



Office of The
Accountant General
of The Federation

Generic Project Financial Manual For Donor Funded Projects In Nigeria

Prepared By The Office of the Accountant-General
of the Federation (FPFMD)

Supported By:



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THE WORLD BANK

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HIS EXCELLENCY
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PRESIDENT, COMMANDER-IN-CHIEF OF THE ARMED FORCES
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WALE EDUN
THE HONOURABLE MINISTER OF FINANCE AND
CO-ORDINATING MINISTER OF THE ECONOMY
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Forward

The Federal Project Financial Management Department (FPFMD/PFMU) was borne out of a need by the Office of the Accountant General of the Federation (OAGF) to render specialized Accounting and Financial Management Services for all donor funded projects at the Federal level, which commenced operation from 1st May, 2010 and later transformed into a department in year 2014.

It is with delight therefore that we look at the achievements of the FPFMD/PFMU from 2010 in this handbook. Beyond being just a handbook, this report is a testament of the far-reaching impact that can be made within a short time through resilience and dedication to duty. The department has recorded remarkable results.

I would like to humbly state that, under my leadership the FPFMD/PFMU teams deployed their most important assets, expertise, passion, commitment and teamwork to turn challenges into opportunities.

On this note, I wish to share these wins with the World Bank, Africa Development Bank, other Donor Agencies and Government key stakeholders who have tirelessly contributed to making these achievements possible for the FPFMD/PFMU.

Thank you.



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Preface

Welcome to the Handbook on Financial Management of Federal Projects, a comprehensive guide designed to navigate the intricate landscape of Federal Project Financial Management Department (FPFMD/PFMU) within Office of the Accountant-General of the Federation (OAGF). In an era defined by evolving regulatory frameworks, and unprecedented technological advancements, the role of FPFMD/PFMU has become increasingly pivotal in driving sustainable success for Federal Projects.



Abdulkarim Ibrahim Ozi
Director, Federal Project Financial
Management Department

This handbook is crafted with the intention of serving as an indispensable guide for Financial Management of all Donor Funded Projects in MDAs of Federal Government. The handbook will provide valuable insights, practical steps, and a holistic understanding of the operations of FPFMD/PFMU.

In the following pages, you will find a rich tapestry of knowledge that encompasses the core mandate of FPFMD/PFMU, Evaluation Process of Financial Management Staff and their Deployment, and best practices essential for effective financial management. From financial planning and opening of Accounts with the Central Bank of Nigeria, enrolment of role players and necessary Financial Records to be kept by Projects.

May this handbook empower you with the knowledge and skills needed to navigate the financial management of Donor funded Projects successfully. We invite you to delve into its pages, explore the insights within, and embark on a journey of continuous learning and professional growth.

Happy reading!

A. HISTORICAL DEVELOPMENT OF FPFMD/PFMU

- 1a** The Federal Project Financial Management Division (FPFMD/PFMU) was established in the Office Accountant General of the Federation (OAGF) following the approval of the Honorable Minister of Finance. FPFMD/PFMU became effective on May 1, 2010, with the objectives of aligning and integrating the financial management of World Bank assisted projects into Nigeria's Public Financial Management System and hosting all financial management functions and designated account management for all World Bank financed projects implemented at the Federal Ministries, Departments, and Agencies (MDAs). In 2014, FPFMD/PFMU was upgraded from a Division to a Department in the Office Accountant General of the Federation.
- 1b** Prior to the establishment of FPFMD/PFMU, international credits, loans, grants, and aid were not captured in the Annual Budgets, neither were expenditures incurred from them reflected in the General- Purpose Financial Statement (GPFS) of Federal Government, as there was no Central Structure from which financial data from Projects could be collated or captured. The need for a common Financial Management (FM) platform which supports multiple projects' implementation while ensuring compliance with World Bank FM standards, Procurement Act, Monitoring and Evaluation (M&E), and Federal Government Financial Regulation and other extant rules further motivated the establishment of FPFMD/PFMU in OAGF.
- 1c** This same initiative is being implemented at the State level of Government under the Accountant General of the States as Project Financial Management Units (PFMU).

2.1 THE TERMS OF REFERENCE OF FPFMD/PFMUs

The mandate of FPFMD/PFMUs is the Financial Management and Accounting for International Credits/External Assistance. FPFMD/PFMUs supervise financial management functions of all projects financed by the World Bank.

The FPFMD/PFMUs are responsible for the following:

- i Provide oversight to ensure timely preparation of projects' budget proposals by project implementation/management units (PIUs and PMUs).
- ii Provide oversight to ensure quality and timely issuance of interim financial reports (IFRs) and preparation of projects' financial statements.
- iii Ensuring projects' FM staff are in compliance with legal agreements and Financial Management requirements of the World Bank and the Government Financial Regulation.
- iv Ensuring the timely deployment of qualified Project Financial Management (PFM) staff for financial operations of projects.
- v Timely communicate with the Bank before reassigning FM staff between projects.
- vi At least twice a year carry out in-house training of projects' FM staff on financial management procedures and disbursement guidelines as well as the Government Financial Regulations.
- vii Monitoring and evaluating projects' FM staff to determine their suitability and competence for World Bank projects.
- viii Ensuring adequate control procedures are in place for all operations.

- ix Sharing information with the Bank in a timely manner to address possible noncompliance or other related FM issues.
- x Ensuring all projects maintain adequate written FM guidelines depicting controls, accounting, and reporting procedures.
- xi Ensuring that Bank funded projects of any type are included in the National Annual Budget.
- xii Regular monitoring of FM operations within the PIU/PMUs to ensure that the expenditures incurred by the projects are in line with financial regulations and Financing Agreement.
- xiii Ensuring that Interim Financial Reports and Audit compliance of projects exceed 90%.
- xiv Ensure that FM performance ratings of projects are consistently at Moderately Satisfactory or above.

3.1 SELECTION AND DEPLOYMENT OF FM STAFF

At the project design stage, the Bank and the Government should agree whether a project's staff would be appointed from the government, hired as independent consultants, or a mix of both. Based on such agreement and following the establishment of a project implementing/management unit, the Permanent Secretary (PS) or Chief Executive Officer (CEO) of the entity sends a letter to the AGF for the attention of the Director FPFMD/PFMUs requesting for the deployment of project financial management staff as specified in the project appraisal document, project implementation manual, or agreed in writing with the Bank team.

