

**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**

<b>Project Name and State</b>	<b>Centre for Oilfield Chemical Research, Rivers State.</b>
<b>Project ID</b>	<b>P126974</b>
<b>IDA Credit/Grant No.</b>	<b>60029544</b>
<b>Implementing Agency</b>	<b>University of Port Harcourt</b>
<b>Effectiveness Date</b>	<b>July 2015</b>
<b>Closing Date</b>	<b>December 2018</b>
<b>Credit/Grant Amount</b>	<b>\$4.5 Million</b>
<b>Project Duration</b>	<b>3 years</b>
<b>Remaining Period to Closing</b>	<b>2 years &amp; 6 Months</b>
<b>Disbursed Amount to date &amp; Percentage</b>	<b>₦147,172,326.55 (10%)</b>
<b>Period Covered by Review</b>	<b>1<sup>st</sup> January to 30<sup>th</sup> June 2016</b>
<b>Internal Auditor</b>	<b>Edwin Harcourt</b>

## **1.0 EXECUTIVE SUMMARY**

This routine audit covered the period January 1 to June 30, 2016. The following records were examined; cash book, bank account statements and bank reconciliation statements. The essence was to ensure that cash transactions are posted as and when due, errors and omissions 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 procurement plan. This is to enable us determine whether the expenditures carried out were budgeted or not and to compare budgeted and actual expenditures and isolate variances. We also reviewed the payment vouchers to check for authorisation 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 and identify weakness in it.

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

The following were the major findings of the exercise; there was an unbudgeted expenditure of a total of ₦20,845,000(₦5,245,5000 and ₦15,600,000) for research supervision and research grant paid to both Master's Degree and Doctoral Students; VAT of ₦77,498.30 was paid to a service provider instead of remitting it to FIRS VAT account and some wrong classification of expenses. We also noted that the audit committee is yet to make any impact on the project.

Our review showed that the FM system is adequate with reasonable assurance that the project funds are being used for the purposes for which they were intended.

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:

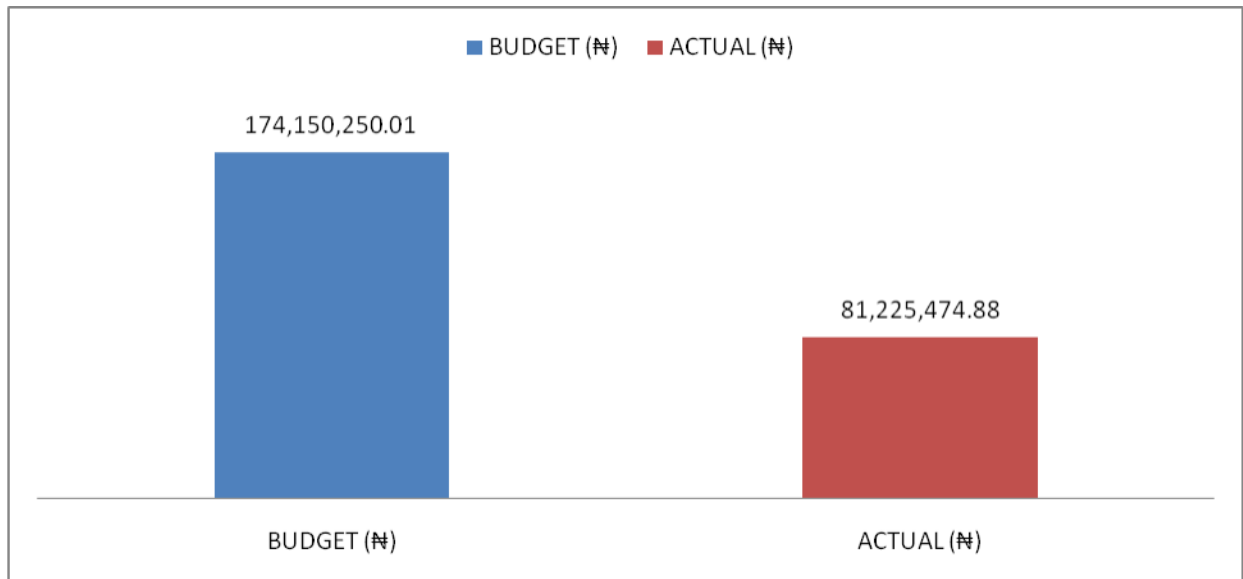
### 2.1 BUDGETING:

Pro-rata apportionment is necessary where the budgeted item covers periods which exceed the period covered by this report. i.e. January to June, 2016.

