

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 2018
Credit/Grant Amount	\$4.5 Million
Project Duration	3 Years
Remaining Period to Closing	2 Years
Disbursed Amount to date & Percentage	N147,172,326.55 \$932,239.56
Period Covered by Review	1st July to 31st December 2016
Internal Auditor	Edwin Harcourt

1.0 EXECUTIVE SUMMARY

This routine audit covered the period July 1 to December 31, 2016. The following records were examined; cash book, bank account statements and bank reconciliation statements. The essence was to ensure that cash transactions were posted as at when due, 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 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 also reviewed the payment vouchers to check for authorization and approvals. The Audited financial statements and management letters for the year ended December 31, 2015; Trial Balance, Ledgers, Fixed asset registers, 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 and Evaluation and communication officers. The essence was to substantiate our findings from records checked.

The following were the major findings of the exercise; About NGN10.28m was budgeted for goods under milestone 2 but actual expenditures were not incurred. Under Accounting, there were errors in the books of accounts prepared by the Project Accountant. Within the period under review there were IOUs given to Dr Ubani C. E. and Dr Etela I. for N300,000 each as financial assistance to enable them embark on the Abidjan workshop since funds were not made available before the trip.

The following approved funds did not get to the ultimate beneficiaries as at December 31st. They include: N297, 000 for hosting of 101st SGS seminar; N215,000 for printing of maiden edition of ACE CEFOR Quarterly bulletin; N3,750,000 for M.Sc. students research support. The N3,750,000 for MSc research grant was split and posted to two different expense heads i.e. N2,450,000 to vigorous awareness campaign and N1,300,000 to negotiate and sign memoranda with project partners. About N10.128m was budgeted for goods under milestone 2 for the period, but no expenditure was incurred. We also observed that the audit committee is yet to make any impact 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 used for intended purposes and are in line with World Bank guidelines. The project Financial Management risk is adequate. All payment went through the required authorization and approvals. There was also adequate segregation of duties.

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

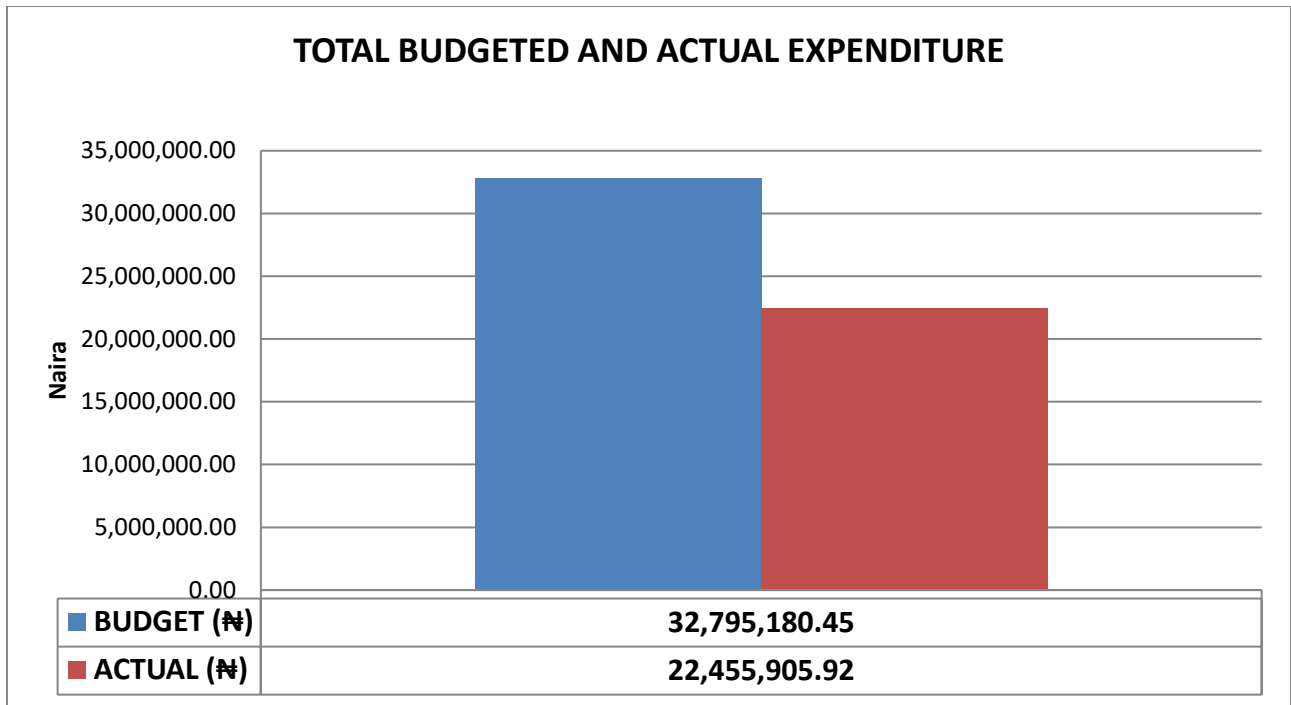
These were our findings:

