is illustrated, specifying whether the issue has been faced and possibly solved, either partly or fully. For both follow-ups and audits the section ends with the recommendations the Audit Authority deems necessary to improve the issue, having regard to the audits and the ensuing discussions. Clearly, recommended actions may have been already undertaken after the interim or follow-up reports: these will be audited through new follow-ups.

The last chapter contains a brief conclusion on the overall functioning of the JMA system, called executive summary.

The plan of action is attached to the report: it is constituted by all recommended actions separated into those to be implemented in the current programming period (both new recommendations and those from follow-up) and those for next Programme.

## **1. OUTCOMES OF THE GENERAL FOLLOW-UP**

The internal audit unit carried out in 2010 an audit on the structure and functioning of the JMA, on the document management of JMC meetings and on the circuits that had already started at that time; the results of these audits have been reported in the annual report of the same year 2010.

In subsequent years, we have carried out follow-ups on the actions recommended in that report, and reported the results in each year annual report. Therefore in the following paragraphs we refer about the follow-up conducted this year on the remaining recommendations expressed in 2010 on the structure and functioning of the JMA, on the document management of JMC meetings and on the circuits that had already started at that time.

### **1.1 THE JOINT MONITORING COMMITTEE**

#### **1.1.1 JMC MINUTES AND WRITTEN PROCEDURES**

Name of the author – person and unit – of documents submitted to JMC is still missing, both for meeting in presence and written procedures.

## OUTCOMES OF THE FOLLOW-UP

The critical issue has not been solved.

## RECOMMENDATION 2017 N. 1

We deem useful that the documents submitted to the JMC approval show the name of the author. Alternatively, a module describing the procedure may be drafted.

## 1.2 ORGANISATION AND STRUCTURE OF JMA OFFICE

### 1.1.2 ORGANISATION CHART, PERSONNEL AND QUALIFICATIONS AND QUALITY OF WORK

The 2010 critical issue concerned the general downsizing of nearly all units/sections, actually remained in following follow-ups. JMA director had highlighted the strong difficulty in facing this issue, due to the problems of staff mobility within the ARS administration.

In previous years highlighted gaps in the personnel qualifications – for whose filling we had recommended specific actions in job organization and training – had been partly filled, especially through specific training.

## OUTCOMES OF THE FOLLOW-UP

The critical issue has been partly faced but not solved.

## RECOMMENDATIONS 2017 N. 2-3

The JMA concrete organization chart should be adapted to the actual workload, which includes also the ENI Programme activities.

Evaluate the use of Programme funds to maintain and improve officers' expertise (long-life learning).

### 1.1.3 SUPPORTING FUNCTIONS

Supporting functions of organizational management impact on the heads of units' and officers' workload, for what is not covered by the "C category" assistant (management of security, training, assets, premises, fiscal compliance, document registrations, management control, anti-corruption processes, et cetera).

## OUTCOMES OF THE FOLLOW-UP

The critical issue has been faced but not solved. We recognise the difficulties that the JMA has faced to solve this issue.

## RECOMMENDATION 2017 N. 4 (ONLY VALID FOR ENI)

Make a quantitative assessment of the working time devoted to such functions in order to adopt adequate organisational adjustments.

### 1.1.4 PROCEDURE MANUALS

JMA manual (it includes all units manuals) needs to be updated in order to consider also modifications meanwhile incurred in processes and activities.

## OUTCOMES OF THE FOLLOW-UP

The critical issue has been partly faced but not solved yet.

#### RECOMMENDATION 2017 N. 5-6

Formally adopt the manual set up by Authorising Section.

Formally adopt the Guidelines for recoveries.

#### **1.1.5 LOGO**

Please refer to par. 14.1.3.

#### **1.1.6 COMPETENCE ON THE PROCUREMENT FOR THE EXTERNAL AUDIT**

No formal exchange with the European Commission was performed regarding the Programme disposition about the task of conducting the external auditor selection.

#### OUTCOMES OF THE FOLLOW-UP

The critical issue has not been faced.

#### RECOMMENDATION 2017 N. 7

Communicate to the Commission the procedure followed to choose the external auditor by inserting it in next annual implementation report.

#### **1.1.7 SYSTEM TO ACTUALLY FOLLOW UP THE AUDITORS' RECOMMENDATIONS**

Within the audited period, a stable system to follow up the auditors' recommendations was not activated.

#### OUTCOMES OF THE FOLLOW-UP

The critical issue has not been faced as recommended.

#### RECOMMENDATION 2017 N. 8

Set up an ordinary effective feedback, i.e. responsive to recommendations.

### **1.3 MANAGING AUTHORITY PERSONNEL: QUALIFICATIONS AND QUALITY OF WORK**

Please refer to par. 1.1.2.

### **1.4 PRE-FINANCING OF BRANCH OFFICES**

#### **1.4.1 AUDIT TRAIL**

The audit trail proved suitable for reimbursement expenses and should be adequated to describe the prefinancing process, to clarify the eligibility control and to rule the request verification by the authoriser and the accountant.

#### OUTCOMES OF THE FOLLOW-UP

The critical issue has not been faced.

#### RECOMMENDATION 2017 N. 9

Detailed description of pre-financing process and general adjustment.

## 1.5 TECHNICAL ASSISTANCE EXPENDITURE

### 1.5.1 FAST TRACK PURCHASES

Fast track purchases are governed by an overall regulation for the ARS and the JMA used the list of providers defined by ARS without verifying if the EU principles are respected in it.

#### OUTCOMES OF THE FOLLOW-UP

The critical issue has not been faced because no fast track purchase has been made in 2016.

#### RECOMMENDATION 2017 N. 10 (ONLY VALID FOR ENI)

Respect of the principles of EU law of equal treatment, non discrimination and transparency must be assured and demonstrated

## 2. OUTCOME OF THE FOLLOW-UP ON THE SELECTION FOR THE EXTERNAL AUDITOR

The administrative proceeding related to the acquisition of the certification service for the Statement of Revenue and Expenditure presented by the Joint Managing Authority for the years 2008/2009 was subject to audit in 2010-2011 and we referred about this audit in the 2011 annual report. The audit showed that the rules had been generally respected; some critical issues were detected and recommendations had been made to solve them.

### 2.1.1 COLLATERAL ON TENDERS

No collateral or guarantee was required with tenders (provisional deposit).

#### OUTCOMES OF THE FOLLOW-UP

No tenders have been conducted.

#### RECOMMENDATION 2017 N. 11 (ONLY VALID FOR ENI)

We recommend formally expressing reflections about requesting a collateral deposit.

## 3. OUTCOMES OF THE FOLLOW-UP ON THE EXTERNAL AUDIT PROCESS

Please refer to par. 15.1.4.

## 4. OUTCOMES OF THE FOLLOW-UP ON THE FIRST CALL FOR STANDARD PROJECTS

Please refer to ch. 21.

## 5. OUTCOMES OF THE FOLLOW-UP ON THE JOINT TECHNICAL SECRETARIAT

The JOP foresees a Joint technical secretariat in order to give technical and administrative support to the JMA in the day-to-day management of the programme and projects. The audit on JTS organization and functioning had the aim to verify both the respect of applicable rules (compliance audit) and the organization effectiveness and reliability (management audit). We retraced workflow, relationships and functioning dynamics through interviews and analysis of documents relating to JTS establishment and organization. We have not specifically examined internal processes and controls because they regard both JMA and JTS.

### **5.1.1 LACK OF TECHNICAL COORDINATION**

The original critical issue was in the shortage of technical coordination. The 2014 follow-up showed a change in the organization with the appointment of two coordinators - one for the technical part and one for the financial – but some problematic aspects still remain.

#### **OUTCOMES OF THE FOLLOW-UP**

The critical issue has been faced and solved.

### **5.1.2 CONNECTION OF FUNCTIONS**

Since a coordinator specifically hired for this task was missing, JTS overall coordination had been kept by the JMA director. The relation by the JTS coordinators and the JMA units, whose heads are directly subordinate to the office director, are mediated by the same office director. The appointment of a JTS coordinator has already improved the situation but it is too recent in order to test the relation.

#### **OUTCOMES OF THE FOLLOW-UP**

The critical issue has been faced but not solved.

#### **RECOMMENDATION 2017 N. 12**

JMA will propose a solution for the organization that ensure segregation of functions and an effective and lawful administrative workflow.