Summary of the budget and actual expenditure for the project from January 2016 to June 2016 is shown below:

<b>GRAND TOTAL</b>			
<b>BUDGET (₦)</b>	<b>ACTUAL (₦)</b>	<b>VARIANCE</b>	<b>% VARIANCE</b>
<b>174,150,250.01</b>	<b>81,225,474.88</b>	<b>92,924,775.13</b>	<b>53.36%</b>

### TOTAL BUDGETED AND ACTUAL EXPENDITURE



From the table and Chart above, the actual expenditure for the period under review was 53.36% less than the budget. Further analysis of this positive variance is detailed below:

	<b>BUDGET (₦)</b>	<b>ACTUAL (₦)</b>	<b>VARIANCE</b>	<b>% VARIANCE</b>
<b>GOODS</b>	<b>79,207,050.00</b>	<b>24,288,964.00</b>	<b>54,918,086.00</b>	<b>69.33485</b>
<b>WORKS</b>	<b>2,400,000.00</b>	<b>0</b>	<b>2,400,000.00</b>	<b>100</b>
<b>OPERATING COST</b>	<b>92,543,200.00</b>	<b>56,936,510.88</b>	<b>35,606,689.12</b>	<b>38.47575</b>
	<b>174,150,250.01</b>	<b>81,225,474.88</b>	<b>92,924,775.13</b>	<b>53.35897</b>

This is shown graphically in the chart below

w:



Although there was budget for works within the period under review, an examination of actual expenditure indicated zero expenditure for works. Also, actual expenditure for goods and operating costs were favorable indicating 69.33% and 38.47% positive variances respectively.

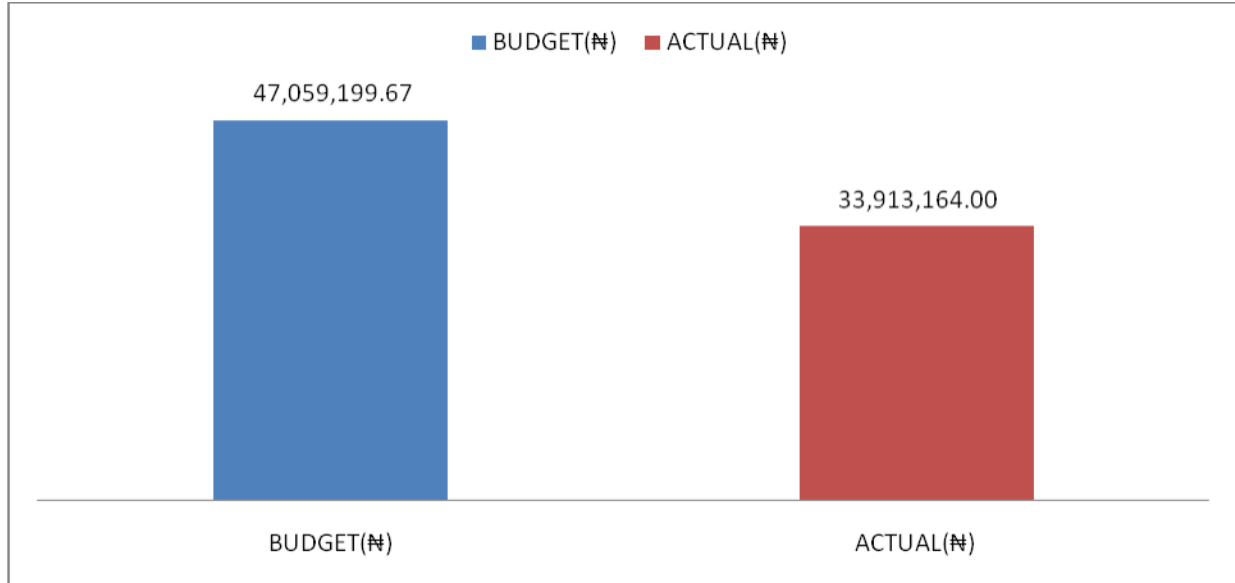
### **Components and work plan classifications:**

Under component 1, Milestone 1 focuses on making the ACE-CEFOR 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.

