PMU Finance and Administration Guidelines

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1. Finance and Administration

1.1 Introduction

The rules, guidelines and routines for finance and administration described in this section apply to both development and humanitarian projects and is an annex to project agreements. Please note that these updated guidelines, *"PMU Finance and Administration Guidelines"*, replaces the previous guidelines "PMU Project Manual Chapter five Finance and administration".

The local partner shall have its own Financial and Administration manual. If the local partner's manual deviates from PMU rules and guidelines detailed in these guidelines, then PMU rules take precedence and must be followed in all PMU-funded projects. The local partner is responsible for following up on this.

Note that a request for exemption from any of the rules and guidelines detailed below must be communicated to PMU in writing, and approved by PMU in writing, before the change is implemented.

These guidelines are financed with the support of Sida. The content belongs to PMU and does not necessarily represent the opinions of Sida. PMU bears full responsibility for the content of these guidelines.

2. The Importance of Good Administration and Accounting

Administration and accounting are a large and important part of both development and humanitarian projects. Good administration, accounting and financial control help the local partner to use resources effectively and efficiently towards the attainment of their set goals. They also contribute to building confidence in the organisation among the key stakeholders, which includes target groups, the Swedish partner, donors and the community in general. The world of development cooperation and humanitarian aid is becoming increasingly professional, and all organisations are exposed to competition. For this reason, good financial governance is vital for organisations that manage and implement projects. All project work requires responsibility, accountability and transparency. Administration and accounting often require more time, resources and competence than what might have been originally thought when planning a project. Therefore, it is important to engage people in the organisation who have good knowledge in administration and accounting from the onset and include them in the project.

2.1 Internal control

The purpose of an organisation's internal control measures is to ensure that the organisation completes its assignments and achieves its goals, and that project funds and other assets are managed and used efficiently. It is crucial for the organisation and project management team to create an efficient system for internal control, and regularly follow up to ensure adherence and compliance with the system set up.

2.1.1 Necessity of good internal control system is to ensure that the:

- goals of the organisation and project are achieved in a cost-effective manner.
- financial and results reporting to PMU and other stakeholders are accurate and timely.
- laws and regulations in the country where the project is being implemented are adhered to, as well as any additional rules contained in the agreements governing project activities.

2.1.2 Good internal control contributes to:

- early detection and prevention of any wrongful use of project funds or assets due to fraud, irregularities, corruption, or ignorance of an individual.
- protection of the people managing project funds, so that no individual is suspected if problems are discovered in the financial reporting.
- good organisation thus facilitating transparency and accountability.
- reduction of vulnerability in the event of staff changes.
- protection of the organisation's assets and resources.

2.1.3 Good internal control is characterised by the performance of regular risk analysis, which involves:

- identifying events that could prevent the project or the organisation from achieving its goals.
- assessment of the likelihood that an event will occur and its consequences on the project or the organisation.
- putting in place measures to fully avoid any cases of identified risks or to reduce the impact of a negative event.

The local partner is responsible for ensuring that project administration is handled reliably and that the internal control is satisfactory. To further assist the local partner in strengthening its internal control, PMU conducts regular Compliance audits to follow up on the partner's adherence to the rules, guidelines and routines contained within these guidelines "PMU Finance and Administration Guidelines".

See annex 2.21: Terms of Reference for PMU Compliance audits
See annex 2.22: Template for PMU Compliance audits

2.1.4 Agreements governing project activities

PMU has several types of agreements governing project activities. The most important of these are the agreement for Cooperation and the project agreement. The cooperation agreement is drawn up between the local partner and PMU as well as, where applicable, between the Swedish partner and PMU. For every project there is also a project agreement signed by PMU and the local partner.

2.1.5 Financial controls and audits

PMU and other donors have the right to visit, review and evaluate each project financed wholly or partly using their funds. An audit on the use of project funds can be conducted at the request of any involved donors. PMU always conducts an investigation if improper action or corruption is suspected.

PMU regularly monitors compliance with agreements, guidelines, etc., through compliance audits or other forms of follow-ups. The local partner is therefore required to provide PMU with all documentation necessary for the compliance audit/follow-up. The compliance audit/follow-up is carried out by PMU on site with the local partner. However, in the event that this is not possible due to travel or other restrictions, PMU may decide to conduct the follow-up online. The planning of the appropriate time for the audit is made in consultation with the local partner.

The local partner shall also ensure that all relevant project documentation is available at all times, and be able to send requested documents to PMU or another donor within 2 weeks at any time during the project period.

3. Guidelines for Finance and Administration

3.1. Roles and distribution of responsibilities

Project finances and administration shall be managed by at least three people: the project leader, accountant and cashier. These three persons shall not be related to each other in any way, i.e., may not be parent, child, sibling, spouse or relative of the project staff. They shall also not be in any financial or mutually dependent relationship with one another. If necessary, the local partner may also define other family ties or relationships to be avoided in order to ensure good internal control. These have to be clearly stated in the local partner's staff policy.

The roles and distribution of responsibilities between the project leader, accountant and cashier are as described below.

3.1.1 The roles and responsibilities of the project leader with respect to finance and administration:

- The project leader and the accountant are both to sign all payments before they are made. This applies to cash, cheques, and electronic funds transfer (EFT) amongst other modes of payment. Payments to the project leader and/or accountant shall be authorised by their superior (see: 2. Authorisation arrangements below).
- The project leader is to ensure that figures in the financial reports sent to PMU correspond with the books of original entry as well as with what is recorded in the accounts, and that cash and Bank account balances have been verified as correct.
- The project leader and the accountant are both to sign the financial reports sent to PMU. When closing the accounts at the end of the calendar year or at the end of the project, the auditor is to add his or her signature (see section below: Rules and routines for finance and administration).

3.1.2 The roles and responsibilities of the accountant:

- The accountant is to record all transactions/financial events according to the instructions laid out under Accounting routines.
- The accountant is to ensure that all supporting documentations regarding a financial transaction/event are correct and contain all the necessary information.
- The accountant is to produce the financial reports as requested by the project leader.
- The accountant is to compile the financial reports to be sent to PMU and sign them together with the project leader and, at the end of the year or at the end of the project, with the auditor (see section below: Rules and routines for finance and administration).
- The accountant is to reconcile the bank account once a month by comparing the bank statement to the accounting records (see the reconciliation guidelines under Accounting routines). The reconciliations are to be documented in a separate template, signed by two people and filed.
- The accountant is to reconcile any advances at least once a month, as well as all balance accounts (see the reconciliation guidelines below). The reconciliations are also to be documented in a separate template, signed by two people and filed.

3.1.3 The roles and responsibilities of the cashier:

- The cashier is to make all payments after written approval by the project leader and the accountant.
- The cashier is to write receipts for all incomes to the project.
- The cashier is to maintain a simple cash ledger for all incoming and outgoing amounts to or from the cash-on-hand.
- The cashier is to reconcile the cash-on-hand *at least* once a week (see the reconciliation guidelines below). The reconciliations are to be documented in a separate template, signed by two people and filed.
- The cashier is to ensure that large amounts of cash are stored in a safe.

3.2. Authorisation arrangement

- The local partner shall have a written and fixed authorisation arrangement, approved by the organisation's board.
- All compensation (e.g. for travel or allowances according to the set level of the organisation) for the project leader, accountant or their assistants is to be authorised by their superiors in accordance with the fixed authorisation arrangement. The superior is to be the leader of the organisation or chairperson/member of the board/project steering committee.

