



MA Circular 06/2018/GE

To: Project Leaders – Government Entities<sup>1</sup> (not Departments and Agencies)<sup>2</sup>  
European Structural and Investment Funds 2014-2020 Horizontal Stakeholders

**Title: Obligation to maintain a Separate Accounting System / Adequate Accounting Code for all transactions**

### **1. Background**

In line with Article 125(4)(b) of (EU) 1303/2013 with regards to the financial management and control of the operational programme, the Managing Authority shall:

*[...] ensure that beneficiaries involved in the implementation of operations reimbursed on the basis of eligible costs actually incurred maintain either a separate accounting system or an adequate accounting code for all transactions relating to an operation.*

On the basis of this obligation, the Managing Authority must have the necessary assurance that Beneficiaries and other bodies involved in the implementation of operations funded under the European Structural and Investment (ESI) funds maintain either a separate accounting system or an adequate accounting code for all transactions relating to the operation. It is therefore the responsibility of the Beneficiary to ensure that all transactions related to each co-financed operation are recorded either:

- In a fully dedicated separate accounting system; or
- Through the assignment of a specific accounting code in the existing system (easily identifiable and retrievable, as well as auditable).

### **2. Obligations of Government Entities**

All relevant International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) – in particular International Accounting Standard (IAS) 20: *Accounting for Government Grants and Disclosure of Government Assistance* – shall be applied. In this regard, the Beneficiary is requested to present in particular the auditor's certificate for the latest financial statements. The auditor's certificate must be such so as to provide the necessary assurance as to whether there is adherence to the applicable standards or otherwise.

The Managing Authority shall:

<sup>1</sup> Government Entities as defined in the Public Administration Act, 2008. This circular does not apply to those government Entities whose day-to-day transactions are recorded in the Departmental Accounting System (DAS).

<sup>2</sup> This circular does not apply to Government Departments and Government Agencies listed in the Second and Fourth Schedule of the Act, whose transactions are recorded in the Departmental Accounting System (DAS).

- i. Check the accounting system in its management verifications including the accounting code; and
- ii. Obtain a copy of the auditor's certificate for each financial year, for the full duration of the project, until the year following the last reimbursement received by the Beneficiary.

### **3. Simplified Cost Options**

Operations which are exclusively implemented via simplified cost options in line with Article 67(1)(b), (c) or (d) of (EU) 1303/2013 or on the basis of a Delegated Act in line with Article 14(1) of (EU) 1304/2013 are not obliged to maintain a separate accounting system or an adequate accounting code. For ease of reference, the above-mentioned articles are being quoted:

#### **Article 67 of (EU) 1303/2013 – Forms of grants and repayable assistance**

1. *Grants and repayable assistance may take any of the following forms:*
  - (a) *Reimbursement of eligible costs actually incurred and paid, together with, where applicable, contributions in kind and depreciation;*
  - (b) *Standard scales of unit costs;*
  - (c) *Lump sums not exceeding EUR 100 000 of public contribution;*
  - (d) *Flat-rate financing, determined by the application of a percentage to one or more defined categories of costs.*

#### **Article 14 of (EU) 1304/2013 – Simplified Cost Options**

1. *In addition to the options referred to in Article 67 of Regulation (EU) No 1303/2013, the Commission may reimburse expenditure paid by Member States on the basis of standard scales of unit costs and lump sums defined by the Commission. The amounts calculated on this basis shall be regarded as public support paid to beneficiaries and as eligible expenditure for the purpose of applying Regulation (EU) No 1303/2013.*

*For the purpose of the first subparagraph, the Commission shall be empowered to adopt delegated acts in accordance with Article 24 concerning the type of operations covered, the definitions of the standard scales of unit costs and lump sums and their maximum amounts, which may be adjusted according to the applicable commonly agreed methods, taking due account of experience gained during the previous programming period.*

*[...] When funding on the basis of standard scales of unit costs and lump sums, in accordance with the first subparagraph, is used, the Member State may apply its accounting practices to support operations.*

The obligation to maintain a separate accounting system or an adequate accounting code to record the transactions of an operation in line with Article 125(4)(b) of (EU) 1303/2013 is only applicable to *operations reimbursed on the basis of eligible costs actually incurred*. It is therefore applicable to:

- Those operations who process payments on the basis of eligible costs actually incurred in line with Article 67(1)(a) of EU(1303/2013);
- Those operations who process payments in the form of standard scale of unit costs, lump sums, or flat rates in line with Article 67(1)(b), (c) or (d) but retain some activities whose payments are processed on the basis of eligible costs actually incurred. Hence a mix of simplified cost options and eligible costs actually incurred means that the obligation to maintain a separate accounting system or an adequate accounting code needs to be adhered to.

A proper audit trail should be kept in all cases in line with the MA circular, documentation to be uploaded on SFD.

#### 4. Management verifications

In order to verify the existence of the above, the Managing Authority shall include this requirement in its management verification template. The revised template includes the following checks:

4. ACCOUNTING		Tick as appropriate	
4.1 Government Entities	Section is <u>Not Applicable</u> to project	<input type="checkbox"/>	Section was/will be checked in another verification <input type="checkbox"/>
<i>If Section is <u>Not Applicable</u> to project, state why</i>			
<i>Insert Verification Reference if this section was already checked in previous Verification</i>			
		<b>Yes</b>	<b>No</b>
For the accounting of all transactions related to the project, state whether a separate accounting system <input type="checkbox"/> and/or an adequate accounting code <input type="checkbox"/> is/are being used for this project		<input type="checkbox"/>	<input type="checkbox"/>
<b>Comments:</b>			
If neither of the above are being used, state reason why			
Annual auditor's certificate to the financial statements for each financial year for the full duration of the project, and for the year following the last reimbursement received by the beneficiary are in file (indicate year where applicable)	<b>Year/s:</b>		
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

#### 5. Procurement of equipment – Obligation to retain record of an Inventory

All Beneficiaries are reminded of the obligation to keep an inventory of the equipment and its location, as set out in relevant sections of the Manual of Procedures. The inventory must be endorsed by the responsible officer within the organisation and signed (and updated when necessary) by the Project Leader.. A copy of the inventory must be sent to the Director Corporate Services of the Ministry concerned. Adherence to this obligation will be checked by the Managing Authority during its management verifications.

#### 6. Payment receipts

As stipulated in relevant sections of the Manual of Procedures, it is the responsibility of the Beneficiary to ensure that upon receipt of payment, the contractor / supplier issues a receipt confirming that payment has been effected. When applicable, adherence to fiscal obligations is to be maintained. Beneficiaries are to ensure that receipts are received within the time prescribed by law and are retained in the project file.

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