<b>MILESTONE 1</b>				
	<b>BUDGET(₦)</b>	<b>ACTUAL(₦)</b>	<b>VARIANCE</b>	<b>%VARIANCE</b>
GOODS	24,400,000	24,288,964.00	111,036.000	0.455066
WORKS	0	0	0.000	0
OPERATING COST	22,659,200	9,624,200.00	13,034,999.666	57.5263
SUB TOTAL	47,059,200	33,913,164	13,146,036	27.9351
<b>MILESTONE 2</b>				
	<b>BUDGET(₦)</b>	<b>ACTUAL(₦)</b>	<b>VARIANCE</b>	<b>%VARIANCE</b>
GOODS	54,807,050.00	0	54,807,050.00	100
WORKS	2,400,000.00	0	2,400,000.00	100
OPERATING COST	69,884,000.00	47,312,310.88	22,571,689.12	32.29879
SUB TOTAL	127,091,050.00	47,312,310.88	79,778,739.12	62.7729

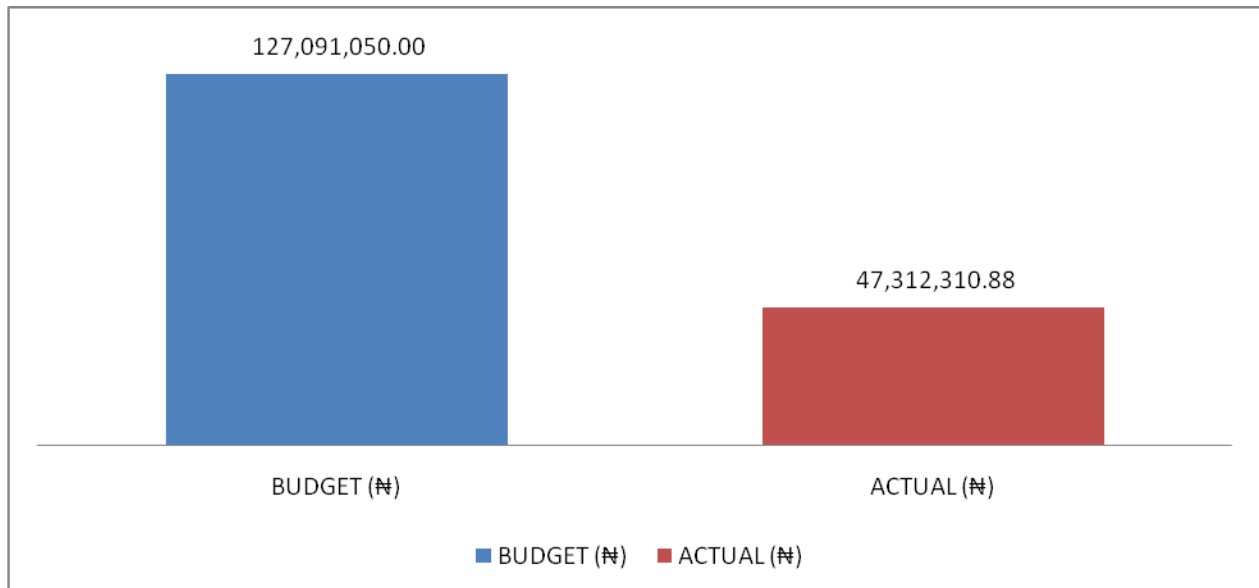
Analysis of the budget performance based on Milestones indicated a positive variance of 27.94 % for milestone 1 and a positive variance of 62.77% for Milestone 2.