3.3. Costs of local partners

PMU grant support to two types of costs at the local partner (included in an application and budget):

I. Operational costs directly related to development cooperation or humanitarian aid. This includes, for example, costs for activities, staff and auditing of projects or programmes.
II. Administrative costs (overhead costs) that indirectly support the activities of the project or programme. This can include costs for finance staff, management, office supplies, IT, rent, etc. This may also include costs for producing a written and financial application and reporting, including annual audits of the partner's accounts.

3.3.1 Administrative costs (overhead costs)

The local partner shall specify and detail the administrative costs in the budget, so that each cost can be assessed.

If the local partner wishes to apply for flat-rate support for the organisation's administrative costs for the project/programme (a certain percentage of total administrative costs), the total cost of administration in the project/programme budget shall then be presented in the budget. The local partner shall also clearly present how the cost has been calculated and how costs are distributed among different projects/programmes or operations with different sources of funding. It shall also be presented what type of costs are included in the presented administration cost (for example, the presented administration cost includes rent, water, internet, telephony and is 10% of the total costs of the entire organisation's administration costs).
The routines and principles for allocation of administrative costs (overhead costs) shall also be clearly described, justified, and documented. This shall be done in order to show what has been the basis for how much of the entire organisation's administrative costs that has been charged to each project/area of operations. The allocation of administration cost shall be based on actual, reasonable and justifiable costs.

When allocating overhead costs, local partners should use some form of keys, such as project costs or project budget in relation to the organization's total costs or budget; or number of employees in the project in relation to the organization's total employees.
For example, rent could for example be based on the number of square meters used in relation to the total rent. The project must not pay the entire rent, only a portion of it.
For administrative staff, time could be the allocation model but the local partner has to make sure that the model is documented and that time sheets are kept.
Invoicing of internal costs and rent must be reasonable and justifiable. Prices must be in line with the market rate for that particular region.

PMU welcomes contributing to environmentally and climate-sustainable efforts and organisations. This means that PMU can accept comparatively higher costs for different cost types if, for example, they can be linked to the fact that the partner can thereby make a transition from fossil to renewable energy sources.

3.4. Use of project funds

Funds approved to the project can only be used in line with:

I. the approved application
II. PMU:s recommendations from the assessment of the project application and the eventual conditions decided by the PMU decision forum
III. the detailed budget approved by PMU
IV. the project period in accordance with the project agreement

Reimbursable costs, for which PMU contributions may be used, are actual costs borne by the local partner and which meet all of the following conditions:
I. The costs have incurred during the execution of the project and within the project period in accordance with the project agreement.
II. The costs have incurred for activities approved in the project application and budget.
III. The costs have been necessary for the implementation of the project.
IV. The costs can be verified and identified, in accordance with generally accepted accounting principles or nationally accepted accounting principles.
V. The costs comply with the country's employment, tax and social security contribution laws and regulations.
VI. The costs are reasonable, justifiable and in accordance with the principles of sound financial management.

Project funds cannot be used to pay for (this list is not exhaustive and PMU reserves the right to classify other expenditure items as ineligible costs, if necessary):
I. Debts and costs associated to debts
II. Costs for which the local partner has already received reimbursement from sources other than PMU
III. Purchase of property
IV. Credits to third parties

V. Replacement or refund of any funds lost to fraud, corruption, bribery, theft, terrorist financing or other misuse of funds

Project funds cannot be used or loaned to other organisations or individuals (e.g. to own organisation, another organisation, a leader or superior, an employee, Swedish personnel). Loaning of funds is also not permitted between different PMU-funded projects, and no funds can be borrowed from outside the organisation to cover costs for PMU-funded projects without prior written approval from PMU. PMU contribution may not be used to generate profit.

3.5. Changes in the project

Changes within the agreed project shall be communicated to PMU, with a copy to the Swedish partner, as soon as possible, for example changes to the activities or information about any major delays in the implementation and planned progress of the activities or other cases of major deviations from the approved project application or project budget.

Major changes in the project may only be implemented after a written approval from PMU. The agreed and confirmed changes shall then be described in connection to the regular reporting. If approval for changes has not been sought and granted in advance, PMU has the right to demand repayment.

Major changes are defined as;

I. Budget deviation affecting a summarized budget line with more than 10 percent for the whole project period.
II. New type of costs and/or new budget lines.
III. Changes that lead to new costs and new budget lines.
IV. Time delays disrupting the approved time plan of the project.
V. Major changes in planned activities and/or in time plan.
VI. New or changed goals.
VII. Other changes that affect the implementation (e.g. changes on an organisational level).

3.6. Anti-corruption

Corruption is a large contributor to poverty and poor management of resources. People who are most negatively impacted by corruption are the rights-holders of the project target groups. PMU policy is therefore never to accept any form of corruption and to always act on, and inform concerned parties of any suspicion of corruption. This can in some cases mean that project activities are delayed or interrupted. In comparison to the harm caused by corruption, these are consequences, which PMU is willing to accept.

PMU defines corruption as the abuse by an individual or a group of trust, power or position for undue gain. Included in this definition are the following:

- Giving and receiving bribes: a person who demands or accepts undue gain in exchange for services within his/her project role is guilty of accepting bribes. A person who gives or offers undue gain is guilty of giving bribes.
- Blackmail: to forcibly persuade someone, for personal gain, to do or neglect to do something that can result in that person, or someone representing that person, to suffer financial loss and the other person to gain.
- Favouritism and nepotism: giving preferential treatment to a person or a group, without regard of their merits or qualifications.
- Embezzlement: withholding entrusted property or money that one is responsible to account for, resulting in financial loss for another person or company and gain for oneself.
- Fraud: deliberately misleading someone to do or neglect to do something to the loss of that person and gain for oneself (e.g. through manipulation of receipts, invoices, amounts).
- Conflict of interest: being involved in a process or decision in which one has a personal or private interest that could improperly influence the performance of his/her professional duties and responsibilities.
- Swindle: spreading misleading information to the general public that influences the market price of particular products, shares and bonds or property.

The local partner shall work actively to prevent, discover and counteract all forms of fraud, corruption and misconduct, within the organisation, and in activities that the local partner takes part in, including but not limited to activities funded by PMU. Among other things, this means taking into account the risk of corruption and deciding on appropriate measures when planning and implementing projects. If there is reason to suspect corruption or misconduct in a PMU-funded project, this must immediately be reported to PMU. This also applies to all forms of abuse of power or position in order to gain advantage, including, but not limited to, sexual harassment or assault.

The local partner shall have its own anti-corruption policy in accordance with PMU's Policy for anti-corruption; (See annex 1.9: PMU's Policy for anti-corruption). The local partner is expected to act in agreement with applicable parts of PMU's anti-corruption policy. The applicable parts apply to the local partner's employees, elected officials, hired consultants and beneficiary associations.

In the event of corruption, the local partner shall report this to the police, unless otherwise agreed in writing with PMU.

3.7. Complaints and Response Mechanism

PMU's local partners, employees of PMU's local partners, Swedish partners, donors or other concerned actors can file formal complaints through PMU's complaint and response mechanism (CRM) and receive answers to these in a safe and effective process. Complaints can be filed using the form found on the website, www.pmu.se/en/, or in an e-mail to complaint@pmu.se. PMU's policy for complaints handling for PMU's Development cooperation and humanitarian aid states that there are no negative consequences to the person or organisation filing a complaint. It is also possible to file a complaint anonymously. All complaints will be handled confidentially by PMU. See annex 1.18: Policy for Complaints Handling for PMU's Development Cooperation and Humanitarian Aid.