Within one month of receiving the abovementioned letter, FPFMD/PFMUs shall refer to the minimum requirements for FPFMD and PFMUs staff assigned to Bank-assisted operations issued by the Bank in selecting and evaluating potential candidates and conclude (through official correspondence including all supporting documents to the Bank) the recommend candidates for the vacant positions.

Within Two (2) weeks from receiving FPFMD/PFMUs recommendation, the World Bank shall review the Curriculum Vitae (CVs) alongside other credentials of the nominated officers Vis-A-Vis the minimum requirements for FPFMD and PFMUs staff assigned to Bank-assisted operations . If the nominated officers satisfies the requirements for the position, the Bank would communicate its "No-Objection" to FPFMD/PFMUs and the project implementing units. Following the Bank's "No-Objection", the FPFMD/PFMUs shall deploy the staff to the PIU/PMU.

3.2 COMPOSITION OF FM TEAM IN A PROJECT IMPLEMENTING UNIT

Members of a project's FM team shall be qualified persons with proven integrity and skills to deliver quality and acceptable fiduciary support to project operations.

A PIU or PMU, depending on the size of the operation, shall have at least one Project Accountant and other FM staff as deemed necessary and agreed with the Bank to manage the FM aspects of the operation and carry out internal reviews, taking into consideration proper segregation of duties.

During implementation, the Bank, FPFMD/PFMUs shall assess the FM performance of the project vis-à-vis the performance of its FM staff. Based on the assessment, if the staff's performance adversely impacts the project's FM risk rating and performance, the Bank may demand FPFMD or the relevant PFMU to replace the FM staff.

3.3 QUALIFICATIONS OF FM STAFF

Subject to future changes by the Bank, the current minimum requirements for the deployment of financial management staff are included in the Bank's communication to Accountant General Federation with copies to States Accountant Generals.

ROLES AND RESPONSIBILITIES OF FM STAFF INCLUDE THE FOLLOWING

	PROJECT ACCOUNTANT	ASS. PROJECT ACCOUNTANT (IF DEEMED NEEDED)	PROJECT INTERNAL AUDITOR
APPRAISAL/ NEGOTIATION/ EFFECTIVENESS	<ol style="list-style-type: none"> 1 Deployment to PIU, to be responsible for the FM function of the operation. 2 Report to the Project Coordinator (PC) and FPFMD/PFMU. 3 Obtain and review project information documents (Financing Agreement, Project Implementation Manual, Project Appraisal Document, Disbursement and Financial Information Letter) to deliver adequate support to the PIU/PMU. 	<ol style="list-style-type: none"> 1 Deployment to PIU/PMU, to provide FM support. 2 Report to the PC and FPFMD/PFMU 3 Obtain and review project information documents (Financing Agreement, Project Implementation Manual, Project Appraisal Document, Disbursement and Financial Information Letter) to deliver adequate support to the PIU/PMU. 	<ol style="list-style-type: none"> 1 Appointed as needed, to provide FM support. 2 Report to the PC and FPFMD/PFMU. 3 Obtain and review project information documents (Financing Agreement, Project Implementation Manual, Project Appraisal Document, Disbursement and Financial Information Letter) to deliver adequate support to the PIU.

CHAPTER 3

	PROJECT ACCOUNTANT	ASS. PROJECT ACCOUNTANT (IF DEEMED NEEDED)	PROJECT INTERNAL AUDITOR
IMPLEMENTATION:			
BUDGETING	<ol style="list-style-type: none"> 1 Timely preparation and development of project annual work plans and budget. 2 Timely submission of the annual work plan and budget to the OAGF-FPF-MD and the World Bank 3 Prepare disbursement plan for the year based on the annual workplan 4 Monitor and report budget utilization, and significant budget variances 	<ol style="list-style-type: none"> 1 Support the Project Accountant in collating entries into the budget from unit heads in the project. 2 Support the Project Accountant in monitoring budget implementation and preparation of the disbursement plan. 	<ol style="list-style-type: none"> 1 Review the project budget preparation process and ensure that numbers provided are realistic and based on approved workplans. 2 Monitor budget implementation and investigate significant budget variances. 3 Prepares annual audit plan.

CHAPTER 3

	PROJECT ACCOUNTANT	ASS. PROJECT ACCOUNTANT (IF DEEMED NEEDED)	PROJECT INTERNAL AUDITOR
ACCOUNTING	<ol style="list-style-type: none"> 1 Ensure proper maintenance of accounting records. 2 Apply the correct accounting policies and standards. 3 Ensure adequate structuring of the Chart of Account. 4 Ensure timely recording of data entry into the accounting system. 5 Ensure security of financial data in the accounting system. 6 Generate accurate monthly and periodic financial reports from the accounting system. 	<ol style="list-style-type: none"> 1 Ensure that all accounting records are updated. 2 Responsible for entering data into the accounting system. 3 Responsible for maintaining project registers (fixed asset, advance, withdrawal application etc.). 4 Support the Project Accountant in other tasks as deemed necessary taking into consideration proper segregation of duties. 	<ol style="list-style-type: none"> 1 Periodic audit of the project books of accounts. 2 Ensure compliance with accounting policies and standards.

CHAPTER 3

	PROJECT ACCOUNTANT	ASS. PROJECT ACCOUNTANT (IF DEEMED NEEDED)	PROJECT INTERNAL AUDITOR
INTERNAL CONTROL	<ol style="list-style-type: none"> 1 Ensure the project financial procedures manual is strictly followed. 2 Review monthly bank reconciliation; investigate and address irregularities in a timely manner. 3 Review all receipt and payment vouchers. 4 Review and countersign all payment instructions. 5 Role player on the payment platform. 6 Ensure adequate preventive, detective, and corrective controls are in place including proper segregation of duties and proper flow of information to timely address shortcomings. 	<ol style="list-style-type: none"> 1 Prepare monthly bank reconciliation statements. 2 Prepare receipt and payment vouchers. 3 Responsible for initiation of payment on the payment platform. 4 Support the Project Accountant in other tasks as deemed necessary taking into consideration proper segregation of duties. 	<ol style="list-style-type: none"> 1 Prepare annual audit plan and submit it to the Project Coordinator and PPFMD/PFMU. 2 Carry out audit checks on all vouchers, transactions, and bank reconciliation statements. 3 Assess the effectiveness and level of compliance of internal controls in the PIU. Report to the Project Coordinator and PPFMD/PFMU. 4 Identify, assess, and report project risks.