## MILESTONE 1 BUDGETED AND ACTUAL EXPENDITURE



Within Milestone 1, while 57.53% positive variance was observed for Operating cost, Goods yielded .04% positive variance. This implies that in general, favorable variance was observed for Milestone 1 and expenditures incurred within milestone 1 were lesser compared to the provisions made in the work plan. Expenditure performance for goods within this milestone was optimal.

## MILESTONE 2 BUDGETED AND ACTUAL EXPENDITURE



Although provisions were made for expenditures on Goods and Works under milestone 2, none was incurred. However, operating cost with an Actual expenditure of ₦47,312,310.88 indicated a favorable variance of 32.30%.

Overall, there were no significant adverse deviations from the work plan. Although significant positive variance 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 the project

Further, time lag (from when the project's monitoring and evaluation officer submits an application for projects to be verified, when the World Bank and AAU actually carries out such verifications, when Withdrawal applications are made and when final reimbursements are carried out) may constitute a major weakness in budget execution. This is so because the Center's projects are planned based on time frames and milestones. Delay in accessing funds may imply inability to carry out activities and projects as indicated in the work plan/budget.

It is worthy to note here that the project fund does not form part of the budget of the University of Port Harcourt.

It is also of interest to mention that as at the time of this review, there was no budget committee in existence in ACE-CEFOR.

**N/B:**

1. The Work Plan was denominated in US Dollar.
2. The conversion rate was ₦200 to \$

**Recommendations:**

The steering committee should intensify effort to ensure that funds available are utilized for what they are intended and at the time set aside for their achievement. By so doing, the objective of the project will be achieved within its life span.

## **Management Response:**

The variances observed were mainly due to the following reasons:

- Difficulty in sourcing for foreign exchange was responsible for our inability to incur expenses that required foreign exchange.
- The space meant to warehouse the science instruments and other equipment was not ready, hence their purchases was delayed

We promise to ensure that subsequently, variances between budget and actual expenditures are reduced to the barest minimum.

## **2.2 ACCOUNTING**

### **Observations:**

- a) Government accounting system was put in place, as cash basis IPSAS was used. Also, accounting Software was used for preparation of accounting records and Receipt and Payment Accounts was well prepared but did not capture Bank charges for the quarter and the opening balances. Payments were done via bank transfers.
- b) Although all payments had payment Vouchers and went through internal audit processes there was an error of wrong payment as VAT that would have been remitted directly to FIRS amounting to N77,498.30 was paid to the Vendor (University Data Centre) PV No 251505.
- c) The ledger was not well prepared as there were wrong posting; for example
  - i. Research grant paid to Ubani Riches Izuchukwu PV No 251500 for N300,000 was posted to Develop Review MSc. PhD and short term training Curricula ledger.
  - ii. Insurance for project vehicle 1 and 2 was recorded under Incidentials instead of Insurance ledger.



- d) The Trial balance extracted was not well prepared as it did not reflect some relevant figure; for instance the Taxes paid for the Project vehicles 1 and 2 were not included and the bank balance was not reflected.
- e) Bank reconciliation was prepared monthly but the cash book was not updated monthly to capture bank charges and cash book error after reconciliation each month. There was no attachment as to describe the uncleared mandates.
- f) The projects audited annual financial statement did not form part of the University of Port Harcourt published financial statements.
- g) The project does not have a separate Project Financial Management Procedures Manual.

### **Recommendations**

1. The Bank Reconciliation Statement should be prepared in line with Section 716, 806 and 807 of Financial Regulations and the cash book should be updated monthly after Bank Reconciliation.
2. The Trail Balance should be done to reflect correct balances from all ledgers.
3. Bank charges and opening balance should be included in the Receipt and Payment Account subsequently.
4. Tax Remittance should be deducted and paid appropriately to avoid penalties.
5. Errors of wrong posting in the ledgers accounts should be corrected.

### **Management Response**

Arrangement has been put in place with the department of the University that deployed the software to upgrade it in order to enable bank charges to be captured.

A letter has been written to the supplier that was paid inclusive of VAT to refund the VAT element of the payment.

