

**Africa Centre of Excellence
World Bank Project
Centre for Oilfield Chemicals Research
University of Port Harcourt
Project Internal Audit (IA) Report**

Key Information on the Project

Project Name and State	Centre for Oilfield Chemical Research, Rivers State.
Project ID	P126974
IDA Credit/Grant No	60029544
Implementing Agency	University of Port Harcourt
Effectiveness Date	July 2015
Closing Date	December 2019
Credit/Grant Amount	\$4.5 Million
Project Duration	4 Years
Remaining Period to Closing	1 years
Disbursed Amount to date & Percentage	₦147,172,326.55 and \$1,505,241.75
Period Covered by Review	1st January 2018 to 30th June 2018
Internal Auditor	Edwin Harcourt

1.0. EXECUTIVE SUMMARY

This routine audit covered the period January 1st to June 30th, 2018. The following records were examined; cash book, bank account statements, payment vouchers and bank reconciliation statements. The essence was to ensure that cash transactions were posted promptly, errors and omission were detected and corrected and that reconciliations were carried out as prescribed by the Financial Regulations. Other records examined included the work plan. This was to enable us determine whether the expenditures carried out were budgeted or not and to compare budgeted and actual expenditures and isolate/comment on significant variances. We reviewed the payment vouchers to check for authorization and approvals. Also, the semi-annual report was reviewed for the purpose of this audit; trial balance, ledgers, Receipt and payment accounts, etc. We reviewed the entire system of internal control for compliance in order to identify weaknesses that may exist.

Apart from the records examined, we had discussions with Centre Leader, Project Accountant, Procurement, Monitoring & Evaluation and communication officers. The essence was to substantiate our findings from the records checked.

The following were major findings of the exercise; in aggregate, the sum of ₦460,724,726 was budgeted while actual expenditure amounted to ₦264,457,148. This yielded a 43% positive variance. There were significant positive variances for works and operating costs. A 10% negative variance for goods category was observed.

Within the goods category, the sum of ₦78,428,572 was budgeted for Laboratory Equipment and associated furniture, reagents maintenance while ₦164,014,565.01 was actually spent leading to an adverse variance of ₦85,585,993.01 or -109.13% for this item.

In accounting, Receipt and Payments accounts were adequately prepared together with the cash book. We also noted that the monthly bank reconciliation statements were adequately prepared for various accounts. There was fixed asset register within the period under review though not comprehensive.

The sum of ₦3,581,365 was VAT paid on VAT exempted goods.

All approved funds have reached the expected beneficiaries except the total sum of ₦157,500 uncleared mandates which has been approved and paid but yet to be received by beneficiaries as at June 30th 2018. Most payments made went through the required authorization and approvals. There was also adequate segregation of duties. We also observed that the Audit Committee have made impacts on the project.

Further, Audit for this period indicates that the project FM system is adequate with reasonable assurance that the Project funds are being utilized for the intended purposes and are in line with World Bank guidelines. The project Financial Management risk is adequate.

We confirm that this audit was carried out in accordance with the World Bank’s FM and disbursement policies, procedures and guidelines and the Federal Republic of Nigeria Financial Regulations of 2009.

2.0 IA REVIEW: FINDINGS AND ACTION PLAN

These were our findings:

2.1 BUDGETING:

Pro-rata apportionment is necessary where the budgeted item covers periods, which exceeds the period covered by this report. i.e. January 1 to June 30, 2018.