### **5.1.3 STAFF ADMINISTRATIVE MANAGEMENT**

Management performed by the JMA director towards JTS showed more as an administrative activity for subordinate employees than as coordination. Relation with JTS staff is not always consistent with their contracts as external collaborators: among other aspects, they are asked continuous presence at the office, they are addressed through “service orders”, they must agree holidays with the director. At a specific level, a particularly relevant element is the instrument of the “service order”, used several times by the JMA director.

In the 2014 follow-up we verified that the critical issue had been partly faced, since the two coordinators were goal-oriented, although not univocally. Coordination has tended more at objectives and deadlines than in previous years, without substituting totally the administrative management: an example is the case of the resolution of a contract by the JMA, in which the two aspects overlap without distinction between them.

In 2015 no “service order” or other formal administrative act were adopted.

#### **OUTCOMES OF THE FOLLOW-UP**

The critical issue has been partly faced but not solved.

#### **RECOMMENDATION 2017 N. 13**

Substitute completely the administrative management with a coordination definitely oriented to results (targets and dead lines) rather than to presence.

### **5.1.4 THE DOCUMENTAL FORMALITY IS INSUFFICIENT**

There are few formal documents relating to the organization and functioning of the JTS: in addition to the general provisions of the JOP and the individual contracts of employment in which the lines of



activity are general in nature, there are no specific provisions. There are no procedure manuals and the audit trails in which the JTS is involved are in fact those of the JMA.

The 2015 follow-up has detected that in the computers shared folder there is an updated organizational chart but the previous versions are not present. As regards the procedures, there are only some interventions aimed at regulating individual activities or phases although not collected organically in a manual. The issue on documental formality is current given the high turnover in the staff.

## OUTCOMES OF THE FOLLOW-UP

The critical issue has not been faced.

## RECOMMENDATION 2017 N. 14

Formalize and keep updated the internal manual for procedures where the JTS is involved.

## 6. OUTCOMES OF THE FOLLOW-UP ON THE BRANCH OFFICE FOR EASTERN MEDITERRANEAN

According to Reg. 951/2007 the Joint Operational Programme foresees a branch office in Aqaba as antenna for Eastern Mediterranean.

From a functional point of view the b.o. activities are planned and performed in close cooperation with JMA and JTS on which the antenna depends and to which it reports.

Functions of the antennas are<sup>3</sup>:

- 1 – supporting JMA/JTS in the implementation of information, communication and promotion activities;
- 2 – contributing to the organization of the initiatives planned by the JMA/JTS;
- 3 – assisting JMA/JTS in the evaluation and capitalization of the Programme results.

The audit subject conducted in 2011 was the functioning of Aqaba branch office; in particular if the management and control system of the Antenna complied with IR, with the existing description (JOP) and with other relevant rules, and if circuits among JMA, JTS and branch offices, as well as b.o. internal processes were effective and efficient.

Follow-up 2014 has been carried out through interviews with JMA involved staff in Cagliari and interviews and document checks with the antenna staff in Aqaba. Besides, during the 2014 follow-up we had also checked some minor aspects that were not covered during the previous audit. Follow-ups 2015 and 2016 have been conducted on desk based document checks and with a meeting with the JMA director.

### 6.1.1 MANUAL OF PROCEDURES

The JOP foresees<sup>4</sup> a manual, approved by the JMC, about communication procedures between antennas, JMA and JTS and about their functioning. This manual has not yet been made.

The follow-up highlighted that relations between the antenna and the JMA seem to be working without particular problems; however the manual is a useful management instrument.

## OUTCOMES OF THE FOLLOW-UP

The critical issue has not been faced. The recommendation absorbs the same one formulated for Valencia branch office.

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<sup>3</sup> JOP, 2.5.

<sup>4</sup> JOP, p. 80 of the English version.

## RECOMMENDATION 2017 N. 15

Prepare and approve the manual.

### 6.1.2 CRITERIA OF CHOICE NOT ALWAYS CLEARLY VISIBLE

Criteria of assessment had not always been made clear to potential tenderers prior to the offers, but the issue has been solved afterwards. The only remaining issue was the respect of PRAG provision (2.8.1.): the evaluation committee must be composed of a non-voting chairperson and a non-voting secretary.

#### OUTCOMES OF THE FOLLOW-UP

Since no new procedure was conducted, the critical issue could not be faced.

## RECOMMENDATION 2017 N. 16

According to PRAG (2.8.1.) the evaluation committee must be composed of a non-voting chairperson and a non-voting secretary and an odd number of voting member (evaluators).

## 7. OUTCOMES ON THE NEGOTIATION PROCESS

The audit was performed on the projects selected in the first call and it affected the process leading to the signature of the grant contract, with the aim to verify the compliance of applicable rules (Reg. 951, PraG, JOP, relevant national and regional rules, audit trail) and the efficiency and effectiveness of the process.

The office director has approved an audit trail (decision N. 57 dated 10 March 2011) which foresees the involvement of JTS, OMU and the director herself. In particular, the audit trail establishes that the head of OMU verifies the content and the completeness of contract documents and check-lists, stating the (positive) results of the verification with formal letter to the office director who signs the contracts. The JTS and JMA activity has been set on the principle of double eye; the JTS project officers and financial officers worked as initiators while JMA officers as verifiers. Each check-list is signed by two JTS officers (project and financial) and by two JMA officer.

The 2014 follow up was conducted on the second call for standard projects; in 2015 and 2016 the follow-up has been conducted on the remaining recommendations since the other ones were addressed for next Programme.

### 7.1.1 CONNECTION OF FUNCTIONS

The JOP states at point 3.1.13 that within the JMA the contract is signed by OMU. After a formal exchange with the Commission offices, contracts with project beneficiaries are signed by the office director; in this way the office director performs operational management functions. As a consequence, these functions are not separated from the audit and payment functions (in functional terms also from authorisation), as all JMA units are hierarchically subordinate to the office director.

The problem of separation of functions also arises with respect to the role of the JTS coordinator carried out by the office director.

In fact, according to the audit trail the head of OMU formally declares the proper conduct of the negotiation process in which JTS staff are also involved. Since the JTS is coordinated by the office director, but, as mentioned, she is hierarchically above the head of OMU, relations between the two are not clearly defined.

The external experts have been charged with verification tasks as JMA programme officers, but they are in staff position to the JMA director, so the whole process has been managed by the JMA director. This situation does not comply with the programme that assigns to OMU this function<sup>5</sup> and the connection of functions remains. Moreover, the OMU control can not replace those in the duty of the authorising section whose role is completely different; performing external controls does not fall in the duty of the OMU. For this reason, the cost of the involvement of the head of OMU on a process that she does not manage is very high compared to the value that it produces and it is therefore inefficient.

#### RECOMMENDATION 2017 N. 17 (ONLY VALID FOR ENI)

Set up the negotiation process ensuring the separation of roles and functions of all the actors involved, in particular those between JMA and JTS; within the JMA between the services and the JMA director, within JTS between project and financial officers and the coordinators.

#### **7.1.2 FORMAL PROJECT ASSIGNMENTS TO BOTH JMA AND JTS OFFICERS IS MISSING**

No formal act assigned projects to JMA and JTS officers and showed the reasons of the choice. As for the JTS, both project and financial officers were involved in the negotiation but the allocation of projects was not formalized: it resulted from an excel file on the shared net folder that were updated according to changes happened in the meantime (new officers hired and rotations).

#### RECOMMENDATION 2017 N. 18 (ONLY VALID FOR ENI)

Formalize the assignment of projects to all involved officers through the adoption of proper acts<sup>6</sup> and with the reasons for that allocation.

#### **7.1.3 MANUAL OF PROCEDURES**

The audit trail defines the negotiation process and identifies the involved subjects, activities to perform and their outputs; however a manual of procedures regulating how to perform the activities in the audit trail, formalizing the check-list format and giving instructions for filling it in is missing. The procedures manual is necessary for the management of the organizational aspects of the process, such as the communication instruments between the JMA and the JTS, the order for negotiating projects, the limits of negotiation, how to examine the common issues, and instructions for fill in the check list.

The external JMA expert who coordinated negotiation for the second call for standard projects has drawn up some documents, available in the shared net folder of the office, that respond largely to the need to regulate the process. However the critical issue can not be considered solved for the lack of formalization; it would ensure the repeatability and transparency of the process, the detectability of the instrument in which rules are defined and it would contribute to improve the capacity building of the structures involved.

