



MA Circular 04/2010/IB (v.2)

25<sup>th</sup> May 2011

To: **Intermediate Bodies**  
**Structural Funds and Cohesion Fund 2007-13 Horizontal Stakeholders**

**Clarifications on the obligation to maintain a separate accounting system or accounting code for all transactions**

**1. Background**

In accordance with Article 60(d) of Council Regulation EC1083/2006, the Managing Authority (or Intermediate Bodies (IB), as applicable) is entrusted with the function of ensuring that:

*[...] beneficiaries and bodies involved in the implementation of operations maintain either a separate accounting system or an adequate accounting code for all transactions relating to the operation without prejudice to national accounting rules.*

On the basis of this obligation, the MA or IB must have the necessary assurance that Beneficiaries (including enterprises benefitting from aid schemes) and other bodies involved in the implementation of operations (under ERDF and ESF) maintain either a separate accounting system or 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).

IBs are also required to maintain their own separate accounting system or accounting code for the expenditure they incur in the management of aid schemes under Article 107 of the Treaty on the Functioning of the European Union<sup>1</sup>.

## **2. 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***

These enterprises are to 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 standards<sup>2</sup>; 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 Act<sup>3</sup>.

In this regard, the IB is requested to obtain either:

- (i) a copy of the auditor's certificate for the applicable financial statements, providing assurance that such statements give a true and fair view of the financial position and that the financial statements have been properly prepared; or
- (ii) an auditor's certificate providing specific assurance that a separate accounting system or adequate accounting code has been maintained

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<sup>1</sup> Former Article 87 of the Treaty establishing the European Community.

<sup>2</sup> In particular *International Accounting Standard (IAS) 20: Accounting for Government Grants and Disclosure of Government Assistance*

<sup>3</sup> Most recent: SL281.03 – Accounting Profession (General Accounting Principles for Smaller 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
- ii. a record showing full details of expenditure paid and funds received related to the project (e.g. spreadsheet)<sup>4</sup>.

The IB shall check that these obligations are in place.

***3. On-the-spot checks***

In order to verify existence of the above, the IB shall include this requirement in the on-the-spot check template. The revised template now includes the following questions:

<b>5. Accounting System</b>			
<b>Private Enterprises</b>	<b>Yes</b>	<b>No</b>	<b>N/A</b>
<b><i>Type 1 - Private enterprises with the obligation to prepare annual financial statements</i></b>			
A copy of the auditor's certificate for the applicable financial statements			
Auditor's certificate providing specific assurance on the application of: <ul style="list-style-type: none"> <li>- a separate accounting system; or</li> <li>- an adequate accounting code</li> </ul> [delete as applicable]			

<sup>4</sup> Each transaction shall be supported with all relevant documents, as required by the Manual of Procedures.

<i>Type 2 – Private enterprises with no obligation to prepare annual financial statements</i>			
For the accounting of all transactions related to the project, state whether a separate bank account is being maintained	<input type="checkbox"/>	<input type="checkbox"/>	
All project transactions recorded in the bank statement	<input type="checkbox"/>	<input type="checkbox"/>	
If any of the above obligations are not being followed, state why			
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"/>	

#### 4. Procurement of equipment – Obligation to retain record of inventory

The IB shall remind all Beneficiaries of the obligation to keep an inventory of the equipment and its location, as set out in relevant sections of the Manual of Procedures (v.3 and subsequent amendments). The inventory must be signed (and updated when necessary by the Project Leader) and endorsed by the responsible officer within the organisation. In the case of private enterprises obliged to prepare annual financial statements (Type 1 enterprises), the equipment must also be accounted for in accordance with established accounting standards.

Adherence to the above obligation should be verified by the IB during on-the-spot checks.

#### 5. Payment receipts

As stipulated in the relevant sections of the Manual of Procedures (v.3 and subsequent amendments), it is the responsibility of the IB to ensure that upon receipt of payment (for its administration costs), the contractor issues a receipt confirming that payment has been effected. When applicable, the receipt should be a fiscal receipt. IBs are to ensure that receipts are received within the time prescribed by law and are retained in the project file.



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