

**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	₦ 147,172,326.55 \$ 1,155,241.75
Period Covered by Review	1st January 2017 to 30th June 2017
Internal Auditor	Edwin Harcourt

1.0. EXECUTIVE SUMMARY

This routine audit covered the period January 1 to June 30, 2017. 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. Also reviewed for the purpose of this audit were the audited financial statements and management letters for the year ended December 31, 2016; 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 & Evaluation and communication officers. The essence was to substantiate our findings from the records checked.

The following were major findings of the exercise; the sum of ₦195,355,518.00 was budgeted for goods but actual expenditures were not incurred.

Under Accounting, there were some wrong classifications, while some transactions were not captured in the books of accounts. Also, there was an overpayment of ₦40,000.00 paid to one Mr. Alex Nmecha. We also noted that some bank accounts were not reconciled.

The total sum of ₦14,726,439.00 was approved and paid but yet to be received by beneficiaries as at June 30th 2017. All the payments went through the required authorization and approvals. There was also adequate segregation of duties. 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 the 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:

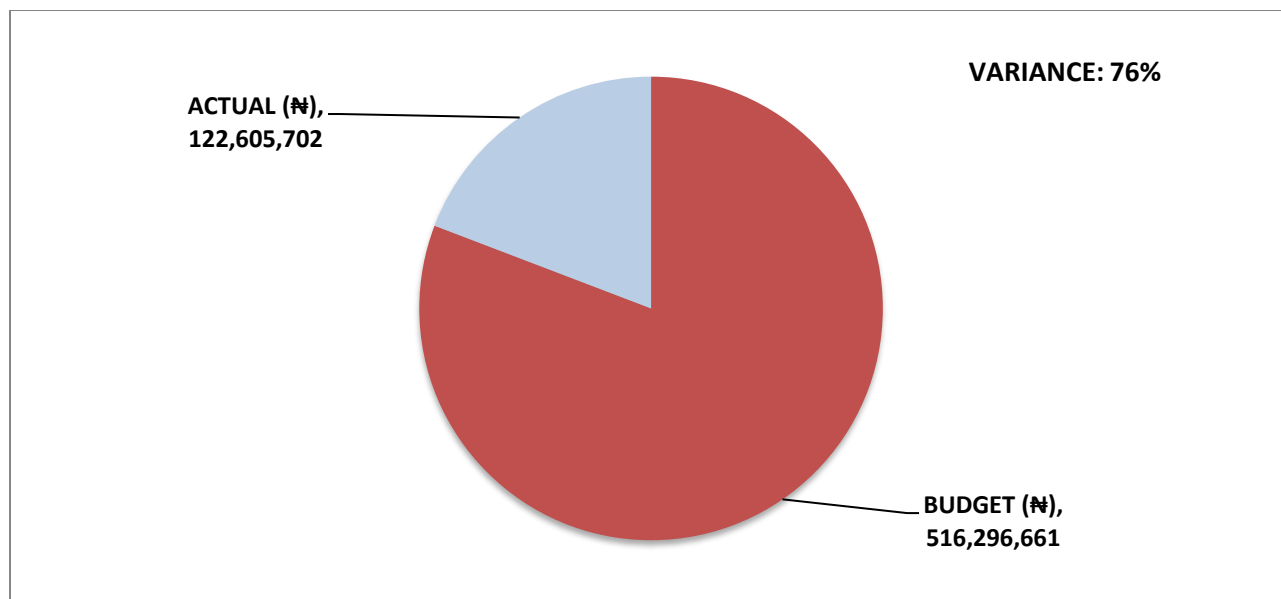
Pro-rata apportionment is necessary where the budgeted item covers periods, which exceeds the period covered by this report. i.e. January 1 to June 30, 2017.

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, 2017 is shown below.