#### RECOMMENDATION 2017 N. 19 (ONLY VALID FOR ENI)

Formalize in a manual of procedures all documents on the negotiation process and the related check-lists with the instructions for their filling in.

#### **7.1.4 ADMINISTRATIVE COSTS – INTERPRETATION AFTER THE ISSUE OF THE CALL**

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<sup>5</sup> JOP, p. 75 “integrating in the project proposal...”, “preparing and signing contracts”.

<sup>6</sup> Administrative acts for Sardinia Region officers and JTS acts for JTS officers.

The guidelines, following the General Conditions, foresee that “a fixed percentage not exceeding 7% of the total amount of direct eligible costs may be claimed as indirect costs to cover the administrative overheads incurred by the beneficiary and its partners in implementing the project”. The expression used by JMA, however, does not specify clearly that the 7% applies equally to all members of the partnership. In the Interact FAQ dated 2012, a different percentage distribution is possible, providing that “a partner with no direct costs cannot have any administrative costs. Likewise, the administrative costs of the beneficiary cannot be calculated as a percentage of the direct costs of other partners”. During the negotiation phase, projects that did not respect the 7% percentage per beneficiary/partner were asked to modify it accordingly with the exclusion of any other percentage distribution.

The first recommendation has been implemented, as far as it was possible at the time<sup>7</sup>, but the critical issue is not entirely solved because the provision of uniform application to the partnership of the percentage of the project is not contained in the documents regulating the call but in documents that have the nature of explanatory documents.

#### RECOMMENDATION 2017 N. 20 (ONLY VALID FOR ENI)

Indicate the rules of percentage distribution of the administrative costs among beneficiary/partners in the call documents; in the supporting or explanatory documents, they will be repeated or clarified.

### 8. OUTCOMES OF THE FOLLOW-UP ON THE PROJECT OPERATIONAL MANAGEMENT

The audit has concerned the activity conducted by JMA and JTS to assist project partnerships from the point of view of the operational management, including communication profiles. The audited activity refers to projects financed under the first call for standard projects, since they are the ones whose implementation had reached a significant stage. Due to the strict connection of operational management with financial management, the analysis conducted for these audits and their conclusions must be seen together.

#### 8.1.1 PROJECT IMPLEMENTATION MANUAL

##### 8.1.2 SPECIFIC PROCEDURES ARE NOT SET DOWN

The *Project implementation manual* (PIM) is a useful and effective management tool for project partnerships, but it is not complete.

Apart from day-to-day project management, some more delicate issues need a thoughtful assessment: major amendments to projects need a prior deliberation by the JMC and a contract modification, while the use of the contingency reserve and derogations to the rules of origin and of nationality must be authorised by the JMA. Procedures for these issues are not set down.

Follow-up showed that only the procedure for major amendments is codified, though not formally, while other procedures follow the same scheme. Explanatory notes have been settled and published on the web site.

The critical issue formally remains, however since most projects have closed the recommendations is kept for any future Programme.

#### OUTCOMES OF THE FOLLOW-UP

The critical issue has not been faced; it has become partly outdated.

## RECOMMENDATIONS 2017 N. 21- (ONLY VALID FOR ENI)

Complete the manual with missing chapters and specific reference to exact rules, so that the user can fully appreciate the scope of its content.

### 9. OUTCOMES OF THE FOLLOW-UP ON THE BRANCH OFFICE FOR EASTERN MEDITERRANEAN

Please refer to ch. 6.

### 10. OUTCOMES OF THE FOLLOW-UP ON THE PROJECT FINANCIAL MANAGEMENT

The payment process is managed by the monitoring system and through the accounting system for the final step of the payment process; in turn, the accounting system transfers automatically all the data in the monitoring system.

The compliance audit has been carried out with reference to the JOP, the ENPI Regulation, the ENPI implementing rules, financial regulations and implementing financial rules (respectively, 1638/2006, 951/2007, 1605/2002 and 2342/2002) and highlighted a number of differences that affect the efficiency of the process. The follow-ups have been conducted through interviews and questions to JMA structures and relevant involved staff and through verification of documents.

#### 10.1.1 CONTROLS ARE LITTLE EFFECTIVE AND THE WAY OF PERFORMING THEM IS NOT FORMALIZED

Please refer to par. 13.1.3.

#### 10.1.2 OPERATIONAL GUIDELINES FOR MANAGING SAMPLE AUDIT RESULTS ARE MISSING, BOTH AS FOR EACH FINDING AND AS FOR OVERALL ERROR RATES

Project sample audit aims to give an overview on the accuracy, eligibility and existence of expenditure claimed by the projects, therefore the emerging of critical issues and irregularities from these audits is normal; however, no procedure for managing this kind of results was set for JTS and JMA, apart from a chapter in the annual report on implementation of the audit plan for the projects where each JMA section writes down in general terms what actions it adopted; these actions were not codified. The follow-up proved that recoveries have been initiated in spite of the setting of the procedure being still on-going (see the dedicated follow-up in the following chapter 16). The recommendation is partly absorbed in recommendations expressed in the follow-ups on recoveries; the remaining part is referred to next Programme.

#### OUTCOMES OF THE FOLLOW-UP

The critical issue has been faced and partly solved.

#### RECOMMENDATION 2017 N. 22 (ONLY VALID FOR ENI)

Define procedures to perform in order to solve irregularities but also critical issues raised by the project sample auditors and in order to prevent them in the future.

#### 10.1.3 DEFICIENCIES AND INCONSISTENCIES IN THE AUDIT TRAIL

Apart from the above mentioned discrepancy from the JOP, the audit trail regulating project financial management by JMA had the following problems:

- missing JOP steps;
- inconsistencies and/or material errors;
- described control activities not in the audit trail;
- unclear points.

#### OUTCOMES OF THE FOLLOW-UP

The critical issue has been partly faced but not solved.

#### RECOMMENDATION 2017 N. 23

Review the workflow – and consequently the audit trail – by inserting the missing steps, solving inconsistencies between activities and controls and among actors, and clarifying better the timing, according to report 28.

### 10.1.4 DIFFICULT TIME MANAGEMENT

Several actors participate in the activity preliminary to payments and in payments processes themselves (JTS, authorising section, accounting section): their activity appears not to be monitored at a general level. The activity can be suspended both for requests of clarifications to the project, who receives a communication and time is suspended, and for clarifications internal to JMA; in the latter case, the project is not informed that time is suspended as well.

#### OUTCOMES OF THE FOLLOW-UP

The issue has not been faced.

#### RECOMMENDATION 2017 N. 24

Arrange that in monitoring system suspensions be taken into consideration and managed individually, showing them with related timing to interested actors, in order to allow them to organise due actions and assuring for each of them that the beneficiary be informed about their reason and about precise timing for suspension and reactivation.

### 10.1.5 CHECK-LIST UNFIT

Check-lists used by involved actors had little problems: most of them had already been solved, but some were still remaining.

#### OUTCOMES OF THE FOLLOW-UP

The issue has been faced and solved.

## 11. OUTCOMES OF THE FOLLOW-UP ON THE FIRST-LEVEL CONTROL

The Programme in section 2.3.1 provides that the operational management unit prepare and sign contracts, among others, with suppliers (technical assistance expenditure) upon verification by the financial and certification unit (FCU). Since the FCU interpreted that preliminary verification should be carried out by a third party and the accounting verification remains the duty of that unit, the first level control is carried

out by the directorate-general of the Presidency. The office also performed the first level control on other EU programmes.

The carrying out of the control by a subject other than the one stated in the Programme was recognized as a critical issue (N. 1) but we recommended, however, to maintain the current system of preliminary control, based on assessments relating to consolidated operations of the office since 2010 and the results of this audit on its functioning. In any case, complying with the Programme was still possible by letting FCU carry out preliminary verification of contracts.

#### **11.1.1 THE PRELIMINARY VERIFICATION OF THE GRANT CONTRACT IS PERFORMED BY A DIFFERENT SUBJECT FROM THAT FORESEEN BY THE JOP**

The verification of contracts before the signature, foreseen by the programme (JOP 2.3.1) as FCU task, is actually performed by the first level control office, as explained in detail above.

##### **OUTCOMES OF THE FOLLOW-UP**

The critical issue has not been faced.

##### **RECOMMENDATION 2017 N. 25**

Inform the Commission about the change of the management and control system compared to that approved by the Commission for preliminary control of the contracts.

