

**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	March, 2020
Credit/Grant Amount	\$4.5 Million
Project Duration	4 Years and 9 Months
Remaining Period to Closing	1 years
Disbursed Amount to date & Percentage	₦147,172,326.55 and \$2,666,757.99
Period Covered by Review	1st January 2019 to 30th June 2019
Internal Auditor	Edwin Harcourt

1.0 . EXECUTIVE SUMMARY

This routine audit covered the period January 1st to June 30th, 2019. 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, audited report and management letter for the year ended 31st December 2018 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 existed.

Furthermore, 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 ₦367,084,452 was budgeted. Actual expenditure amounted to ₦176,030,718 causing a positive variance of ₦191,053,734 representing 52% variance. There were significant positive variances of 93.1% and 85.9% for goods and works respectively. A positive variance of 12.4% was observed for the operating cost category.

Within the operating cost category, significant negative variances were observed. The sum of ₦22,159,085.00 was budgeted to ‘organise short courses, attend short courses by steering committee members/other stakeholders’ while ₦55,782,947.00 was actually spent leading to an adverse variance of -₦33,623,862.00 or -151.74%. Significant Positive variances were also observed for various expenditure heads such as accreditation/gap analysis, vigorous awareness campaigns within and outside the region, books and journals and teaching aids.

In accounting, Receipt and Payments accounts were not adequately prepared. The Centre maintains three bank accounts. We also noted that the monthly bank reconciliation statements were adequately prepared for the relevant accounts and the cash book updated monthly. There was fixed asset register within the period under review though not comprehensive and few assets were not coded. The sum of ₦8,472,255.02 approved has not gotten to the beneficiaries. There were errors of wrong posting in the ledgers which affected the receipts and payments accounts and the work-in-progress report.

The external audit report was examined, and the auditor gave an unqualified opinion on the financial statement presented. All payments as evidence in the books presented passed through audit; were duly approved and paid via transfer using remita. All e-mandates and most of the payment vouchers were not signed by the Centre leader. Payments made in respect of student research support allowance-the payment voucher was raised with wrong amount.

Tax receipts were not presented for audit examination. Unretired advances amounted to N16,995,883 and \$25,129.40.

There was 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:

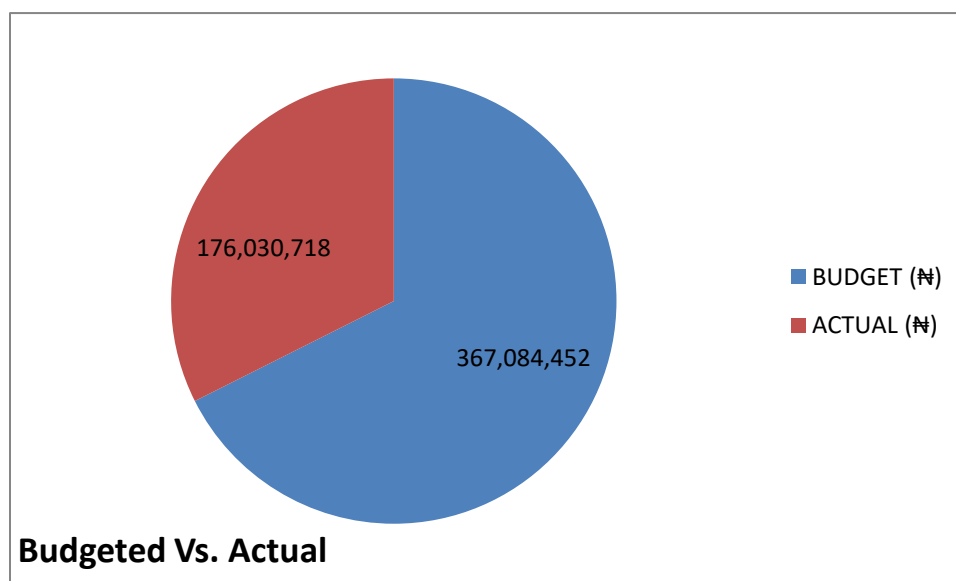
Pro-rata apportionment is necessary where the budgeted item covers periods, which exceeds the period covered by this report. i.e. January 1 to June 30, 2019.

Summary of the budget and actual expenditure for the project from January 1 to June 30, 2019 is shown below.