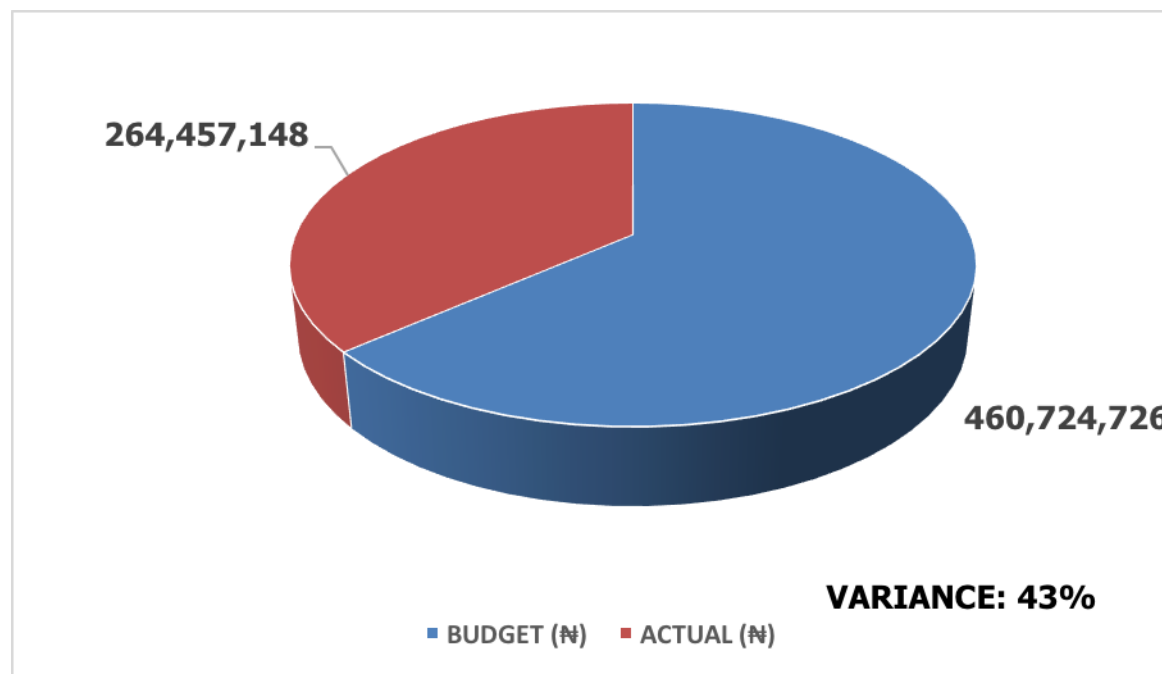
The budget/work plan was mainly focused on strengthening the Africa Centre of Excellence (Component 1) and was not classified into milestones. Summary of the budget and actual expenditure for the project from January 1 to June 30, 2018 is shown below.

Table 1: Summary of budgeted and Actual Expenditure

GRAND TOTAL			
BUDGET (₦)	ACTUAL (₦)	VARIANCE (₦)	% VARIANCE

460,724,726	264,457,148	196,267,577	43
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Chart 1: Summary of budgeted and Actual Expenditure



From table 1 and Chart 1 above, actual expenditure for the period under review was 43% less than budget in the work plan. The sum of ₦460,724,726 was budgeted for expenditure while actual expenditure was ₦264,457,148. This led to a positive variance amount of ₦196,267,577. Further analysis of this variance is detailed below:

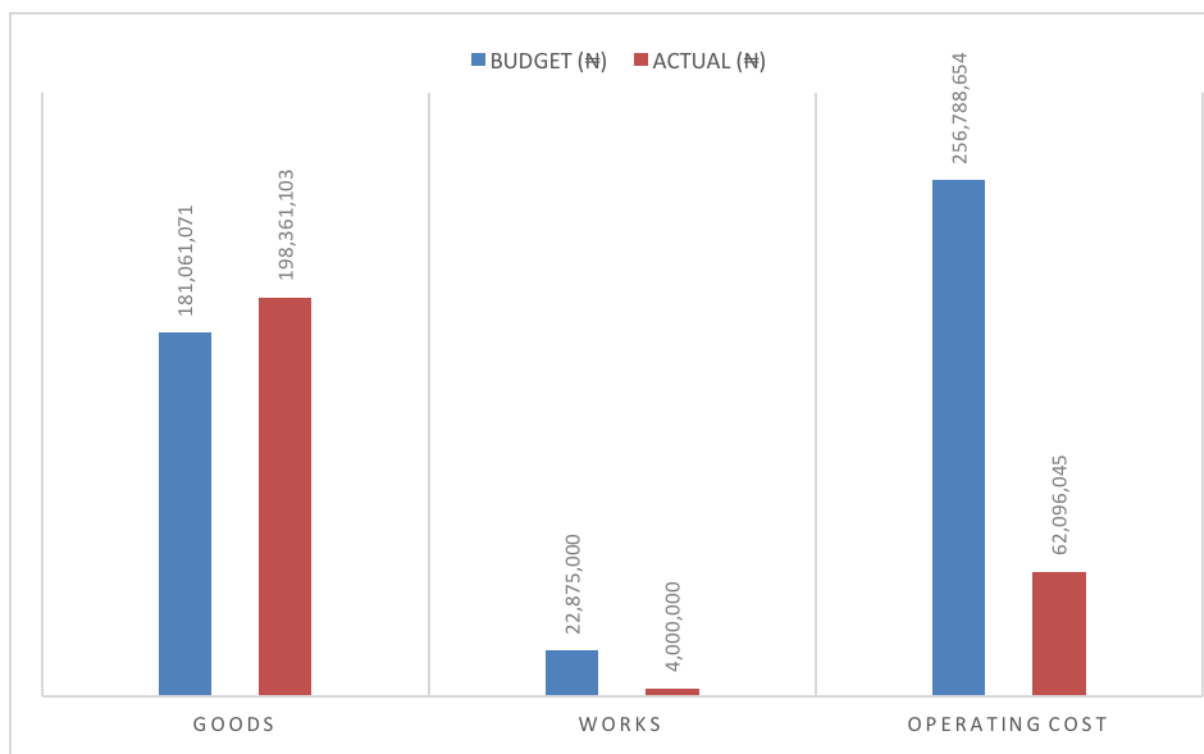
Table 2: Further Break-down of budgeted and actual expenditure.

JANUARY TO JUNE 2018				
	BUDGET (₦)	ACTUAL (₦)	VARIANCE	% VARIANCE
GOODS	181,061,071	198,361,103	-17,300,032	-10
WORKS	22,875,000	4,000,000	18,875,000	82.5
OPERATING	256,788,654	62,096,045	194,692,609	75.8

COST				
	460,724,726	264,457,148	196,267,577	43

This is shown graphically in the chart 2 below:

Chart 2: Further Break-down of budgeted and actual expenditure.



Within the period under review, though the sum of ₦181,061,071 was budgeted for goods, ₦198,361,103 was actually spent for this expenditure category leading to a variance of ₦17,300,032. This implied a 10% negative variance because actual expenditures exceed budgeted expenditure.

The sum of ₦22,875,000 was budgeted for works. Actual expenditure for works amounted to ₦4,000,000. This yielded a variance of ₦18,875,000 or 82.5% positive variance indicating that actual expenditure on works were far less than amount budget for works.

Finally, the sum of ₦256,788,654 was budgeted for operating costs. However, the sum of ₦62,096,045 was actually spent as operating expenditure within the period under review. This yielded a negative variance of 194,692,609 or 75.8% implying

also that actual operating expenses were significantly less than the budget sum for this category.

Analysis indicates that in aggregate, there were significant positive variances for works and operating costs within the period under review.

It is also worthy to note, however, that the project's fund is not included in the University Budget. Also, there was budget committee within the period under review.

N/B:

1. The Budget was denominated in US Dollar but actual expenditure was incurred in Naira.
2. The exchange rate used in converting US Dollar to Nigerian Naira was \$1 to ₦305.

Recommendation

It is recommended expenditure should be incurred in line with the approved budget timeline.

Expenditures for all categories should be made in compliance to the approved budget.

Management Response:

When work plans were prepared, estimates were made based on timelines. However, some arrears of unpaid expenses from the previous year were paid this year as funds become available. For this reason, there were some expenditure items exceeding the work plan while others were lower than provided for in the work plan.