## **12. OUTCOMES OF THE FOLLOW-UP ON THE MONITORING SYSTEM**

The monitoring system is foreseen by the JOP, par. 3.3.3, in order to keep under control procedures, physical and financial elements of Programme and projects implementation. Some phases of the procedures are managed by other systems that were already in place: the accounting system and the intranet for project evaluation. The monitoring system interacts with them chiefly for data collection.

On the whole, the audit has been a purpose audit and partly a conformity one, with some implications of cost effectiveness analysis. Therefore, it was not an IT audit, although its IT and net aspects have implied some technical-related analysis, nor an audit on the provider selection or on the contract management.

#### **12.1.1 PART OF CONTENTS FORESEEN BY JOP ARE NOT IN THE SYSTEM**

While project-related content is in the system, almost all other content and structures are not: procurement procedures, technical assistance contracts and payment procedures, accounts and overall JMA budgets and balances, payment demands to the European Commission and incomes, JMA working plans, staff data (but contacts, thanks to a link to the Programme website, not very accurate as for positions and jobs<sup>8</sup>) and related payments – salaries, social and security charges, etc. – and project effects on Programme objectives.

##### **OUTCOMES OF THE FOLLOW-UP**

The critical issue has not been faced. The JMA has concluded a new contract for the maintenance of the system until the end of the ENPI Programme and is currently working on preparation of ENI monitoring system.

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<sup>8</sup> [www.enpicbmed.eu/contacts](http://www.enpicbmed.eu/contacts).

## RECOMMENDATION 2017 N. 26 (ONLY VALID FOR ENI)

Structure the system in order to include missing content, directly or through hyperlinks; otherwise, should JMA judge the recommendation not to follow, justify the exclusion.

### 12.1.2 MONITORING SYSTEM NOT UPDATED

The monitoring system was not updated to the procedure for recoveries approved by the JMC. Moreover in the case that the audit trail should include further steps in the procedure, the monitoring system should be updated accordingly.

## OUTCOMES OF THE FOLLOW-UP

The critical issue has been faced and partly solved. The audit trail for recoveries has been drawn up but not formally adopted, reason why the system has not been updated yet.

## RECOMMENDATION 2017 N. 27

Update the monitoring system to take into account all phases in the procedure approved by the JMC and, if any, those that will be defined in the audit trail.

## 13. OUTCOMES OF THE FOLLOW-UP ON THE EXPENDITURE CONTROL

Programme expenditure regards projects and technical assistance, respectively with € 182.588.165,82 and € 17.360.732.

Expenditure for technical assistance resulted generally under control and the risk of overspending negligible.

Project financing follows the prefinancing system. Expenditure verification was fully assigned to project auditors. JTS, on the other hand, checked the document completeness, the auditors' reports and their internal consistency and the formal eligibility of expenses that they could see: administrative costs, that are a percentage of direct ones, change rates, eligibility of v.a.t. and the so-called over-budgets, i.e. expenses exceeding the budgeted sum.

Report payment process must be concluded within 45 days; this deadline can be postponed if JMA or JTS need clarifications or integrations by the project. Actually, these suspensions always happened, could last long and extended very much payment time.

Since all resources for projects had been committed by the JMA, the risk of overspending was negligible for them too.

A completion plan was proposed by the JMA for a structured and thorough analysis on Programme expenditure, also at country level, and with several proposed actions to improve projects performance and expenditure capability. This plan had been regularly updated.

The purpose of this audit has been verification if the Programme expenditure is under control, both for technical assistance and projects, that is, verification of suitability of JMA instruments and policies for avoiding that the expenses overran the budget and also, as far as projects are concerned, that they did not achieve a significant level.

The scope has included comparison between financial plans (indicative budgets approved annually by the JMC) and financial reports (AIR financial part, itself approved by the JMC); analysis on financial data provided by the Programme monitoring system; interviews to several JMA/JTS involved actors; comparison between the results of conducted analysis and assessment made in the interviews.



### **13.1.1 INSUFFICIENT EXPENDITURE PERCENTAGE AND REPORTED EXPENSES PERCENTAGE**

At the time of the audit (September 2014), expenses reported by projects did not overcome 10% of available resources. The 31 March 2016 (last deadline for reporting before postponements decided by COM) reported expenditure arrived to 36,58% of total costs, i.e. € 74.987.313,56 out of €204.989.985,24; actually, since 1 February to 29 April it increased from 34,51% to 39,88%, up to 15,58% in only 3 months.

#### **OUTCOMES OF THE FOLLOW-UP**

The critical issue has been faced and essentially solved.

### **13.1.2 LONG-LASTING PROCEDURES FOR REPORT PAYMENT**

The duration of paying procedures was 165 days in the 2014 audit, far beyond 45 days foreseen in JOP. In 2016 follow-up we noticed that time for paying interim reports submitted since 2015 has been reduced but still lasted 144 days. The follow-up has shown that on 23 final reports paid after last follow-up (since 19.9.2016 to 13.4.2017), average procedures lasted 215 days, despite several improvements realised. This issue absorbs the one expressed in the audit on the Authorising section, i.e. a better coordination between JMA and JTS.

#### **OUTCOMES OF THE FOLLOW-UP**

The critical issue has been faced but not solved.

#### **RECOMMENDATIONS 2017 N. 28-29**

Simplify procedures for reporting and for verifying reports, by identifying crucial points and by focussing project duties and related controls on them.

Assure a better coordination within JTS activity and between this activity and the authoriser's.

### **13.1.3 INSUFFICIENT CONTROLS**

Controls performed on project reports and expenditure verification reports (EVRs) were not effective, because neither the JMA nor the JTS usually assessed specifically expenditure items. The only widespread direct verification was assigned to project auditors, whose reliability is inadequate according to our internal audit on the matter (see ch. 19). In 2016 follow-up we noticed that the authorising section actually perform several controls on documents and JTS project officers also go sometimes on the spot. However, since control systematisation and a system of on-the-spot-checks are not fully in place we reiterate the recommendations for the unsolved part.

This issue is crucial in Programme management: it has been raised several times during audits, so it absorbs all other similar issues.

#### **OUTCOMES OF THE FOLLOW-UP**

The critical issue has been faced and partly solved.

#### **RECOMMENDATION 2017 N. 30**

Take advantage also for control of visits on the spot realised by JTS and make their outputs available to all involved authorities through the monitoring system.

### **13.1.4 IRREGULARITIES MONITORING (CAUSES FOR EXPENDITURE INELIGIBILITY)**

Causes of actual and potential irregularities should be analysed and monitored, in order to limit and prevent them and therefore to support the project capability for eligible expenditure.

#### OUTCOMES OF THE FOLLOW-UP

The critical issue has been partly faced, although not systematically.

#### RECOMMENDATION 2017 N. 31 (ONLY VALID FOR ENI)

Analyse and monitor causes of actual and potential irregularities, in order to limit and prevent them and therefore to support the project ability for eligible expenditure.

### 14. OUTCOMES OF THE FOLLOW-UP ON THE COMMUNICATION PLAN

ENPI implementing rules state that “the Joint Managing Authority shall be responsible for implementation of information and visibility actions relating to the joint operational programme” and that it “shall take all necessary steps to ensure the visibility of the Community financing or co-financing in relation to its own activities and to the activities of the projects financed under the programme”. To this aim, the JOP foresees a communication plan (ICP) that details actions, specific goals, targets, modalities, indicative budget, responsible actors and evaluation criteria.

Results are reported by the JMA in the AIR (which is approved by the JMC), instead of reporting plainly to the JMC.

The purpose of this audit was the verification of the Communication plan and actions suitability for implementing the Programme communication and of the communication action reporting.

#### 14.1.1 MONITORING OF COMMUNICATION ACTIONS IS NOT FORMALIZED

#### 14.1.2 DIFFICULT PLANNING AND LACK OF DEFINITE TARGETS

#### 14.1.3 LOGO

Connect results described in the AIR to objectives foreseen in the ICP and quantify them through the same indicators.

Specify each action target, estimating its goals according to indicators, e.g. number of participants to a conference.

Since it was an objective reason, the problem was that while planning these relevant circumstances had not been considered and no other measurable target had been conceived in order to mitigate the risk of failure.

There are different guidelines on the use of programme, European Union and Regione logos.

#### OUTCOMES OF THE FOLLOW-UP

The critical issue has been faced and partly solved. The recommendation is maintained as far as the unresolved part is concerned.

