



**TERMS OF REFERENCE**  
**FOR**  
**EXTERNAL**  
**FINANCIAL AUDITOR**

**Reaching Out-of-School Children  
Project in Kaduna State**

**(NGA – 1039)**

August 2024

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**1.0 Project Background**

- 1.1. Kaduna State faces a significant challenge with a disproportionately high number of Out-of-School Children (OOSC), including children living with disability, girls, and adolescents. This issue is a major constraint to inclusive development, socio-economic well-being, peace, and security. Approximately 524,670 children aged 6–11 years (22%) are out of school, with girls accounting for 242,100 (46%) of this population.
- 1.2. To address this gap, the Government of Kaduna State has secured financing (Grant and concessional Loan) totaling USD 62.80 million from the Islamic Solidarity Funds for Development (ISFD) through the Islamic Development Bank (IsDB), Kuwait Fund for Arab Economic Development (KFAED), Global Partnership for Education (GPE), and Education Above All (EAA). Kaduna State has also allocated its counterpart share. These funds will support the implementation of the Reaching Out-of-School Children (ROOSC) Project across the 23 Local Government Areas (LGAs) of Kaduna.
- 1.3. The project was approved in February 2023, and the financing agreements for the ISFD loan and Technical Assistance (TA) Grant from GPE were signed in May 2023. The project became effective in April 2024 and will be implemented over four (4) years from the first disbursement date.
- 1.4. The Kaduna State Ministry of Education is the Executing Agency. It is entrusted with the execution and supervision of the implementation of the project through a Project Management Unit (“PMU”) located within the Kaduna State Ministry of Education. The financing's legally binding terms and conditions are in the Financing Agreement dated 28th March 2024, which may be amplified by supplemental letters and /or an amendment. The Project Appraisal Document (PAD) Report of 2020 is also a useful source of information, although it is not legally binding.

**2.0 Context**

- 2.1 The project funds relating to the support to the PMU under the ISFD Loan agreement will be disbursed through a dedicated Special Account to be opened with an acceptable Bank in Nigeria, for the running costs, and other relevant small expenses relating to the PMU including their salaries. The replenishment of the Special Account shall be by the related IsDB guidelines. The Executing Agency has to ensure that an External Financial Auditor is appointed to provide an annual audit report to the satisfaction of IsDB.
- 2.2. According to the ISFD Loan Financing Agreement, the Executing Agency of the Project is required to maintain a financial management system, including records and accounts, and prepare financial statements for the project in a format acceptable to the Islamic

Development Bank and adequate to reflect the operations, resources, and expenditures related to the Project. Also, the Executing Agency shall maintain records and supporting documents for all expenditures concerning which withdrawals from the financing were made (the records should reflect all categories of withdrawals SOEs, direct payments).

- 2.3 The Project Financial Statements (“PFS”) are comprised of (i) the Project balance sheet at the fiscal year closing date (ii) the Statement of funds receipts and expenditures incurred on the Project for the year then ending (iii) Reconciliation statement for the balance of the Project’s Account as of year-end. For procurements of goods, works, and services to the Project, the Governing Body is required to comply with the Islamic Development Bank’s Procurement Guidelines.
- 2.4 The Financing Agreement requires that the records, accounts, and financial statements mentioned above for each fiscal year be audited, by auditing standards acceptable to the Bank, consistently applied, by independent auditors acceptable to the Bank. Audited PFS along with its Auditor’s report should be submitted to the Islamic Development Bank as soon they become available but not later than six months after the end of the fiscal year. In fulfillment of this statutory (or Financing Agreement) requirement, the Governing Body should engage a qualified independent audit firm according to terms of reference and scope of work acceptable to the Islamic Development Bank, as summarized below.

### **3.0 Objective**

- 3.1 The primary objective of the audit engagement is to enable the auditor to express a professional opinion as to whether (i) the Project Financial Statements (PFS) show a true and fair view of the Project’s financial position as of *31/12/24, 31/12/25, 31/12/26, and 31/12/27* and funds receipts and expenditures incurred during the period then-ending. (ii) Expenditures reimbursed based on Statements of Expenditures are eligible for Bank financing and are reflected on the PFS, and for this purpose, the auditor shall carry out whatever necessary examinations of the statements and underlying records and control systems. The Audit opinion should also state whether the Procurement Guidelines of the Islamic Development Bank have been properly applied and by the Project's Financing Agreement.