Inclusion of the project fund in the University's budget was not possible because of timing differences and delays in the preparation of the University's budget. This may negatively impact on achieving project objectives.

2.2 ACCOUNTING

Observations:

- a) International Public Sector Accounting Standards (cash basis IPSAS) was used for preparing accounts. Also accounting software was deployed for preparation of books of accounts.
- b) All Payments were done via transfers using Remita.
- c) Bank reconciliations were adequately prepared for all bank accounts of the Centre.
- d) Under FIRS circular No. 84.19 the following transactions were supposed to be VAT exempted but VAT was actually paid for these items:

	DATE	PV NO.	PURPOSE	PV SUM	VAT PAID(₦)
1	26/02/2018	271367	To Finlab Nig. Ltd IRO supply of laboratory equipment	10,385,250	494,536
2	26/02/2018	271368	To Finlab Nig Ltd. IRO supply and installation of digital multimedia and language laboratory	11,380,635	541,935
3	26/02/2018	271369	To Ugolanson Nig. Ltd IRO supply and installation laboratory specific furniture	14,640,000	697,143
4	26/02/2018	271370	Ugolanson Nig. Ltd PV IRO supply and installation of laboratory equipment with accessories	13,866,175	660,294
5	26/02/2018	271371	Ugolanson Nig. Ltd IRO supply and installation of equipment with accessories and reagents for water, sanitation and environmental lab.	23,992,250	1,142,488
6	30/04/2018	272538	Sprout books Ltd IRO supply of books in ACE CEFOR.	899,374.50	44,969

			Total		3,581,365
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The sum of ₦3,581,365 was VAT overpaid by the Centre.

- i. Payment to HIT production Ltd PV 272514 for production of short documentary on the progress and impact analysis of ACE CEFOR N200,000. The VAT and WHT of N9254 each was remitted using the name Speedlink Hi-Tech solution for production of report in the bank statement.

Recommendations:

1. VAT payments on VAT exempted items should be discontinued.
2. Details for VAT payments should correspond with details of the transaction for which the VAT is remitted.

Management Response:

- i. The Approvals for purchase of identified (VAT exempted) items included VAT elements. Nevertheless, this is noted for future corrections.
- ii. The VAT remittance using a different name is being sorted.

2.3 INTERNAL CONTROL

Observations:

- a) Internal control was adequate. Compliance with financing agreement/work plan in executing major projects budgeted for the first half year for 2018 was effective. Find below the tabulated categories and their percentage of completion (Work in progress). The following are work in progress, based on the ledger presented to us:

b) Work in progress

The following are the work in progress, based on the ledger presented to us.

S / N	Component	Sub-Component	Actual (₦)	Work Plan (₦)	% of comp.
1	Operating	Accreditation	39,214,28	-	100%

	cost	Analysis.	6.15		
2	Operating cost	Communication and Marketing.	6,100,000	5,387,425	88.32 %
3	Operating cost	Students and Faculties support.	53,375,000	17,251,800	32.32 %
4	Operating cost	Regional students enrolment and support.	30,500,000	-	100%
5	Operating cost	National registry of environmental professionals (NREP), USA certification.	19,825,000	11,950,000	60.28%
6	Operating cost	Hold project implementation meetings.	6,100,000	95,000	1.56%
7	Operating cost	Vigorous awareness campaigns within and outside region.	12,962,500	-	100%
8	Operating cost	Explore recognition as regional centre of expertise.	6,777,777	-	100%
9	Operating cost	Negotiate and sign memoranda with project partners.	9,150,000	-	100%
10	Operating cost	Attend ACE meetings.	22,875,000	18,230,292	79.70%
11	Operating cost	Attend short courses by	34,659,090	5,718,515.50	16.50%

		steering committee members.			
12	Operating cost	Administrative charges (bank transaction; stationery; internet; communication; bills; fuels, car maintenance, etc.)	15,250,000	3,463,012.92	22.71%
13	Goods	Teaching aids (Projectors, data services, internet connectivity) maintenance	10,675,000	-	100%
14	Goods	Books and Journals	17,080,000	7,100,721.17	41.57%
15	Goods	100 KVA Diesel Generator with accessories.	8,387,500	-	100%
16	Goods	Project vehicles (Toyota 1 No corolla car 1 No Hiace bus)	5,490,000	-	100%
17	Goods	Laboratory Equipment and associated furniture, reagents maintenance	78,428,572	164,014,565.01	- 109.13 %
18	Goods	Office, e-library and classroom furniture with accessories.	61,000,000	27,245,816.76	44.67%