#### RECOMMENDATIONS 2017 N. 32-33-34-35-36

Connect results described in the AIR to objectives foreseen in the ICP and quantify them through the same indicators.

Specify each action target, estimating its goals according to indicators, e.g. number of participants to a conference.

In the event that communication activities are made up on the final result of ENPI programme it is necessary to clearly define indicators and targets

When planning communication action, assess feasibility of goals.

A common communication strategy is opportune, in which the logo have the appropriate relevance.

## **15. OUTCOMES OF THE FOLLOW-UP ON THE EXPENDITURE REIMBURSEMENT CIRCUIT**

The process was governed by the audit trail approved with decision N. 97 dated 27.12.2010 by the JMA Director and it concerns the payment of the following expenses: the salaries of the ARS personnel, the salaries of the temporary staff (JMA experts and JTS personnel) and the reimbursement of travel expenses of the all JMA staff.

These expenses are managed through the regional budget according to the regional law that authorises the expenses of technical assistance of the Programme from the funds in the regional budget. These expenses are reimbursed to the regional administration from the bank account intituled to the Programme.

When reporting, the expenses incurred on the regional budget for the ENPI Programme, like those incurred directly by the JMA bank account, are subject to a check by the external auditor who expresses their eligibility. Eligible expenses are reimbursed to the regional administration according to the process for direct expenses. However for the ineligible expenses that were not included in the financial report for the Commission, a specific recovery procedure had not been set up yet.

### **15.1.1 THE AUDIT TRAIL IS NOT ADEQUATE**

#### **15.1.2 THE AUTHORISING FUNCTIONS ARE CARRIED OUT BY A UNIT DIFFERENT FROM THE ONE IN CHARGE OF THESE FUNCTIONS IN THE JMA.**

The audit trail had some inconsistencies and it did not coincide with the process actually followed: it described a flow corresponding more to a procurement procedure rather than the type of actual expenditure, that is the salaries of the temporary staff and the reimbursement of travel expenses. The control by the authorising unit before the signature of the contracts was not foreseen (due to the JOP and the EU financial regulations). The international affairs unit carried out the function of authorising the expenses, assigned to a certification unit in the department of planning.

### **OUTCOMES OF THE FOLLOW-UP**

The critical issue has not been faced.

### **RECOMMENDATIONS 2017 N. 37-38**

Update the audit trail in accordance with the provision of the JOP and on the basis of the flow actually consolidated, that is the procedures of recruitment of temporary personnel and the payment of the relevant salaries.

The functions of authorising the expenses should be performed by the unit in charge of this function within the JMA.

#### **15.1.3 THE AUDIT TRAIL AND THE MANAGEMENT MANUAL FOR THE RECOVERY OF INELIGIBLE EXPENSES ARE MISSING (BOTH PROJECTS AND TECHNICAL ASSISTANCE)**

#### **15.1.4 AN AUDIT TRAIL FOR RECOVERING AMOUNTS DECLARED AS INELIGIBLE BY THE AUDITOR IS MISSING (CHECKS)**

The recovery process was not defined in its internal development by an audit trail that detail activities, timeframe and actors involved. The JMC approved a document on recovery procedures but, though it regulated some procedural aspects, it did not compensate for the absence of a manual because it was oriented to discipline the procedure in the relations with the countries. The guidelines and the audit trail have not been approved by JMA.

##### **OUTCOMES OF THE FOLLOW-UP**

The critical issue has been partly faced but not solved yet.

##### **RECOMMENDATIONS 2017 N. 39-40**

Define the recovery procedure in an audit trail and approve it with a formal act.

Define the audit trail and the guidelines for recoveries:

- the audit trail should indicate for each step the responsible person, the contents of the activity and its timing, checking consistency with the guidelines;
- wherever the JMA is involved, specify which structure is meant;
- for technical assistance expenses, regulate the case where the debit note cannot be addresses to the provider, if the irregularity leading to the ineligibility of the expense is not their fault;
- include and detail the procedure adopted by the JMC;
- detail contentious cases of recovery and verify consistency with the procedure approved by the JMC and Reg. 951/07;
- describe interest management in all cases;
- identify at a general level documents which compose the folder the JMA has to sent to the Commission and to the Member State after one year since the recovery order; identify also the responsible actor.

#### **15.1.5 DELAYS IN RECOVERIES**

As far as technical assistance expenditure was concerned, the external auditor had noticed ineligible expenses among those incurred by the regional administration that were not reimbursed yet and for which no recovery procedure had been started.

##### **OUTCOMES OF THE FOLLOW-UP**

The critical issue has not been faced.

##### **RECOMMENDATION 2017 N. 41**

Carry out the recovery of expenditure declared ineligible by the external auditor in years 2008-2014.

#### **15.1.6 REGULARITY OF PAYMENTS**

The regularity of payments of salaries to temporary staff (JTS and consultants) required an organizational effort and cooperation of all subjects involved. Nevertheless, there had been cases in which the salaries were not paid in the terms provided in the contracts the JMA should evaluate the possibility to directly manage the expenses currently managed in the regional budget

##### **OUTCOMES OF THE FOLLOW-UP**

The critical issue has not been faced, but the JMA believe that the procedure would not be faster if it was directly managed.

#### RECOMMENDATIONS 2017 N. 42-43 (ONLY VALID FOR ENI)

The JMA will need to consider when signing the contracts and defining the beginning of the activities, the existence of regional budgetary conditions that allow a punctual payment of the salaries.

The JMA will evaluate the possibility to directly manage the expenses currently managed in the regional budget.

#### **15.1.7 THE GENERAL ACCOUNTING DEPARTMENT DOES NOT FORMALLY COMMUNICATE THE CUTS IN THE REIBURSEMENTS OF TRAVEL EXPENSES**

The general accounting department cut the travel expenses evaluated ineligible but did not communicate the reasons. The lack of knowledge about these cuts did not allow the preliminary control to be improved.

#### OUTCOMES OF THE FOLLOW-UP

The critical issue has been faced and solved.

### **16. OUTCOMES OF THE FOLLOW-UP ON THE RECOVERY PROCESSES**

The recovery process is disciplined by the Reg. 951/2007, by the Financial Regulation 966/2012 and by the related Implementing Rules 1268/2012. Art. 27 of the 951/07 provides that if upon receipt of final report for a contract or following a control or an audit there are ineligible expenses, the JMA makes out recovery orders to the beneficiaries or contractors concerned.

The JMC on 14 May 2014 approved a recovery procedure aimed to recover the debt in a non contentious way in the case that the beneficiary does not reimburse the debt within 45 days. The procedure provides several activities with the beneficiaries and with the countries ranging from the proposal of action plan to conciliation meetings.

#### **16.1.1 THE AUDIT TRAIL AND THE MANAGEMENT MANUAL FOR THE RECOVERY OF INELIGIBLE EXPENSES ARE MISSING (BOTH PROJECTS AND TECHNICAL ASSISTANCE)**

Please refer to par. 15.1.3.

#### **16.1.2 THE LISTS OF THE EU NATIONAL AUTHORITIES AND THE LIST OF THE REPRESENTATIVES FOR EACH COUNTRY ARE MISSING.**

The procedure approved by the JMC foresees that each national representative communicates to the JMA the National Authorities in charge of receiving the recovery file. Moreover, in order to facilitate the recovery of the ineligible amounts JMC had to approve a list of representatives of National Authorities delegated to cooperate with the JMA for the recovery. The JMA have asked all JMC members but only a few have replied.

#### OUTCOMES OF THE FOLLOW-UP

The critical issue has not been faced.

## RECOMMENDATION 2017 N. 44

Complete the list of the EU National Authorities in charge of receiving the recovery file from JMA and define the list of the representatives of the National Authorities in charge of cooperating with the JMA.

### 16.1.3 DELAYS IN RECOVERIES

Please refer to par. 15.1.5.

### 16.1.4 MONITORING SYSTEM NOT UPDATED

Please refer to par. 12.1.2.

## 17. OUTCOMES OF THE FOLLOW-UP ON THE EXPENDITURE CONTROL

Please refer to ch. 13.

## 18. OUTCOMES OF THE FOLLOW-UP ON ANTIFRAUD MEASURES

The internal audit unit verified the effectiveness of any measure adopted in the Programme management phases in preventing, detecting and answering to potential frauds relating to projects.