OVERALL PERFORMANCE (JAN-JUNE 2019)			
BUDGET (₦)	ACTUAL (₦)	VARIANCE	% VARIANCE
367,084,452	176,030,718	191,053,734	52%

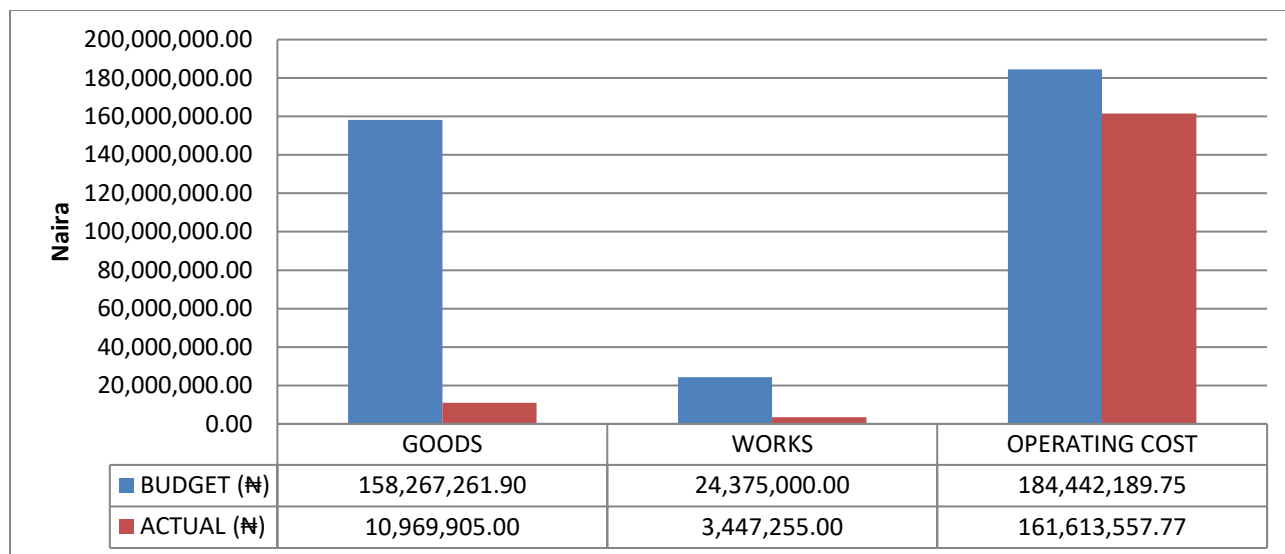
An examination of the budget performance for the period under review indicates an overall significant positive variance. This implies that fewer funds were utilized as provided for in the budget/workplan. The sum of ₦367,084,452 was budgeted while actual expenditure amounted to

₦176,030,718 causing a positive difference of ₦191,053,734 which is 52% variance. This is indicated on the chart below:



A more detailed examination indicates significant positive variances for goods and works expenditure categories with positive variances of 93.1% and positive 85.9% respectively. This is shown in the table and Chart below:

CLASSIFICATION ANALYSIS- JANUARY TO JUNE 2019				
	BUDGET (₦)	ACTUAL (₦)	VARIANCE	% VARIANCE
GOODS	158,267,261.90	10,969,905.00	147,297,356.90	93.1%
WORKS	24,375,000.00	3,447,255.00	20,927,745.00	85.9%
OPERATING COST	184,442,189.75	161,613,557.77	22,828,631.98	12.4%
	367,084,451.66	176,030,717.77	191,053,733.89	52.0%



It is also worthy to note, however, that the project’s fund is not included in the University Budget. Also, there was a 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 ₦325.

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:

Wrong classification of some expenditure items resulted in some expenditure heads exceeding their budget sum.

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 the achievement of the 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) Payment Procedures

- i. All Payments were done via transfers using Remita.
- ii. All payments as evidenced in the books presented passed through audit and were duly approved.
- iii. E-mandate raised were not signed by the Centre leader, they were only signed by the Project Accountant with exception to one e-mandate (Speedlink Hi-Tech payment for redesign of ACE CEFOR website ASN/2019/108 amounting to N1,787,335).
- iv. Most payment vouchers were not authorized by the Centre leader.
- v. Wrong usage of payment vouchers: Payment of \$3,915 IRO travelling allowance to Arusa Tanzania from 15th-21st December 2018 was made on General Payment Voucher (GPV) instead of Touring Advance Voucher (TAV) as stipulated. PV details: ASN/2019/38.
- vi. For the following payments, the figures on the payment vouchers were different from the amount actually paid:

s/n	Details	PV Amount	Amount Paid
1	Timah B. P.- Payment for research support allowance to M.Sc. students in Centre for Geo-Science	1,250,000	950,000
2	Ogbonna Joel - Payment for research publication to Beneficiaries	33,345,000	25,009,408.11

- 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.
- d) The other account is maintained with University of Port Harcourt and Choba microfinance bank for internally generated revenue (IGR).