Table 1: Summary of budgeted and Actual Expenditure

GRAND TOTAL			
BUDGET (₦)	ACTUAL (₦)	VARIANCE (₦)	% VARIANCE
516,296,661.00	122,605,702.00	393,690,959.00	76

Chart 1: Summary of budgeted and Actual Expenditure



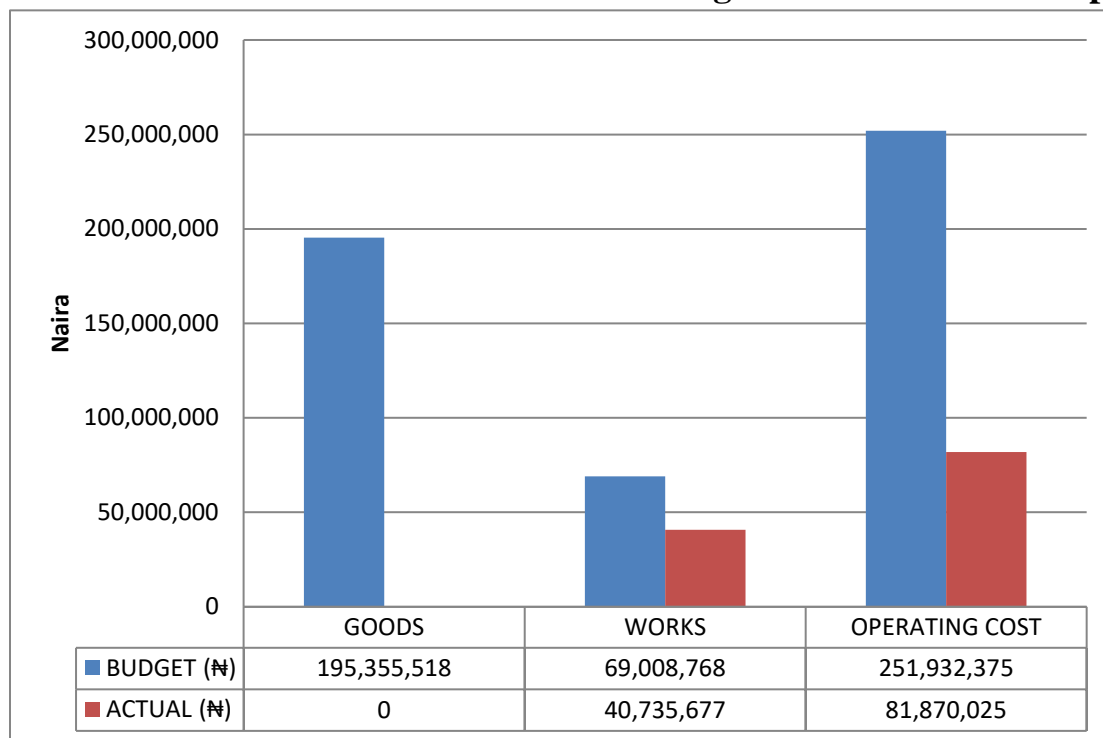
From table 1 and Chart 1 above, actual expenditure for the period under review was 76% lesser than budget in the work plan. Further analysis of this positive variance is detailed below:

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

JANUARY TO JUNE 2017				
	BUDGET (₦)	ACTUAL (₦)	VARIANCE	% VARIANCE
GOODS	195,355,518.00	0.00	195,355,518.00	100
WORKS	69,008,768.00	40,735,677.00	28,273,092.00	41.0
OPERATING COST	251,932,375.00	81,870,025.00	170,062,350.00	67.5
	516,296,661.00	122,605,702.00	393,690,959.00	76.3

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 ₦195,355,518.00 was budgeted for goods, no expenditure was incurred for this expenditure category. This implied a significant 100% positive variance. In addition, the sum of ₦69,008,666.67 was budgeted for works. Actual expenditure for works amounted to ₦40,735,677.00. This yielded 41% positive variance.

Finally, the sum of ₦251,932,375.00 was budgeted for operating costs. However, the sum of ₦81,870,025.00 was actually spent as operating expenditure within the period under review. This amounted to a significant positive variance of 67.5% for this expenditure category.

Analysis indicates that in aggregate, there were significant positive variances for goods and operating costs within the period under review. It is 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 strengthening Centre (Component 1). It is also 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 ₦304.45.

Management Response:

Expenditure on goods category are tied to completion of the CEFOR Building and will commence on final completion of the building which is almost ready.

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

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) International Public Sector Accounting Standards (IPSAS) was used for preparing accounts. Also accounting software was deployed for preparation of books of accounts.
- b) Payments were done via transfers using Remitta. All payments were made using payment vouchers (PVs) and were passed through due process. There was an error of over payment of ₦40,000.00 to one Mr. Alex Nmecha on 06/06/2017 with PV NO: 260024 for sitting allowance for tenders opening

exercise amounting to ₦544,000.00. What was vetted and approved was ₦504,000.00.

- c) There was no bank reconciliation statement prepared for the First Bank internally generated revenue account; with account name: Centre for Petroleum Research and Training Uniport 2, and account number: 2031958677. Also, there was no bank reconciliation for the TSA dollar account.
- d) There was no VAT deduction and remittance for payment of ₦600,000.00 made to The University of Port Harcourt Data Centre on 06/06/2017 on PV NO: 260017; for 2017 ACE-CEFOR Accounting Software upgrade and system maintenance.
- e) In the ledger account presented, there were some wrong classifications of expenses to the tune of ₦2,413,051.04 and ₦2,152,715 being Fawehinmi H. B. leadership Development conference in New York. The amounts were posted to vigorous awareness campaigns within and outside the region (8131) instead of training-workshop-conference-seminar (8117).
- f) The trial balance/ledger/receipt and payment account presented did not capture the following transactions:
 - i. Refund made by Ubani Chikwendu. E. MR/ transfer to CEFOR on (05/01/2017) ₦300,000.
 - ii. The bank charges for the period were not reflected in the books of accounts after bank reconciliation.
 - iii. The receipts through First bank account (internally generate revenue account) were not captured/recognized in the books of account presented to us.
- g) There was no bank statement presented for the Dollar Account. Although we saw the payment vouchers prepared and the Cash Book for various payments done via the Dollar Account.
- h) The audited financial report for the period ended 31st December, 2016 was examined. The Auditor expressed their opinion that the financial statements gave a true and fair view of the state of affairs of the Centre.

