



## Project Implementation Manual

# Internal Accounting System

1. INTRODUCTION	1.1 Purpose and Use 1.2 ENPI CBC Mediterranean Sea Basin Programme Description 1.3 Annotated Glossary & Acronyms
2. UNDERSTANDING CONTRACTUAL OBLIGATIONS	2.1 Contractual Obligations 2.2 Contractual Modifications 2.3 Partnership Agreement 2.4 How to contract the External Auditor
3. PLANNING, MONITORING & AUDITING	3.1 Scheduling and Review of Project Activities 3.2 Financial Planning & 1 tool 3.3 Internal Monitoring System <b>3.4 Internal Accounting System &amp; Annex</b> 3.5 Internal Control System & Annex
4. PROCUREMENT	4.1 Eligible Costs & 2 tools 4.2 Procurement of Services, Supplies and Works & 4 tools
5. REPORTING	5.1 Reporting (technical part) 5.2 Financial Flows & 1 tool 5.3 Reporting (financial part)
6. COMMUNICATION	6.1 Communication and Visibility Guidelines & Annex

**Version # 1, 2012/04/10**

**Disclaimer:** The content of the manual is the sole responsibility of the ENPI CBC MED Programme and can in no way be taken to reflect the views of the European Union. The ENPI CBC MED Programme is not legally bound by the information contained in or omitted in the manual and does not accept any liability in this respect. Only the Contractual Conditions and the relevant legal and regulatory framework which apply to the implementation of the ENPI CBC MED Programme and project's Grant Contract are binding. All information in the manual is based on the reference materials presented in the introduction plus the development of some examples and case-studies adapted to the ENPI CBC MED context.



### Definition and legal requirements

Accounting is the systematic recording, reporting and analysis of the financial transactions of an entity or institution. The most relevant the common provisions on accounting included in the EC Financial Regulation<sup>1</sup> are listed below.

<b>Article 132</b>	The institution's accounting system is the system serving to organise the budgetary and financial information in such a way that figures can be input, filed and registered  The accounts shall consist of general accounts and budgetary accounts
<b>Article 134</b>	The general accounts shall record, in chronological order using double-entry method, all events and operations which affect the economic and financial situation and the assets and liabilities of the institutions
<b>Article 135</b>	All accounting entries shall be based on supporting documents, to which they shall refer  The accounting system must be such as to leave a trail for all accounting entries

**In general terms, in order to be able to keep proper accounting records, all partnership members should pay attention to the following:**

#### **Fundamental principles for a proper bookkeeping:**

- the accounting records must be double-entry (debit/credit);
- the accounting records must be based on a properly defined chart of accounts;
- the methods used must ensure that once an accounting entry is recorded, it can no longer be altered.

#### **Knowledge of accounting techniques:**

- It's very important that the person appointed to keep the project's accounts have the skills needed for the job.  
Bookkeeping requires the use of specific tools and techniques: a person who is not familiar with these techniques will not be able to keep suitable records.

#### **Manual versus computerised methods:**

- If the bookkeeper is competent and obeys the fundamental principles of bookkeeping, it is not always necessary to use computerised methods. However, specialised accounting software will generally allow more powerful control features than a manual system, so it is preferable to use accounting software.

---

<sup>1</sup> COUNCIL REGULATION (EC, Euratom) No 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities.



### **Separate versus integrated records:**

- An organisation may opt to keep a separate set of accounts specifically for the project, or to include the project's accounts in their own accounting system. In the latter case, they should have a method of ensuring that the project's records are still easily identifiable.
- For example, if the Beneficiary/Partner has an ERP ("Enterprise Resource Planning ") system, it may identify the project operations through analytical accounting codes.

**Key message 1: A simple list of expenditure and revenue in an Excel file is not an accounting system!**

Your project's accounting basic requirements are described in article 16 of the General Conditions of your Grant Contract. The terms used in this article have to be understood in relation to the common provisions of the Financial Regulation mentioned in the table above.

### **General Conditions, article 16.1**

The Beneficiary and Partners shall keep accurate and regular accounts of the implementation of the project, using an appropriate accounting and double-entry bookkeeping system. The system:

- May be either part of the Beneficiary and Partner regular system or separate from that system.
- Shall be run in accordance with the accounting and bookkeeping policies and rules that apply in the country concerned.
- Accounts, expenditure and revenue relating to the project must be identifiable and verifiable.
- Details on interest accruing on funds paid by the E.C have to be provided.