3.8. Personnel

- All project personnel shall be employed by the local partner. This means that the local organisation has a responsibility as the employer to ensure that the laws and regulations of the country of operation are followed. This includes terms of employment, taxes, insurance, pension, etc. These costs are to be added to the budget for all projects financed by PMU.
- The local partner shall have a staff policy with internal rules which define regular working hours per week for a full time employment (100%), describe the recruitment process, and state the rights and responsibilities of the employees regarding holidays, sick leave, attendance etc.
- Employment contracts shall be drawn up in writing for all project personnel and be kept on file by the local partner.
- An agreement shall be signed between the local partner and the project leader. There shall be a reference in the agreement to the project agreement including annexes and "PMU Finance and Administration Guidelines" including annexes and instructions that these shall be followed.
- The project leader, accountant and cashier are not required to only be employed for the project(s). In smaller projects, for instance, the accountant's and/or cashier's duties can be performed by people with similar duties within the organisation. However, the project only compensates them for the time spent on the project. Note: the rule of having at least three different people for these roles still applies to small projects.
- Recruitment of project personnel with central functions, such as project leader, coordinator, accountant and cashier, shall be a transparent, objective, fair and non-discriminatory process with the requirement of an education relevant to the position. The process shall be documented in writing and include a profile of requirements or a job posting, the résumé/CV of the applicant, the selection process and a motivated decision.
- PMU shall approve the planned project leader; and whenever the partner decides to replace the project leader, PMU's prior approval of the new project leader shall be sought and obtained in writing.
- PMU shall be notified in cases of personnel change in central functions, such as project leader, accountant and cashier.
- The partner shall keep track of each employee's work hours for all project personnel, using any time-keeping method, and maintain time-keeping records that accurately reflect the time actually worked.
- Loans to staff or management are not allowed (salary advance is approved under certain conditions; see more information under section "Salary advances").
- The local partner shall ensure that all personnel for projects financed through PMU contributions are properly insured, if necessary and where it is practically possible, for example travel insurance and basic health insurance. The insurance shall be in line with the local partner's staff policy.

3.9. Salaries

- The local partner shall have in place a detailed Salary policy approved by the Board of the organization.
- Only the salaries of persons employed in the project can be budgeted for, and reported as expenses in the project.
- Salaries reported as project expenses shall represent the hours actually worked within the project, and have to be verified with supporting documentation such as timesheets or any automated time-keeping systems.
- Salary costs are to be booked on a monthly basis to facilitate efficient follow-up.
- The project is debited for salaries to project personnel. The project's accounts shall clearly show which employee and jobs that these concern, as well as the percentage of each employee's total working hours dedicated to the project in each period.
- Salaries of project personnel are determined by the local partner so that the organisation has a common salary policy for all of

its personnel, e.g. with salary levels and criteria for different positions.

- When planning a project, it is important to remember to budget for salary increases. Salary levels for different positions are to be set according to the norms of the country of operation. The local partner is to strive for a fair and non-discriminatory salary scale.
- The local partner shall ensure that any person who works on several projects within the organisation or for several organisations, regardless of the source of funding, is not compensated for more than a full-time job, i.e. 100%.
- The local partner shall pay all salaries to project personnel and record these in its routine book-keeping.
- The monthly payroll should be signed and approved by the authorised person as per the fixed authorisation policy.
- The authorised person shall approve the salary costs booked in the project.

3.10. Laws and regulations regarding accounting and taxes

The local partner is responsible for compliance with national accounting and tax regulations as well as relevant legislation in terms of employment, taxes and social security contributions. Moreover, the local partner shall take necessary measures to cover costs incurred from terminating the employment of personnel at the end of any project financed by PMU.

3.11. Approved project period

If project funds disbursed by PMU are used in a way that differs from what has been agreed, or if funds have been used before or after the approved project period set out in the project agreement, the local partner may be obliged to repay PMU a sum that wholly or partly corresponds to the contribution previously disbursed by PMU to the local partner plus accrued interest.

If the project period needs to be extended, the local partner shall apply to PMU for an extension in good time before the project period expires. If PMU approves the application, the project extension agreement shall be attached to the original project agreement.

3.12. Succeeding recipient partner organisations

If a local partner plans to transfer funds to another local organisation, a request shall be sent to PMU. Succeeding recipient partner organisations shall be approved by PMU before funds are transferred.
In case the local partner in turn passes on PMU contributions to a succeeding recipient partner organisation, the local partner shall ensure that:

- Relevant terms in the project agreement are implemented in a written agreement with the succeeding partner organisation, <u>before</u> any PMU contributions are transferred to the succeeding recipient partner organisation. PMU shall approve the agreement before it is signed by the local partner and the succeeding recipient partner organisation. The local partner shall ensure that the succeeding partner organisation complies with the terms.
- Relevant terms and requirements regarding finance and administration, reporting including financial reporting, according to the project agreement, and these guidelines "PMU Finance and Administration Guidelines"including annexes are passed on to the agreement with the succeeding recipient partner organisation.
- Annual reports comprising the whole organisation, such as income statement and balance sheet in local currency, as well as audit reports and management letters from the succeeding recipient partner organisation are collected and reviewed. The local partner shall ensure that the annual report has been approved by certified external auditor, that the PMU contribution has been reported as an income in the financial report (alternatively in a note in the financial report), and that the succeeding recipient partner organisation's business is reasonable in relation to its financial position.
- The local partner documents its assessment of the received reports from the succeeding recipient partner organisation and acts on the information that is received in the reports.

The local partner shall account for the amount of project funds that have been transferred to succeeding recipient partner organisations. The local partner shall also highlight important deviations in the reports to PMU.

4. Routines in Finance and Administration

4.1. IT policy

The local partner shall have a written IT policy that has been communicated to all project personnel. The following points should be included in the policy:

- Computers are work tools to be used for project administration. Computers are not to be loaned out to unauthorised parties or used for other purposes.
- Personal use of the Internet is not to result in additional costs for project administration. Any private use that may damage or slow down the system is not permitted.
- Computers are to be kept in a theft-proof location.
- Computers shall have antivirus software installed.
- Computers shall be protected with passwords that are changed on a regular basis. The passwords should consist of both upper and lower case letters and digits, as well as contain at least 8 characters. Passwords are not to be disclosed to or shared with other people.
- Accounting software is to have a separate password at the user level. This password shall be changed on a regular basis and should contain both upper and lower case letters, as well as contain at least 8 characters. The password is not to be disclosed to or shared with other people.
- Back-up procedures shall be performed at least once a week. Back-up copies are to be stored in a theft-proof location in a separate building from the computer.
- E-mail addresses used within the project and in communication with PMU should belong to a domain owned by the organisation. This is to ensure ownership of the information being transferred, as well as to allow backup of e-mails by the organisation. Private e-mail addresses are allowed only in exceptional cases.

4.2. The fiscal year

The fiscal year used by the local partner should correspond to the calendar year (1st of January – 31st of December). If the local partner uses a fiscal year starting in a different month, rather than the calendar year, due to the laws of the country of operation, this shall be communicated in writing to PMU and approved by PMU.