- e) Bank reconciliation statements for all accounts were adequately prepared within the period under review, and the cash book adjusted to reflect the adjusted cash book balance after reconciliations each month.

f) Receipt and Payment account

The receipts and payments account were not well presented. As not all Receipts within the period were captured and there were observed differences in the Receipt and payment A/c: for example, expenditure items figures did not correspond with the ledger balances as the table below shows;

	R/P figure (₦)	Ledger Figure (₦)
Admin charges, Bank, stationery, internet, etc.	14,412,162.59	14,407,386.59
Trainings, workshops, Conferences & Seminars	53,794,089.50	45,195,255.00

g) Ledger accounts

i. The following transactions were not captured in the ledger:

- Payment to Speedlink Hi-tech solution for redesign of ACE CEFOR website N1,787,335
- Payment to University of Data Centre for 2019 ACE CEFOR Accounting Software upgrade and maintenance N600,000.
- The bank charges for January 2019 N1,785

ii. There were several wrong postings in the ledgers presented. For instance:

S/N	Beneficiary	Narration	Amount	A/c posted to	Supposed account to be posted
1	Speedlink Hi-Tech	Ng-Ren e-library and internet access to Agric.	2,086,350	Communication and marketing	Office e-library and internet support for partner centres

2	Speedlink Hi-Tech	Projector and recording equipment for classroom	1,143,240	Office, e-library and classroom furniture	Teaching aids (projectors, data services and installation)
3	Eagles and Eaglets	Partitioning using white nigealex, etc	2,193,555	Office, e-library and classroom furniture	CEFOR building
4	Tondaves & Co. Ltd.	For Completion of CIL	6,883,930.8	CEFOR building	Student and Faculties support
5	Ekpah Daniel	CISCO workshop in Lagos	283,600	Vigorous awareness campaign	Training, Workshop, Conference

h) Tax receipts for taxes paid were not presented for the audit exercise.

i) Refunds:

- i. ACE 1 Djibouti workshop payment \$3567 and N491,974 in favour of Dr. Ubani Chikwedu. The beneficiary did not attend the workshop.
- ii. ACE 1 Djibouti workshop payment \$8,680 and N565,774 in favour of Prof. N.E.S. Lale. The beneficiary did not also attend the workshop.
- iii. Mrs. Benedicta Omeni who was paid for Dibouti trip as approved but was later declined from traveling was asked to use the fund for Ghana Trip which was approved. The following is the breakdown of refund to be made by the both parties (ACE CEFOR and Mrs. Benedicta Omeni):

	\$	N
Approved amount for Dibouti Trip	3567	491,974
Less: Approved amount for Ghana trip	<u>(2876.50)</u>	<u>(263,916)</u>
		228,058
Flight ticket to and from Dibouti		(368,774)

Reschedule of flight paid (N60,000 plus N12,177)	<u>(72,177)</u>
	(212,893)
Refund from the Airlines (Expected)	<u>110,000</u>
Refund to Mrs. Benedicta O. from CEFOR	<u>(102,893)</u>
Refund to the CEFOR by Mrs. Benedicta O.	<u>690.50</u>

Recommendations:

1. All payment vouchers should be authorized and the e-mandate signed by the Centre leader. The appropriate payment vouchers should be raised with correct figures.
2. Errors in the ledgers and receipts and payments account should be corrected accordingly.
3. Tax receipts should be presented for audit review.
4. Refunds should be made by the concerned individuals who did not embark on the approved trips.

Management Response:

The E-mandate and payment vouchers will be sent to the Centre leader for signing. For payment of research allowance, the payment vouchers will be corrected while payments for research publications, wrong account numbers were supplied by the beneficiaries. Wrong usage of payment voucher; this is noted and will be corrected.

Subsequently, wrong postings in the ledger account will be corrected. A follow up with the tax authorities will be made to retrieve tax receipts.

For the trips not embarked upon, we will reconcile and treat as appropriate.

