



Circular HR/OPM-EES/7/2024

To: Heads of Beneficiary Organisations
Heads Managing Authorities
Head - Paying Agency, Ministry for Agriculture, Fisheries and Animal Rights

Obligation of EU Fund Beneficiaries to Maintain Separate Accounting or Appropriate Coding for Transactions

Scope

Beneficiaries of EU funds are required to maintain either separate accounting records or appropriate accounting codes for transactions related to EU-funded projects. This obligation is essential for ensuring transparency, accountability, and compliance with EU regulations regarding the use of public funds.

Legal Basis

The legal basis for this obligation stems from:

- Article 74 (1)(a)(i) of Regulation (EU) 2021/1060

which states that *'the Managing Authority shall carry out management verifications to verify that the co-financed products and services have been delivered, that the operation complies with applicable law, the programme and the conditions for support of the operation, and:*

... that beneficiaries maintain separate accounting records or use appropriate accounting codes for all transactions relating to the operation.'

And, in the case of the agricultural sector,

- Article 83(3)(c) of Regulation (EU) 2021/2115

which holds that *Member States shall adopt the necessary measures to ensure that the resources are kept in separate accounts or under appropriate accounting codes.*

- Article 123(2)(b)(i) of Regulation (EU) 2021/2115

which states that managing authorities are responsible to ensure that *(b) farmers, other beneficiaries and other bodies involved in the implementation of interventions:*

(i) are informed of their obligations resulting from the aid granted, and maintain either a separate accounting system or an adequate accounting code for all transactions relating to an operation, where relevant.

How to Comply with Accounting Requirements

Beneficiaries of EU funds can fulfil this obligation through several methods:

- (i) Use Specific Accounting Codes
Use distinct codes or identifiers within the accounting system to categorize all EU fund transactions, including income, expenses, assets, and liabilities thereby differentiating them from other transactions.
- (ii) Set Up Separate Bank Accounts
Open a dedicated bank accounts for receiving and disbursing EU funds This ensures clear segregation of funds and simplifies the reconciliation process.
- (iii) Develop a distinct accounting system
Create a dedicated accounting system for EU projects that mirrors the existing system on a smaller scale. This could be implemented through:
 - (a) The use of specialised software (consider using accounting software that supports project accounting and can handle the specific requirements of EU funds management).
 - (b) The application of a separate Accounting Module: Installing an extra accounting module as a subsidiary to the main module accounting, and all EU transactions are accounted for through that module.
 - (c) The use of chart of accounts (develop a detailed chart of accounts tailored for EU funds transactions).

Obligations for different types of Beneficiaries

- **Government Departments / Ministries**
Government Departments / Ministries are bound to record all financial transactions through the Corporate Financial Management Solution (CFMS) which is the official accounting system employed by the Government of Malta. This system has the facility to assign distinct codes or identifiers to different sets of transactions, whereby all EU funded transactions should have a distinct code in order to differentiate EU-funded project transactions from other transactions.
- **Government Agencies / Entities / Local Councils**
These organizations are not required to use the CFMS but must adhere to generally accepted accounting principles as outlined in Article 3(1) of Legal Notice 19 of 2009. They must maintain an adequate accounting system that documents all EU-funded transactions in dedicated accounts and may choose to implement an appropriate accounting code.

- **Non-governmental Organisations / Voluntary Organisations / International Organisations (including Church Institutions and Social Partners)**

These organizations can choose to:

- (i) Use an adequate accounting code within their already existing accounting system whereby all EU funded transactions are assigned a specific code, or
- (ii) Maintain a separate module within the existing accounting system, dedicated to record all EU funded transactions, or
- (iii) Set up a dedicated bank account for all EU funded transactions.

- **Private Enterprises (excluding Sole Traders who are considered separately)**

Private enterprises may opt to:

- (i) Use an adequate accounting code within their already existing system whereby all EU funded transactions are assigned a specific code, or
- (ii) Maintain a separate module within the existing accounting system, dedicated to record all EU funded transactions, or
- (iii) Set up a dedicated bank account for all EU funded transactions.

- **Sole Traders**

Sole traders can choose to:

- (i) Use adequate accounting code within their already existing system whereby all EU funded transactions are assigned a specific code, or
- (ii) Maintain a separate module within the existing accounting system, dedicated to record all EU funded transactions, or
- (iii) Set up a dedicated bank account for all EU funded transactions, or
- (iv) Record all EU funded transactions in their general bank account while ensuring they can distinguish between EU-related and other transactions. Failure to make this distinction may expose them to scrutiny during audits by legitimate authorities.

Management Verifications

In order to verify the existence of the above, the Managing Authority / Paying Agency (as may be applicable) will be checking:

- Whether the Beneficiary organisation maintains either a separate accounting system and/or an adequate accounting code, thereby recording all the transactions of the EU-funded project.
- A sufficient number of EU-funded transactions as determined by the officer carrying out the check to ensure that the above is being adhered to.
- If neither a separate accounting system nor an adequate accounting code is being kept, it will request an adequate justification from the Beneficiary.

Audited Financial Statements

The Managing Authority/Paying Agency will also request the audited financial statements for the most recent financial year preceding the date of the check. If the organization is only required to prepare management accounts, the endorsed accounts will be requested instead.

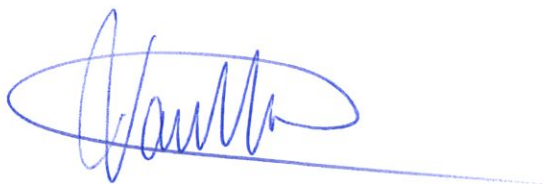
For sole traders, the Managing Authority/Paying Agency will verify whether the Beneficiary maintains proper records of income and expenditure, including detailed information on project-related payments and receipts. This is to ensure that the financial statements comply with IAS 20, which governs the recording of government grants.

The Managing Authority/Paying Agency reserves the right to select a representative sample of all Beneficiaries under each Programme/Plan within their remit to carry out such checks thereon.

Direct Payments vs General Payments

For direct payments, such as grants paid by the Government to Beneficiaries (i.e. sole traders), checks will be carried out to ensure that the payment system in place is reliable and effective.

Any queries pertaining to the above obligations are to be addressed through the respective programme contact within the relevant Managing Authority.



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