

**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 \$2,138,175.63
Period Covered by Review	1st July 2018 to 31st December 2018
Internal Auditor	Edwin Harcourt

1.0. EXECUTIVE SUMMARY

This routine audit covered the period July 1st to December 31st, 2018. The following records were examined; cash book, bank account statements, payment vouchers, fixed assets register and bank reconciliation statements. The essence was to ensure that cash transactions were posted promptly, errors and omission were detected and corrected and that bank reconciliations were carried out as prescribed by the Financial Regulations. Other records examined included the work plan and the procurement 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 ₦347,830,274 was budgeted while actual expenditure amounted to ₦208,206,379. This yielded a 40.14% positive variance. There were significant positive variances of 72.46% and 100% for goods, works respectively. A positive variance of 15% was observed for operating cost category. Within the operating cost category, significant negative variances were observed. The sum of ₦15,685,714.29 was budgeted for Accreditation/gap analysis while ₦47,981,000.00 was actually spent leading to an adverse variance of -₦32,295,285.71 or -206% for this item. Likewise, the sum of ₦15,250,000.00 was budgeted for administrative charges. ₦23,348,631.00 were actually expended yielding an adverse variance of -₦8,098,631 or -53%.

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 both the TSA Naira account with the CBN and the First Bank IGR account. Reconciliations were not prepared for the TSA dollar account with the CBN. There was fixed asset register within the period under review though not comprehensive. The sum of ₦785,770.00 and ₦15,187.50 was overpaid to

vendors in form of WHT and VAT. All payments went through the required processes except for ₦210,000 and ₦202,630 that the approvals/payment vouchers were not sighted by us. There were errors of wrong posting in the ledgers. All transactions via the dollar account were not vouched as bank statement for this account was not available. Also, the tax receipts were not presented for this audit exercise.

All approved funds have reached the expected beneficiaries as at 31st December 2018. There was also adequate segregation of duties. We also observed that the Audit Committee has 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:

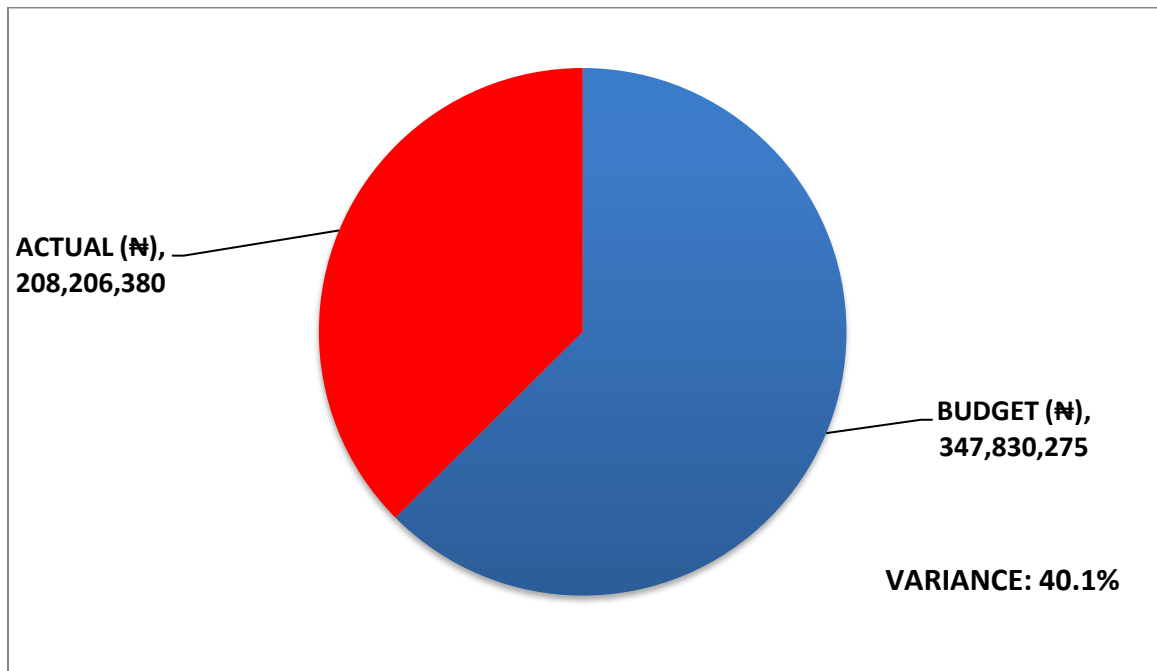
Pro-rata apportionment is necessary where the budgeted item covers periods, which exceeds the period covered by this report. i.e. July 1 to December 31, 2018.