2.3 INTERNAL CONTROL

Observations:

- a) Internal control was fairly adequate. Compliance with financing agreement/work plan in executing major projects budgeted for the first half year of 2019 was effective. Find below the tabulated categories and their percentage of completion (Work in progress), based on the ledger after adjustment presented to us:

b) Work in progress

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

Component	Actual N	Budgeted N	Variance	% var.
Accreditation/Gap Analysis	2,185,400.00	23,214,278.75	21,028,878.75	90.59
Communication and Marketing	5,528,195.00	6,500,000.00	971,805.00	14.95
Students and Faculties support	78,098,767.68	40,625,000.00	-37,473,767.68	-92.24
NREP, USA Certification	4,950,000.00	22,750,000.00	17,800,000.00	78.24
Vigorous awareness campaign within and outside region	123,600.00	16,250,000.00	16,126,400.00	99.24
Sustain recognition as Regional Centre of Expertise	-	7,222,221.50	7,222,221.50	100
Negotiate and sign memoranda with project partners	-	13,000,000.00	13,000,000.00	100
Attend ACE Meetings	361,000.00	29,250,000.00	28,889,000.00	98.77
Organise short courses, attend short courses by steering committee members/other stakeholders	55,782,947.00	22,159,085.00	-33,623,862.00	-151.74
Admin. Charges (Bank Transactions; stationery; internet; accounting software maintenance, etc.	14,583,648.09	9,750,000.00	-4,833,648.09	-49.58
Teaching aids (Projectors, data services, internet connectivity) maintenance	3,424,365.00	11,375,000.00	7,950,635.00	69.90
Books and Journals	-	18,200,000.00	18,200,000.00	100
100 KVA Diesel Generator with accessories	-	8,937,500.00	8,937,500.00	100
Project vehicles (Toyota: 1no Corolla car, 1no Hiace bus	-	5,850,000.00	5,850,000.00	100
Laboratory equipment and associated furniture, reagents, maintenance/Lab staff training	1,554,840.00	70,571,423.00	69,016,583.00	97.80
Office, e-library and internet support for Partner Centres/Depts. In Uniport	3,700,725.00	43,333,329.00	39,632,604.00	91.46
e-procurement software/accounting software	600,000.00	11,375,000.00	10,775,000.00	94.73
CEFOR Building	3,447,255.00	24,375,000.00	20,927,745.00	85.86

c) Fixed Assets register was not adequately prepared and not comprehensive. Few assets acquired within the period were not coded, for instance the mowing machine and recording equipment for classroom.

d) Advances

- i. Unretired advances amounted to ₦16,995,883.00 and \$25,129.40; See Appendix 1 for details of unretired advances.
 - ii. List of unretired advances were not presented for this audit exercise. Payment vouchers and approval documents were used to extract a list of unretired advanced for the period under review.
- e) There was a safe in the project accountant's office. Payments were made via bank and imprest was paid via re-imbursement after spending.
- f) 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).
- g) The procedure in place indicates that: the payment 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.

Management Response:

Some of the expenditure component categories that have negative variances were due to the wrong postings in the ledger accounts; and non-availability of funds affected implementations of the work plan.

The fixed asset register will be updated to reflect all asset owned by the centre.

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

The audited annual financial statements and management letter for the period ended 31st December 2018 were presented for the audit exercise.

As the time of this audit the semi-annual report for the half year ended 30th June 2019 was not sent to the World Bank but was examined during the audit exercise.

Computerized accounting system is used to generate accounting information.

2.7 EXTERNAL AUDIT

The audited Annual Financial Statements and Management letter for the period ended 31st December 2018 were presented for the audit exercise.

External audit Report

The auditor gave an unqualified opinion on the financial statements presented. In their view the financial statement gives a true and fair view of financial affairs as at 31st December 2018 and the financial performance and cashflows for the year ended in accordance with International Public Sector Accounting (IPSAS) and the relevant sections of the Nigerian Financial reporting Council Act.

External Audit Management letter

Observation

1. Entity Trial balance: we observed that the trial balance does not incorporate the property Plant and Equipment of the prior years and Accumulated depreciation.
2. Incompleteness of fixed asset Register: As stated in our 2017 management letter, the fixed Asset register as produced was not comprehensive as it neither agrees with the trial balance for the current year nor the prior year additions.
3. Wrong Classification of Accounts: We observed in the current year that books and office equipment purchased for the centre was wrongly classified as communication and marketing cost, rather than been capitalized as books and office equipment in the Property, Plant and Equipment.
4. Revenue and Total expenses for 2018: While the revenue for the year reduced significantly from ₦472.3 million in 2017 to ₦295.37 million in 2018, representing a reduction of 38%, the operating expenses reduced slightly from ₦383 million in 2017 to ₦281.6 million, representing a drop of 26%.

