



TERMS OF REFERENCE

PROJECT IMPLEMENTATION UNIT- EXTERNAL AUDIT

Development Bank of Nigeria Plc.

Reference No: NG-DBN-321001-CS-CDS~~NG-DBN-219012-CS-CDS~~

~~February~~ October 2021-2022

TERMS OF REFERENCE (CONSULTING SERVICES – FIRM SELECTION)

Assignment Title: External Audit (Focused on Administration of Project Funds)

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I. BACKGROUND

The World Bank-funded US\$500 million Development Finance Project supports the establishment of the Development Bank of Nigeria (DBN), a wholesale development finance institution licensed and supervised by the Central Bank of Nigeria, with the objective of addressing the access to finance gaps of underserved Micro, Small and Medium Enterprises (MSMEs) in Nigeria. The DBN provides private sector lenders with longer term financing in local currency and partial credit guarantees (through its wholly-owned subsidiary - Impact Credit Guarantee Company – “IMPACT”), to expand their outreach to MSMEs. With business and governance models based on internationally recognized good practice and substantial commitment of capital, the DBN is to perform a catalytic role with potentially transformational impact by facilitating financially sustainable and transparent access to finance for underserved MSMEs.

In addition to the World Bank, the DBN is also being supported by funding provided by other development partners, namely: the African Development Bank, the German Development Bank (KfW), the French Development Agency (AFD) and the European Investment Bank (EIB). Together with the World Bank, these partner institutions are providing contributions in the form of debt, equity, and technical assistance for a combined value of over US\$1.3 billion.

The proposed Development Finance Project loan of US\$500 million, will fund the four components of the project, one of which includes the Technical Assistance and Capacity Building Component (Component I) in the amount of US\$12 million. The component relates to the provision of tailored Technical Assistance to the DBN and Participating Financial institutions (PFIs), provided by qualified external providers.

The Project Implementation Unit (PIU) set up in the DBN is responsible for the implementation of Technical Assistance and Capacity Building Component. The World Bank requires that the project funds managed by the PIU will be audited each year by an independent external auditor, appointed based on terms of reference acceptable to the International Bank for Reconstruction and Development (IBRD). The auditor is required to audit the use of funds under Component I of the project and certify the financial statements for the project, expressing an opinion on the annual financial statements in compliance with International Standards on Auditing (ISA).

The consultant shall be engaged for a period of two years, to conduct financial year end audits for the following periods: (i) January 1, ~~2020-2022~~ to December 31, ~~2020/2022~~; (ii) January 1, ~~2021-2023~~ to ~~December-September~~~~June~~ 31/30, 2021/2023.

2. OBJECTIVE OF THE PROJECT AUDIT

The objective for auditing the Project Financial Statements (PFSs) is to enable the auditor to express a professional opinion(s) on the financial position of the project at the end of each fiscal year, and on funds received and expenditures incurred for the relevant accounting periods.

The project books of accounts provide the basis for preparation of the PFSs by DBN and are established to reflect the financial transactions in respect to the project. DBN maintains adequate internal controls and supporting documents for transactions.

3. PREPARATION OF ANNUAL FINANCIAL STATEMENTS

The responsibility for the preparation of financial statements including adequate disclosure is that of DBN. DBN is also responsible for the selection and application of accounting policies and would prepare the PFSs in accordance with relevant International Public Sector Accounting Standards (IPSAS).

The auditor is responsible for forming and expressing opinions on the financial statements. The auditor would carry out the audit of the project in accordance with the International Standards on Auditing (ISA), as promulgated by the International Federation of Accountants (IFAC). As part of the audit process, the auditor may request from the DBN, written confirmation concerning representations made in connection with the audit.

4. SCOPE OF THE AUDIT

As stated above, the audit of the project, which shall cover a period of two financial years: (i) January 1, ~~2020-2022~~ to December 31, ~~2020-2022~~; and (ii) January 1, ~~2021-2023~~ to ~~December~~ ~~September~~~~June~~ ~~31-30~~, ~~2021-2023~~; will be carried out in accordance with International Standards on Auditing (ISA) promulgated by the International Federation of Accountants (IFAC) and will include such tests and auditing procedures as the auditor will consider necessary under the circumstances. Special attention should be paid by the auditor as to whether:

- a) World Bank financing under Component I has been used in accordance with the conditions of the relevant financing agreement, with due attention to economy and efficiency, and only for the purposes for which the financing was provided. Relevant financing agreements are as contained in the Loan Agreement document IDA Credit/Grant No 8441-NG, Project ID PI46319.
- b) Counterpart funds have been provided and used in accordance with the relevant financing agreements, with due attention to economy and efficiency, and only for the purposes for which they were provided.
- c) Goods, works, and services financed have been procured in accordance with the relevant financing agreements including specific provisions of the World Bank Procurement Policies and Procedures
- d) Training/workshops/study tour expenditures, where incurred, have followed the established policy and there is value for money.