CHAPTER 3

	PROJECT ACCOUNTANT	ASS. PROJECT ACCOUNTANT (IF DEEMED NEEDED)	PROJECT INTERNAL AUDITOR
	<p>7 Ensure assets are properly maintained and registered.</p> <p>8 Ensure compliance with the project's legal agreement.</p>		<p>5 Conduct physical verification of project activities and other performance reviews (through spot checks or random selection of project activities).</p> <p>6 Conduct physical verification of existence and usage of project assets (property, plant, and equipment).</p> <p>7 Ensure extant rule and regulations are strictly complied with.</p> <p>8 Follow up closely on internal and external audit recommendations and share overdue issues with the Bank and PPFMD/PFMU.</p>

CHAPTER 3

	PROJECT ACCOUNTANT	ASS. PROJECT ACCOUNTANT (IF DEEMED NEEDED)	PROJECT INTERNAL AUDITOR
FUNDS FLOW	<ol style="list-style-type: none"> 1 Facilitate the opening of project bank accounts with support from OAG- FPFMD/PFMD . 2 Serve as an authorized signatory to all project bank accounts. 3 Submit withdrawal applications for advance requests. 4 Ensure timely documentations of expenses through Client Connection. 5 Review daily bank transactions and fund positions of the project. 6 Ensure the project's banking and fund flow arrangement is strictly followed 7 Ensure timely clearance of DA undocumented advances 		<ol style="list-style-type: none"> 1 Shall have only viewing access on payment platform. 2 Review bank transactions and fund positions of the project and investigate irregularities. 3 Investigate outstanding advances and undocumented DA transactions.

CHAPTER 3

	PROJECT ACCOUNTANT	ASS. PROJECT ACCOUNTANT (IF DEEMED NEEDED)	PROJECT INTERNAL AUDITOR
FINANCIAL REPORTING	<ol style="list-style-type: none"> 1 Generate monthly and periodic financial reports from the accounting system. 2 Prepare and submit to the Bank quality and timely Interim Financial Reports. 3 Ensure IFRs are properly reviewed and approved before submission to the Bank. 	<ol style="list-style-type: none"> 1 Ensure that all accounting records are updated. 2 Ensure timely and accurate data entry into the accounting system, for report generation. 3 Support the Project Accountant in other tasks as deemed necessary, taking into consideration proper segregation of duties. 	<ol style="list-style-type: none"> 1 Prepare monthly/quarterly/annual internal audit report to the Project Coordinator and OAGF-FPFMD/PF-MU . 2 Submit timely internal audit reports to the Bank. 3 Review IFR prepared by the Project Accountant and provide recommendations.

CHAPTER 3

	PROJECT ACCOUNTANT	ASS. PROJECT ACCOUNTANT (IF DEEMED NEEDED)	PROJECT INTERNAL AUDITOR
AUDITING	<ol style="list-style-type: none"> 1 Prepare quality and acceptable project annual financial statement. 2 Facilitate the engagement process of the external auditor to audit the project's annual financial statement, with support from the PIU management. 3 Ensure timely submission of the project's audited financial statement to PC, DFPFMD/HPFMU for final review and approval as needed. 4 Submit timely acceptable audited financial statement and Management Letter to the Bank through Client Connection. 	<ol style="list-style-type: none"> 1 Support the Project Accountant in other tasks as deemed necessary taking into consideration proper segregation of duties. 	<ol style="list-style-type: none"> 1 Collaborate with the Project Accountant to facilitate the engagement process of the external auditor. 2 Undertake timely follow-up with project management to ensure compliance with agreed remedial action on exceptions raised in the audit report and management letter.

CHAPTER 3

	PROJECT ACCOUNTANT	ASS. PROJECT ACCOUNTANT (IF DEEMED NEEDED)	PROJECT INTERNAL AUDITOR
AUDITING	<p>5 Undertake timely follow-up with project management team for remedial action on exceptions raised in the audit report and management letter.</p>		

4.1 PROJECTS' FINANCIAL MANAGEMENT ARRANGMENTS

BUDGETING

BUDGET PREPARATION

- 4.1.1 As deemed applicable, to effectively coordinate the budget in the PIU/PMU, a budget committee is to be formed with the Project Coordinator serving as the Chairman and the Project Accountant as the Secretary. The Project Accountant shall issue detailed budget guidelines to all heads of unit in the PIU/PMU for the preparation of the Annual Budget, discuss details of the guidelines with respective heads of units, and ensure the guidelines are carefully followed.
- 4.1.2 The budget guideline shall include the budget codes taking into consideration the project activities per category and component as per the PAD, standardized rates of various items, and the annual budget preparation timetable to ensure that the budget cycle is completed before commencement of the financial year. The budget guidelines should be distributed two months before the deadline for submission of each unit's budget.
- 4.1.3 Each Head of Section within a particular PIU/PMU shall submit to the Head of the PIU/PMU annual action plans derived from their project's components and categories not later than the first of September each year in accordance with the Project Implementation Plan. These will be consolidated into individual project's Annual Work Plans which will be forwarded to the World Bank for review and concurrence.

BUDGET INTEGRATION WITH WORKPLAN

- 4.1.4 The approved Annual Work Plan shall be the basis for developing the Annual Budget. Each activity in the Annual Work Plan shall be assigned a budget code, as given in the budget guideline circulated by the Project Accountant.
- 4.1.5 The Project Accountant shall ensure that budget codes align with the Chart of Accounts, which shall be inputted into the ledger upon approval. This becomes the control tool against which actual expenditure will be monitored.

- 4.1.6 The plan and budget of the upcoming year is further broken down into quarterly work plans and budgets for which cash-flow projections can be produced in detail.