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 to December, 2016.

Summary of the budget and actual expenditure for the project from July 2016 to December 2016 is shown below.

GRAND TOTAL			
BUDGET (₦)	ACTUAL (₦)	VARIANCE	% VARIANCE
32,795,180.45	22,455,905.92	10,339,274.53	31.53



From the table and Chart above, the actual expenditure for the period under review were 31.53% less than budgeted in the work plan. Further analysis of this positive variance is detailed below:

GRAND TOTAL				
	BUDGET (₦)	ACTUAL (₦)	VARIANCE	% VARIANCE
GOODS	10,128,135.00	0.00	10,128,135.00	100.00
WORKS	0.00	0.00	0.00	0.00
OPERATING COST	22,667,045.45	22,455,905.92	211,139.53	0.93
	32,795,180.45	22,455,905.92	10,339,274.53	31.53

This is shown graphically in the chart below:



Within the period under review, zero sum was budgeted for works. Accordingly, there was no actual expenditure for works. In addition, though N 10,128,135.00 was budgeted for goods, zero expenditure was made for this expenditure classification, resulting to a 100% favourable variance for this category. Finally, Expenditure for the purpose of operating costs were made in accordance with the budget.

Components and work plan classifications:

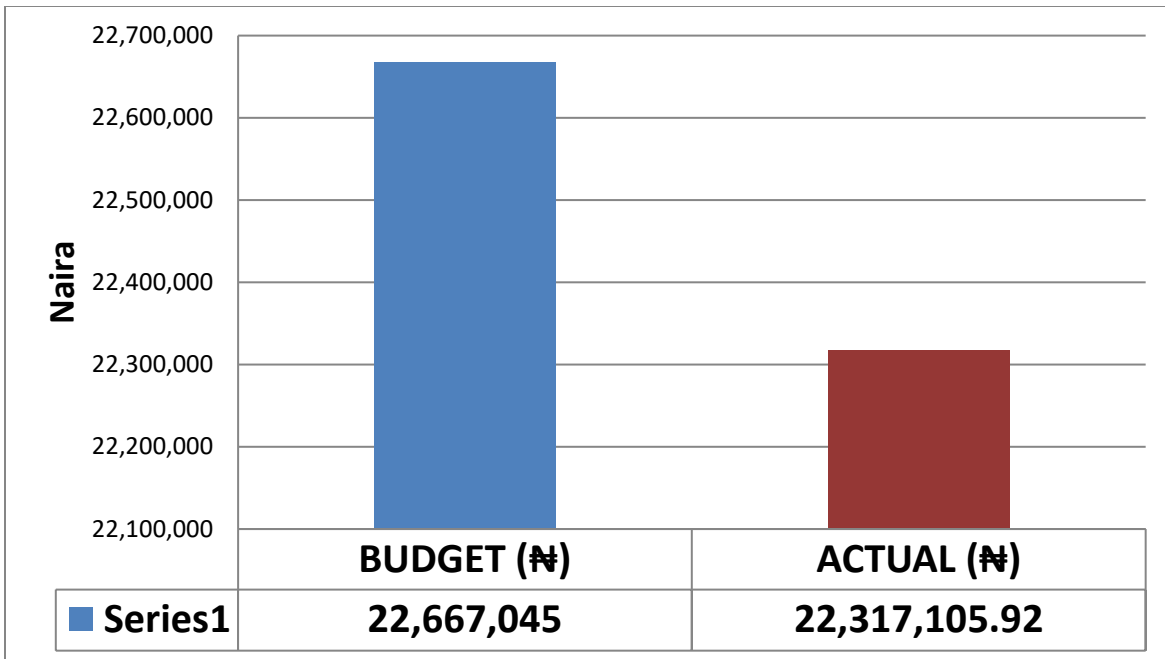
Under component 1, Milestone 1 focuses on making the Uniport ACE-CEFOP a Regional Centre of Learning and Research and Milestone 2 focuses on Excellence in Education, Research Capacity and Development Impact. Actual expenditures for the period under review were classified into milestones based on the description of the expenditure and the classification of such expenditure in the agreed work plan.