### **4.0 Scope**

- 4.1 The audit subject of this Terms of Reference is considered a special purpose contractual agreement audit for which, in addition to compliance with international standards as explained below, the auditor needs to take into consideration the Islamic Development reporting requirements and compliance with Islamic Development Procurement Guidelines.
- 4.2 The audit will be carried out by Generally Accepted Auditing Standards (GAAS) such as the International Standards on Auditing (IAS) issued by the International Federation of Accountants (IFCA) or the Audit Standards issued by the International Organization of

Supreme Audit Institutions (INTOSAI), having regard to relevant financing agreements and Islamic Development Bank's particular requirements, and should pay special attention to the following:

- a) All funds provided to the Project have been used, accounted for, and classified by the relevant financing agreements.
- b) All the transactions related to the project are reflected in the PFS issued according to Generally Accepted Accounting Policies.
- c) Goods, works and services financed have been procured by the relevant financing agreement.
- d) All necessary copies of supporting documents, records, and accounts have been kept in respect of all projects. Clear linkages should exist between the books of account and reports presented to the Bank.
- e) Compliance with specific covenants of the Financing Agreement, {*Project Agreement and Subsidiary Financing Agreement*} (e.g., compliance with the short-term and long-term borrowing conditions, cash flow covenant).
- f) Eligibility of expenditures claimed under Statement of Expenditures submitted to the Islamic Development Bank for replenishment. This is in addition to the substantiation of these expenditures.
- g) Special accounts have been maintained by the provisions of the loan agreement and by the Bank's disbursement rules and procedures.
- h) External funds have been used by the conditions of the relevant financing agreements, with due attention to economy and efficiency, and only for the purposes for which the financing was provided.
- i) The project's fixed assets are real and properly evaluated and project property rights or related beneficiaries' rights are established by loan conditions.
- j) Counterpart funds have been provided and used by the relevant financing agreements, and only for the purposes for which they were provided.
- k) The PFS have been prepared by generally accepted accounting principles and practices, and give a true and fair view of the financial position of the Project as of {31/12/24, 31/12/25, 31/12/26, and 31/12/27} and of the resources and expenditures for the fiscal year then ending.
- l) The auditor will be expected to review all correspondences with the Islamic Development Bank about the Project including copies of the Aide Memoires, and Mission Reports, and assess progress on all financial issues. The auditor will pay special attention to any specific risk area as mentioned in the project documents (such as PAD, etc.)

## **5.0 Project Financial Statements (PFSs)**

- 5.1 The auditor should verify that the project PFSs have been prepared by 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 financial year ended on that date.
- 5.2 The Project Financial Statements (PFSs) should include:
- a) A statement of funds received, showing funds from the Islamic Development Bank, project funds from other donors and counterpart funds separately, and 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
- 5.3 As an annex to the PFSs, the auditor should prepare a reconciliation of the amounts as “received by the project from the Islamic Development Bank”, with those shown as being disbursed by the Bank.

## **6.0 Statement of Expenditures (SOEs)/ Unaudited Interim Financial Reports (IFRs)**

- 6.1 In addition to the audit of the PFSs, the auditor is required to verify all SOEs or IFRs used as the basis for the submission of loan withdrawal applications to the Islamic Development 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.
- 6.2 The total withdrawals under the SOE or IFR procedures should be part of the overall reconciliation of Bank disbursements.

## **7.0 Special (Designated) Account**

- 7.1 In conjunction with the audit of the project PFSs, the auditor is also required to review the activities of the designated accounts associated with the project. The Special Account usually comprises:
- a) Advance deposits received from the Islamic Development Bank
  - b) Replenishments substantiated by withdrawal applications
  - c) Interest that may have been earned on the accounts, and which belong to the recipient
  - d) Withdrawals related to project expenditures

- 7.2 The auditor should pay particular attention to compliance with the 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 DAs by the relevant general conditions, relevant financing agreements and disbursement letter, and the adequacy of internal controls for this type of disbursement mechanism.
- 7.3 For this project, the designated Accounts are referred to in the general conditions, the Financing Agreement, and the disbursement letter
- 7.4 The auditor should also examine the eligibility and correctness of:
- a) Financial transactions during the period under review
  - b) Account balances at the end of such a period
  - c) The operation and use of the designated Account by the financing agreement
  - d) The adequacy of internal controls for the type of disbursement mechanism

## **8.0 Auditors Experience and Qualifications**

- 8.1 The audit firm should be registered as authorized to practice in Nigeria and have partnered 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.

