

## **Guidelines for the engagement of Certified Auditor under PMI IMPACT**

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According to the [PMI IMPACT Application Terms and Funding Rules](#), if awarded a Grant, an Applicant must retain a Certified Auditor who will be responsible for (i) auditing the Applicant’s financial and accounting records and any documents or records relating to its PMI IMPACT Project’s implementation (“the Project”), and (ii) preparing reports of the audit findings to submit to PMI. In particular, the scope of such audit shall include:

- General accounting procedures with respect to the Project’s implementation (accounting and record keeping, reconciling the financial report to the accounting system and records, exchange rates);
- Procedures to verify that the Grant is being or has been spent exclusively on the Project and that expenditures conform to (i) information in the Grantee’s reports, and (ii) the Grant Agreement (“GA”), these Application Terms and Funding Rules, the Full Proposal and Project Budget; and
- Procedures to verify selected expenditures (eligibility of expenditures).

This document provides guidance to Applicants and prospective Certified Auditors on the standards and scope of verification procedures and reporting required under PMI IMPACT to help Grantees make accurate and sufficient budgets for their Certified Auditors’ fees. For the definitions of Certified Auditor and other terms used below, see Section 1 of the [PMI IMPACT Application Terms and Funding Rules](#).

### **I. STANDARDS**

The Certified Auditor shall be retained in accordance with the International Standard on Related Services 4400 Engagements to perform Agreed-upon Procedures regarding Financial Information and the IFAC Code of Ethics for Professional Accountants. The Certified Auditor shall report its findings using the report template attached to the GA, which PMI will share with the Applicants awarded Grants.

### **II. KEY RULES FOR ACCOUNTING, RECORD KEEPING AND RELATED AUDITOR’S TASKS**

When performing the agreed-upon procedures, the Certified Auditor examines whether the Grantee has complied with the following key rules for accounting and record keeping:

- The Grantee has opened a USD bank account for the purposes of the Project (the “Project USD Account”) and uses the Project USD Account only for the Project (unless otherwise agreed by PMI). The Project USD Account must be accurate and up-to-date. The Certified Auditor reconciles the Project USD Account (accounting records for a cash account) with the corresponding information on a bank statement and inspects the accuracy of the accounting records;
- The Grantee has a double-entry book-keeping system, and the Project USD Account and expenditures relating to the Project are easily identifiable and verifiable;
- The information in the Grantee’s reports and deliverables can be reconciled with the Grantee’s expenditures, accounting system and records (e.g., trial balance, general ledger accounts, sub ledgers, etc.);
- The budget in the Grantee’s records can be verified against the Project Budget and any amendments to the budget and the Grant installments schedule that have been approved by PMI;
- The expenditures are aligned with the purposes of the Project under the GA.

The Certified Auditor provides observations it deems appropriate.

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### **III. PROCEDURES TO VERIFY EXPENDITURES**

The Certified Auditor tests a sample of expenditures for each budget line to inspect their validity and compliance with the GA and the Grantee's reports and deliverables.

For the verification of expenditures, the Certified Auditor uses the following sampling methodology:

- **the sample size is forty (40) % of the monetary value of each cost category**, as defined in Section 5.3 of the [PMI IMPACT Application Terms and Funding Rules](#) (Personnel Costs, Administrative/Overhead Costs, and Other Costs are the three cost categories subject to auditing).
- a sample of expenditures should be selected from each cost category evenly, e.g., if Other Costs include costs for the purchase of equipment and payments to Subcontractors, a sample should be taken from both types of costs.

The Certified Auditor undertakes the following activities:

#### (1) Expenditures actually incurred

The Certified Auditor verifies that expenditures are substantiated by evidence, including supporting documents and proof of payment, and that they related to the Project. The Certified Auditor also examines proof of performance, i.e., verifies goods or services that have been received and verifies the existence of assets. To verify the existence of assets that are not always at the Grantee's location, the Certified Auditor and the Grantee must agree on the timing of the Certified Auditor's visit for such verification in the respective location. If such verification requires travelling, the Certified Auditor has to include travelling costs in its fees.

The Certified Auditor verifies that personnel costs of the Grantee and Subcontractors comply with the GA. The Certified Auditor will do so by reviewing the Grantee's reports, including information on the percentage of the working time spent by personnel on the Project, employment agreements, pay slips, the Grantee's deliverables and, if deemed appropriate, by interviewing the Project Leader or other members of the Grantee's project team or Subcontractor's personnel.

For petty cash payments, based on sample testing, the Certified Auditor verifies that such payments have been kept to a minimum, were strictly necessary for the implementation of the Project, were supported by receipts, and did not exceed the maximum per payment limit under the GA.

The Certified Auditor reconciles petty cash balances and assesses whether the cash has been used correctly, by performing a reconciliation of receipts, a review of the cash storage location, and a review of the procedures the Grantee's employees use to access the funds.

Examples of supporting documents are original third party invoices, signed contracts, travel receipts (hotel, airline, taxi, etc.), air tickets and boarding passes, delivery notes, pay slips, employment agreements, etc. Examples of proof of performance are the Grantee's or Subcontractors' reports, photo clips (e.g. for events), information in the Internet (links to publications, web portals, etc.), drafts of research papers, etc.

#### (2) Cut-off implementation period

The Certified Auditor verifies that expenditures were incurred during the implementation period of the Project.

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### (3) Budget

The Certified Auditor verifies that expenditures were agreed in the budget in the GA or agreed amendments to the budget in the GA. Based on sample testing, the Certified Auditor also verifies administrative/overhead costs and checks that these do not overlap with other costs and do not exceed the limit of overhead costs agreed in the GA.

The Certified Auditor verifies that expenditures were not ineligible costs (eligible costs are described in the budget in the GA and any agreed amendments to the budget in the GA).

### (4) Records

The Certified Auditor verifies that expenditures are recorded in the Grantee's accounting system in accordance with the applicable accounting standards of the country where the Grantee is established and the Grantee's usual cost accounting practices.

### (5) Valuation

The Certified Auditor verifies that the recorded monetary values of expenditures agree with underlying documents (e.g., invoices, salary statements, etc.) and that valid market exchange rates were used.

### (6) Classification

The Certified Auditor verifies that selected expenditure items have been classified under the correct (sub) heading of the Grantee's reports and in line with the budget in the GA and any agreed amendments to the budget in the GA.

### (7) Subcontractors

The same standards for expenditure eligibility, as described above, apply to Subcontractors. Based on sample testing, the Certified Auditor verifies Subcontractors' expenditures. All documentation related to Subcontractors' expenditures must be available at the Grantee's location. The Certified Auditor also verifies that no payments to Subcontractors have been made in cash (unless otherwise agreed in the GA).