Recommendation

1. The Centre should endeavour to ensure that all its financial activities are incorporated in the financial statements. If the software is not robust enough to accommodate all transactions, effort should be made towards procuring another one that is compliant with the Public Sector Accounting Standard (IPSAS).
2. Management should update its fixed Asset Register as to contain the entire property, Plant and Equipment module of the centre. Also, the personnel in charge must ensure that the property, Plant and Equipment in the fixed Asset Register agrees with the total fixed assets acquired by the centre.
3. We recommend that a data entry to the software be authorized by another officer, different from the officer initiating the transaction. This would help eliminate such wrong classification of accounting records.

4. Management should ensure that priorities are set right and budgetary control put in place as to ensure that important activities of the Centre are properly funded.

Management Response

1. The Programmer of the customized software has been informed. Necessary steps have been taken to effect correction.
2. This is noted. Necessary action will be taken to remedy the situation as recommended.
3. Noted, more caution will be taken.
4. Expenditure at the Centre was in line with the budget. It was geared towards achieving set targets.

2.8 DISBURSEMENT AND SUBMISSION OF WITHDRAWAL APPLICATIONS

Disbursement to the Centre was made within the period under review. The sum of \$528,582.36 was received as earned Disbursement Link Indicators (DLIs).

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.

Although the following funds approved have not reached the beneficiaries:

- a) Otutu F. being payment for research publication to beneficiaries ₦136,663.13
- b) Payment for research publication to beneficiaries ₦8,335,591.89. Approved amount was ₦33,345,000 while ₦25,009,408.11 was paid.

Recommendations

All fund approved should be paid to the beneficiaries.

Management Response

Wrong account numbers were supplied by the beneficiaries, but the beneficiaries have been contacted to give the correct account numbers.

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

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.

Not all 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 and coded.

Management responses

This is noted and will be 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. Modifications are made by these officers.

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 was a change in project staffing and Financial Management staffing within the period. The Deputy Centre leader and Project accountant were changed.

3.0 ACTION PLAN

Status of previous internal audit Action plan

S/N	Issues	Agreed Actions	By Whom	Status
1	Project audited account not integrated with that of the University account.	To integrate both audited accounts subsequently	Project Accountant	Yet to be done
2	Workplan	Follow up on workplan to ensure timely implementation.	Centre Leader and Project Monitoring Officer	
3	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	Done
4	Ledgers/Cash Book	To make adequate correction on errors and ratify all software issues.	Project Accountant	In process
5	Overpayment	To recover all excess payment made to vendors	Project Accountant	In process
6	Tax Receipts	Liaise with tax authorities to get tax receipts for taxes paid	Project Accountant	Yet to be done
7	Fixed Asset Register	Fixed Asset register be comprehensive/detailed to reflect all Assets owned by the Centre.	Project Accountant	Yet to be done
8	Unretired Advances	To communicate to all staff involved to retire their advances.	Project Accountant	In process
9	Payment Voucher/Approval	Should endeavour that all payment made are authorised and approved.	Project Accountant	Yet to be done
10	External Audit report	To be make available	Centre Leader/ Project Auditor and Project Accountant	Done

New/updated internal audit action plan

S/N	Issues	Agreed Actions	By Whom	Status
1	Unclear mandate/ reversals	To communicate with the beneficiaries to get the appropriate account numbers and pay.	Project Accountant	Before the next audit
2	Ledgers/Receipts and Payments	To make adequate correction on errors and wrong posting	Project Accountant	Before the next audit
3	Tax Receipts	Liaise with tax authorities to get tax receipts for taxes paid	Project Accountant	Before the next audit
4	Fixed Asset Register	Fixed Asset register be comprehensive/detailed to reflect all Assets owned by the Centre.	Project Accountant	Before the next audit
5	Unretired Advances	To communicate to all staff involved to retire their advances.	Project Accountant	Before the next audit
6	Payment Voucher/ E-mandate	Should endeavour that every payment voucher is authorised, and e-mandates are signed.	Centre leader and Project Accountant	Before the next audit
7	Refunds	To communicate to the beneficiaries to make adequate refunds	Project Accountant and Centre Leader	Before the next audit