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 July 1 to December 31, 2018 is shown below.

Table 1: Summary of budgeted and Actual Expenditure

GRAND TOTAL			
BUDGET (₦)	ACTUAL (₦)	VARIANCE	% VARIANCE
347,830,274	208,206,379	139,623,895	40.1%

Chart 1: Summary of budgeted and Actual Expenditure



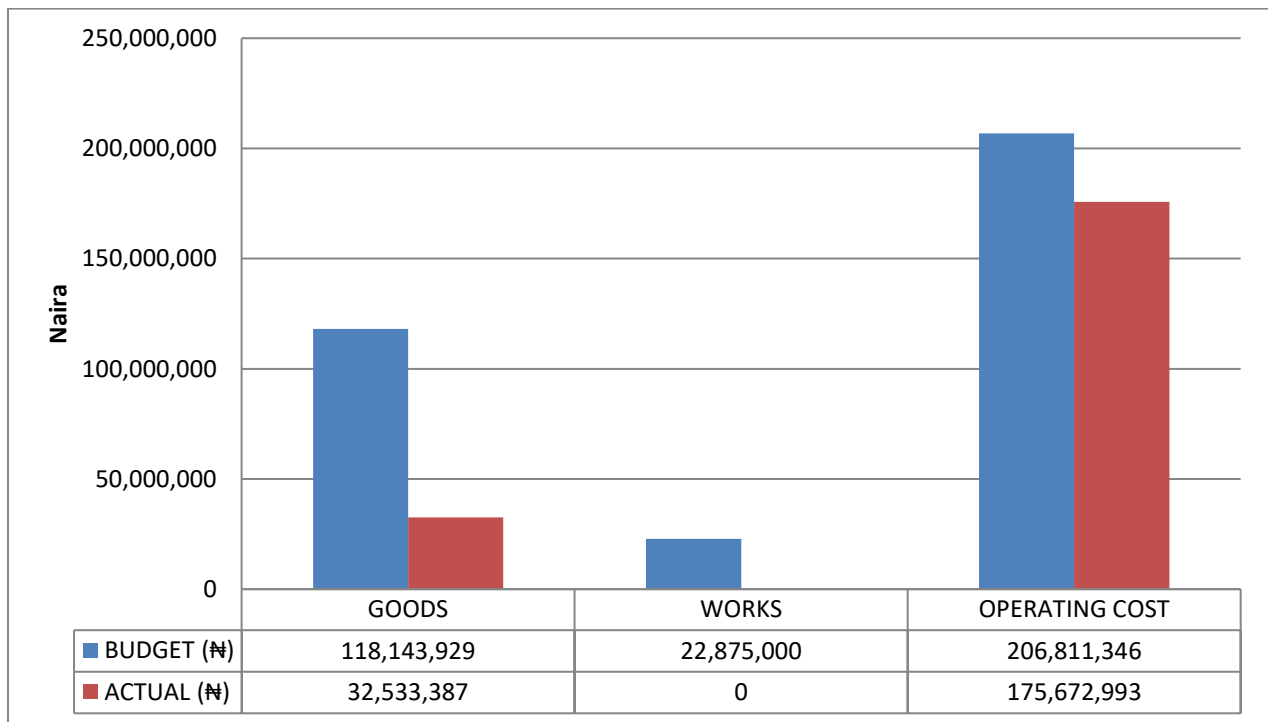
From table 1 and Chart 1 above, actual expenditure for the period under review was 40.1% less than budget in the work plan. The sum of ₦347,830,275 was budgeted for expenditure while actual expenditure was ₦208,206,380. This led to a positive variance amount of ₦139,623,895. Further analysis of this variance is detailed below:

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

JANUARY TO JUNE 2018				
	BUDGET (₦)	ACTUAL (₦)	VARIANCE	% VARIANCE
GOODS	118,143,929	32,533,387	85,610,542	72
WORKS	22,875,000	0	22,875,000	100.0
OPERATING COST	206,811,346	175,672,993	31,138,353	15.1
	347,830,275	208,206,380	139,623,895	40.1

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 ₦118,143,929 was budgeted for goods, ₦32,533,387 was actually spent for this expenditure category leading to a variance of ₦85,610,542. This implied a 72.46% positive variance because actual expenditure is less than the budgeted expenditure.

The sum of ₦22,875,000 was budgeted for works. Actual expenditure for works were not incurred. This yielded a 100% positive variance.

Finally, the sum of ₦206,811,346 was budgeted for operating costs. However, the sum of ₦175,672,993 was actually spent as operating expenditure within the period under review. This yielded a positive variance of 31,138,353 or 15.06% implying also that actual operating expenses were lesser than the budget sum for this category.

Analysis indicates that in aggregate, there were significant positive variances for goods and works 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 no 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 that 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. Some expenditure items exceeding the work plan and some others lower than provided for in the work plan was as a result of the time lag between when funds are available and when funds ought to have been available.

Inclusion of the project fund in the University's budget is still 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) The Centre maintains three bank accounts. Two are Treasury Single Accounts (TSA) with the Central Bank of Nigeria. One US Dollar denominated account and the Naira denominated account. The other account is maintained with a commercial bank for internally generated revenue (IGR).
- d) The TSA naira and IGR accounts were reconciled on monthly basis within the period under review. There were no schedule of Bank charges and uncleared mandates attached to the bank reconciliation statements for the TSA Naira account for July and August reconciliations. The cash book is not adjusted monthly to reflect the adjusted cash balance after reconciliation monthly. There was no bank reconciliation for the TSA Dollar account maintained by the Centre.
- e) **Ledgers/Cashbook**
 - i. The VAT and WHT tax paid for some items purchased were not recognized with the items in their respective ledgers. This affected the trial balance. For instance:
In the ledger for Office E-Library and classroom-811A, payment made to Speedlink Hi-Tech solutions for renewal of Microsoft office suites were recognized net of VAT and WHT. The amount recognized in the

ledger account was ₦2,071,760 (instead of ₦2,289,840 which contains both VAT and WHT elements). In line with accounting standards, the respective amounts for VAT & WHT constitute the cost of the items hence ought to have been recognized together with the net cost of the items in the ledger.

- ii. ₦10, 000 lodgements on 07 December 2018 from CPRT was not recognised in the IGR cash book.

f) Over payments

i. Payment for E-newsletter and online advertisement for ACE-CEFOR paid to Daniel Okon (PV No. 281352, ASN/2018/178) for ₦318,937.50 was made VAT inclusive. The Vendor should have been paid ₦303,750 and the VAT of ₦15,187.50 remitted to the Federal Inland Revenue Service (FIRS). Nevertheless, This VAT element was paid to the Vendor instead of FIRS.

ii. For some transactions, actual taxes (WHT & VAT) were calculated and remitted accordingly but the actual amount paid to the vendor was WHT inclusive. For this reason, the cost of these items was overstated and the vendors were overpaid. This error also affected the books of accounts. These includes:

S/ N	Vendor	Details	PV No.	Amount Paid(₦)	Correct Amount Payable(₦)	Difference
1	Stainless and Cousins W/A Ltd.	Supply/Installation of 2 (1.5 KVA) Inverters	ASN/2018 /186	10,794,945	10,226,790	568,155
2	Jensok Global Investment Ltd	Payment for the supply of computer consumables and stationery	ASN/2018 /188	2,307,766	2,186,305	121,461
3	Speedlink Hi-Tech Ltd	Payment for internet installation/w ebsite development for Registrar's wing and	ASN/2018 /177	941,640	892,080	49,560

		thunder arrestor				
4	Speedlink Hi-Tech Ltd.	Payment for internet installation in UNIPORT E- library	ASN/2018 /179	885,281	838,687	46,594

Total amount to be refunded by the two vendors are ₦785,770.