4.3. Requisition and payment of funds

- Requisition of project funds shall be done in the financial report, with the exception of the first requisition, which shall be done in accordance with the instructions set out in PMU's Letter of Confirmation.
- The requested amount is to cover the needs of the upcoming reporting period, in line with the budget. When calculating financial needs, the bank and cash closing balances from the previous period/financial report shall be taken into account.
- PMU shall transfer funds at a frequency in line with the activity, provided that the following four conditions have been fulfilled:
    - I. PMU has received timely and accurate financial and narrative reports, completed in accordance with PMU's format and, if relevant, reports from the auditor in accordance with the applicable audit instructions and the project agreement
    - II. Previous payments have been accounted for
    - III. The reports indicate that the project is being implemented in accordance with the plans
    - IV. The terms and conditions set forth in the project agreement and any eventual amendments are, at all times, fulfilled
- PMU reserves the right to withhold payments if the remaining balance from the previous period is higher than the expected expenses of the coming quarter.
- When requested funds have been transferred, PMU will send a bank statement detailing the amount in SEK and in hard currency. When the funds are received, the local partner shall immediately send a confirmation of the amount (in received currency) and a bank statement verifying the amount received to PMU via e-mail.
- Note that PMU never pays for costs incurred before a project has been approved or for costs incurred after the project period.

4.4. Bank account and interest

- PMU only sends funds to a separate bank account held by the local partner for the purpose of receiving PMU funds. This account shall have at least two joint signatories.
- If possible, funds shall be deposited in a saving account (where the funds will earn interest). Note that it shall be possible to withdraw the funds at any time. All earned interest shall be reported in a separate line in the financial report according to the relevant instructions. The earned interest can, if approved by PMU, be used within the same project for which the contribution was approved.
- A copy of bank account statements, covering the entire fiscal year and showing the balance on the final day of the fiscal year (the 31st of December, unless a different fiscal year has been approved by PMU), shall be sent to PMU with the financial report at the end of each year, as well as with the final financial report at the end of a project. If the same bank account is used by several projects or programmes, the local partner shall attach the documented reconciliation of the bank account as of the 31st of December.
- If there is a change of bank account, a written request for this (using annex 5.3.2: Project agreement amendment – change of bank information) shall be approved in writing by PMU.

4.5. Exchange rate differences

Exchange rate differences shall be handled in accordance with the guidelines set out in annex 5.12: PMU Guidelines for management of exchange rate differences. Below is a summary of these guidelines, and if there is a discrepancy between the information provided in this summary and that contained within annex 5.12, the information in annex 5.12 shall override this summary.

Exchange rate is the value ratio between two currencies. If the value ratio changes over time, different exchange rates arise. One part of handling exchange rates lies in the bookkeeping, where valuation and calculation of exchange rates make up the basis for a correct accounting. Another part in managing exchange rate differences correctly is about comparing the actual exchange rates and the rate of the approved budget and acting in time on exchange gains and losses. The project budget approved by PMU specifies the amount in SEK and in local currency, as well as the exchange rate applied when the project was approved.

The following rules apply for exchange rate differences:

- The calculation of exchange rate differences shall be carried out in accordance with generally accepted accounting principles or nationally accepted accounting principles and shall be approved by the local partner's auditor in the project's audits.
- For the calculation of exchange rates, it is mandatory to use official exchange rate sources. Approved official sources are the Central bank or a receipt from an official bank or a registered exchange office.
- Exchange rate gains and losses shall be accounted for in the financial report in a separate line, so that it is possible to identify an annual balance. The local partner shall report in annex 2.16.1 how the exchange rate differences have been handled, which accounting principle has been used, and any changes of the principles between the respective accounting periods.
- Exchange rate gains shall be used within the frames of the approved project and for activities approved by PMU.
- In case of exchange rates gains that exceed 5 % of the total received amount in local currency, the local partner shall make a written request to PMU for the utilisation of these gains for expanded activities within the framework of the approved project application. This request has to be approved in writing by PMU before the local partner can use the funds. The written request shall include documentation verifying how the exchange rate gain have occurred and return receipt/bank account statement that shows where the funds are held.
- PMU is not obligated to compensate for exchange rate losses. In the event of significant exchange rate losses that affect the implementation of the project, modifications in the project shall be communicated and approved by PMU in accordance with the project agreement. Exchange rate losses at the end of the project shall not be compensated. Any requests in connection with exchange rate gains or losses shall be sent to PMU no later than 3 months prior to the end of the project.

For detailed instructions regarding the accounting of exchange gains and losses and management of exchange rate towards budgeted rates, see annex 5.12: PMU Guidelines for management of exchange rate differences.

4.6. Purchase/procurement

To ensure that good business practice is observed when procuring goods and services with PMU contributions, the local partner shall have written and documented procurement rules in accordance with the terms set forth in the procurement guidelines that are found in an annex to the project agreement.

Please note that procurement rules vary depending on the donor and type of project. The relevant procurement rules are included as an annex to the project agreement. The local partner shall ensure that the procurement rules that are included in the annex to the project agreement are followed.

Below is a summary of the procurement guidelines, and if there is a discrepancy between the information provided in this summary and the information annexed to the project agreement dealing with procurement, the information annexed to the project agreement shall override this summary.

For procurement of goods and services that the local partner makes with PMU contributions, the following minimum requirements apply:

- The local partner shall treat suppliers in accordance with the public procurement principles of equal treatment, non-discrimination, transparency and proportionality.
- The procurement shall be conducted in a business-like manner.
- Competition opportunities shall be utilized and tenders shall be treated and evaluated objectively in order to ensure competition on equal terms.
- The supplier that offers the most advantageous tender (best price-quality ratio) shall be awarded the contract.

For the purchase of goods and services in development projects financed by PMU/SMC/Sida, the following monetary thresholds shall be followed at a minimum (VAT included). (Definitions of the different types of procurement processes related to these monetary thresholds are described in an annex to the project agreement):

- Purchases between SEK 10 000 - SEK 60 000 --->documented price comparison shall be made.
- Purchases between 60 001 - 900 000 SEK ---> direct award (Upper limit may not exceed 100 000 Euros).
- Purchases between 900 001 – 2 700 000 SEK ---> Open national procurement (Upper limit may not exceed EUR 300 000).
- Purchases above SEK 2 700 000 ---> Open international procurement.

Contracts may not be subdivided in order to circumvent the above thresholds. The specified thresholds apply to purchases of the same type that take place over a year. The period of tender submission shall be long enough to give potential bidders a reasonable time to prepare and tender. Local partners are responsible to ensure that no procurement violates an environmentally sustainable development and fundamental human rights.

All procurement processes with PMU funds shall be documented separately to enable the review of procurement decisions. All documents relevant for procurement shall be archived for seven years after the end of the project period according to the project agreement. The relevant documents include the invitation to tender/tender request (including the announcement if applicable), technical specifications/terms of reference, the tenders received, the protocol/summary from the evaluation committee of the tender screening process, the decision, the contract award notice and the order form. The grounds for the decision to apply any exemption shall also be saved and archived for seven years.