- i) The project does not have a separate Project Financial Management Procedures Manual.

Recommendations:

1. Overpayment of ₦40,000 to Nmecha Alex should be recovered.
2. Bank reconciliation should be done for every account maintained by the centre on monthly basis. Bank charges/processing fees should be reflected in the books (cashbook, ledger, receipt and payment) of account after bank reconciliations on monthly basis.
3. Taxes should be deducted accurately for tax deductible expense/transactions and remitted appropriately.
4. Wrong posting in the ledger should be corrected and posted to the correct ledger.
5. The books of accounts (trial balance/ ledger/receipt and payment account) should reflect all transactions done within the period.
6. All books/statement of accounts should be made available for audit review.

Management Response:

The internally generate revenue account has no cash book as no withdrawal has been made from that account. There was no bank reconciliation for the TSA dollar account because there was no bank statement available.

Also, there was no VAT for payment made to Uniport Data Centre because the Data Centre constitutes an integral part of the University.

Further, Mr Alex Nmecha has refunded the excess of ₦40,000.00 erroneously paid to him. The bank charges/processing will be reflected in the next quarter.

2.3 INTERNAL CONTROL

Observations:

- a) Internal control was adequate. However, compliance with financing agreement/work plan in executing major projects budgeted for the first half year for 2017 was slow. 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:

S/N	Component	Sub-Component	Actual (₦)	Work Plan (₦)	% of Completion
1	Operating cost	Accreditation/ Gap analysis.	3,380,550.00	45,667,500.00	7.40
2	Operating cost	Communication and Marketing.	834,000.00	9,133,500.00	9.13
3	Operating cost	Students and Faculties support.	26,301,866.00	60,890,000.00	43.20
4	Operating cost	Regional students enrolment and support.	0	45,667,500.00	0.00
5	Operating cost	National registry of environmental professionals (NREP), USA certification.	9,000,000.00	15,222,500.00	59.12
6	Operating cost	Hold project implementation meetings.	0	6,089,000.00	0.00
7	Operating cost	Vigorous awareness campaigns within and outside region.	10,190,322.00	12,939,125.00	78.75
8	Operating cost	Explore recognition as regional centre of expertise.	4,511,650.00	6,089,000.00	74.10
9	Operating cost	Negotiate and sign memoranda with project partners.	479,600.00	6,089,000.00	7.88
10	Operating cost	Attend ACE meetings.	4,007,178.00	15,222,500.00	26.32

11	Operating cost	Attend short courses by steering committee members.	20,369,905.44	22,833,750.00	89.21
12	Operating cost	Administrative charges (bank transaction; stationery; internet; communication; bills; fuels, car maintenance, etc.	2,794,954.00	6,089,000.00	45.90
13	Goods	Teaching aids (Projectors, data services and installation).	0	15,222,500.00	0.00
14	Goods	Books and Journals	0	21,311,500.00	0.00
15	Goods	100 KVA Diesel Generator with accessories.	0	13,700,250.00	0.00
16	Goods	Laboratory Equipment and associated furniture.	0	76,112,500.00	0.00
17	Goods	Office, e-library and classroom furniture with accessories.	0	69,008,768.15	0.00
18	Works	CEFOR building (Abandoned AFREN building at 75% completion).	40,735,676.58	69,008,768.15	59.03

a) There is a Fixed Asset Register for the Centre. Although during verification of assets, we sighted some assets that were not captured in the fixed asset register; for instance, 4 refrigerators, 1 filing cabinet, 2 executive tables, etc. As at the time of this audit, there were no Advances.

- b) There was a safe in the project accountant's office. Payments were made via bank and no Imprest is kept.

- b) All payments went through the required authorization and approvals procedures. 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.)

- c) The procurement plan was prepared by the Centre Leader and the Procurement Officer; vouchers for expenditures were raised by the Project Accountant; vetted by the Project Auditor and approved by the Chairman of the Project Steering Committee. Various committees exist for various duties. They include the Project steering committee, the budget committee and the Procurement committee.