BUDGET PREPARATION

- 4.1.7 The heads of units shall submit the completed budget forms to the Project Accountant. The heads of unit, along with the Project Accountant and Project Coordinator, consult to review and ensure estimates are adequate, reasonable, and realistic.
- 4.1.8 After review and consultations have been made with heads of unit, the budget is returned with relevant comments/changes. Changes are expected to be imputed by the budget holders and resubmitted to the Project Accountant.

BUDGET APPROVAL

- 4.1.9 The Project Accountant prepares the draft Annual Budget, with approval from the Head of the PIU/PMU, and forwards the draft annual budget to the committee for final review and approval.
- 4.1.10 The Project Accountant receives the approved budget from the committee and makes necessary amendments based on the comments or changes proposed by the committee. Upon approval by the committee, the approved Annual Budget is circulated to all relevant project staff and adopted.
- 4.1.11 A copy of the Annual Budget should be sent by the Head of the PIU to the World Bank at least two months before the beginning of the applicable financial year; and the budget should be cleared by the Bank at least one month before commencement of the applicable financial year.
- 4.1.12 Once the Annual Budget is cleared by the Bank, the Project Accountant enters the approved budget into the project's general ledger for the relevant accounting year. This becomes the control tool against which actual expenditure, per category and component, will be monitored.

BUDGET MONITORING AND CONTROL

- 4.1.13** All payment requests must be checked by the Project Accountant to ensure that they are in accordance with the approved work plan and budget, and that requested funds are within the budget limit. The Project Accountant will advise against payment where allocated amounts have been exhausted.
- 4.1.14** At the end of each quarter/semester, the Project Accountant shall prepare an Interim Financial Report which shall include a Budget Monitoring Report (use of funds by project category and component). This will be submitted to the Head of the PIU. The Head of the PIU shall forward a copy of the Budget Monitoring Report to the budget committee.
- 4.1.15** Changes in estimates of more than 15 percent or introduction of supplementary estimates must be approved by the budget committee and authorized in agreement with the World Bank
28. All carry-over activities in the work plan and the related budgetary allocations must be approved by the budget committee and authorized by the Head of the PIU in agreement with the World Bank.

ACCOUNTING

ACCOUNTING POLICIES

- 4.1.16** 29. The PPFMD/PFMUs shall be responsible for selecting and applying correct accounting policies, acceptable to the Bank, that reflect the true and fair view of the financial activities in all PIU/PMUs. To strengthen the country system, the Bank encourages that accounting policies are in compliance with the Accounting Policies of the Government of Nigeria as well as the World Bank guidelines.
- 4.1.17** 30. The Project Accountant is primarily responsible for ensuring a robust accounting system for record-keeping, financial reporting, and financial management decision-making is used by the PIU/PMU.

RECORD KEEPING

- 4.1.18 Detailed and timely accounting records shall be maintained in each implementing unit to meet its internal or external reporting obligations. The Project Accountant shall be responsible for maintaining the financial records of the project.
- 4.1.19 For protection of project records, an EDMS is to be put in place to save digital copies of projects' documents
- 4.1.20 33. The books shall include all details of transactions associated with the project such as the dates, account code according to the Chart of Accounts, account description, and amounts.
- 4.1.21 The books of account and general ledger shall preferably be automated and maintained using an accounting software. The Assistant Project Accountant shall serve as the bookkeeper and be responsible for entries into the accounting software with final approval by the Project Accountant. Small operations that do not have an Assistant Project Accountant, the Project Accountant shall be responsible for all entries into the accounting software while the PIU Coordinator will have the final approval. The final approver shall periodically review the general ledger for any unusual transactions.
- 4.1.22 The Chart of Accounts shall be structured to meet the operational needs and financial reporting requirements of each project. The Chart of Accounts shall be structured such that the financial report can be shown by expense category and component. The Project Accountant shall be responsible for maintaining an adequate Chart of Accounts and revising as necessary.
- 4.1.23 All transactions recorded for the project shall be coded following the Chart of Accounts, with sufficient details provided for objective reporting. The Chart of Accounts codes should distinguish between different sources of financing and their relevant expenditures.
- 4.1.24 All sources of funds and expenditures incurred under the project must be recorded and reported irrespective of the source of funds. The project must record and report all direct funding arrangements by the Government or other financiers.

4.1.25 Indirect costs such as depreciation, amortization, or administrative overheads should not be included in the project expenditures unless they are specifically provided for and approved by the Bank in the project's annual work plan and budget

4.1.26 The Project Accountant shall prepare statements of expenditure, interim financial reports, project financial statements, and other financial reports as required by the Government, the Bank, and other project financiers. The reports shall be used to regularly monitor the progress of the project against the original plan or budget. Where the computerized accounting system is used, a system-based report should be generated, rather than a manual process.

4.1.27 The Project Accountant shall submit the periodic financial reports to the Head of the PIU. The Head of the PIU shall be responsible for advising the Government and the Bank on the periodic progress of the project and any material deviations from the original project plan or budget.

4.1.28 The Project Accountant shall ensure that all financial reports are submitted to the Bank in a timely manner as per the project legal agreement.

4.1.29 Upon project completion and closure, the Project Accountant shall submit all project financial records and reports to the Director FPFMD/PFMU. The Director FPFMD/PFMU shall ensure that the records and reports are securely retained in compliance with the financing agreement, and readily available for review on request by the Government and the Bank.

ACCOUNTING SYSTEMS

4.1.30 For effective accounting, bookkeeping, financial reporting, transparency, and decision making, the FPFMD/PFMUs shall seek to adopt the use of computerized accounting systems. This mitigates the risks involved in using manual accounting systems for a large number of complex transactions and enhances the ability to track all project expenses.

4.1.31 The accounting software shall produce accurate, timely, and adequate information on the project's income, expenses, assets, liabilities, and financial transactions; and give access to real-time financial data for decision making.