4.7. Project vehicles

- Vehicles that are purchased with project funds are to be used for project activities and a driver’s logbook shall be maintained.
- If the vehicle is used outside the project, the following rules apply:
    - All use outside the project shall be paid for according to a previously agreed upon kilometre charge and this income is to be reported in the project bookkeeping.
    - Project activities shall always be prioritised.
    - Private use is only allowed in exceptional cases and shall be booked in advance. Private usage of project vehicles shall also be paid for according to a previously agreed upon kilometre charge and this income is to be reported in the project bookkeeping
- The project vehicle shall be used for the purpose which has been agreed upon in the approved project application. At the end of the project, a vehicle purchased in accordance with the approved project budget could, but do not necessarily, accrue to the local partner in the country where the project is implemented, and this shall be decided in the final report. The intended use of the vehicle after the end of the project shall be documented, for example in the document where the transfer of ownership is documented. If there are no further project activities or similar operations planned, the vehicle is to be sold at market price and the income recorded and reported in the project accounts before the project closure. If the vehicle is transferred to the local partner, the transfer of ownership shall be carried out before the end of the project. Copies of the purchase contract of assets exceeding a purchase price of SEK 50 000 (or EUR 5 000) shall be enclosed in the final report.
- At the end of the project, the local partner shall send a complete, itemized inventory list of equipment including any vehicles, together with the final report.

For complete instructions, see annex 5.9: Guidelines for use of project vehicles.

4.8. Inventory of stock, furniture and fixtures

When goods are purchased in small or large volumes for a significant combined amount, one or more stock inventories should be created.

- The stock inventory shall be administered by three people.
- A stock ledger is to be established.
- A stock inventory shall be performed before the audit on the 31st of December each year and reconciled against the stock ledger.
- The stock ledger shall be available during auditing and PMU may request to see it.
- The local partner shall have internal rules which detail the threshold amount for considering a purchase to be significant.

At the end of the project, the local partner shall send a complete, itemized inventory list of stock together with the final report.

When goods are purchased in small or large volumes for a combined amount that is not significant, a relatively simple process will be sufficient, e.g. one person keeping a simple stock ledger and inventory.

For complete instructions, see annex 5.10: Guidelines for store management and other assets.

4.9. Equipment

- All equipment purchased by the project is to be labelled/coded and numbered so that it is clear which project it belongs to.
- An inventory is to be prepared, listing all equipment purchased by, or at the disposal of, the project.
- The equipment inventory is to be updated whenever a new equipment is purchased and reconciled at least once a year by at least two people. This is to ensure that all the equipment on the list can be accounted for, to check the condition of the equipment, and to see that it is being used for its intended purpose, etc. The annual reconciliation shall be documented, signed and filed with other project documentation.
- The equipment inventory shall be available during auditing and PMU may request to see it.
- The local partner shall ensure that all of the project's equipment, furniture and buildings financed through project contributions are properly insured, where this is practically possible.
- All documents relating to the purchase of assets shall be documented, and the asset shall be included in the organisation's asset register in accordance with generally accepted accounting principles or nationally accepted accounting principles.
- The project assets shall be used for the purpose which has been agreed upon in the approved project application. Equipment purchased in accordance with the approved project budget could, but do not necessarily, accrue to the local partner in the country where the project is implemented after the project ended, and this shall be decided in the final report. The intended use of the assets after the end of the project shall be documented, for example in the document where the transfer of ownership is documented. If there are no further project activities or similar operations planned, the equipment is to be sold at market price and the income recorded and reported in the project accounts before the project closure. If the equipment is transferred to the local partner, the transfer of ownership shall be carried out before the end of the project. Copies of the purchase contract of assets exceeding a purchase price of SEK 50 000 (or EUR 5 000) shall be enclosed in the final report.
- At the end of the project, the local partner shall send a complete, itemized inventory list of equipment including any vehicles, together with the final report.

For complete instructions, see annex 5.10: Guidelines for store management and other assets.

4.10. Depreciation

Assets purchased for the project, e.g. vehicles, furniture and fixtures, or buildings constructed in the course of the project, cannot be depreciated. The entire cost shall be recorded immediately in the project accounts when the item is purchased or the building is constructed.

4.11. Reports

4.11.1 Written and financial reports during the implementation of the project

- Written and financial reports based on PMU's templates shall, unless otherwise agreed in the Letter of Confirmation, be sent to

PMU in accordance with the regularity specified in the project agreement. The reports shall be signed, scanned and sent by e-mail to PMU no later than six weeks after the end of the reported period. PMU and the Swedish partner shall also be informed if no activities have been undertaken or if the report is delayed. The local partner shall also explain the reasons for such a delay.

- Note that financial reports submitted and approved by PMU are registered in PMU's financial system and cannot be altered later. Therefore, if the local partner notices errors in financial reports already approved by PMU, the relevant adjustments shall be made in the upcoming financial report and explained appropriately.
- Signed and scanned copies of the annual financial report, annual bank account statement, audit report and annex 2.16.1 shall be received by PMU by the 15th of April of the following year. The signed annual financial reports (financial report as per 31st of December and annex 2.16.1) are to be scanned, together with the audit report, and sent via e-mail to PMU. After this, the originals are to be sent by post to PMU. It is important to ensure that all reports have been verified before they are sent. If a report is late, the local partner shall inform PMU and give a reason for the delay.
- Note that the annual financial report shall also be verified and signed by a qualified auditor approved by PMU, and by the authorised person/persons according to the project agreement.
- Copies of the reports should also be sent to the Swedish partner.

4.11.2 Final reports

- Final written and financial reports, based on PMU's templates unless otherwise agreed, shall be sent to PMU and the Swedish partner after the completion of the project. The final written report shall describe the implementation of the project and the objectives achieved. The final financial report shall describe how all of the project's funding was utilised. Own cash contributions and contributions from other sources included in the approved budget shall also be included in the report. Where applicable, a list of the equipment and capital assets financed by the project shall be produced. The list shall be signed by authorised persons within the local partner and by the auditor. Audit reports in accordance with the instructions referred to in the project agreement shall also be sent to PMU. The final report shall also include documents regarding the transfer of assets purchased with PMU contribution, and a complete, itemized inventory list of equipment and stock if relevant.
- The final written report and the final financial report including annex 2.16.1, annual bank account statement and audit reports shall be signed, scanned and sent by e-mail to PMU according to the dates in the project agreement, or according to other written confirmed deadlines. After this, the originals of the financial report, the written report, annexes and audit reports shall be sent by post to PMU. If the reports are late, the local partner shall inform PMU and give a reason for the delay.

4.11.3 Annual reports

- The local partner shall submit audited annual accounts comprising the entire organisation, including an income statement and a balance sheet, in local currency. It shall be possible to identify PMU's/SMC's/Sida's contribution in the Annual Report or in an audited attached note to the income statement. If it is not possible for the local partner to comply with this requirement, the local partner shall inform PMU thereof as soon as possible and give the reasons why it is not possible. PMU shall confirm in writing by e-mail that partners are exempt from the requirement to submit audited annual accounts for the entire organisation.
- Part of the cost for the audited annual accounts can be included in the application and budget of the project or programme. The principles for allocation of cost for the audited annual accounts shall be clearly described and justified, in order to show what has been the basis for how much of the costs for the audited annual accounts that has been charged to each project/area of operations.