Analysis of budgeted and actual expenditure based on their components and classifications are given below:

JULY TO DECEMBER 2016				
	MILESTONE 1			
	BUDGET (₦)	ACTUAL (₦)	VARIANCE	% VARIANCE
GOODS	0	0.00	0.00	0.00
WORKS	0	0.00	0.00	0.00
OPERATING COST	22,667,045	22,317,105.92	349,939.53	1.54
	22,667,045	22,317,106	349,940	1.54
	MILESTONE 2			
	BUDGET (₦)	ACTUAL (₦)	VARIANCE	% VARIANCE
GOODS	10,128,135.00	0.00	10,128,135.00	100.00
WORKS	0.00	0.00	0.00	0.00
OPERATING COST	0.00	138,800.00	-138,800.00	-100.00
	10,128,135.00	138,800.00	9,989,335.00	98.63

Analysis of the budget performance based on Milestones indicated a positive variance of 1.54% for milestone 1 and a positive variance of 98.63% for Milestone 2.

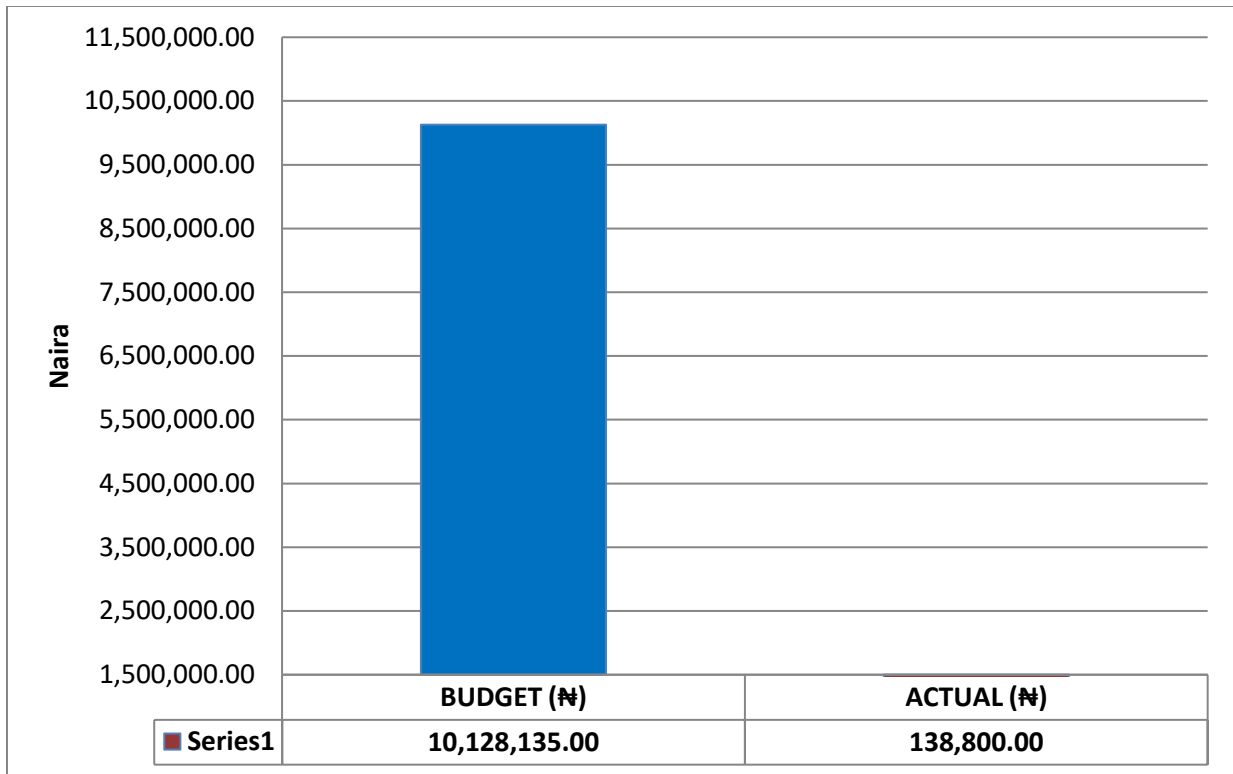
MILESTONE 1: BUDGETED AND ACTUAL EXPENDITURE