- e) All necessary supporting documents, records, and accounts have been maintained in respect of all project activities, including expenditures reported using Statements of Expenditure (SOE) or Interim Unaudited Financial Statements (IFS) methods of reporting. The auditor is expected to verify that respective reports issued during the period agreed with the underlying books of account.
- f) Designated Accounts (if used) have been maintained in accordance with the provisions of the relevant financing agreements and funds disbursed out of the Accounts were used only for the purpose intended in the financing agreement.
- g) National laws and regulations have been complied with, and that the financial and accounting procedures approved for the project (e.g., operational manual, financial procedures manual, etc.) were followed and used.
- h) Financial performance of the project is satisfactory.
- i) Assets procured from project funds exist and there is verifiable ownership by DBN or beneficiaries in line with the financing agreement.
- j) Ineligible expenditures included in withdrawal applications are identified and reimbursed to the Designated Accounts. These should be separately noted in the audit report.

In complying with International Standards on Auditing, the auditor is expected to pay particular attention to the following matters:

- a) **Fraud and Corruption:** Consider the risks of material misstatements in the financial statements due to fraud as required by ISA 240: The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements. The auditor is required to identify and assess these risks (of material misstatement of the financial statements) due to fraud, obtain sufficient appropriate audit evidence about the assessed risks; and respond appropriately to identified or suspected fraud.
- b) **Laws and Regulations:** In designing and performing audit procedures, evaluating and reporting the results, consider that noncompliance by the implementing agency with laws and regulations may materially affect the financial statements as required by ISA 250: Consideration of Laws and Regulations in an Audit of Financial Statements;
- c) **Governance:** Communicate audit matters of governance interest arising from the audit of financial statements with those charged with governance of an entity as required by International Standards on Auditing 260: Communication of Audit Matters with those Charged with Governance.
- d) **Risks:** To reduce audit risk to an acceptable low level, determine the overall responses to assessed risks at the financial statement level, and design and perform further audit procedures to respond to assessed risks at the assertion level as required by Internal Standard on Auditing 330: The Auditor's Procedures in Response to Assessed Risks.

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5. PROJECT FINANCIAL STATEMENTS (PFSs)

The auditor should verify that the project PFSs have been prepared in accordance with the agreed accounting standards (see paragraph 3 above) and give a true and fair view of the financial position of the project at the relevant date and of resources and expenditures for the ~~2020-2022 and 2023 financial year and 2021-2022 financial year~~ ended December 31, ~~2020-2022~~ and ~~project ending date of December-September-June 30, 2021-2023~~, respectively.

The Project Financial Statements (PFSs) should include:

- a) A statement of funds received, showing funds from the World Bank and of expenditures incurred.
- b) A summary of the activity in the Designated Account.
- c) A Balance Sheet (if deemed necessary).
- d) A Summary of the principal accounting policies that have been adopted, and other explanatory notes.
- e) A list of material assets acquired or procured to date with project funds.

As an Annex to the PFSs, the auditor should prepare a reconciliation of the amounts as “received by the Project from the World Bank”, with those shown as being disbursed by the Bank.

6. STATEMENT OF EXPENDITURES (SOEs) / UNAUDITED INTERIM FINANCIAL REPORTS (IFRs)

In addition to the audit of the PFSs, the auditor is required to verify all SOEs or IFRs used as a basis for the submission of loan withdrawal applications to the World Bank. The auditor will apply such tests and auditing procedures as considered necessary under the circumstances. Annexed to the PFSs should be a schedule listing individual SOE or IFR withdrawal applications by specific reference number and amount.

The total withdrawals under the SOE or IFR procedures should be part of the overall reconciliation of Bank disbursements described in paragraph 5 above.