4.12. Audit

- Audits of projects funded by PMU or an external donor are to be conducted in line with PMU's audit instructions specified in the project agreement.
- Audits shall be conducted by an external, independent, certified auditor, and according to International Standards on Auditing (ISA). (Please note that exceptions may occur. The applicable guidelines are set out in the project agreement and in the specific audit instructions referred to in the project agreement.)
- Before the start of the project, the local partner shall send the audit certificate/audit license of the auditor or the audit company to PMU. The audit company/auditor shall be approved by PMU. When replacing an auditor, PMU's prior approval of the new auditor shall be sought and obtained in writing. PMU has the right to decline the proposed auditor as well as to procure another auditor on behalf of the local partner. The local partner shall replace the auditor at the request of PMU or another donor. The local partner shall send an updated audit certificate/audit license of the auditor or the audit company that PMU has approved every year.
- The signing auditor shall be replaced at least every seven years.
- The local partner shall ensure that the auditor is familiar with, and follows PMU's requirements regarding audits in accordance with the project agreement and the specific audit instructions referred to in the project agreement.
- After conclusion of an audit, the auditor shall submit an audit report, a management letter and a report of factual findings (in accordance with ISRS 4400) according to the project agreement. The local partner is to attach its management response to the auditor's findings and recommendations stated in the management letter. The response shall include an action plan and is to be sent together with the audit report to PMU. (Please note that exceptions may occur. The applicable guidelines are set out in the project agreement and in the specific audit instructions referred to in the project agreement.)

- The project shall be audited at the end of each year and at the end of the project. At the end of the project, a final audit shall be made. Special rules regarding audit apply if the local partner channels project funds to a succeeding recipient partner organisation, see the project agreement.

For complete instructions regarding audit, see the project agreement and the specific audit instructions referred to in the project agreement. PMU reserves the right to update the existing audit instructions annually.

4.13. Repayment of unused funds

Any balance according to the final financial report shall be repaid to PMU. The correct repayment amount shall be validated by the auditor, which has been approved by PMU. Alternatively, the unused project funds may be transferred/cleared to another project after written approval by PMU. The clearing does not increase the approved budget of the receiving project, but replaces an incoming payment from PMU to the value of the cleared amount.

Any remaining funds from micro-financing activities shall be used for further micro-financing activities approved by PMU. A plan for continued management of the micro-financing funds is to be presented before the end of the project. The funds are primarily to be used for continued micro-financing activities managed by the local partner. If there is no continued activity or administrative capacity to manage the funds, they shall be repaid to PMU. Micro-financing activities are to be reported in annex 2.16.2 and sent to PMU together with the annual financial report and with the final report.

4.14. Repayment of non-eligible cost

Note that repayments are compulsory:

I. When PMU contributions have not been used in accordance with the approved project application, the approved budget and/or the project agreement.
II. When the funds have been used outside the agreed project period, and an extension has not been approved by PMU.
III. When exchange gains are used in the project without prior approval from PMU.
IV. When the local partner does not meet or fulfil the terms in the project agreement.
VI. If another donor submits a claim of repayment, for example Sida, SMC or Radiohjälpen, and the claim of repayment is based on a circumstance relating to the local partner.

4.15. Storage and archives

All accounting records and other relevant project documentation shall be available for follow-up, audit and review with the local partner. All accounting records and other relevant project documentation shall be stored in an orderly condition and an orderly manner in a safe place and archived, for the duration of the project, in a theft-proof and fire-proof location, where the responsible project personnel has access to them. After the end of the project, records and other documentation shall be archived and stored in a theft-proof and fire-proof location for at least seven years after the end of the project period according to the project agreement. This applies for the whole organisation including all documents relating to specific projects covered by project agreements. All documents concerning procurements made by the local partner wholly or partially with PMU contributions shall be kept in one stand-alone file for each procurement for a period of seven years after the end of the project period according to the project agreement.

5. Accounting Routines

The local partner shall ensure that the bookkeeping is systematic, chronological, reliable and complete and that it follows generally accepted accounting principles or nationally accepted accounting principles. The local partner is responsible for compliance with national laws regarding taxes and accounting.

5.1. Accounting software

The local partner shall have effective and reliable bookkeeping software which is adaptable to the size and turnover of the organisation.

5.2. Accounting methods (Basis of Accounting)

The local partner shall inform PMU of the accounting method it applies in its financial reporting. This information is to be provided in an annex to the annual financial report (see annex 2.16.1).

There are two basis of accounting:
The accrual basis of accounting is the accounting method whereby all expenses and income assigned to a fiscal year are recognised as expense or income and will impact the result for that fiscal year. A commercial transaction is recorded when it takes place, not when it is paid for. The income and expense assigned to the upcoming fiscal year are subject to accrual, i.e. they are recognised as assets or liabilities in the annual accounts of the current year. They are subsequently recognised as income or expense in the upcoming year.
The cash basis of accounting is a simplified form of accounting in which the commercial transaction is recognised when it is paid for. At the end of the fiscal year, however, all unpaid receivables and liabilities are to be entered into the accounts.

5.3. Ongoing accounting

All accounting procedures shall be carried out on an ongoing basis, i.e. not later than the next business day, or as soon as possible.

5.4. Projects accounts/chart of accounts and general ledger

- When the project is approved, PMU will prepare a financial reporting template with the approved accounting plan. The template is used for financial reporting to PMU.
- The project accounts should be structured according to the accounting plan approved by PMU, or with a clear link between the plan of the local partner and that of PMU, so that it is easy to trace amounts in the financial reports back to the accounting records. This applies to both the profit and loss account and the balance sheet.
- Sub-accounts can be maintained within the approved accounting plan to simplify budget follow-up process.
- The acounting shall be set up so that each project are clearly separated from the local partner's other projects.
- Reported costs shall be derived from the local partner's accounting records. The local partner is obliged to keep supporting documentation for the reported costs.

5.5. Cash-in-hand and cashbook

A simple cashbook should be maintained manually even if the accounts are prepared using an accounting software.

- The cashbook is to be reconciled at least once a week by counting the cash. The reconciliations are to be documented in a separate template and signed. If the amount is significant, the reconciliation should be done and signed by two persons.
- Cash-in-hand is for minor expenses. Larger expenses shall be paid form the bank account.

- The local partner shall have in place internal rules indicating the threshold amounts which apply to storage of cash in a safe. If there are no internal rules on the threshold, PMU guidelines shall be applied with a maximum of SEK 4,200 (USD 500)

5.6. Reconciliation

- The cashbook is reconciled *at least* once a week by the cashier by counting the cash. This is documented in a separate template, indicating the date on which the cashbook was reconciled, who counted the cash, the amount of cash and the amount according to the cashbook. Any discrepancies shall be investigated and corrected. The documented reconciliation shall be approved and signed by the project leader, or a person to whom the project leader has delegated this responsibility, and then filed in a systematic and orderly manner. If the cash-in-hand constitutes a significant amount, two people should be present when it is reconciled.
- The bank account should be reconciled at least once a month by the accountant by comparing the bank statement to the accounting records. If there are errors in the accounting records, the accountant shall check that all supporting vouchers have been recorded and that the amounts are correct. Reconciliation is to be documented according to a separate template, indicating the date on which the account was reconciled and who conducted this. It should also include a description of any discrepancy between the bank statement and the accounting records. The documented reconciliation shall be approved and signed by at least two people, one of whom shall be the project leader or the superior of the project leader (if several projects use the same bank account), and then filed in a systematic and orderly manner. The accounting records shall then be corrected. Please note that it should be possible to reconcile bank accounts even if several projects use the same bank account.
- Advances are to be reconciled at least once a month by the accountant by checking the advances that have been reported in the bookkeeping. Reconciliation shall be documented in a separate template indicating the reconciliation date, the person who undertook the reconciliation, persons with unreported advances and amounts unreported per person. The total of these advances shall match the total balance in the accounting records.
- All balance accounts (including e.g. receivables accounts and liability accounts) shall be reconciled according to the same principles as for bank accounts and cash-in-hand. A specification of the commercial events constituting the closing balance should be prepared in connection with the reconciliation.