As indicated in the chart and table above, within milestone 1, a slight positive variance was observed for Operating cost. Goods and works yielded zero percent variances since there was no provision for such and actual expenditure were not incurred.

Generally, actual expenditures incurred within milestone 1 were made with consideration to provisions made in the work plan.

MILESTONE 2: BUDGETED AND ACTUAL EXPENDITURE



Further, the table and chart above indicate that within milestone 2, the only budgetary provision made was for expenditure on Goods to the tune of ₦ 10,128,135.00. However, no actual expenditures were made on goods. Also, expenditures were incurred on operations within this milestone. This led to an overall 98.63% positive variance for milestone 2.

Analysis indicates that in aggregate, there were no significant adverse variances within the period under review. Nevertheless, significant positive variance was observed for Goods within milestone 2. It should be noted that although significant positive variances indicate lesser expenses in relation to the Budget, such significant positive variance from the work plan may not be in the best interest of the center as funds budgeted may not be used and the center might be operating below optimal capacity. This might have negative impact on achieving the main objectives of both Milestone 2. It is recommended that expenditures be made in relation to the budget in order to avoid significant variances.

It is worthy to note however that the project's fund is not included in the Federal Government 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.

Management Response:

Delays in the process of tendering and issue of award letters to contractors/suppliers was the main cause of not incurring expenditure on goods within milestone 2.

Recommendation

It is recommended that actions should be taken to improve the extent to which expenditures are made with consideration to the budget. This will help reduce significant positive or negative variances.

2.2 ACCOUNTING

Observations:

- a) Government accounting system was put in place, as cash basis IPSAS was used for preparation of accounting records. Accounting Software was used for documentation of accounting transactions and records.
- b) All Payments were made via bank transfers and had payment Vouchers.
- c) We examined the books of account and observed some wrong posting of transactions in the ledger accounts. Examples are: payments made to Ubani C. E. and Etela Ibisime N300,000 each for financial assistance for Abidjan conference was posted to miscellaneous ledger account; M. Sc. Reseach for N3,750,000 grant to students was posted to vigorous awareness campaign ledger N2,450,000 and negotiate and sign memoranda with project partners N1,300,000.

- d) The Trial balance extracted was not adequately prepared as the bank ledger was not capture and the figure shown for CEFOR Uniport ledger in the trial balance does not tally with what we have on the ledger account. The CEFOR Uniport ledger balance was gotten from the receipt and payment account and has two balances, debit and credit balances.
- e) The center operates three bank accounts but three account were presented, among which two accounts are domiciled at the CBN (a dollar account and a naira account) while one account is domiciled at United Bank of Africa Plc. Bank reconciliation was well prepared on monthly basis for the UBA account.
- f) The centre audited financial report for the period ended 31st December, 2015 was examined. The Auditors expressed their opinion that the Financial statements gave a true and fair view of the state of affairs of Africa Centre of Excellence
- g) The project does not have a separate Project Financial Management Procedures Manual.

Recommendations:

1. All wrong posting in the ledger should be corrected and posted to the correct ledger
2. The Trail Balance should reflect correct balances from all ledgers. All relevant adjustments should be done in the ledger accounts before reflecting it on the trial balance.

Management Response:

For wrong classification of expense, there was no code for student research grant, but it was a critical payment that has to be made. The trial balance will be corrected.