Recommendations:

- a) There should be follow up on Work plan to enhance the implementation process.
- b) The fixed asset register should be comprehensive to reflect all the assets acquired by the Centre.

Management Response:

Payment for items in the work plan were delayed because items for goods expenditure will be incurred after the completion of the ACE CEFOR building. Some items for operating costs have been incurred and due for payment are yet to be paid.

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

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. There is a project committee headed by the Vice Chancellor. 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 Budget committee
- B. The Procurement committee and
- C. The Audit 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 July 2017.

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 is yet to handle any issue because the Centre is required to utilize the University of Port Harcourt Audit Committee and there is none at moment.

2.5 FUND FLOW

Withdrawal Applications (WA) has not been made within the period under review but disbursements were received within the period under review. Disbursements received amounted to \$223,002.19.

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.

Financial Management Report for the period under review has also been submitted. Computerized accounting system is used to generate accounting information.

2.7 EXTERNAL AUDIT

The year ended December 31, 2016 audited account and managements letter were submitted to World Bank before the end of June, 2017. The observations of the external auditors and the explanations offered by the steering committee have been presented in the 1st half of the year report. Findings made by the External Auditors

include an observation that there was no form of revenue generated by the Centre during the year. This impacted negatively on the financial performance.

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.

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

Recommendation

Alternative sources of financing the Centre's activities should be explored, including Federal Government Grant and Exchange transactions.

Management Response

The Centre has sub centres through which researches and training are carried out. There is a well-established programme for sustainability.

2.8 DISBURSEMENT AND SUBMISSION OF WITHDRAWAL APPLICATIONS

Withdrawal Application (WA) has not been submitted for the period under review, WA for the center will be based on verified results and the process of verification is currently on. However, disbursement was received 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:

June 2017 Centre for Petrol Research and Training Refund of expenses on accreditation and Gap Analysis. PV NO: 253259	₦760,550
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June 2017	Prof. Ayoade O. Kuye (IPS) Travelling allowance to and fro Kumasi, Ghana (paid to Prof. Ayoade O. Kuye by CPRT). PV NO: 253269	₦250,939
June 2017	CPRT Support for research project to the M.Sc. Student of IPS, COHSE and CGRP Uniport. PV NO: 253268	₦6,350,000
June 2017	Edwin E. Harcourt To attend the 4 th International Accountants Conference in Los Angeles California, USA from 23 rd -20 th August 2017. PV NO: 253264	₦1,872,398
June 2017	Dr. (Mrs.) F. J. Ayuwo To attend the 4 th International Accountants Conference in Los Angeles California, USA from 20 th -23 rd August 2017. PV NO: 263732	₦1,995,998
Aug. 2016	CPRT Fund for the ACE PhD seminar presentation holding from 4 th -5 th of July 2016. PV NO: 251519	₦2,460,650
June 2017	CPRT Payment for staff lunch from Dec. 2016 to May 2017 PV NO: 263731	₦733,500
June 2017	Speed link ICT solution limited Payment for ACE website security renewal And upgrade. PV NO: 263734	₦302,404

Recommendation

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

Management responses

The above payments have been made and but there were highlighted because they were made towards the end of June, these payments will be seen in the bank statement in the next audit exercise.

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 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 was not updated with all assets 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

A software glitch impinged on the inclusion of some asset categories in the asset register. However, 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 is also a procurement plan and there were procurement activities 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	Revenue Generation	To establish a programme for sustainability	Centre leader	Before the next audit

Status of previous internal audit Action plan

S/N	Issues	Agreed Actions	By Whom	Status
1	IOUs of ₦300,000.00 each granted to Dr. Ubani and Dr. Etela for Abidjan trip	To recover IOUs from Dr. Ubani and Dr. Etela	Project Accountant	Recovered
2	Uncleared mandate and unpaid expense	Ensure that all outstanding payments gets to the beneficiaries	Project Accountant	Done
3	Project audited account not integrated with that of the University account.	To integrate both audited accounts subsequently	Project Accountant	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
5	Not all fixed asset owned by the centre were	Update Fixed asset register to reflect all	Project accountant	Has not been done

	captured in the asset register	asset owned by the Centre		
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New/updated internal audit action plan

S/N	Issues	Agreed Actions	By whom	By when
1	Overpayments	To recover ₦ 40,000 excess paid to MR. Nmecha Alex	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	bank reconciliation	To ensure that all accounts owned by the Centre are reconciled.	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
5	Wrong posting in ledger	To correct wrong posting in ledger account	Project accountant	Before next audit
6	Transaction in the ledger/Trial balance	To ensure that all transactions are reflected in the books of accounts	Project accountant	Before next audit
7	Bank statement for the Dollar account	To ensure that the Bank statement for Dollar account is available.	Project Accountant	Before next audit