- 4.1.32** A systematic approach should be taken to source the most suitable accounting software by matching the software functionalities to the needs of the project. The following should be considered when choosing a suitable software:
- a.** the number of users in the project
 - b.** the standardized features of the software
 - c.** complexities and usability of the software features
 - d.** ability to customize special reports
 - e.** market analysis and cost-benefit analysis of the software
 - f.** security standards of the software and safeguard of financial data
 - g.** long-term use and scalability of the software
- 4.1.33** Access to the accounting system shall be restricted to the concerned finance staff members and other project staff authorized by the Head of the PIU.
- 4.1.34** The accounting systems shall be accessed by passwords or any other private access codes and shall be privy to each user, which shall be routinely changed. Access rights will also be changed in the event that an unauthorized person accesses the system or when an authorized user leaves the service of the PIU/PMU.
- 4.1.35** All transactions entered into the accounting software must be done by only authorized users, and the system shall be backed up daily to avoid potential data losses.
- 4.1.36** The Project Accountant shall generate and review monthly system reports such as the ledgers, income and expense reports, audit trails, etc. to ensure that unauthorized and unusual transactions are not posted into the accounting system.
- 4.1.37** Periodic reviews shall be carried out to ensure that the levels of access and rights for each user remain relevant to their responsibilities.
- 4.1.38** Upon closure of a project, the PPFMD/PFMUs shall ensure that the financial data is securely retained in compliance with the financing agreement, and readily available for review on request by the Government, the Bank, and other project financiers.

INTERNAL CONTROLS

- 4.1.39 The control system within a project implementing unit should aim to include effective internal controls, functional internal audit, and risk management. While internal controls are shared responsibility by the project team, the accountants are responsible for implementing internal control activities in the PIU/PMUs, the internal auditors are responsible for assessing the effectiveness of the controls.

APPROVALS AND AUTHORIZATIONS

- 4.1.40 Every project expenditure must be approved only by officers delegated with authority to approve expenses on behalf of the project. The officers must exercise due diligence and care in ensuring that expenses are approved for the project's intended purpose and does not exceed the approved annual budget.
- 4.1.41 An incurring officer or supplier shall submit a request for expenditure or invoice bearing details such as: the officer or supplier's name, the expense activity requested, goods supplied or services provided, banking details, along with other necessary and relevant supporting documents.
- 4.1.42 The technical or sectional head shall review the request and supporting documents to ensure that the expenditure or activity are within the approved workplan and that the supplies are received in good condition or services satisfactorily provided. If satisfied with the request, the officer recommends to the Project Coordinator or Head of PIU/PMU for approval.
- 4.1.43 The Project Coordinator shall review the expenditure or payment request and supporting document to ensure the expense or payment requests are within the approval authority, the goods have been supplied or services rendered; and approves if satisfied.
- 4.1.44 Following the approval of the Project Coordinator or Head of PIU, the Project Accountant shall review the completeness and appropriateness of the approved, check to ensure that there are no irregularities associated with the payment request/supplies provided, and perform a budget availability review to determine the provision and availability of funds in the approved budget.
- 4.1.45 Payments shall only be made after confirmation of budget and funds availability, and approval by authorized officers. If the expenditure request inevitably exceeds the budgeted amount, the approving officer must notify the Head of the PIU who will notify the Bank to seek clearance before payment is approved.

- 4.1.46** If the Project Accountant is not satisfied with outcomes of the review, the approved request is returned to the Project Coordinator or Head of PIU. Upon completion and satisfaction of reviews by the Project Accountant, a payment voucher is raised. The Project Accountant shall ensure that payment vouchers bear the correct beneficiary details, expense account head, and budget code linked to the Chart of Accounts.
- 4.1.46** Upon approval of the Payment Voucher by the Project Coordinator or Head of PIU, the Assistant Project Accountant initiates the payment instruction which shall be signed by the authorized signatories. All payment instruments must be signed by only authorized signatories to the project. The Authorized Signatory Letters issued to the Bank through the Federal Ministry of Finance must match the signature mandate issued to the project's bank.
- 4.1.47** Whenever an authorized signatory vacates their position in the project, the Project Coordinator, or the next higher officer in the absence of the Project Coordinator must notify the Office of the Accountant General to make necessary changes in the designated banks.
- 4.1.48** All payment vouchers shall be written in the name of the beneficiary that appears on the supporting documents, and payment made to the beneficiary indicated on the payment vouchers. When a beneficiary other than person shown in the supporting documents requires to be paid, a letter of indemnity must be obtained.
- 4.1.49** All payment vouchers and instructions must be numbered sequentially for each bank account from which payment was made. Details of receipts and payment vouchers shall be entered into the general ledger in computerized accounting system by the assistant project accountant. The project accountant shall review daily and weekly postings into the accounting system for correctness and accuracy in the journal entries and ledger balances.
- 4.1.50** For small operations with no Assistant Accountant, the project Accountant and the Head PIU/PMU will be responsible for the review and approval processes to ensure segregation. Or, follow other measures agreed with the Bank.

SEGREGATION OF DUTIES

- 4.1.51 The approving officers shall be responsible for the correctness and order of the payment vouchers and supporting documents bearing their signature. The function of the incurring officer and the approving officer cannot be performed by the same person. Approving officers are not permitted to approve expenses to be incurred by them. Where expenditure affects an officer, he/she shall obtain the approval of a superior officer, or that of the Head of PIU/PMU or in the case of the Head of PIU/PMU, that of his/her immediate superior officer.
- 4.1.52 The Project Coordinator or Head of the PIU/PMU as well as the Project Accountant must ensure that there is proper segregation of duty between project officers who place expense requisition or purchase orders, those who approve, and those receiving the goods or services.
- 4.1.53 The Project Accountant shall be responsible for maintaining the fixed asset register and shall ensure that the fixed asset register in the implementing unit is up to date. Every entry and removal from the fixed asset register must be approved by the Project Accountant.

ADVANCES

- 4.1.54 68. Cash advanced to project staff must be used at a very limited scale, properly justified, supported, approved by the staff supervisor, and does not exceed certain threshold as agreed with the Bank. Advances must be retired within two weeks after completion of the activity supported with original receipts or invoices. The Assistant Project Accountant shall reconcile original advance against actual expenses retired by the staff to determine additional payment to or refunds from the staff. In all circumstances, advances to staff to carry out certain activities should be settled within one month or deducted from the staff's salary.
- 4.1.55 69. The project shall not make advance payments to suppliers except a contractual agreement subsists, the advance payment is clearly stipulated in the contract, and all the conditions preceding the payments, including providing sufficient guarantees, have been met by the supplier.