2.3 INTERNAL CONTROL

Observations:

- a. Internal control generally was adequate although compliance with financing agreement/work plan in executing major projects budgeted for the second half of the year 2016 was slow. Find below tabulated categories of percentage completion of projects:

S/N	Component	Sub Component	Actual	Work plan	percentage of completion
1	Operating cost	Hold project implementation meetings	1,287,375	3,050,000	42.21%
2	Operating cost	Vigorous awareness campaigns within and outside the region	10,222,235.25	10,397,724.5	98.31%
3	Operating cost	Explore recognition as regional center of expertise	3,625,850	4,159,090.9	87.18%
4	Operating cost	Negotiate and memoranda with project partners	2,324,146	2,772,727.27	83.82%
5	Operating cost	Develop/review MSc, PhD and short term training curricula	297,000	1,372,500	21.64%
6	Operating cost	Administrative charges (bank transactions; stationery; internet; communication; bills; etc.	575,456.56	915,000	62.89%
7	Goods	Equipment and Reagent for Drilling Fluids and Mud Laboratory	0	2,077,050	NIL
8	Goods	Equipment and Reagents for Analytical and quality Laboratory	0	3,204,635	NIL
9	Goods	Equipment and Reagents for Water, Sanitation and Environmental	0	4,846,450	NIL

		Management Laboratory			
10	Operating cost	Training/ Workshop/ Conference/ Seminar	138,800	0	-100%
11	Operating cost	Research grant to students	3,750,000	0	-100%

Dollar exchange rate of N305 to \$1 was used for conversion.

Item 11 was not included in the work plan

- a. No stock was held by the Centre. Apart from the laptop for the Centre Leader and Steering Committee.
- b. There is Fixed Asset Register for the Centre. Although during verification of asset, we sighted some assets that were not captured in the fixed asset register presented; for instance, refrigerator, filing cabinet, etc. no asset was purchased within the period. As at the time of this audit, there were no Advances.
- c. No safe was required because there was no cash in hand, cheque or physical documents. Payments were made via bank and no Imprest is kept.
- d. All payments went through the required authorisation and approval procedures. Within the period under review there was an IOU given to Mr. Ubani C. E. and Mr. Etela I. for N300,000 each as financial assistance to enable them embark on the Abidjan workshop. This was necessary because the claims for that trip was not paid before commencement. There was no evidence of refund during the period under review.
- e. The procurement plan was prepared by the Centre Leader and the Procurement Officer; vouchers for expenditures were raised by the Project Accountant; Audited by the Project Auditor and approved by the Chairman of the Project Steering Committee (The VC). Various committees exist for various duties. They include the Project steering committee, the Audit committee and the Procurement committee.
- f. Even though there were no complaints by suppliers and project staff, we noted that payments approved for Prof Akaranta and Dr Etela for trip to Indonesia amounting to N4,511,650 have not been paid even though the affect project staff had embarked on the trip.

Recommendations:

1. There should be follow up on Work plan to enhance the implementation process.
2. Mr. Ubani C. E. and Mr. Etela I. should endeavour to make the refund of N300,000 each to the Centre.
3. The work plan should be designed to include all expense to be made with in the period and management should endeavor to keep to plan during execution. Where an expense was not budgeted for and it is critical for the success of the project, the Project Steering Committee should seek and obtain ‘no objection’ from the World Bank before committing such expense.

Management Response:

Payment for items in the work plan were delayed because of lack of fund, as fund are disbursed base on results after submission of withdrawal applications and verification by World Bank. For the IOUs, Dr. Ubani has refunded his in January but Dr. Etela his yet to refund because he is expecting a refund from the Centre for trip to Indonesia.

2.4 EFFECTIVENESS OF MANAGEMENT OVERSIGHT INCLUDING AUDIT COMMITTEES

Although the Audit committee is yet to handle any issue within the period under review, we consider the effectiveness of management oversight for this Centre to be adequate. This is so because the project committee is headed by the Vice Chancellor and is saddled with the duty to approve various projects. This committee 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 audit committee is made up of professionals from the department of Accounting (3 members) and the department of Banking and Finance (1 member). These members hold office for the duration of the project.

The committee is yet to handle any issue as at the end of December 2016.