### **8.1.1 Qualifications and experience of key Audit Personnel**

The key Audit personnel will consist of the **Team Lead, Senior Auditor, and Auditor.**

### **8.1.2 Required qualifications and experience of the Team Lead**

The Senior Auditor as a Team Lead must be a graduate of a recognized university and should possess the following experiences

- a) Accounting Specialist holding a bachelor's degree with at least 10 years of experience in Auditing, Accounting, and Financial Management
- b) Demonstration of two such assignments carried out in donor-funded projects over the last 2 years
- c) ACCA, ACA, CMA, APA qualification
- d) Proficiency in using accordance software and computer business desktop applications (MS Word, Excel, e.g.,)
- e) Experience with Sage 50 (Peachtree) QuickBooks or similar accounting software will be an asset

- f) Strong interpersonal skills, demonstrated team leadership qualities, and excellent oral communication skills
- g) Fluency in written and spoken English

### **8.1.3 Required qualification and experience of the Senior Auditor**

The Associate must be a Graduate in Finance, Accounting, Economics, or related field from a recognized university with at least 5 years of post-qualification experience and should possess the following additional experience.

- a) Demonstration of two such assignments carried out in donor-funded projects over the last 2 years
- b) ACCA, ACA, CMA, APA qualification
- c) Proficiency in using accordance software and computer business desktop applications (MS Word, Excel, e.g.,)
- d) Experience with Sage 50 (Peachtree) QuickBooks or similar accounting software will be an asset
- e) Strong interpersonal skills, demonstrated team leadership qualities, and excellent oral communication skill
- f) Fluency in written and spoken English

### **8.1.4 Required qualification and experience of the Auditor**

The Auditor must be a Graduate in Finance, Accounting, or related field from a recognized university with at least 5 years of post-qualification experience and should possess the following additional experience.

- a) Proficiency in using accordance software and computer business desktop applications (MS Word, Excel. Etc.)
- b) ACCA, ACA, CMA, CPA qualification
- c) Experience with Sage 50 (Peachtree) or Quick or similar accounting software will be an asset
- d) Strong interpersonal skills, demonstrated team leadership qualities, and excellent oral communication skills
- e) Fluency in written and spoken English

## **9.0 Selection Method**

A consultant will be selected through the **National Shortlist** by the **Least Cost Selection** (LCS) method set out in the Procurement Regulations/Guidelines.

## 10.0 Reporting Obligations/ Deliverables

There are two main deliverables of the audit engagement:

### 10.1 Audit report:

Which shall include:

- a) An opinion as to whether the project financial statements (PFS) and the supplementary financial information present fairly, in all material respects, the financial position of the project, the funds received, and the disbursements made during the period audited, as well as the cumulative disbursements at the end of the period, by the international accounting standards (as referred in section IV) and the requirements of the respective agreement(s) with the Islamic Development Bank.
- b) An opinion as to whether the expenditures reported are eligible for financing, and whether the funds have been used only for the project.
- c) An opinion concerning the Executing Agency's compliance with the covenants of the financing agreements and the applicable laws and regulations.
- d) An opinion as to whether the Special Accounts (if any) used for managing the funds provided by the Bank presents fairly the availability of funds at the end of the period audited, as well as the transactions made during the same period, by the provisions for the use of the funds established in the corresponding agreements with the Bank.
- e) An assessment concerning the adequacy of internal control mechanisms of the project performed by the Executing Agency (EA) and the Project Management Unit (PMU).
- f) An assessment concerning whether counterparts' (Co-financiers') funds have been provided and used by the relevant financing agreements, and only for the purposes for which they were provided.

The Auditors should take into account relevant statutory and other mandatory disclosures and accounting requirements stipulated in the Financing Agreement and express in the report any relevant exception and the impact of the exception on the PFS.

### 10.2 Management letter

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

- i. Give comments and observations on the accounting records, systems, and controls that were examined during the audit.
- ii. Identify specific deficiencies or areas of weakness in systems and controls and make recommendations for their improvement.



- iii. 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.
- iv. Communicate matters that have come to his/her attention during the audit which might have a significant impact on the implementation of the project.
- v. Give comments on the extent to which understanding issues/qualifications issues have been addressed.
- vi. Give comments on previous audits' recommendations that have not been satisfactorily implemented; and
- vii. Bring to the recipient's attention any other matters that the auditor considers pertinent, including ineligible expenditures.

Ideally, the management letter should also include responses from the implementing agency to the issues highlighted by the auditor.

### **11.0 Remuneration**

The remuneration of the consultant is attractive and commensurate with those offered by international bodies for similar assignments.