Putting in place procedures for reporting irregularities or fraud and dealing with it, is in itself, a preventive a measure.

The JMA have received several reports on potential irregularities that have been managed in an heterogeneous manner. The management of the reports has allowed the prevention of potential irregularities of ongoing procedures and to intervene in repressive function in other cases, namely those in which the reported irregular procedures have been already closed.

A general assessment of the fraud risk is missing, especially for the implementing and reporting phases and this is the reason for the absence of devoted anti fraud measures in those phases. However, taking in account that the projects activities are near completion and the JMA have to deal with all the final reports, the assessment of the risks of the report verification phase can be usefully carried out.

### 18.1.1 LACK OF A PROCEDURE FOR MANAGING REPORTS ON POTENTIAL IRREGULARITIES AND FRAUDS

Putting in place procedures for reporting irregularities or fraud and dealing with it, is in itself, a preventive measure.

#### OUTCOMES OF THE FOLLOW-UP

The critical issue has been faced but not solved yet.

#### RECOMMENDATIONS 2017 N. 45-46

Adopt an audit trail for managing of reports, appointing actors in charge of verifications and related management of results, including, in case of fraud, reports to the courts and to OLAF.

Create a registrar of reports/warnings, including the report/warning, verification conducted and following actions adopted. The registrar is an instrument for monitoring the situation and also for information of all actors who work with projects.

### 18.1.2 LACK OF AN OVERALL ASSESSMENT OF THE RISK OF FRAUD IN THE PHASES OF PROJECT IMPLEMENTATION AND PROJECT REPORTING.

A general assessment of the fraud risk is missing

#### OUTCOMES OF THE FOLLOW-UP

The critical issue has been faced but not solved yet.

#### RECOMMENDATION 2017 N. 47

Start an overall assessment of the risk of fraud in the phase of project reporting and payment to projects and identify prevention measures deemed effective and commensurate.

### 19. OUTCOMES OF THE FOLLOW-UP ON PROJECT AUDITORS' RELIABILITY

As an assessment of project auditors' reliability is crucial in the Programme management and control system, the internal audit unit verified in 2015 how much the project auditors are reliable in their narratives (EVR) on projects reports, in order to define the overall reliability of the EVRs as a whole and thus allow JMA and JTS to state an appropriate level of controls on reports, with the aim to reduce the risk of reporting to the European Commission ineligible expenses. The audit has been realized through a statistical analysis. The analysis conclusion was that the deviation rate from the positive hypothesis of project auditor full reliability is a rate higher than the tolerable deviation rate, fixed at 20% (a quite high rate itself): therefore any statistical sampling analysis would lead to unsatisfactory results from the point of view of system sustainability.

The audit result is providing the Programme management structures, especially the JMA, with elements for best organising their activity.

### 20. OUTCOMES OF THE FOLLOW-UP ON THE AUTHORISING SECTION

Please refer to par. 13.1.2.

### 21. OUTCOMES OF THE FOLLOW-UP ON THE FIRST CALL FOR STANDARD PROJECTS

The JMA has issued three calls for projects, one for strategic projects and two for standard ones. The first call for standard project was issued in May 2009 and 37 projects overall have been financed in the four priorities.

The internal audit unit performed in 2011 an audit concerning the phases of first call management after the proposal receipt and registration. Recommendations are articulated according to the project selection step to which they refer: document management, administrative check (phase 1), selection of external assessors, quality evaluation (phase 2), eligibility check (phase 3).

#### 21.1.1 REDUNDANT TEMPLATES

Templates require the same information several times.

#### OUTCOMES OF THE FOLLOW-UP

The critical issue has been faced and partly solved.

#### RECOMMENDATION 2017 N. 48 (ONLY VALID FOR ENI)

Assess the feasibility of on-line application uploading in order to allow links also between CN and FAF and thus decrease even more the risk of inconsistent data

#### 21.1.2 FORMAL PROJECT ASSIGNMENTS TO INTERNAL ASSESSORS

No formal act assigns projects to internal assessors and motivates the choices. The remaining issue relates to the call for strategic projects

#### OUTCOMES OF THE FOLLOW-UP

The critical issue has been partly solved any corrective actions should be evaluated for the next eni programme.

#### RECOMMENDATION 2017 N. 49 (ONLY VALID FOR ENI)

Formalise assignments to internal assessors for the administrative check of project proposals submitted and their criteria.

### **21.1.3 CHECK-LISTS NOT ATTACHED**

Check-lists do actually exist as filled files, but not on paper and thus not signed.

#### OUTCOMES OF THE FOLLOW-UP

The critical issue can be considered solved.

### **21.1.4 FORMAL ASSIGNMENT TO EXTERNAL ASSESSORS**

In assigning projects to external assessors, relates to the call for strategic projects internal act that formally assigns duties and functions (as for management principles) is missing.

#### OUTCOMES OF THE FOLLOW-UP

The critical issue has been partly solved. Any corrective actions should be evaluated for the next ENI programme.

#### RECOMMENDATION 2017 N. 50 (ONLY VALID FOR ENI)

Formalise assignments to internal assessors for the check of project proposals submitted and their criteria.

### **21.1.5 ASSESSORS' EXPERTISE**

Assessors' areas of expertise in subjects in which projects have been submitted appear very variegated and sometimes too broad for assuring a reliable evaluation. While searching assessors, prefer specific expertise.

#### OUTCOMES OF THE FOLLOW-UP

The critical issue has been partly solved. Any corrective actions should be evaluated for the next ENI programme.

#### RECOMMENDATION 2017 N. 51 (ONLY VALID FOR ENI)

Formalise assignments to external assessors for the check of project proposals submitted and their criteria.

### **21.1.6 FORMAL ASSIGNMENT TO INTERNAL ASSESSORS**

In assigning projects to internal assessors, as regards the call for strategic projects internal act that formally assigns duties and functions (as for management principles) is missing.

#### OUTCOMES OF THE FOLLOW-UP

The critical issue has been partially solved. Any corrective actions should be evaluated for the next ENI programme.



## RECOMMENDATION 2017 N. 52(ONLY VALID FOR ENI)

Formalise assignments to internal assessors for the check of project proposals submitted and their criteria.

### 21.1.7 ASSESSOR'S NAME NOT INCLUDED IN CHECK-LISTS

As regards the first call for standard projects and to the call for strategic projects, check-lists for all evaluation phases (administrative check, quality evaluation and eligibility check), although signed or initialled, do not bear the assessor's name.

## OUTCOMES OF THE FOLLOW-UP

The critical issue can be considered solved

## 22. OUTCOMES OF THE AUDIT ON THE RECOVERY PROCESS OF THE BRANCH OFFICE FOR EASTERN MEDITERRANEAN

### 22.1 THE ANTENNA RECOVERY PROCESS

The aim of the audit is to check the functioning of recovery process of Aqaba branch office.

According to the Agreement concerning the relationship between the JMC and the branch office of Aqaba, the b.o. submits the expenditures to an external auditor in order to obtain a certification. Art. 11 states that the b.o. shall reimburse to the JMA any ineligible expenditures and that the JMA can deduct the amounts from the payments to the b.o.

### 22.2 THE INTERNAL AUDIT CARRIED OUT IN 2016

The auditor declared ineligible expenditures in 2012, 2013, 2014 and 2015 reports. The external audit report for 2015, issued in 2016, refers that a partial amount of ineligible expenditure has been recovered, more than 80%; specifically, most of ineligible per diem have been recovered<sup>9</sup>. The antenna personnel, who received the wrong amount of per diem, reimbursed the b.o. by a deposit in the bank account. The remaining amount has to be recovered from ASEZA because the ineligibility is caused by losses in exchange rates and overheads. Following a verbal agreement with the head of financial department of ASEZA, the recovery will be deducted from the amount to be transferred to ASEZA from the b.o. bank when receiving enough pre finance: however, due to external reasons, last pre-finances were not enough and so the recovery had not been made yet when the audit was performed.

#### 22.2.1 RECOVERY PROCEDURE NOT FORMALISED

## RECOMMENDATION 2017 N. 53

Draw up and formally approve an audit trail with all necessary steps for recovery. The audit trail should include the responsible subjects, the activities to perform (such as the list of amounts due, the recovery order and debit note) and the process schedule.

#### 22.2.2 PER DIEM CALCULATION TO BE VERIFIED

## RECOMMENDATION 2017 N. 54

Ask the external auditor to verify the recalculation of the ineligible *per diem* performed by the antenna and to explicit the results in order to confirm the amount or to correct any mistakes in calculation.

