NATIONAL SOCIAL SAFETY NET COORDINATING OFFICE

Terms of Reference

Engagement of an External Firm to Conduct the Annual Financial Audit of the National Social Safety Nets Project

1. BACKGROUND

The Government of Nigeria has prioritized social protection interventions as a key strategy towards reducing poverty and socio-economic vulnerabilities in the country and has partnered with the World Bank under a National Social Safety Nets Project (NASSP) to expand the development of safety nets to poor and vulnerable populations.

The Project Development Objective (PDO) is to provide access to targeted transfers to poor and vulnerable households under an expanded national social safety nets system. NASSP involves two components: (i) establishing systems for social safety nets that would serve as a robust platform for effectively targeting and delivering social assistance; and (ii) implementing cash transfers to targeted poor and vulnerable households. The program has national coverage, with all states eligible to participate.

To operationalize NASSP, the Government established the National Social Safety Net Coordinating Office (NASSCO), under the supervision of the Federal Ministry of Humanitarian Affairs, Disaster Management and Social Development (FMHDSD); to consolidate existing social safety net programs at the Federal level and build the National Social Register (NSR), a database of poor and vulnerable households (PVHHs), which will be used across the country's different safety net programs, irrespective of funding source or targeted beneficiary group. Different stakeholders, such as governments, development partners, and or civil society will be able to use the systems for delivering social assistance programs in Nigeria.

1.1. Implementation Arrangement

The implementation of NASSP involves several key organizations and stakeholders:

- **National Social Safety Nets Coordinating Office (NASSCO)**: The aim and mandate of NASSCO, being established at the Federal level, is to coordinate all Government programs in the sector, supporting a national system for efficient social safety nets coordination and response.

- **National Cash Transfer Office (NCTO)**: The NCTO, being established at the Federal level, reports to NASSCO, and has the overall management responsibility for the targeted cash transfer.

- **State Operations Coordination Unit (SOCU)**: Each State participating in NASSP has a SOCU. The SOCU is housed in the State office for Budget and Planning. The SOCU is responsible for establishing and managing the State-level social registry, M&E/MIS, and reporting progress to NASSCO.

- **State Cash Transfer Unit (SCTU)**: Each State participating in NASSP has set up a State Cash Transfer Unit (SCTU) separate from the SOCU. The residence of the SCTU will vary from State to State, depending on the State's set-up, but likely residence of the SCTU includes the Ministry of Agriculture, Social Development, and Women Affairs. The SCTU will have close links with NCTO which will monitor that activities are carried out according to plans and standards.

Establishment and sustainability of this project aims to lay the foundation for the Federal Government's long-term objective of effectively targeting and delivering a wide range of future safety nets interventions directly to the poor and vulnerable households in a more efficient and effective way.

2. RATIONALE

This Statutory Audit of NASSP as captured in the relevant extant deeds are annual and have so been executed hitherto by the Office of the Auditor General of the Federation. Following the mutual understanding between the OAuGF and the World Bank, this function is to be carried on by a private firm. NASSCO hereby seeks to engage an external audit firm to conduct the annual base on this Terms of Reference (TOR)

3. OBJECTIVE OF THE PROJECT AUDIT

The objective of the audit of 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 period.

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

4. PREPARATION OF ANNUAL FINANCIAL STATEMENTS

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

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 implementing agency written confirmation concerning representations made in connection with the audit

5. SCOPE OF THE AUDIT

The tenure of this Audit shall, in line with extant arrangements be for one financial year and shall cover the fiscal year of 2020, which shall cover the period from 1st January to December 31, 2020, and will be carried out within thirty (30) days in accordance with International Standards on Auditing (ISA) promulgated by the International Federation of Accountants (IFAC).

The audit exercise 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 the:

(a) World Bank financing and Abacha Loot Recovered 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 – please see the World Bank and Swiss Government financing agreements on the utilization of the funds

(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 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 the implementing agency 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.

4.1. Project Financial Statements (PFSs)

The auditor should verify that the project PFSs have been prepared in accordance with the agreed accounting standards 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 financial year ended on that date.

The Project Financial Statements (PFSs) should include:

(a) A statement of funds received, showing funds from the World Bank, project funds from other donors and counterpart funds separately, and of expenditures incurred.

(b) A summary of the activity in the Designated Account.

(c) A Balance Sheet.

(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.

4.2. 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.

4.3. Designated Account

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 recipient; and
- Withdrawals related to project expenditures

The auditor should pay particular attention as to the compliance with the Bank's procedures and the balances of the Designated Accounts at the end of the fiscal year. 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 DAs 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 general conditions, the Financing Agreement (subsection 5.3) and Disbursement Letter (para. I).

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.

6. AUDITORS EXPERIENCE AND QUALIFICATIONS

The audit firm should be registered as authorized to practice in Nigeria with a minimum of 10 years experience; 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.

7. DELIVERABLES

6.1. 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:

Special Opinion	Rationale
Use of Funds by project and non-project staff for travel/training/workshops/study tour.	FM supervision points to 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.

6.2. Management Letters

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 course of 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 the implementing agency to the issues highlighted by the auditor.

8. GENERAL

The auditor should 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.

The financial statements, including the audit report, management letter and management response should be received by the Bank no later than Six (6) months after the end of the accounting year to which the audit relates.

The auditor should submit the report to the recipient's designated agent rather than to any staff member of the project entity. The agent should then promptly forward two copies of the audit report and accompanying statements to the Bank together with the management letter and management response.

It is highly desirable that the auditor becomes familiar with the 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 project implementing agency. 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 Bank's website and could be obtained from the Task Team Leader.