The financial report has to be properly and easily reconciled to the accounting and bookkeeping system and to the underlying accounting and other relevant records.

For this purpose, the Beneficiary shall prepare and keep appropriate reconciliations, supporting schedules, analyses and breakdowns for inspection and verification."

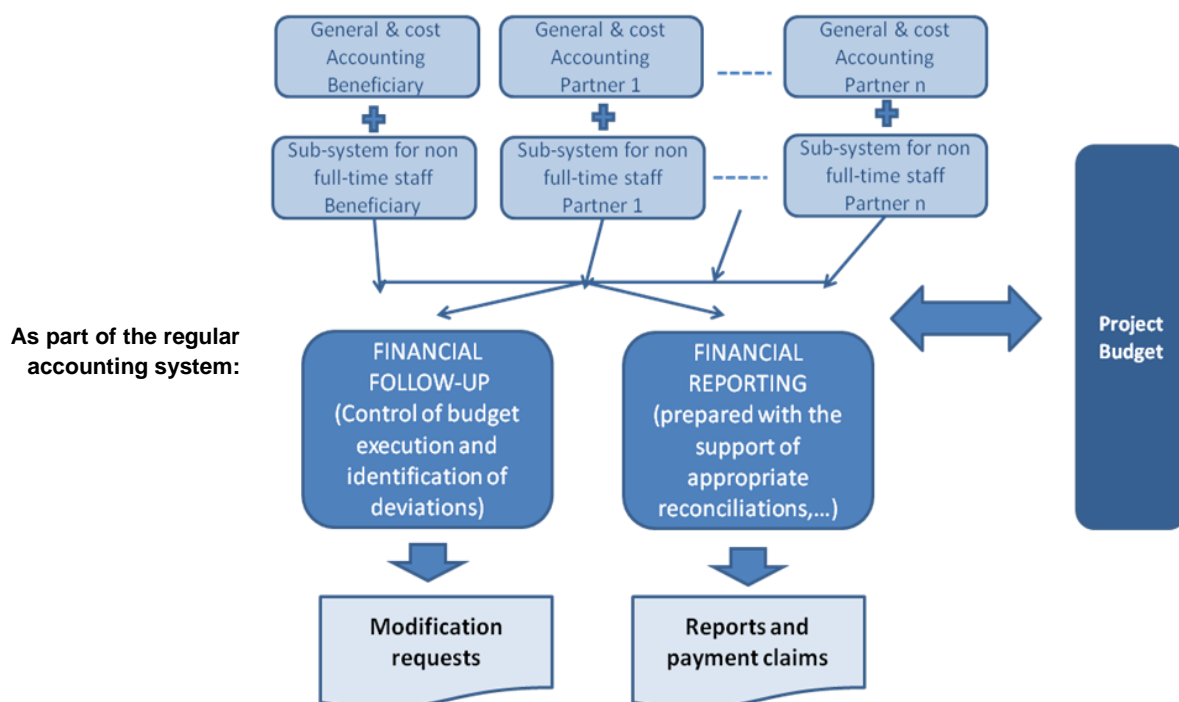


Main remarks on these legal requirements	
<b>Option adopted in the Partnership Agreement (JMA/JTS standard format) or in an addendum to it</b>	<ul style="list-style-type: none"> <li>• Either An accounting system which is part of the Beneficiary and Partners regular accounting systems (budgetary accounting)</li> <li>• Or A separate project accounting system which has to be linked to the regular accounting systems</li> </ul>
<b>Double entry</b>	The method is defined in more detail below (in this section). It is a standard PraG requirement and an important requirement to fulfil.
<b>National rules are to be followed</b>	The project accounts have to be in national currency. If they are part of the organisation's regular system, they have to follow the national bookkeeping rules, but also to respect those of the Beneficiary and Partner organisations.
<b>Identifiable and verifiable</b>	This is a key eligibility criterion. All expenditure and revenue has to be identifiable in the accounts of Beneficiary and Partners and has to be verifiable through adequate supporting documents.
<b>Interest accrued</b>	Interest obtained thanks to the received pre-financing has a specific treatment. Therefore, it has to be easily identifiable in the project accounts.