7. DESIGNATED ACCOUNT

In conjunction with the audit of the Project PFSs, the auditor is also required to review the activities of the Designated Account associated with the project. The Designated Account usually comprises:

- Advance deposits received from World Bank.
- Replenishments substantiated by withdrawal applications.

- Interest that may have been earned on the accounts, and which belong to the recipient; and
- Withdrawals related to project expenditures

The auditor should pay particular attention as to the compliance with the World Bank's procedures and the balances of the Designated Accounts at the end of the fiscal year (or period). The auditor should examine the eligibility of financial transactions during the period under examination and fund balances at the end of such a period, the operation and use of the Designated Accounts in accordance with the relevant general conditions, relevant financing agreements and disbursement letter, and the adequacy of internal controls for this type of disbursement mechanism.

For this Project, the Designated Accounts are referred to in the Disbursement Letter (paragraph 2). The auditor is also referred to the Loan Agreement (section IIB)) provided along with this TOR.

The auditor should also examine eligibility and correctness of:

- Financial transactions during the period under review.
- Account balances at the end of such a period.
- The operation and use of the Designated Account in accordance with the financing agreement; and
- The adequacy of internal controls for the type of disbursement mechanism.

8. AUDITORS EXPERIENCE AND QUALIFICATIONS

The audit firm should be registered as authorized to practice in Nigeria and have partners with practice licenses from a national professional accountancy body with IFAC membership. The firm should have relevant experience in accounting and auditing of development projects, especially donor-funded operations.

8.0 DELIVERABLES

The deliverables under this task include Audit Report and Management Letters as further specified below.

8.1 AUDIT REPORT

The auditor will issue an opinion on the project financial statements (PFSs). The annual audit report of the project accounts should include a separate paragraph highlighting key internal control weaknesses and non-compliance with key internal control weaknesses and non-compliance with the financing agreement terms.

The auditor will in addition, provide special opinion on the expenditures incurred on training/workshop/study tour, identifying any expenditure that is considered ineligible, based on established policy:

<i>Special Opinion</i>	<i>Rationale</i>
<i>Use of Funds by project and non-project staff for travel/training/workshops/study tour.</i>	<i>FM supervision of World Bank funded projects points to risks resulting from systemic non-compliance with policy on retirement of travel advances and doubtful value for money on travel/training/workshops/study tour expenditures. The assessed risk under this category is rated high.</i>

8.2 MANAGEMENT LETTERS

In addition to the audit report, the auditor will prepare a management letter, in which the auditor will:

- a) Give comments and observations on the accounting records, systems and controls that were examined during the audit.
- b) Identify specific deficiencies or areas of weakness in systems and controls and make recommendations for their improvement.
- c) Report on the degree of compliance of each of the financial covenants in the financing agreement and give comments, if any, on internal and external matters affecting such compliance.
- d) Communicate matters that have come to his/her attention during the audit which might have a significant impact on the implementation of the project.
- e) Give comments on the extent to which outstanding issues/qualifications issues have been addressed.
- f) Give comments on previous audits' recommendations that have not been satisfactorily implemented; and
- g) Bring to the recipient's attention any other matters that the auditor considers pertinent, including ineligible expenditures.
- h) Ideally, the management letter should also include responses from DBN to the issues highlighted by the auditor.

9. AVAILABLE INFORMATION

The auditor would have access to all legal documents, correspondences, and any other information associated with the project and deemed necessary by the auditor. The auditor will also obtain confirmation of amounts disbursed and outstanding at the Bank. Available information

should include copies of the relevant: project appraisal document; financing agreement; financial management assessment reports; supervision mission reports and implementation status reports.

10. GENERAL

The financial statements, including the audit report, management letter and management response should be received by the World Bank no later than four months after the end of the accounting year to which the audit relates.

The auditor should submit the report to the Chief Financial Officer of DBN, who should then promptly forward two copies of the audit report and accompanying statements to the World Bank together with the management letter and management response.

It is highly desirable that the auditor becomes familiar with the World Bank's Guidelines on Annual Financial Reporting for World Bank-Financed Activities, June 30, 2003, which summarizes the Bank's financial reporting and auditing requirements. The auditor should be familiar with World Bank Procurement Guidelines, which can be obtained from the DBN. The auditor should also be familiar with the Bank's Disbursement Handbook for World Bank Clients, Disbursement Guidelines for Projects: May 2006. These documents are available on the World Bank's website and could be obtained from the Task Team Leader.