19	Goods	e-procurement software	10,675,000	-	100%
20	Works	CEFOR building (External works landscaping maintenance of facilities at Building).	22,875,000	4,000,000	17.49%

- c) The fixed assets register was presented but not comprehensive. Assets were coded.
- d) See Appendix 1 for details of unretired advances
- a) There was a safe in the project accountant's office. Payments were made via bank and no imprest was kept.
- e) Segregation of duties was adequate. Payment vouchers were raised by the Project Accountant, vetted by the Project Auditor and approved by the Chairman of the Project Committee (The Vice Chancellor.)
- f) The vouchers for expenditures were raised by the Project Accountant; certified by the Project Auditor and approved by the Chairman of the Project Steering Committee. Committees exist for various duties; they include the Project steering committee and the Procurement committee and budget committee.

Recommendations:

- a) There should be follow up on Work plan to enhance the implementation process.
- b) The fixed asset register should be updated to reflect all Asset owned by the Centre
- c) All unretired advances should be adequately retired.

Management Response:

Availability of funds affected implementations of work in progress.

The fixed asset register was not comprehensive because of an issue with the accounting software used in the preparation of the fixed asset register.

Efforts are in force to appropriately retire all unretired advances.

2.4 EFFECTIVENESS OF MANAGEMENT OVERSIGHT INCLUDING AUDIT COMMITTEES

We consider the effectiveness of management oversight for this Centre to be adequate. There is a project committee headed by the Vice Chancellor of the University. This committee performs various oversight functions and is made up of various officers with assigned responsibilities.

These officers include:

1. The Chairman
2. The Deputy Chairman
3. The Center Leader
4. The Deputy Center Leader
5. The Project Accountant
6. The Project Auditor
7. The Monitoring and Evaluation Officer
8. The Procurement Officer and;
9. The Communications Officer.

Sub-Committees exist to carry out specific tasks. These committees include:

- A. The Audit committee and
- B. The Procurement committee.

The effectiveness of the Audit committee is adequate. The committee has been involved in issues relating to the project. They have been involved in the review of both internal and external audit reports and management letters.

2.5 FUND FLOW

There were disbursements to the Centre within the period under review.

There were no observed complaints from suppliers, project staff or beneficiaries regarding payments for the period under review.

2.6 FINANCIAL REPORTING

As at the time of this Audit, there was an Audited Annual Financial Statement for the Center for the year ended 31st December 2017. The semi-annual report for the half year ended 30th June 2018 has been submitted to the World Bank and was examined during the Audit Exercise.

Computerized accounting system is used to generate accounting information.

2.7 EXTERNAL AUDIT

The year ended December 31, 2017 audited account and managements letter have been submitted to World Bank. The following were observations made by the external auditor:

S/N	OBSERVATIONS	STATUS
1	Non-inclusion of foreign currency denominated transactions	Included
2	Wrong classification of accounts	Corrected

The project audited accounts are not integrated with that of the University.

Recommendation

The Project Audited Accounts should be incorporated with that of the University.

Management Response

Delays in the preparation and audit of the University's accounts makes incorporation difficult.

2.8 DISBURSEMENT AND SUBMISSION OF WITHDRAWAL APPLICATIONS

Disbursement to the Center was made within the period under review.

2.9 FRAUD AND CORRUPTION

To the best of our knowledge, there was no case of fraud and corruption reported or observed within the period under review.