### **12.0 Schedule of Payments**

The schedule of payments is specified below:

- i). 25% of the total contract sum upon the Client's receipt & approval of the 1<sup>st</sup> Annual Audit Report..
- ii) 25% of the total contract sum upon the Client's receipt & approval of the 2<sup>nd</sup> Annual Audit Report
- iii) 25% of the total contract sum upon the Client's receipt & approval of the 3<sup>rd</sup> Annual Audit Report
- iv) 25% of the total contract sum upon the Client's receipt & approval of the 4<sup>th</sup> Annual Audit Report

### **13.0 Client's Obligation**

The client is to provide the following facilities:

- a) The Auditors shall have rights of access to the books, accounts, vouchers, Financing Agreement, Project Agreement, and related Supplemental Letters, Project Appraisal Document, correspondence, and all other documents about the Project and to such information and explanations as auditors consider necessary to perform their duties and fulfill their responsibilities.

- b) In addition, the auditors will be provided with copies of the Islamic Development Bank's relevant publications that the governing body has to recognize, including the Islamic Development Bank's "*Procurement Guidelines*".
- c) In turn, on occasions the Islamic Development Bank's representatives may wish to meet with Projects' auditors, in connection with a visit to the auditor's office, review of the audit working papers files and discussion of the work performed and conclusion reached by the auditors. The Auditor should not limit access in any way and must reply to all inquiries raised by the Islamic Development Bank's representative. Failure to comply with this provision may disqualify the auditors from dealing with all projects funded or administered by the Islamic Development Bank. Formal discussion should normally be arranged through the Project's designated office holder or representative. The Islamic Development Bank will have this exclusive right during the performance of the audit and within two years after completion of the audit engagement.
- d) Office accommodation, Office equipment, furniture, and ICT facilities.
- e) Relevant available published information.

#### **14.0 Conduct of the Consultant**

- a) The Consultant will, at all times, be expected to carry out the assignment with the highest degree of professionalism and integrity. The Consultant will be expected to conduct his duties openly and transparently.
- b) The Consultant will not, under any circumstance, take any actions or be seen to be taking any actions, which may hinder or prevent the State Ministry of Education, Kaduna from executing this assignment.
- c) The Consultant will study all State Ministry of Education, Kaduna guidelines and policies, and will be expected to ensure that the assignment is concluded with the strictest adherence to all such policies and regulations.
- d) The Consultant will not, under any circumstances, take any material decision pertinent to this assignment without the express permission and written consent Project Coordinator or of an authorized representative of the State Ministry of Education, Kaduna.
- e) The Consultant will not, under any circumstances, discuss, divulge, or use any information regarding this assignment or any other transaction conducted without the express written permission of an authorized representative of the State Ministry of Education, Kaduna.
- f) The consultant must not have a conflicting assignment with government agencies, development partners, etc. if a conflict of interest is discovered, the contract shall be terminated.
- g) The consultant must avoid all potential conflict of interest situations.

- h) The Auditor will be requested to attend the meeting of the Executing Agency to which the Project's annual reports and financial statements of account are presented. The Auditor will receive all notices and other communications relating to that meeting which any member of the Executing Agency is entitled to receive. The Auditor will discuss the audit report and management report and any part of the business that concerns the auditor.
- i) If there are serious shortcomings on the part of the Auditor, the Governing Body, after consultation with the Islamic Development Bank, may pass a resolution to remove the Auditors before the expiry of their assignment.
- j) There is no limitation of the auditors' liability in respect of audit opinions given under this assignment. The Project's Executing Agency will not agree to any such restriction in liability.
- k) The responsibility for the preparation of financial statements including adequate disclosure is that of the management of the State Ministry of Education, Kaduna. This includes the maintenance of adequate accounting records and internal controls, the selection and application of accounting policies, and the safeguarding of the assets of the entity. As part of the audit process, the auditor will request from management written confirmation concerning representations made to the auditor in connection with the audit.
- l) The Executing Agency is responsible for ensuring the establishment and maintenance of an adequate system of internal control. It is also responsible for ensuring compliance with statutory and other regulations and for the prevention and detection of irregularities, including fraud. Although the Auditors are not required to search specifically for such matters, the audit shall be planned and conducted so that the Auditors have a reasonable expectation of detecting material misstatements in the accounts resulting from irregularities, including fraud, or breach of regulations.
- m) The Auditors will report in writing any serious weaknesses, fraud, irregularities, or accounting breakdowns that they come across in the normal course of their duties to the designated office holder, Executing Agency, and the Islamic Development Bank without delay.

## **15.0 Duration**

The services of the auditor shall be for a period of 4 years starting from 2024 (contract signing date) to 2027. The auditor is expected to commence the audit by October 2024 or sign the contract agreement whichever is earlier.