5.7. Accounting vouchers

- Every recorded transaction/financial event shall have a supporting document/verification as evidence that the recorded transaction actually occurred.
- A document that serves as evidence of a transaction is called a voucher. Normally the following types of vouchers are used in the accounting:
    - Receipt Voucher
    - Payment Voucher
    - Non-Cash or Transfer Voucher or Journal Voucher - for non-cash transactions, used as a documentary evidence.
    - Supporting Voucher – External (for example: invoice, bill, receipt, debit or credit note) Internal (for example a transfer within the organisation, a booking of accrued cost)
- All recorded transactions/financial events shall be documented with receipts/invoices issued by the person/company providing the goods or services. This rule also applies in local situations where the option of obtaining a receipt/invoice involves paying a higher price or incurring higher transport costs for the purchase.
- An accounting voucher shall contain the following information: the date, a short description of the reason for the transaction, the amount, other parties involved (e.g. traceable information of buyer and seller), and possibly a reference to supporting documents not stored together with the supporting voucher (e.g. seminar documentation or contract).
- Accounting vouchers shall be numbered: both the voucher itself and in the accounts.
- There shall be an unbroken series of numbers on accounting vouchers to ensure that all transactions are recorded and that they have only been recorded once in the bookkeeping. Originals of the supporting documentation shall be attached to the accounting vouchers. A photocopy receipt/invoice or any other photocopied document shall not be used to support a financial transaction.
- When corrections are made in the accounts, a new vouchers shall be prepared (this is done by creating a new supporting voucher with a new voucher number; not by changing amounts or details in the original voucher. A reference to the new supporting voucher shall be made on the old voucher). Corrections in the accounts shall be approved by the project leader.
- If the seller cannot provide a receipt, it is permitted in exceptional cases (for small amounts) for people to write their own supporting voucher containing the following information: the date, a brief description of the commercial transaction, the amount, names of the parties involved, and (if applicable) a reference to supporting documents not stored with the supporting voucher (e.g. a contract). Both the seller and the buyer shall sign the supporting voucher. This type of supporting voucher shall be authorised by the project leader.
- Seminars held as a part of the project activities shall be documented with a list of participants and a schedule, as well as all receipts and invoices received. The seminars shall also be supported by a brief report approved by the organization’s management. Copies of

participant lists and schedules shall be attached to other supporting vouchers in the bookkeeping connected to the seminar expenses.

5.8. Receipt voucher/cash receipts

- A receipt book with pre-numbered receipts in triplicate (if not computerized in the accounting system) shall be used to provide receipts for all incoming payments.
- A receipt shall contain the following information: the date, name and address and/or telephone number of the payer, what the incoming payment concerns (or the reason for the payment), the amount and other parties involved.
- The original receipt shall be given to the payer. The first copy is used as a supporting voucher in the bookkeeping, and the second remains in the receipt book (if not computerized in the accounting system).

5.9. Payment voucher/Outgoing payments

- Outgoing payments shall be made using the pre-numbered payment voucher (two copies, if not computerized in the accounting system), which are authorised by the project leader and accountant, or in accordance with other documented authorization arrangement.
- A payment voucher shall contain the following information: the date, name and address and/or telephone number of the recipient, amount, and what the payment concerns (or the reason for the payment). Supporting documentation, such as invoices and receipts are to be attached to the payment order.
- Receipts and invoices are to be stamped as "PAID" after payment.
- The original payment voucher shall be used as a supporting voucher in the bookkeeping. If not computerized in the accounting system, the copies are stored in numerical order together with the other payment orders.

5.10. Advances

- Advances shall not be entered as expenses in the accounts but should instead be recorded as receivables on a balance account.
- The accounting records shall indicate who has received an advance.
- When an advance is paid out, the following information shall be included in the payment order: the name and address of the recipient, the reason for the advance, amount, date of the advance, and any preliminary accounting date. The payment order shall be signed by the recipient of the advance and authorised by the project leader. Advances to the project leader shall be approved by his/her superior according to the fixed authorisation arrangement. The original payment order shall be used as a supporting voucher in the accounting records.
- Advances are to be reported using original receipts. The sum of the receipts shall correspond with the obtained advance and with any balance to be repaid.
- When balances are repaid to the cashier, the cashier shall issue a receipt for the repaid amount. A reference to the voucher number of the advance shall be included in the accounting records and on the receipt.
- The local partner shall have established rules regarding deadlines for reporting advances, as well as routines for measures to take if an advance is not reported by the deadline.
- No new advance may be paid to a person who has a previous advance which remains unreported after its deadline. Individuals working for the project, and who have the right to receive advances, may only receive one advance at a time.
- When an advance is reported, the expense shall be authorised by both the project leader and accountant before being entered into the accounts.
- Reconciliation of advances shall be conducted at least once a month by checking the accounting records to see which advances have been reported. Reconciliations shall be documented in a separate template, indicating the reconciliation date, the person who conducted it, the persons with remaining unreported advances, and the amounts per person. The sum of the amounts shall correspond to the balance in the accounting records.
- All advances shall be reported or repaid by the end of the project.

5.11. Salary advances

- The local partner shall have rules in place regarding the management of salary advances and their settlement.

- A salary advance may not exceed the equivalent of one month’s salary.
- A salary advance shall be settled in the next payroll month following the date of issuance of the salary advance. A summary of paid salary advances shall be made, and this is to be reconciled at least once a month by checking the accounts to see which salary advances have been settled.
- Salary advances that have not been settled by the end of the project shall be repaid to the project.
- Salary advances shall not be entered in the accounts as expenses but should instead be recorded as receivables on the balance account.

5.12. Salary payroll

- The local partner shall prepare a payroll for each month. The payroll shall contain the names of all people receiving a salary in the month in question. For each person, the following shall be included: gross salary, tax deductions and other deductions made when the salary was paid, as well as the net salary. When salaries are paid in cash, the payroll (or a separate pay slip stapled to the payroll), shall be signed by the employee when he/she receives the salary. The gross salary on the payroll shall correspond to the salary agreed upon in the employment contract. The gross salary shall also correspond to the salary as per the project budget.

5.13. Application and Reporting Templates

PMU sends a budget template together with other application templates when the local partner and Swedish partner (if applicable) apply to start a project. The budget template contains important instructions on how a budget and accounting plan are set up, etc. When the application and budget have been approved, PMU sends a start-up package to the local partner and the Swedish partner (if applicable), containing a Letter of Confirmation, reporting templates, audit instructions, agreements and other documents to be signed.

6. Budget Follow-up

A comprehensive budget follow-up, per summary budget line, is to be carried out using both local currency and Swedish kronor (SEK). The project budget is approved in SEK and the overall budget is detailed in the project agreement. The local currency equivalent is stated in the budget and in the financial reporting template.
Changes in the exchange rate during implementation may lead to the amount paid to the project in local currency at the end of the project being different from the total amount of local currency stated in the approved budget. This is why it is important to continually follow up on the value of the local currency in relation to SEK. In the financial report template there is an green coloured area called ”FOLLOW-UP on PMU grant (for information only)” where total budget in SEK, cumulative amount in SEK and any balance in SEK is shown. In the same area the exchange gain or loss in local currency towards budget rate is shown to facilitate follow up by the local partner. For detailed instructions regarding the accounting of exchange gains and losses and management of exchange rate towards budgeted rates, see annex 5.12: PMU Guidelines for management of exchange rate differences under heading: 4. Management of exchange rates towards budgeted rates.