All approved funds have reached the expected beneficiaries except the following uncleared mandates:

- i. ₦57,500.00 IFO Georgette Flare ltd on 22 June, 2018, PV ID. ASN/2018/111
- ii. ₦90,000.00 IFO Speedlink Hi-tech solutions on 29 June, 2018 PV ID. ASN/2018/112
- iii. ₦10,000.00 WHT IFO RIRS solutions on 29 June, 2018 PV ID. ASN/2018/112

Recommendation

Management should verify the uncleared mandates and take necessary action to ensure it gets to the beneficiaries.

Management responses

Mandates were all cleared in the new month.

2.10 PAYMENT PROCEDURES

An examination of current payment procedures for expenditures within the Centre reveals that payment procedures in place are acceptable. Approvals for payments to suppliers and beneficiaries are timely.

Nevertheless, payment procedures within the period under review were not devoid of loopholes that may lead to errors/irregularities. All payments were made using payment vouchers (PVs) and followed due process with exception to the following

payments for which we could not sight the payment vouchers or approvals on documents:

- i. Payment for PhD students to attend 9th ACE workshop in Ougadougou Burkina Faso for Miss Brilliance O. Anyanwu PV 272536 and MR. Stephen I. Okocho PV 272535 of ₦630,931.00 each. No approval on documents.

Recommendation:

Payments without approval documents should be resolved and retired where necessary.

Management Response:

Issues of payment vouchers and approvals are being resolved.

2.11 PHYSICAL VERIFICATION

The Fixed asset register for the period under review was not comprehensive. However, Existence of assets purchased within the period was verified; also, project vehicles were adequately insured.

Most fixed assets acquired within the period were coded with the University's coding and identification system.

Recommendation

All asset owned by the Centre should be captured in the fixed asset register.

Management responses

A software error made it difficult for the fixed asset register to be comprehensive. This is currently being resolved.

2.12 PROCUREMENT ACTIVITIES

The Centre Leader and Procurement Officer are responsible for the preparation, presentation and defence of the work plan subject to approval by the World Bank team. Any modification is effected by them. There was also a procurement plan

and there were procurement activities which passed through due process within the period under review.

2.13 OTHER MATTERS

There has not been a change in project staffing and Financial Management staffing since inception.

3.0 ACTION PLAN

Status of previous internal audit Action plan

S/N	Issues	Agreed Actions	By whom	By when
1	Uncleared mandate and unpaid expense	Ensure that all outstanding payments gets to the beneficiaries	Project Accountant	Done
2	Fixed asset register.	To create Fixed asset register to reflect all asset owned by the Centre	Project accountant	Done but not comprehensive
3	Wrong posting in ledger	To correct wrong posting in ledger account	Project accountant	Done
4	Transaction in the ledger/receipt and payment account	To ensure that all discrepancies in the books of account are corrected.	Project accountant	Done
5	Bank reconciliation	To ensure that all accounts are updated with bank/transfer charges monthly after reconciliation.	Project Accountant	Done
6	Audit committee not involved in the activities of the Centre.	Will ensure they get involved hence forth	Centre leader	Done
7	Payments	To ensure that all payment are made to beneficiaries/vendors directly.	Project Accountant	Not Done
8	bank reconciliation	To ensure that all	Project	Done

		accounts owned by the Centre are reconciled.	Accountant	
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New/updated internal audit action plan

S/N	Issues	Agreed Actions	By Whom	Status
1	Revenue Generation	To establish a programme for sustainability	Centre leader	In process
2	Identify VAT exempted expenditure	To ensure VAT is not paid on VAT exempted items	Center Leader, Project Accountant, Internal Auditor	In process
3	Project audited account not integrated with that of the University account.	To integrate both audited accounts subsequently	Project Accountant	Yet to be done
4	Uncleared mandate and unpaid expense	Ensure that all outstanding payments gets to the beneficiaries	Project Accountant	Yet to be done
5	Numerous unretired advances	Ensure that all advances are adequately retired by the next audit.	Centre Leader and Project Accountant	Yet to be done