Recommendation

Involve the Audit Committee in issues relating to the project. Get them involved in the review of both internal and external audit reports and management letters. This is to enable them enforce corrective measures.

Management Response:

The Audit Committee has not been effective because the World Bank wanted the university Audit Committee and not appointing a separate Audit Committee for the centre

2.5 FUND FLOW

Withdrawal Applications (WA) were made and Disbursements were received within the period under review. Disbursements within the period amounted to \$932,239.56.

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

2.6 FINANCIAL REPORTING

There was an audited annual financial statement for the center within the period covered by this audit. However, because reports are now prepared on Biannual basis, IFRs have been redesigned to half year reports with a 45 days' deadline to submit

the report. The report for the half year ended 31 December 2016 has been submitted to the World Bank and was examined during the audit exercise.

There was no Financial Management Report for the period under review. Computerized accounting system is used to generate accounting information.

2.7 EXTERNAL AUDIT

The year ended December 31, 2015 audited account and managements letter were submitted to World Bank before the end of June, 2016. The observations of the external auditors and the explanations offered by the steering committee has been presented in the 1st half of the year report. The Auditors expressed their opinion that the financial statements give a true and fair view of the state of affairs of Africa Centre of Excellence.

2.8 DISBURSEMENT AND SUBMISSION OF WITHDRAWAL APPLICATIONS

Withdrawal Application was submitted, WA for the center was based on verified results. Further, disbursement was received during 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 unclear mandates: N297, 000 for hosting of 101st SGS seminar; N215,000 for printing of maiden edition of ACE CEFOR Quarterly bulletin and N3,750,000 for M.Sc. students research support. Also, N4,511,650 trip to Indonesia for Prof. Akarata and Dr. Etela has not been paid.

Recommendation

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

Management responses

Payments for N297,000; N215,000 and N3,750,000 has been paid as at 31st December 2016 but the mandate was not cleared until January 2016. There was no

money when the trip to Indonesia was embarked upon but now that we have received money from World Bank they will be paid.

2.10 PAYMENT PROCEDURES

An examination of current payment procedures for expenditures within the Centre reveals that payment procedures in place are acceptable and in line with global best practices. Approvals for payments to suppliers and beneficiaries are timely and payments are made using due process.

Within the period under review, payment procedures were devoid of loopholes that may lead to errors/irregularities.

2.11 PHYSICAL VERIFICATION

Fixed asset register was maintained but was not comprehensive as it did not include all asset owned by the Centre. Existence of assets was verified; also, project vehicles were adequately insured. However, some fixed assets were not coded with the University's coding system.

Recommendation

All asset owned by the Centre should be captured in the fixed asset register and coded with the University's coding system.

Management responses

We will write to store to come and code the asset and capture them in the fixed asset register.

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 is also a procurement plan. However, there was no procurement activity 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 external audit findings

S/N	Issues	Agreed Actions	By Whom	Status
1	No fixed asset register	To provide asset register	Project accountant	Done
2	Fixed assets not coded	To code all fixed assets of the Centre	Project accountant	Has not been done

Status of previous internal audit Action plan

S/N	Issues	Agreed Actions	By Whom	Status
1	Failure to deduct VAT from payment to supplier.	To recover VAT from the supplier	Project accountant	Done
2	Wrong classification of expenses.	To reclassify the items appropriately	Project account	Done
3	Project audited account not integrated with that of the University account.	To integrate both audited accounts subsequently	Project account	Has not been done
4	Audit committee not involved in the activities of the Centre.	Will ensure they get involved hence forth	Centre leader	Has not been done

New/updated internal audit action plan

S/N	Issues	Agreed Actions	By whom	By when
1	IOUs granted to Dr. Ubani and Dr. Etela for Abidjan trip	To recover IOUs from Dr. Ubani and DR. Etela	Project Accountant	Before next audit
2	Uncleared mandate and unpaid expense	Ensure that all outstanding payments gets to the beneficiaries	Project Accountant	Before next audit
3	Wrong classification of expense and correction of the trial balance	To reclassify the items and correct the trial balance	Project accountant	Before next audit
4	Not all fixed asset owned by the centre were captured in the asset register	Update Fixed asset register to reflect all asset owned by the Centre	Project accountant	Before next audit