BANK RECONCILIATIONS

- 4.1.56 The Assistant Project Accountant shall obtain weekly bank statements and compare bank entries with receipts and payments in the cashbook. All uncleared discrepancies at the end of the month shall constitute reconciling items in the monthly bank reconciliation statement and shall be investigated by the Project Accountant.
- 4.1.57 The Assistant Project Accountant shall prepare monthly bank reconciliation statements for each bank account operated by the project implementing unit. The bank reconciliation statement enables the project to maintain accuracy in its ledger balance, identify errors, and detect any financial irregularities on time.

- 4.1.58 The bank reconciliation statement shall be reviewed and approved by the Project Accountant and verified by the project's internal auditor. In the absence of an Assistant Project Accountant, the bank reconciliation statement shall be prepared by the Project Accountant and verified by the internal auditor. The Project Accountant shall ensure that bank reconciliations are up to date.
- 4.1.59 Advances by the World Bank to the project's designated account should be supported by the approved budget needs.
- 4.1.60 The Project Accountant will ensure that designated account/s undocumented balances are timely addressed within a maximum period of three months and unused funds are refunded to the World Bank.

INTERNAL AUDIT REVIEWS

- 4.1.61 A project internal auditor shall be deployed to each PIU/PMU and shall be primarily responsible for evaluating the internal control system and providing independent and objective assurance that the controls are adequate to manage the risks and achieve the development objectives.
- 4.1.62 The internal auditors should be independent of the accounting and finance units.
- 4.1.63 During implementation of internal audit reviews, the Head of the PIU/PMU shall ensure that the internal auditors have complete and unrestricted access to all project records, personnel, financial and non-financial assets required to fulfill their responsibility. The Head of the PIU/PMU shall ensure that all project staff provide necessary support to the internal auditor during engagement.
- 4.1.64 Internal audit exercise within the PIU/PMU shall not be subjected to any form of interferences both internally and externally.
- 4.1.65 The internal auditors shall not be directly involved in the operational activities or take responsibilities that will impair their professional judgment such as authorization and approvals, preparation of financial records, etc. The internal auditor's professional judgment must remain free from self-interest or interest of others.
- 4.1.66 The internal auditor shall conduct periodic review of project activities and other performance reviews (through spot checks and/or random selection of project activities). The internal auditor shall also carryout physical verification of existence and usage of project assets (inventories, property, plant, and equipment).

- 4.1.67 Internal auditors will review the IFRs submitted to the Bank to ensure completeness and accuracy of information included.

INTERNAL AUDIT PLAN

- 4.1.68 Annually, the internal auditor shall prepare an internal audit plan based on the risk assessment of the project. The plan shall consist of audit work schedules and necessary resources required for the financial year. It shall be submitted to the Director FPFMD/PMU for approval within one month after the beginning of the year, and the approved plan shared with the Head of the PIU/PMU. The audit plan shall be implemented systematically using a risk-based approach.
- 4.1.69 During implementation of the internal audit plan, when there are significant deviations resulting from changes in the project's risk or internal controls, it shall be reported to the FPFMD and the Head of the PIU/PMU.
- 4.1.70 Following the completion of internal audit exercises, the internal auditor shall prepare quarterly internal audit reports to be submitted to the Director FPFMD/HPFMU and the Head of the PIU/PMUs. Copies of the internal audit report shall be made available to the Bank on request or agreed dates.
- 4.1.71 The internal audit report shall cover project risk exposures, assessment of internal controls, and any other specific issues of concerns in the project. The reports shall also include audit findings and recommendations to the project's management, management's responses to the findings, timelines for recommended actions to be completed, and explanations to actions not taken.
- 4.1.72 The internal auditor shall be responsible for following up audit findings and recommendations and ensure that all unresolved issues are documented and kept open until resolved.
- 4.1.73 Internal audit findings that are not addressed within three months should be escalated to FPFMD/PMU and the World Bank with a clear action plan agreed with the head of the PIU/PMU on how the finding/s will be addressed, by whom, and by when.

FUNDS FLOW AND DISBURSEMENT

BANKING ARRANGEMENT

- 4.1.74 The banking arrangement for each PIU/PMU will be determined by the project design and agreed banking arrangement at project negotiation reflected in the Disbursement and Financial Information Letter.

- 4.1.75** As per the agreement with the Bank during project's preparation and upon signing the Financing Agreement, project effectiveness, and appointment of project staff, the Government Implementing Ministries or Agencies shall designate authorized signatories to the project implementing units. The PIU/PMU in consultation with Office of Accountant General shall open bank account/s as designated in the project Disbursement and Financial Information Letter.
- 4.1.76** The authorized representative of the borrower, as designated in the financing agreement, must furnish to the Bank, within one month after project's effectiveness, the name(s) of the official(s) authorized to sign and submit applications for withdrawal and applications for issuance of special commitments (authorized signatories), through an Authorized Signatories Letter (ASL).
- 4.1.77** Upon approval of the ASL by the Bank, the users designated as authorized signatories are notified through an automated e-mail to activate their electronic signing credentials. The user's activation of the electronic signing credentials completes the authorized signatory approval process, thus allowing them to sign withdrawal applications electronically.

SIGNATORIES

- 4.1.78** Unless agreed otherwise between the Bank and the Government, there shall be two (2) signatories for each Panel: Panel A and Panel B. Each Panel shall have a maximum of two people. One signatory from each Panel shall counter sign all financial instruments and withdrawal applications for the PIU.

Panel A

- The Project Coordinator (Main signatory)
- A Program/Policy Officer from the Implementing Ministry/Agency not below the level of a Director (Alternate signatory)

Panel B

- The Head of FPFMD/PFMU (Main signatory)
- The Project Accountant (Alternate signatory)

- 4.1.79** The signatories furnished to the PIU/PMU bank must be the same as those furnish to the World Bank, An alternate signatory should only sign in the absence of the main signatory.
- 4.1.80** Whenever an authorized signatory vacates his/her position in the project, the FPFMD/PFMU must notify the Office of the Accountant General to make necessary changes with the project banker and furnish the World Bank through the Federal Ministry of Finance with a revised ASL.