If, during the budget follow-up process, it is discovered that there is a risk of deviation from the approved budget, there are three alternative measures that can be taken depending on the size of the deviation: to report the deviation and explain it within the framework of the existing budget, to apply for a budget change, or to apply for a budget supplement.

Any budget requests in connection to exchange gain/loss must be sent to PMU no later than 3 month prior to the project end.

Note that if changes are made which are not in compliance with the rules set out below, the local partner may be liable to repay the funds.

6.1. Minor deviations/Redistribution of budget items

In case of minor deviations, the local partner does not need to apply for a budget change. The deviations shall, however, be commented on in the narrative report for the period in question. All budget deviations shall also be explained in the final narrative report.
The following is required for a deviation to be considered as minor deviation:

- There are no changes to the approved activities, and these are conducted fully in line with the approved project application.
- The deviation per budget line (summary level) is not more than 10%, in the currency used in the reporting of the local partner.
- The deviation is compensated for by reductions in one or more of the other budget items, so that the total budget is not affected.
- The deviation does not result in any budget item exceeding the threshold that PMU has set for certain budget items. For details, see annex 2.10: Budget template for development projects, or annex 4.6: Budget template for humanitarian projects.

If the local partner risks exceeding a budget item by over 10%, this shall be approved in advance and in writing by the responsible PMU coordinator. The coordinator decides if the deviation can be approved within the framework for the existing budget, or if the local partner shall apply for a budget change.

Please note that new detailed budget items, significant changes in the detailed budget items, or removal of detailed budget items shall be approved in advance by PMU, even if the changes do not constitute a deviation on the summary budget lines.

6.2. Larger budget changes/Budget revisions

A budget change is required in the following cases:

- The deviation in the budget results in a change in the approved project activities.
- The deviation for a budget item is greater than 10% in the currency used in the reporting by the local partner (the responsible PMU coordinator is authorised to approve a deviation greater than 10% without a budget change if the deviation does not result in significant changes. See above.)
- The deviation results in exceeding the threshold set by PMU for certain budget items. For details, see annex 2.11: Budget template for development projects, or annex 4.6: Budget template for humanitarian projects.

When a budget change is necessary, the local partner shall (after consultation with the Swedish partner where applicable) contact the responsible PMU coordinator. The coordinator sends an application template for a budget change in which the local partner fills the proposal for redistribution between budget items with an explanation of why the change is needed. The local partner will receive a written decision from PMU regarding the budget change, and if approved, a new financial reporting template with a revised and approved budget. The Swedish partner receives a copy of the decision and reporting template.

Note that a budget change does not increase the total project budget in SEK.

6.3. Budget supplement

A budget supplement is required if:

- the total project budget will be exceeded.

If the local partner has already made attempts to modify activities and expenses to fit the budget in line with the measures detailed above, and these are not sufficient, an application for a budget supplement can be made. The local partner shall then contact the responsible PMU coordinator, after consultation with the Swedish partner (if applicable). The coordinator shall send a budget change template in which the local partner fills out a suggestion for a new total budget and redistribution of the funds between the budget items, as well as motivates the need for a supplement. The budget supplement requires a contribution from the Swedish partner, where such a partner is a signatory to the project agreement. The local partner (and Swedish partner if applicable) will receive a written decision from PMU and, where the supplement is approved, a new financial reporting template and a revised and approved budget.

6.3.1 Changes on a detailed level

The rules for budget deviations and changes detailed above only apply for the summary budget level. Please note, however, that new detailed budget items, significant changes in the detailed budget items, or removal of detailed budget items shall be approved in advance by PMU, even if the changes do not constitute a deviation on the summary budget lines.

Please note that project agreements may contain other rules than those detailed here. It is therefore important to check the agreement to ensure that the appropriate rules are being followed.

7. List of Annexes

All documents and annexes needed for project management are sent to you by PMU personnel either in project/programme preparation package, project/programme start package or by request on e-mail. The annexes are not included in these guidelines, but most can be found on the PMU website www.pmu.se/en. The rest are sent as needed by the responsible PMU coordinator during the planning stage of a project, or following project approval.

8. Glossary

Some of the central terms used in these guidelines “PMU Finance and Administration Guidelines” are explained below:

Authorisation

An order of authorisation that details who in the project is to sign documents and authorise invoices, etc.

Balance sheet account

The accounts in the balance sheet (see below). The account can be under assets or liabilities.

Balance sheet

This shows the organisation’s financial position at a given time, e.g. the last day of the fiscal year. A balance sheet consists of two sides: an assets side and a liabilities side. The assets side shows the assets belonging to the organisation, i.e. liquid assets, receivables, machines or furniture and fixtures. The liabilities side contains items such as bank loans, debts to suppliers and checking credit.

Budget change

A change in the budget, which means that two or more of the budget items have been changed without affecting the overall budget.

Budget supplement

An addition of funds that increases the total budget.

Cash-on-hand

The liquid assets, in the form of cash, of an organisation or project.

Closing balance/balance carried forward

The balances on the accounts for assets and liabilities on the last day of a quarter or fiscal year. The closing balance in year one is the opening balance in year two (see opening balance below).

Compliance audit

The Compliance Audit is one of many instruments that PMU uses to make sure that projects are implemented according to entered agreements and these guidelines “PMU Finance and Administration Guidelines” (including its annexes). It is also a tool for the audited organization to develop its administrative capacity in order to be more efficient in its work. The compliance audit is conducted through interviews with relevant staff and by examining the local partner’s financial- and administrative work in practice. All questions in the compliance audit refer back to our agreements and these guidelines “PMU Finance and Administration Guidelines” (including its annexes).

Depreciation

This means that the acquisition value of equipment, furniture and fixtures, etc. are recorded as assets instead of expenses. The cost is divided over a number of years which correspond to the estimated financial lifetime of the asset.

Fiscal year/financial year

A period of time that an organisation’s accounting is divided by – usually one year.

General ledger

A systematic structuring of the organisation’s/project’s accounting into different accounts, which provides an overview of the organisation’s/project’s position and results.

Income statement

Is derived from the organisation’s accounting and summarises all of the organisation’s/project’s revenue and expenditure in a pre-determined period of time. Revenue minus expenditure yields income.

Incoming payment/cash receipt

Liquid assets that are received by the organisation/project.

Liability

The duty to fulfil a financial obligation, e.g. paying an invoice.

Liquid assets

Assets in the bank and cash-on-hand.

Opening balance/balance brought forward

The amount that is brought forward as an opening balance in the account for assets and liabilities in the balance sheet at the beginning of a new period, e.g. a quarter or a fiscal year. The balances in different accounts are brought forward from the closing balances in the balance sheet on the last day of the previous period.

Outgoing payment/cash disbursement

Liquid assets that are paid out by the organisation/project.

Profit and loss account

The accounts in the income statement. An account can be under revenues or expenditures.

Reconciliation

When, at a given time, the amounts in the bookkeeping and bank books are reconciled against the bank statement, or the money in the cash-on-hand is reconciled against the amounts in the cash ledger.

Transaction/financial event/financial transaction

A transaction that affects the organisation's/project's position, i.e. its assets and liabilities.

Voucher/supporting document

A written document, i.e. a receipt or invoice, which shows that a financial transaction has occurred. There shall be a supporting voucher or document for each financial transaction.