- g) There were debits in the CEFOR TSA Naira bank statement for which the Payment Vouchers/Approvals were not sighted. These are listed below:

Date	Particular	Amount (₦)
05/07/2018	Payment for May 2018 IFO Catering services in ACE CEFOR KAYOG GLOBAL SER. LTD.	210,000
20/08/2018	DTA to attend workshop in Tarkwa Ghana ASN2018133 IFO Lale N. E. S	202,630

- h) All transaction via the dollar account were not vouched as Bank statements for this account were not available.
- i) There were no tax receipts for taxes paid presented for the audit exercise.

Recommendations:

1. All bank accounts maintained by the centre should be reconciled monthly and the cash book updated monthly.
2. Errors in the ledgers and cashbook should be corrected accordingly.
3. All Vendors overpaid should be communicated to make adequate refund.
4. All payment should be approved and payment voucher raised before payment is made.
5. All transaction via the dollar account should be vouched subsequently.
6. Tax receipts should be presented for audit review.

Management Response:

The bank statement for the dollar account was not available, thus the account could not be reconciled. Subsequently the cash book will be updated monthly after reconciliation.

The accounting errors was due to software issue, but will be ratified.

The vendors overpaid have been communicated to refund.

2.3 INTERNAL CONTROL

Observations:

- a) Internal control was fairly adequate. Compliance with financing agreement/work plan in executing major projects budgeted for the second half year of 2018 was effective. Find below the tabulated categories and their percentage of completion (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	Work Plan (₦)	Actual (₦)	% of comp.
1	Operating cost	Accreditation Analysis.	15,685,714.29	47,981,000.00	306%
2	Operating cost	Communication and Marketing.	6,100,000	6,135,929	101%
3	Operating cost	Students and Faculties support.	53,375,000	34,319,000	64%
4	Operating cost	Regional students enrolment and support.	30,500,000	-	0%

5	Operating cost	National registry of environmental professionals (NREP), USA certification.	0	7,350,000	100.00%
6	Operating cost	Hold project implementation meetings.	6,100,000	85,000.00	1.39%
7	Operating cost	Vigorous awareness campaigns within and outside region.	12,962,500	-	0%
8	Operating cost	Explore recognition as regional centre of expertise.	8,472,222	4429433	52%
9	Operating cost	Negotiate and sign memoranda with project partners.	9,150,000	-	0%
10	Operating cost	Attend ACE meetings.	7,625,000		0.00%
11	Operating cost	Attend short courses by steering committee members.	41,590,909	52,023,998	125.09%
12	Operating cost	Administrative charges (bank transaction; stationery; internet; communication ; bills; fuels, car	15,250,000	23,348,631	153.11%

		maintenance, etc.)			
13	Goods	Teaching aids (Projectors, data services, internet connectivity) maintenance	10,675,000	2,426,130.00	23%
14	Goods	Books and Journals	4,270,000		0.00%
15	Goods	100 KVA Diesel Generator with accessories.	8,387,500	-	0%
16	Goods	Project vehicles (Toyota 1 No corolla car 1 No Hiace bus)	5,490,000	151,050	3%
17	Goods	Laboratory Equipment and associated furniture, reagents maintenance	58,821,429		0.00%
18	Goods	Office, e- library and classroom furniture with accessories.	30,500,000	29,956,206	98.22%
19	Goods	e- procurement software	0	0	0%
20	Works	CEFOR building (External works	22,875,000	0	0.00%

	landscaping maintenance of facilities at Building).		
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- c) Fixed Asset register was not adequately prepared and not comprehensive. A few assets were not coded.
- d) Unretired advances amounted to ₦11,214,167 for the period; See Appendix 1 for details.
- 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 Steering Committee (The Vice Chancellor).
- f) The procedure in place indicates that: 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 well prepared to reflect all Asset owned by the Centre
- c) Unretired advances, all staff involved should be communicated to retire their advances; if otherwise deducted from subsequent payment.
- d) All payment should pass through due process.