<sup>9</sup> The b.o. calculated per diem using the rates approved by the European Commission at the time of the mission instead of those at the time of the adoption of the JOP which was in July 2008.

## 23. RECOMMENDATIONS EXPRESSED FOLLOWING THE PROJECT SAMPLE AUDIT

The internal audit unit has evaluated the results of the audits carried out by the company in charge of the sample audit on projects, as summarized in the annual reports, with the aim of identifying the actions deemed useful to improve the financial management of projects (report S-63f).

In 2016 the evaluation has included a follow-up on recommendations expressed the year before.

### 23.1.1 LIST OF EXPENDITURES

#### OUTCOMES OF THE FOLLOW-UP

The critical issue, although solved in previous years, has been replied in 2016.

JMA decision for modifying their behaviour towards a recommendation received, without formally stating their reasons and without any agreement, constitutes a systematic critical issue.

#### RECOMMENDATION 2017 N. 55

Adopt a document for detailing supporting documents and amounts for each expense; the following information will be provided in the project language:

- date and number of the document;
- kind of document (invoice, payslip, etc.);
- provider's name;
- expenditure amount in the original currency;
- exchange rate;
- amount in euro;
- reported amount;
- payment date;
- payment form and identification data.

### 23.1.2 SYSTEMATIC ERROR IN CONTRACTS

#### OUTCOMES OF THE FOLLOW-UP

The critical issue has not been faced. Considering the present phase of the ENPI Programme 2007/2013, the recommendation is adapted for next ENI Programme 2014/2020.

#### RECOMMENDATION 2017 N. 56 (ONLY VALID FOR ENI)

Adopt a specific control on contracts, before their signature, in order to avoid their content differing from applicable rules, including financing agreements.

### 23.1.3 PROCUREMENT PROCEDURES.

#### OUTCOMES OF THE FOLLOW-UP

The critical issue was considered solved in 2015, nevertheless in 2016 the solution proved insufficient. We reiterate the recommendation for next ENI Programme and adapt it for the ENPI Programme reporting phase.

#### RECOMMENDATIONS 2017 N. 57 (ONLY VALID FOR ENI) - 58

Clearly specify and communicate to project (chiefly to Italian actors) the law framework applicable to procurement procedures, especially under the EU threshold.

While verifying reports, particularly pay attention to procurement and award procedures adopted, chiefly for Italian public administrations, especially as concerns the criterion of the most economically advantageous offer and the respect of EU law principles.

#### **23.1.4 PROJECT AUDITORS RELIABILITY**

##### **OUTCOMES OF THE FOLLOW-UP**

The critical issue has not been faced. The following internal audit on the matter, reported in previous ch. 19, confirms the urgent and absolute need to establish direct checks on project reports. Since this action has been recommended several times, it is not replied here.

#### **23.1.5 EXTRA BUDGET**

##### **OUTCOMES OF THE FOLLOW-UP**

The remaining critical issue has not been faced.

##### **RECOMMENDATION 2017 N. 59**

Formally clarify to projects and update the management manual about the interpretation adopted on the changes of the budget below 15%.

#### **23.1.6 ELIGIBLE EXPENSES FOR THE SAMPLE AUDITOR**

##### **OUTCOMES OF THE FOLLOW-UP**

The critical issue has not been faced.

##### **RECOMMENDATIONS 2017 N. 60 - 61**

Discipline in general terms how to manage the cases in which the JMA cuts are higher than those of the sample auditor. Unless otherwise specified, in analogy with the payments, the amounts deducted should be returned to the project within 45 days of the receipt of the final audit report on a sample project, with interests in case of late payment.

Analyse possible ways for reducing the gap between JMA cuts and irregular expenditure, as detected by sample audit.

#### **23.1.7 TRACKING CHANGES IN THE BUDGET ON THE MONITORING SYSTEM**

##### **OUTCOMES OF THE FOLLOW-UP**

The critical issue has faced and solved.

#### **23.1.8 RESULTS OF AUDITS ON PROJECTS ON THE WEBSITE**

##### **OUTCOMES OF THE FOLLOW-UP**

The critical issue has not been faced. The recommendation is adapted to the present project reporting phase.

##### **RECOMMENDATION 2017 N. 62**

Insert in the website an informative section in which the main results of the audit plan for projects deemed useful to clarify aspects with elements of uncertainty are reported, in order to restrict reporting ineligible expenditure.

### 23.1.9 UNRECOVERED INELIGIBLE EXPENSES

This critical issue had not been arisen beforehand. Amounts detected as ineligible due to irregularities are not always recovered by JMA, due to different assessments or to subsequent actions undertaken by projects in order to correct the irregularity. This issue constitutes an error in the management and control system relating to projects, both in terms of respect of applicable law, including equality of treatment, and in terms of efficiency.

#### RECOMMENDATIONS 2017 N. 63-64

Since the auditor recruited for project sample audits is the actor in charge of the technical assessment of expense eligibility, JMA assessment should be limited to procedure, and not go to substance (also in order to avoid discriminating).

Make JMA action consistent whenever the situation is solved afterwards, both if the ineligibility is first detected by the JMA themselves or by the sample auditor; and whoever is the actor involved, so avoiding the risk of inequality of treatment.

## 24. EXECUTIVE SUMMARY

According to the audit results, the JMA system continues demonstrating increasing improvements: many critical issues have been faced and most of them solved, so that the overall number of recommendations keeps decreasing; their number, however, is still high.

Audit carried out in 2016 have focused on Aqaba b.o. recoveries, while another one on project infrastructures has been postponed to 2017 for organisation issues.

The JMA is showing an increasing consciousness of the crucial area of the project expenditure and has monitored the area of projects management through many actions, approved by the JMC and implemented in cooperation with all management structures and national contact points. Nevertheless, many critical issues are still unsolved. Among them some are crucial, especially those highlighted in chapters 1.2 and 1.3 on JMA organization, 5 on JTS, 1013 on project financial management and 13 on expenditure control. An increasing effort is needed to face project closure. Unfortunately, JMA has been experiencing great difficulties in effectively facing several critical issues so far, and new tasks that the JMA office has acquired with the new ENI MED Programme can severely undermine the present Programme capacity to manage the closure phase, unless effective action is taken without delay.

The auditors

Silvia Zedda  
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## 25. ACRONYMS

€	Euro
AIR	Annual implementation report
ARS	Autonomous Region of Sardinia
Art., art.	Article
ASEZA	Aqaba Special Economic Zone Authority
BO, b.o.	Branch office (antenna)
CBC	Cross-border cooperation
ch.	Chapter
CN	Concept note (first-step application in the two last call for projects)
COM	European commission
€	Euro
e. g.	<i>exempli gratia</i> : for example
EC	European Community
ENI	European neighbourhood instrument
ENPI	European neighbourhood and partnership instrument
EVR	Expenditure verification report
EU	European Union
etc.	<i>et coetera</i> : etcetera, and so on
FAF	Full application form (second-step application in the two last call for projects)
FAQ	Frequently asked question(s)
FCU	Financial and certification unit
i. e.	<i>id est</i> : that is
ICP	Information and communication plan
IPPF	International professional practices framework [for audit]
IR	Implementing rules: the COM Reg. (EC) 951/2007, laying down implementing rules for cross-border cooperation programmes financed under Regulation (EC) No 1638/2006 of the European Parliament and of the Council laying down general provisions establishing a European Neighbourhood and Partnership Instrument
IT	Information technology
JMA	Joint managing authority
JMC	Joint monitoring committee
JOP	Joint operational programme
JTS	Joint technical secretariat
MED	Mediterranean, the Mediterranean Sea Basin operational programmes
N., No	Number
OLAF	<i>Office européen de lutte antifraude</i> : the European anti-fraud office
OMU	Operational management unit
OP	Operational Programme
p.	page
par.	Paragraph
PIM	Project implementation manual
PraG, PRAG	Practical guide to EC external actions, Practical guide to EU external actions
Reg.	Regulation (of the EC or of the EU)
VAT, v.a.t.	Value added tax

### 1. STRUCTURE OF THE PLAN OF ACTION

Together with the discussion of critical issues detected, in the body of this report, a plan of action is a useful instrument for the implementation of recommended actions. Recommendations are divided in two groups: those expressed in last year annual report (thus referring to the previous years) and remaining after follow-ups, and those expressed in 2016 interim report.