## 2.3 INTERNAL CONTROL

### Observations:

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

S/N	Component	Sub Component	Actual	Work plan	percentage of completion
1	Goods	Accounting Software upgrade	1,627,464.30	2,000,000	81.37%
2	Goods	Laptops for steering committee/modem/color printer	3,984,000	4,000,000	99.6%
3	Goods	Centre sign post	400,000	400,000	100%
4	Goods	Project vehicle 1 (car)	8,767,500	8,000,000	-9.6%
5	Goods	Project vehicle 2 (mini bus)	9,450,000	10,000,000	94.5%
6	Operating cost	National Registry of Environmental Professionals (NREP) USA Certification	5,780,000	6,000,000	96.3%
7	Operating cost	Hold project implementation meetings	0	2,000,000	NIL
8	Operating cost	Vigorous awareness campaigns within and outside the region	4,528,100	8,181,818	55.3%
9	Operating cost	Explore recognition as regional center of expertise	0	3,272,727	NIL
10	Operating cost	Negotiate and memoranda with project partners	0	2,181,818	NIL
11	Operating cost	Develop/review MSc, PhD and short term	0	900,000	NIL

		training curricula			
12	Operating cost	Administrative charges (bank transactions; stationery; internet; communication; bills; etc.	100,233.26	600,000	16.7%
13	Operating cost	e-Books and e-journals (Bibliometric database)	0	47,091,000	NIL
14	Goods	Books & journals	0	2,400,000	NIL
15	Goods	Office furniture and installation	0	2,600,000	NIL
16	Goods	Laboratory furniture/ installation	0	7,000,000	NIL
17	Goods	Establish digital multimedia language laboratory for French and English translation	0	9,600,000	NIL
18	Goods	Equipment and Reagent for Drilling Fluids and Mud Laboratory	0	6,810,000	NIL
19	Goods	Equipment and Reagents for Analytical and quality Laboratory	0	10,507,000	NIL
20	Goods	Equipment and Reagents for Water, Sanitation and Environmental Management Laboratory	0	15,890,0000	NIL
21	Works	Renovate and repair laboratory spaces for installation of equipment	0	2,400,000	NIL
22	Operating cost	Training/ Workshop/ Conference/ Seminar	26,846,961	22,793,000	-17.8%
23	Operating cost	Research supervision for students Masters and Doctorate programme	5,245,000	0	-100%
24	Operating cost	Research grant to students	15,600,000	0	-100%

Items 23 and 24 were not included in the work plan

- a. No stock is held by the Centre. Apart from the laptop for the Centre Leader and Steering Committee.
- b. There is Fixed Asset Register for the Centre and Asset purchased within the period were insured. As at the time of this audit, there were no unretired advances.
- c. No safe was required because there was no cash in hand, cheque or physical documents. Payments are made with mandates and no Imprest is kept.
- d. All payments went through the required authorization and approval procedures. Segregation of duties was adequate. The procurement plan is prepared by the procurement officer, vouchers for expenditures are prepared by the Project Accountant, Audited by the Project Auditor and approved by the Chairman of the project committee (The VC). Also, various committees exist for various duties. These include the Project steering committee, the Audit committee and the Procurement committee.
- e. The 5<sup>th</sup> ACE project workshop was held in Accra from 16<sup>th</sup> to 19<sup>th</sup> May 2016. Ideally participants were entitled to 6 days per person but the VC was given 2 days in excess of the allowable 6 days.

### **Recommendations**

1. There should be follow up on Work plan to enhance the implementation process. The work plan should be designed to include all expense to be made within the period and management should endeavor to keep to plan during execution.
2. Management should adhere to policies in place in terms of trainings. Thus, keep to the DTA and Number of days as required by Financial Regulation and other laws of the University.

### **Management Response:**

They were mandated by World Bank to pay from what they have since the bank had not remitted research and research supervision grants.

The VC needed some extra days to enable him collaborate with other VCs during the period of the Accra workshop.

Training and Conferences that were to take place in July were pay earlier, to allow participants process their VISA and travel documents.

