



MA Circular 06/2018/IB_V1

To: Intermediate Bodies
European Structural and Investment Funds 2014-2020 Horizontal Stakeholders

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

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/Intermediate Body 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 Intermediate Body to ensure that all transactions related to each co-financed operation on the basis of the type of enterprise as specified in Section 2 are recorded either:

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

Obligations of Private Enterprises

Two types of beneficiaries are being identified for the purpose of this circular, taking into account the nature of the enterprise and its obligation to disclose annual financial statements as premeditated by national legislation.

Type 1: Private enterprises with the obligation to prepare annual financial statements

Use of an Adequate Accounting Code (a Nominal Ledger Account dedicated to the scheme) in an existing computerized Accounting System: in this case, beneficiaries must make provisions to open a new Accounting Code in their Nominal Ledger, where all transactions related to the project will

be posted. All entries must be easily identifiable and retrievable, as well as auditable. Beneficiaries may make use of Journal Entries. The same principles apply if a strictly separate accounting system is opted for.

These enterprises must comply with generally accepted accounting principles and practices as defined by Article 3(1) of L.N. 19 of 2009 Accountancy Profession (Accounting and Auditing Standards) Regulations. This shall mean that enterprises are to adhere either to:

- (a) International accounting standards¹; or
- (b) General accounting principles for qualifying private or small and medium sized entities as may be prescribed by regulations, directives or guidelines issued from time to time in terms of the Accountancy Profession Act².

In this regard the Intermediate Body is to:

- (i) Either request an Auditor's certificate on the annual financial statements of the enterprises stating that such statements are prepared in line with IAS 20, which IAS determines how government grants are to be recorded; or
- (ii) Obtain a copy of the auditor's certificate on the annual financial statements of the enterprises as prescribed by the regulations, directives or guidelines issued from time to time (follow the GAPSME (for financial reporting periods commencing on or after 1st January 2016 SL 281.05 (General Accounting Principles for Small and Medium-Sized Entities Regulations)).

Type 2: Private enterprises with no obligation to prepare annual financial statements

In the absence of the obligation to prepare financial statements, the following will suffice:

- i. Maintenance of a separate bank account; and/or
- ii. A record showing full details of expenditure paid and funds received related to the project (e.g. spreadsheet)³.

Bank statements may be requested to verify that the above procedures are adhered to. The Intermediate Body shall check that these obligations are in place.

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 the MA/IB will not check that the beneficiary is maintaining a separate accounting system or an adequate accounting code as there is no obligation to check the underlying real cost.

Management verifications

In order to verify the existence of the above, the Managing Authority shall include these requirements in its management verification template. The following is a sample of the template:

¹ In particular International Accounting Standard (IAS) 20: Accounting for Government Grants and Disclosure of Government Assistance.

² Refer to SL 281.03 and SL 281.05.

³ The IB is to check and maintain records of the supporting documentation in line with the respective guidelines.

4. ACCOUNTING		Tick as appropriate		
<i>Insert Verification Reference if this section was already checked in previous Verification</i>				
Type 1 – Private enterprises with the obligation to prepare annual financial statements		Yes	No	
For the accounting of all transactions related to the operation, state whether a separate accounting system and/or an adequate accounting code is/are being used for this operation		<input type="checkbox"/>	<input type="checkbox"/>	
Comments: <i>(Specify which option is being used (or both) to account for such project transactions)</i>				
Auditor's certificate on the annual financial statements of the enterprises stating that such statements are prepared in line with IAS 20 and or GAPSME		Year/s: <i>(Specify the respective accounting year of the auditors' certificate)</i>		
		<input type="checkbox"/>	<input type="checkbox"/>	
Type 2 – Private enterprises with no obligation to prepare annual financial statements		Yes	No	N/A
Beneficiary is maintaining a separate bank account for all transactions related to the project		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Beneficiary is maintaining a record with the full details of expenditure paid and funds received from the project (e.g. spreadsheet)		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Comments:				