BANK ACCOUNT

- 4.1.81 The project shall be required to open the following the project bank accounts as designated in the Disbursement and Financial Information Letter.
- a. A Designated Account in USD into which the Bank funds will be deposited to finance eligible project expenditures.
 - b. A Current Drawdown in Naira into which draw-downs from the designated account will be credited on a need basis in respect of eligible expenditures.
- 4.1.82 All project bank accounts shall be opened in the name of the project implementing unit, not an individual. The financial institution used for the designated account can be the Central Bank of Nigeria or a commercial bank acceptable to IDA.
- 4.1.83 All project bank accounts of each PIU/PMU must be held with same bank, such that equivalent USD amount can easily be converted and transferred into the Naira drawdown accounts when required.
- 4.1.84 All account signatories shall have access to the electronic banking platforms for each bank account, to view daily banking transactions and fund positions of the project.
- 4.1.85 All project funds shall be held in the bank accounts. Under no circumstances, project funds shall not be transferred into the personal account of a project staff who is not the direct beneficiary of a transaction.
- 4.1.86 All receipts shall be made directly into the project bank accounts, and payments as direct debits from the project bank accounts into the accounts of the beneficiaries.
- 4.1.87 The project accountant shall maintain separate cashbooks for each project account and shall reconcile each monthly.

DISBURSEMENT PROCESS

- 4.1.88 To effectively disburse funds to the project implementing units, provide sufficient liquidity for project implementation, and enable monitoring and reporting of fund usage, the project shall consider the disbursement methods, the eligibility of project expense, expenditure category, and documentation of project expenditures.

- 4.1.89** A project expenditure shall be deemed eligible if it involves goods, works, or services incurred at reasonable costs, and required to be financed and procured according to the financing agreement. For an expense to be eligible, it must be paid on or after the date of signing the financing agreement or, for projects that permit retroactive financing, on or after the retroactive financing date, and incurred for commitments made no later than the closing date of the financing.
- 4.1.90** Eligible expenditures that may be financed out of the proceeds of the financing are normally grouped under "Expenditure Categories" and specified in the financing agreement. This is based on the types of expenditure or project activities. Expenditure Categories provide means to monitor and manage expenditures for project activities.
- 4.1.91** The project implementing unit and the accounting team assigned shall refer to the Disbursement and Financial Information Letter to obtain comprehensive information about the disbursement arrangement. The Disbursement Letter indicates the disbursement methods, minimum application size, frequency of withdrawal applications, and supporting documentation requirement for the project.
- 4.1.92** The project implementing unit and the accounting team assigned shall ensure their accounting records reconcile with Client Connection.

DISBURSEMENT PROCESS

- 4.1.93 The disbursement methods used by the Bank include advance, reimbursement, direct payment, and special commitment. However, the project can only use any of the disbursement methods indicated in the disbursement letter, in which the Bank will honor.

	DISBURSEMENT METHOD
1	<p>Advancement Method:</p> <p>The Bank may advance financing proceeds into designated accounts of the borrower to finance eligible expenditures.</p>
2	<p>Reimbursement Method:</p> <p>The Bank reimburses the borrower for eligible expenditures prefunded from the borrower's own fund.</p>
3	<p>Direct Payment:</p> <p>The Bank makes direct payments, at the borrower's request, to a third party for the project's eligible expense</p>
4	<p>Special Commitment</p>

FUNDS FLOW FOR PROJECT IMPLEMENTATION UNITS (PIU/PMU)

- 4.1.94 The PIU shall maintain one designated account in USD and one account in Naira into which drawdowns from the designated account will be credited in respect of eligible expenditures.
- 4.1.95 Based on request from the PIU/PMU, the Bank will advance financing proceeds in the designated account. Advances into the designated account shall be made in the currency of the designated account. The PIU/PMU shall drawdown funds from the designated account into its Naira account to finance eligible project expenditures.

FUNDS FLOW FOR PROJECTS WITH A PROJECT MANAGEMENT UNIT (PMU) AND PIUS

- 4.1.96** The PMU shall maintain one designated account in USD for the project and one account in Naira into which drawdowns from the designated account will be credited in respect of eligible expenditures. The project shall have only one USD designated account which shall be maintained by the PMU.
- 4.1.97** Each PIU shall maintain one account in Naira which shall receive drawdowns from the Naira account controlled by the PMU.
- 4.1.98** Each PIU will prepare a six-month disbursement plan that will be reviewed and approved by the PMU. Based on the plan, the PMU will advance Naira from its drawdown account to the PIU drawdown account.
- 4.1.99** All USD payments will be made from the USD designated account controlled by the PMU.
- 4.1.100** Before the end of the six months, the PIU will settle the advance with the PMU before requesting another six months advance based on a new disbursement plan.

CURRENCY CONVERSION

- 4.1.101** Conversion of project funds from USD to Nigerian Naira should exclusively occur through official channels represented by banks and financial institutions approved by the Bank, and registered for each project within the World Bank system.
- 4.1.102** These conversion transactions must adhere to the official spot exchange rates provided by the approved banks and financial institutions at the time of the transaction. Moreover, all conversion activities must adhere strictly to the projects' internal control protocols and the authorized signatories established in agreement with the Bank.

WITHDRAWAL APPLICATIONS

- 4.1.103** The Disbursement and Financial Information Letter (DFIL) of each project shall prescribe the frequency of submitting withdrawal application for advances and documentation. If the project does not submit withdrawal applications for periods beyond the prescribed frequency, the designated account shall become inactive.
- 4.1.104** The project supported by PFMU and PFMUs shall be responsible for ensuring that all procedures specified in the financing agreement, procurement strategy and plan, project implementation manual and the disbursement letter is duly followed.