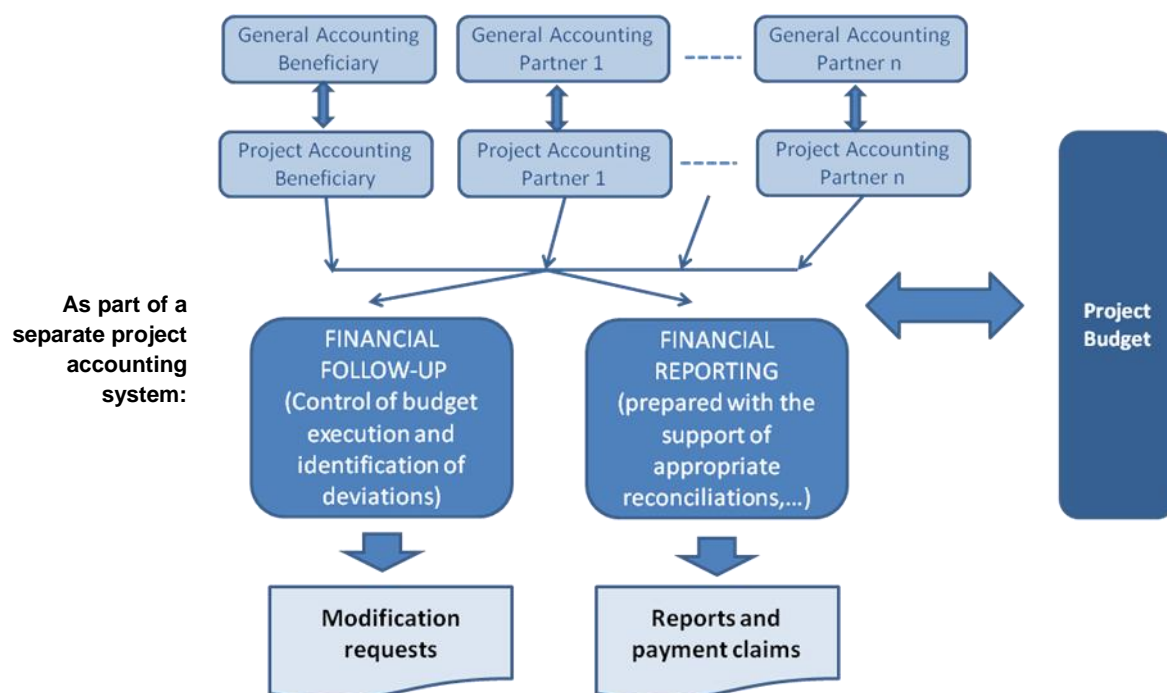
## How to organise the project accounting?

There are two ways of organizing the project accounting:

- As part of the regular, general and budgetary (or cost) accounting by the Beneficiary and each Partner (see the figure below)



- Or as a separate and adjunct system shared by all in the partnership (see the figure below)





## What is double-entry book-keeping?

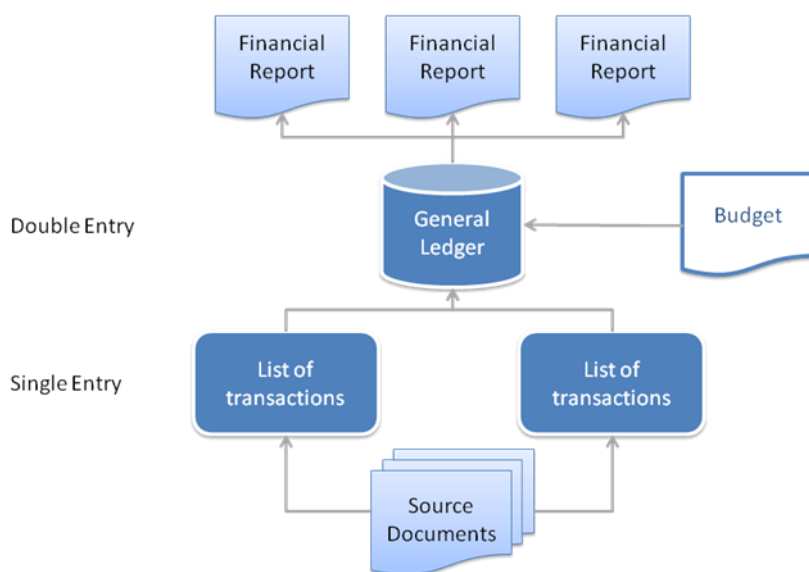
**Double-entry book-keeping** is an accounting technique which records each transaction in at least two different accounts, as a **credit** and as a **debit**. Credit entries represent the sources of financing, while debit entries represent the use of this financing.