## **2.4 EFFECTIVENESS OF MANAGEMENT OVERSIGHT INCLUDING AUDIT COMMITTEES**

### **Observations**

We consider the effectiveness of management oversight for this Centre to be adequate. The project committee is headed by the Vice Chancellor and is saddled with the duty to approve various projects.

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

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

The scope of the audit committee includes project monitoring. However, there have been no projects to monitor in CEFOR since inception. It was also observed the audit committee has not handled ant issue as at the end of June, 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:**

We acknowledge that the Audit committee has not been involved in the project and promised to get them more involved by referring issues to them.

## **2.5 FUND FLOW**

### **Observations**

There was no disbursement and receipt for the period under review. The major handicap involved in accessing IDA funds is delay in verifying eligible expenditures. There has been no WA for the Centre since inception.

A major weakness observed is the time lag it takes from when submissions are made for verifications to when funds are actually disbursed. One main root cause is the fact that, after the initial grant, any other payment is **result based** and once such results are achieved, there are various procedures and requirements to be satisfied before funds are disbursed. This translates to a wide time lag between when funds are required and when funds are actually disbursed. Typically this takes several months for the University of Port Harcourt Africa Centre Of Excellence in Oilfield Chemicals Research.

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

### **Recommendation**

The time lag taken to verify eligible expenditures and submissions should be minimised to avoid delays in accessing IDA funds.

### **Management Response**

There were no Withdrawal applications within the period because the World Bank has not verified the result achieved.

## **2.6 FINANCIAL REPORTING**

### **Observations**

IFRs have been redesigned to semester basis with a 45 days deadline to submit the report but none was available during the period under review.

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

## **Recommendation**

IFRs report and Financial Management Report for the Centre should be prepared timely.

## **Management Response**

We are working on the IFRs report as the deadline for it has not expired.

## **2.7 EXTERNAL AUDIT**

### **Observations**

The year ended December 31, 2015 audited account and management letters were submitted to World Bank before the end of June, 2016. Among other observations of the external auditors included:

- a. No fixed asset register.
- b. Fixed assets not coded
- c. No depreciation policy

The explanations offered by the steering committee were as follows:

- a. Fixed asset register now opened.
- b. We are working with store unit of Bursary department to code the assets.
- c. University depreciation policy applies to CEFOR.

Our findings showed that fixed assets register is now in place, but the fixed assets are still not coded.

### **Recommendation**

Fixed assets are to be coded as to prevent theft.

### **Management response**

We are working with store unit to ensure that the fixed assets are coded.

## **2.8 DISBURSEMENT AND SUBMISSION OF WITHDRAWAL APPLICATIONS**

### **Observations**

Withdrawal Application is yet to be submitted. WA for the center will be based on verified results. However, disbursement is expected.

## **2.9 FRAUD AND CORRUPTION**

### **Observations**

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 for N100,000 uncleared mandate for Ph.D student Project supervision.

### **Recommendation**

Management should verify the uncleared mandate to identify the beneficiary and take necessary actions.

### **Management Responses**

The beneficiary gave a wrong account details. He will be contacted to provide the correct account details to enable us effect payment.

## **2.10 PAYMENT PROCEDURES**

### **Observations**

The Payment procedures in place are acceptable and efficient. 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

### Observations

Fixed asset register was maintained within the period under review. Existence of assets was also verified. Also, project vehicles were adequately insured.

## 2.12 OTHER MATTERS

### Observation

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	By When
1	No fixed asset register.	To provide fixed asset register.	Project Accountant	Before next audit.
2	Fixed assets not coded.	To code all fixed assets of the Centre.	Project Accountant	Before next audit.

### New/updated internal Audit Action plan

S/N	Issues	Agreed Actions	By Whom	By When
1	Failure to deduct VAT from payment to supplier	To recover VAT from the supplier	Project Accountant	Before next audit
2	Wrong classification of expenses	To reclassify the items as appropriate	Project Accountant	Before next audit
3	Project audited account not integrated with that of the University account	To integrate both audited accounts subsequently	Project Accountant	End of next financial year.
4	Audit committee not involved in the activities of the Centre	Will ensure they get involved hence forth	Centre leader	Immediate