Recommendations are indicated by the progressive number they were assigned in the report, in order to facilitate their finding and set them in their context.

Only actions that can actually be implemented in the present Programme are included and their implementation is urgent. Others recommendations are just listed at the end and are valid for next Programme.

### 2. RECOMMENDATIONS 2017

#### A) REMAINING RECOMMENDATIONS AFTER FOLLOW-UPS

##### RECOMMENDATION 2017 N. 1

We deem useful that the documents submitted to the JMC approval show the name of the author. Alternatively, a module describing the procedure may be drafted.

##### RECOMMENDATIONS 2017 N. 2-3

The JMA concrete organization chart should be adapted to the actual workload, which includes also the ENI Programme activities.

Evaluate the use of Programme funds to maintain and improve officers' expertise (long-life learning).

##### RECOMMENDATIONS 2017 N. 5-6

Formally adopt the manual set up by Authorising Section.

Formally adopt the Guidelines for recoveries.

##### RECOMMENDATION 2017 N. 7

Communicate to the Commission the procedure followed to choose the external auditor by inserting it in next annual implementation report.

##### RECOMMENDATION 2017 N. 8

Set up an ordinary effective feedback, i.e. responsive to recommendations.

##### RECOMMENDATION 2017 N. 9

Detailed description of pre-financing process and general adjustment.

##### RECOMMENDATION 2017 N. 12

JMA will propose a solution for the organization that ensure segregation of functions and an effective and lawful administrative workflow.

#### RECOMMENDATION 2017 N. 13

Substitute completely the administrative management with a coordination definitely oriented to results (targets and dead lines) rather than to presence.

#### RECOMMENDATION 2017 N. 14

Formalize and keep updated the internal manual for procedures where the JTS is involved.

#### RECOMMENDATION 2017 N. 15

Prepare and approve the manual.

#### RECOMMENDATION 2017 N. 16

According to PRAG (2.8.1.) the evaluation committee must be composed of a non-voting chairperson and a non-voting secretary and an odd number of voting member (evaluators).

#### RECOMMENDATION 2017 N. 23

Review the workflow – and consequently the audit trail – by inserting the missing steps, solving inconsistencies between activities and controls and among actors, and clarifying better the timing, according to report 28.

#### RECOMMENDATION 2017 N. 24

Arrange that in monitoring system suspensions be taken into consideration and managed individually, showing them with related timing to interested actors, in order to allow them to organise due actions and assuring for each of them that the beneficiary be informed about their reason and about precise timing for suspension and reactivation.

#### RECOMMENDATION 2017 N. 25

Inform the Commission about the change of the management and control system compared to that approved by the Commission for preliminary control of the contracts.

#### RECOMMENDATION 2017 N. 27

Update the monitoring system to take into account all phases in the procedure approved by the JMC and, if any, those that will be defined in the audit trail.

#### RECOMMENDATIONS 2017 N. 28-29

Simplify procedures for reporting and for verifying reports, by identifying crucial points and by focussing project duties and related controls on them.

Assure a better coordination within JTS activity and between this activity and the authoriser's.

#### RECOMMENDATION 2017 N. 30

Take advantage also for control of visits on the spot realised by JTS and make their outputs available to all involved authorities through the monitoring system.

#### RECOMMENDATIONS 2017 N. 32-33-34-35-36

Connect results described in the AIR to objectives foreseen in the ICP and quantify them through the same indicators.

Specify each action target, estimating its goals according to indicators, e.g. number of participants to a conference.

In the event that communication activities are made up on the final result of ENPI programme it is necessary to clearly define indicators and targets

When planning communication action, assess feasibility of goals.

A common communication strategy is opportune, in which the logo have the appropriate relevance.

#### RECOMMENDATIONS 2017 N. 37-38

Update the audit trail in accordance with the provision of the JOP and on the basis of the flow actually consolidated, that is the procedures of recruitment of temporary personnel and the payment of the relevant salaries.

The functions of authorising the expenses should be performed by the unit in charge of this function within the JMA.

#### RECOMMENDATIONS 2017 N. 39-40

Define the recovery procedure in an audit trail and approve it with a formal act.

Define the audit trail and the guidelines for recoveries:

- the audit trail should indicate for each step the responsible person, the contents of the activity and its timing, checking consistency with the guidelines;
- wherever the JMA is involved, specify which structure is meant;
- for technical assistance expenses, regulate the case where the debit note cannot be addressed to the provider, if the irregularity leading to the ineligibility of the expense is not their fault;
- include and detail the procedure adopted by the JMC;
- detail contentious cases of recovery and verify consistency with the procedure approved by the JMC and Reg. 951/07;
- describe interest management in all cases;
- identify at a general level documents which compose the folder the JMA has to send to the Commission and to the Member State after one year since the recovery order; identify also the responsible actor.

#### RECOMMENDATION 2017 N. 41

Carry out the recovery of expenditure declared ineligible by the external auditor in years 2008-2014.

#### RECOMMENDATION 2017 N. 44

Complete the list of the EU National Authorities in charge of receiving the recovery file from JMA and define the list of the representatives of the National Authorities in charge of cooperating with the JMA.

#### RECOMMENDATIONS 2017 N. 45-46

Adopt an audit trail for managing of reports, appointing actors in charge of verifications and related management of results, including, in case of fraud, reports to the courts and to OLAF.

Create a registrar of reports/warnings, including the report/warning, verification conducted and following actions adopted. The registrar is an instrument for monitoring the situation and also for information of all actors who work with projects.



#### RECOMMENDATION 2017 N. 47

Start an overall assessment of the risk of fraud in the phase of project reporting and payment to projects and identify prevention measures deemed effective and commensurate.

#### RECOMMENDATION 2017 N. 58

While verifying reports, particularly pay attention to procurement and award procedures adopted, chiefly for Italian public administrations, especially as concerns the criterion of the most economically advantageous offer and the respect of EU law principles.

#### RECOMMENDATION 2017 N. 59

Formally clarify to projects and update the management manual about the interpretation adopted on the changes of the budget below 15%.

#### RECOMMENDATIONS 2017 N. 60 - 61

Discipline in general terms how to manage the cases in which the JMA cuts are higher than those of the sample auditor. Unless otherwise specified, in analogy with the payments, the amounts deducted should be returned to the project within 45 days of the receipt of the final audit report on a sample project, with interests in case of late payment.

Analyse possible ways for reducing the gap between JMA cuts and irregular expenditure, as detected by sample audit.

#### RECOMMENDATION 2017 N. 62

Insert in the website an informative section in which the main results of the audit plan for projects deemed useful to clarify aspects with elements of uncertainty are reported, in order to restrict reporting ineligible expenditure.

### B) NEW RECOMMENDATIONS EXPRESSED IN 2016 INTERIM REPORTS AND SIMILAR

#### RECOMMENDATION 2017 N. 53

Draw up and formally approve an audit trail with all necessary steps for recovery. The audit trail should include the responsible subjects, the activities to perform (such as the list of amounts due, the recovery order and debit note) and the process schedule.

#### RECOMMENDATION 2017 N. 54

Ask the external auditor to verify the recalculation of the ineligible *per diem* performed by the antenna and to explicit the results in order to confirm the amount or to correct any mistakes in calculation.

#### RECOMMENDATION 2017 N. 55

Adopt a document for detailing supporting documents and amounts for each expense; the following information will be provided in the project language:

- date and number of the document;
- kind of document (invoice, payslip, etc.);
- provider's name;
- expenditure amount in the original currency;
- exchange rate;

- amount in euro;
- reported amount;
- payment date;
- payment form and identification data.

#### RECOMMENDATIONS 2017 N. 63-64

Since the auditor recruited for project sample audits is the actor in charge of the technical assessment of expense eligibility, JMA assessment should be limited to procedure, and not go to substance (also in order to avoid discriminating).

Make JMA action consistent whenever the situation is solved afterwards, both if the ineligibility is first detected by the JMA themselves or by the sample auditor; and whoever is the actor involved, so avoiding the risk of inequality of treatment.

#### 3. RECOMMENDATIONS ONLY VALID FOR ENI CBC MSB OP

Recommendations that cannot be implemented in the present Programme have been excluded from the plan of action. For future reference, these are recommendations numbers:

4-10-11-17-18-19-20-21-22-26-31-42-43-48-49-50-51-52-56-57.