**Let's see an example of expenditure in a separate project accounting system:**

- The **debit** will indicate to which category of expenditure the invoice has to be input in accordance with the approved budget lines
- The **credit** will indicate if the invoice was paid by the Beneficiary or a Partner. In case of non-dedicated bank accounts, the entry should also indicate which account was used

In a traditional accounting system, the single entry in each account (debit or credit) is reflected in an 'accounting journal' where two accounts are used for each transaction.

**The differences between the two systems are shown below:**



**On a regular basis...**

- A list of debit and credit balances should be extracted. This is called a 'trial balance'.
- The bank balance in the accounts should be reconciled to the bank statement balance.

**Key message 2:** Be aware that most of computerised accounting systems have both the single entry lists and the double entry accounting of transaction in the same system, usually in separate modules.



### Basic tips for effective accounting

Possible problems?	Key control measures
The accounting system is inadequate	<ul style="list-style-type: none"><li>• Practice double entry accounting</li><li>• Consider using specialised accounting software</li></ul>
The accounting records do not comply with generally accepted accounting standards	Ensure the project bookkeeping staff is qualified and experienced
For grants, the usual accounting practices are not respected e.g. accrual accounting is used for normal operations but cash accounting is used for EU-funded projects	For the ENPI CBC MED grant you have received, be sure to use the same accounting policies and practices as for normal operations
The accounting system does not handle foreign currencies	Keep your accounting in your national currency, but consider multi-currency accounting software if part of the expenditure is paid in Euro (when the Euro is not national currency)
Incorrect accounting entries are made, such as items being wrongly classified or ineligible expenditure being recorded as eligible	Ensure that the journal is properly checked and reviewed by qualified, authorised employees
The accounts are not kept up-to-date or reconciled in good time	<ul style="list-style-type: none"><li>• Ensure all transactions are recorded without delay</li><li>• Reconcile the accounts regularly and keep the supporting documents of this reconciliation</li></ul>

### Final advice and remarks

#### Use proper book-keeping techniques

- The accounting records must be double-entry
- The accounting records must be based on a properly defined chart of accounts shared by all Partners



- Once an accounting entry is recorded, it should not be altered  
The persons appointed to keep the accounts must have the required qualifications/skills and be able to communicate with the Beneficiary's financial manager
- Specialised accounting may allow more effective control than a manual system
- Use analytical (cost) accounting codes if the project accounts are kept as part of your organisation's regular accounting system

**Use excels spread sheets only for what they can do (i.e. not for double-entry book-keeping records purposes):**

- Preparing account reconciliations
- Preparing budgetary follow-up
- Preparing financial reports

**The accounts must record any interest on pre-financing**

- Open a specific account in the project ledger for this purpose.

**The accounting records must include all transactions**

- The accounting records and the financial report must cover not only the project activities financed by ENPI CBC MED funds, but also any activity financed by other donors and your own co-financing, as the Programme contribution is calculated as a share of the total eligible expenditure of the project.

**Use a proper chart of accounts and coding system**

- Use the same classifications as the project budget
- Design the chart of accounts so to allow eligible and ineligible costs to be segregated.

**Important Last Remarks**

Even if the Beneficiary or the Partners are small organizations, the concerned accounting system have to be put in place. **Check the adequacy of your system with the check-list annexed to this Factsheet.** The check-list is not exhaustive but it can be used by the Beneficiary to ensure that all Partners are sharing the same accounting principles.

**Useful contacts**

This document has been drawn up by the JTS officers. For further information, the Beneficiaries can contact the following officer, preferably by email:

Severino OSTORERO  
**Financial Officer**

[sostorero@regione.sardegna.it](mailto:sostorero@regione.sardegna.it)

Ph. +39 070 606 2498