Management Response:

Availability of funds affected implementations of the work plan.

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

Retirement of all unretired advances is in progress.

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 steering 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, the audited annual financial statements and management letter for the period ended 31st December 2018 were not ready and hence not presented for the audit exercise.

The semi-annual report for the half year ended 31st December 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

As at the time of this Audit, the audited Annual Financial Statements and Management letter for the period ended 31st December 2018 were not presented for the audit exercise.

Management Response

The audit annual financial statements and management letter for the period January to December 2018 is not available because the year just ended.

2.8 DISBURSEMENT AND SUBMISSION OF WITHDRAWAL APPLICATIONS

Disbursement of \$632,933.88 was made to the Centre 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.

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.

Payment procedures within the period under review were 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:

- i. There were debits in the CEFOR TSA Naira bank account for which the Payment Vouchers/Approvals were not sighted. These are listed below:

Date	Details	Amount (₦)
05/07/2018	Payment for May 2018 for Catering services IFO ACE CEFOR- KAYOG GLOBAL SER. LTD.	210,000
20/08/2018	DTA to attend workshop in Tarkwa Ghana (ASN2018133) IFO Lale N. E. S	202,630

- ii. In the IGR account a payment voucher was raised with Dr. (Mrs.) F.J. Ayuwo and the payment of ₦150,000 was made to Fomsi David.
- iii. Payment IFO ACE CEFOR Ph.D. students and supervisors to attend the Nigerian Society of Chemical Engineers Conference & AGM at Ogun State with PV No. 281379 (ASN/2018/204), the sum of N82,400 was approved per student. Okotie Sylvester was paid N82,400 twice while Nwosi Hezekiah was not paid at all. The account details for the both students were available.
- iv. Operating costs of ₦4,390,345 for periods of April 2016 to September 2017 were recognized and paid to CPRT in August 2018 (with PV-275875 (ASN/2018/123)). This affects the actual expenditure for this expenditure category for the period when compared with the budget.

Recommendation:

1. Payments without approval documents should be resolved and retired where necessary.
2. Payment should be made to the beneficiaries directly.
3. All cost incurred on expenditure should be recognised in the actual period incurred.

Management Response:

Issues of payment vouchers and approvals are being resolved.

The Project Accountant (Dr. (Mrs.) F.J. Ayuwo) was busy thus she sent one of her support staff to cash the money.

2.11 PHYSICAL VERIFICATION

The Fixed asset register for the period under review was not accurate and 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 accurate and comprehensive. This issue is 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	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	Done
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	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

New/updated internal audit action plan

S/N	Issues	Agreed Actions	By Whom	Status
1	Workplan	Follow up on workplan to ensure timely implementation.	Centre Leader and Project Monitoring Officer	Before the next audit
2	Bank reconciliation/Bank Statement	To ensure that all accounts maintained by the centre are reconciled monthly and cash book update accordingly. Bank statement for dollar account be made available.	Project Accountant	Before the next audit
3	Ledgers/Cash Book	To make adequate correction on errors and ratify all software issues.	Project Accountant	Before the next audit
4	Overpayment	To recover all excess payment made to vendors	Project Accountant	Before the next audit
5	Tax Receipts	Liaise with tax authorities to get tax receipts for taxes paid	Project Accountant	Before the next audit
6	Fixed Asset Register	Fixed Asset register be comprehensive/detailed to reflect all Assets owned by the Centre.	Project Accountant	Before the next audit
7	Unretired Advances	To communicate to all staff involved to retire their advances.	Project Accountant	Before the next audit
8	Payment Voucher/Approval	Should endeavour that all payment made are authorised and approved.	Project Accountant	Before the next audit
9	External Audit report	To be make available	Centre Leader/ Project Auditor and Project Accountant	Before the next audit