INTERIM FINANCIAL REPORTS

- 4.1.105 Every project shall prepare an Interim Financial Report to enable the management's monitoring and evaluation of the project's financial performance and progress.
- 4.1.106 The IFR shall cover all project activity as described in the financing agreement and project operational manual. The report shall encompass all project financing, project activities by component, and project expenditures by category including finances and expenses related to the IDA fund, counterpart fund and other financiers.
- 4.1.107 The IFR format, reporting period, frequency and submission deadlines for each project will be agreed with the borrower during project negotiation and described in the project appraisal document and/or the project implementation manual.
- 4.1.108 The reporting currency shall be the currency in which the project receives its funds, incurs expenses and keeps its books of account.
- 4.1.109 The IFR shall include at minimum, (a) sources and uses of funds (b) uses of funds by project components and category (c) USD designated account activity statements (d) reconciliation statement for the designated account, drawdown accounts, any other project account, and their relative bank statements, (e) six months forecast by category and component, (f) comparison of the previous six months actual vs. planned per category and component.
- 4.1.110 The project's accountant is responsible for the preparation of the IFR in a timely manner. The IFR should be reviewed by the project's head. PPFMD/PFMUs will ensure that projects are in compliance with the World Bank legal agreements and that IFRs are of acceptable quality and timely submitted to the Bank.
- 4.1.111 The IFR should report only actual expenditures. Advances are to be separately reported and highlighted in the IFR.

AUDITED FINANCIAL STATEMENTS

- 4.1.112 PPFMD and the PFMUs will ensure that all projects timely engage, preform, and conclude their audit arrangements so that acceptable audit reports are timely submitted to the Bank in line with the periods specified in the legal agreements.
- 4.1.113 PPFMD and the PFMUs will follow up with the accounting teams of every project to ensure audit findings are addressed before the closure of the new financial year and issuance of a new audit report.
- 4.1.114 The audited financial statements should be prepared in accordance with accounting standards acceptable to the Bank, such as the International Financial Reporting Standards and International Accounting Standards (IFRS/IAS) or the International Public Sector Accounting Standards.
- 4.1.115 The terms of reference to be used for the project audit would be prepared by the project and acceptable to the Bank.
- 4.1.116 The project financial statements should be audited by an auditor who is technically competent and independent, and acceptable to the Bank.
- 4.1.117 Financial statements should be audited in accordance with auditing standards acceptable to the Bank. Such as the International Standards on Auditing (ISA) of the International Federation of Accountants and the Auditing Standards issued by the International Organization of Supreme Audit Institutions (INTOSAI).
- 4.1.118 The Project Accountant along with PPFMD/PFMU are responsible for ensuring acceptable audited financial statements are timely submitted to the Bank in compliance with the project's legal agreement.

ANNEX 1**INTERNAL AUDIT FUNCTION PROPOSED ARRANGEMENTS**

- 4.1.119 A centralized internal audit function with qualified team members is to be formed at the FPFMD and each PFMU, one audit unit at the federal level and one audit unit for each state.
- 4.1.120 The centralized IA unit at each federal/state will be responsible for carrying out the IA work for all state projects.
- 4.1.121 The internal auditors appointed at the centralized unit/s should be fully independent.
- 4.1.122 During implementation of internal audit reviews, FPFMD/PFMUs and the Head of the PIU/PMU shall ensure that the internal auditors have complete and unrestricted access to all project records, personnel, financial and non-financial assets required to fulfill their responsibility. The Head of the PIU/PMU shall ensure that all project staff provide necessary support to the internal auditor during engagement.
- 4.1.123 Internal audit exercise within the PIU/PMU shall not be subjected to any form of interferences both internally and externally. Matters concerning the scope of audit, audit processes, audit frequency, and content of the audit report shall remain the internal auditor's independent and objective decision.

INTERNAL AUDIT PLAN

- 4.1.124 Annually, the internal audit centralized function at the federal/state level shall prepare an internal audit plan based on the risk assessment of the projects in each relevant state/federal. The plan shall consist of audit work schedules and necessary resources required for the financial year. It shall be approved by the relevant Director FPFMD/PFMU. The approved plan will be shared with the Director FPFMD/PFMUs and Heads of the relevant PIUs. The audit plan shall be implemented systematically using a risk-based approach and ensuring that all PIUs within the states and Federal are covered during the year.
- 4.1.125 During implementation of the internal audit plan, when there are significant deviations resulting from changes in the project's risk or internal controls, its shall be reported to the relevant director FPFMD/PFMU and the Head of the relevant PIU/PMU.

MONITORING

- 4.1.126 The internal auditors of each state/federal shall conduct periodic review of project internal controls and activities of their jurisdiction and other performance reviews (through spot checks or random selection of project activities). They will also carry out physical verification of existence and usage of project assets (inventories, property, plant, and equipment).
- 4.1.127 Internal auditors will review the IFRs submitted to the Bank to ensure completeness and accuracy of information included.

INTERNAL AUDIT REPORTING

- 4.1.128 Following the completion of internal audit exercises, each centralized internal audit unit shall prepare a periodic internal audit report to be submitted to the Director FPFMD/HPFMU and the Heads of the PIUs/PMUs. Copies of the internal audit report shall be made available to the Bank on request or agreed dates.
- 4.1.129 The internal audit report shall cover projects' risk exposures, assessment of internal controls, and any other specific issues of concerns in the projects of each state. The reports shall also include audit findings and recommendations to the projects' management, management's responses to the findings, timelines for recommended actions to be completed, and explanations of actions not taken.
- 4.1.130 The internal audit unit of each state/federal shall be responsible for following up audit findings and recommendations and ensure that all unresolved issues are documented and kept open until resolved.
- 4.1.131 Internal audit findings that are not addressed within three months should be escalated to FPFMD/HPFMUs and the World Bank with a clear action plan agreed with the heads of the PIUs on how the finding/s will be addressed, by whom, and by when.

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WORLD BANK

As a leading international financial institution, the World Bank has a wealth of experience in supporting projects worldwide. Their contribution to the handbook reflects their commitment to sharing best practices and promoting sound financial management principles. The World Bank's input has added a global perspective to the handbook, ensuring its relevance and applicability across different contexts.

THE AFRICAN DEVELOPMENT BANK

The African Development Bank is renowned for its efforts in driving economic development across Africa. Their involvement in shaping the handbook underscores their dedication to enhancing financial management practices within the region. The African Development Bank's insights have enriched the handbook with a focus on addressing specific challenges and opportunities related to project financial management in Africa.

In conclusion, we express our deepest gratitude to the Accountant General of the Federation, the World Bank, and the African Development Bank for their collaborative efforts in contributing to the Handbook of Federal Project Financial Management. Their expertise and commitment have been pivotal in creating a comprehensive resource that will benefit practitioners and stakeholders involved in project financial management.

Director PPFMD

Abdulkarim Ibrahim Ozi

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