

**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 2019</b>
<b>Credit/Grant Amount</b>	<b>\$4.5 Million</b>
<b>Project Duration</b>	<b>4 Years</b>
<b>Remaining Period to Closing</b>	<b>2 years</b>
<b>Disbursed Amount to date &amp; Percentage</b>	<b>₦147,172,326.55 \$1,155,241.75</b>
<b>Period Covered by Review</b>	<b>1<sup>st</sup> July 2017 to 31<sup>st</sup> December 2017</b>
<b>Internal Auditor</b>	<b>Edwin Harcourt</b>

## **1.0. EXECUTIVE SUMMARY**

This routine audit covered the period July 1st to December 31st, 2017. The following records were examined; cash book, bank account statements, payment vouchers 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. This was to enable us determine whether the expenditures carried out were budgeted or not and to compare budgeted and actual expenditures and isolate/comment on significant variances. We reviewed the payment vouchers to check for authorization and approvals. Also, the semi-annual report was reviewed for the purpose of this audit; trial balance, ledgers, Receipt and payment accounts, etc. We reviewed the entire system of internal control for compliance in order to identify weaknesses that may exist.

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

The following were major findings of the exercise; in aggregate, actual expenditure for the period under review was 114.7% higher than budgeted in the work plan. The sum of ₦133,183,333.33 was budgeted for but actual expenditures were ₦285,968,638.24. Similarly, significant negative variances were observed for all expenditure categories.

In accounting, there were improper posting in the ledger accounts and discrepancies in some expenditure heads in the ledger and in the receipt and payment account presented. We also noted that the monthly bank reconciliation statements were prepared for various accounts but bank/transfer charges for the period were not reflected in the books of accounts after bank reconciliation. There was no fixed asset register within the period under review.

All approved funds have reached the expected beneficiaries except the total sum of N32, 855,920 uncleared mandates which has been approved and paid but yet to be received by beneficiaries as at December 31<sup>st</sup> 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 utilized for the intended purposes and are in line with World Bank guidelines. The project Financial Management risk is adequate.

We confirm that this audit was carried out in accordance with the World Bank’s FM and disbursement policies, procedures and guidelines and the Federal Republic of Nigeria Financial Regulations of 2009.

## 2.0 IA REVIEW: FINDINGS AND ACTION PLAN

These were our findings:

### 2.1 BUDGETING:

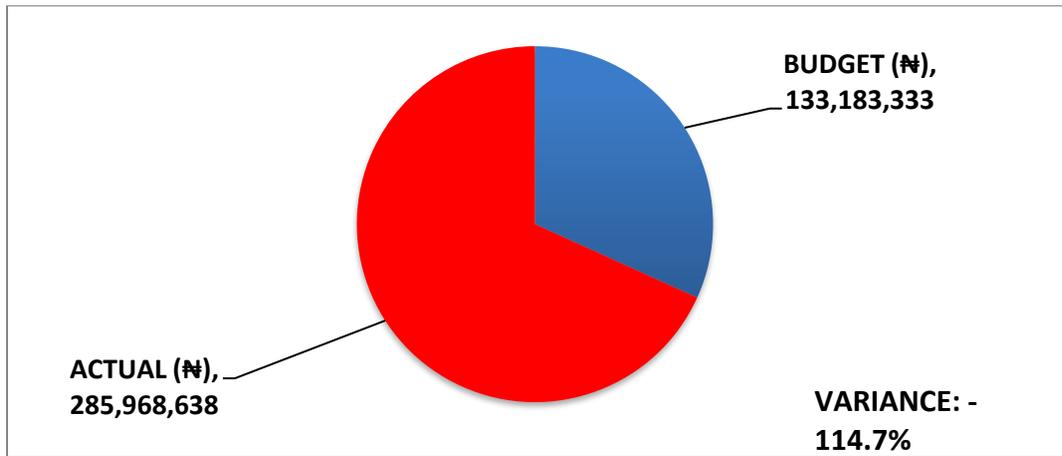
Pro-rata apportionment is necessary where the budgeted item covers periods, which exceeds the period covered by this report. i.e. July 1 to December 31, 2017.

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 July 1 to December 31, 2017 is shown below.

**Table 1: Summary of budgeted and Actual Expenditure**

GRAND TOTAL			
BUDGET (₦)	ACTUAL (₦)	VARIANCE	% VARIANCE
133,183,333	285,968,638	-152,785,305	-114.7%

**Chart 1: Summary of budgeted and Actual Expenditure**



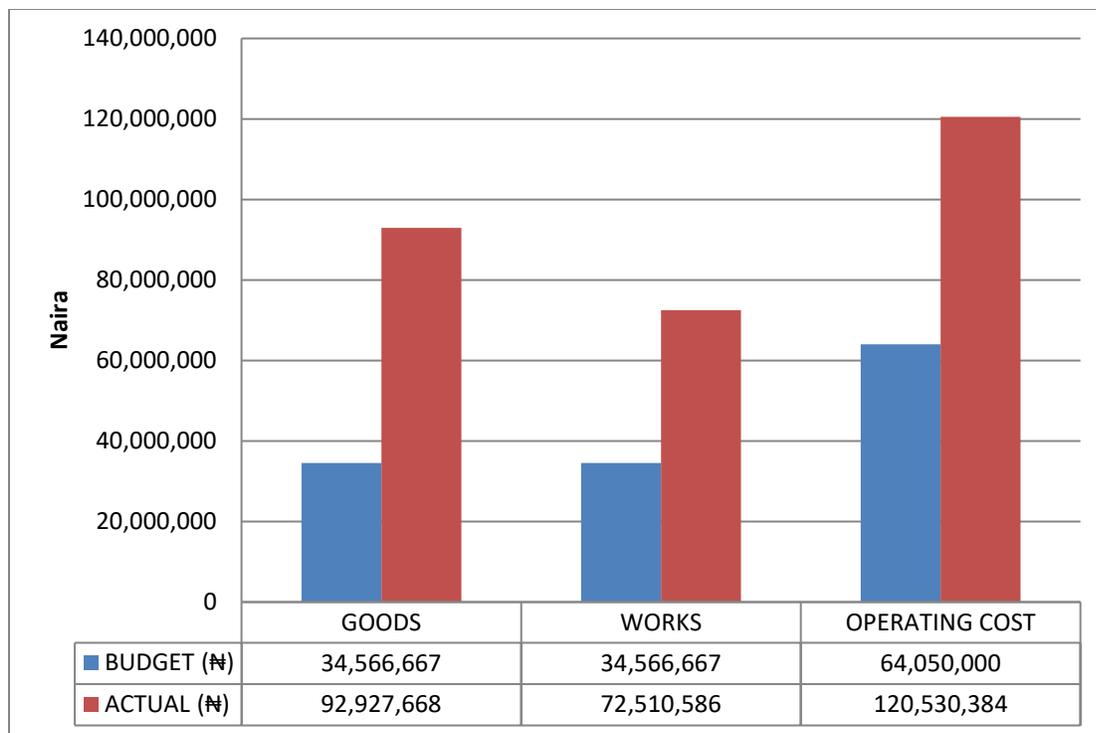
From table 1 and Chart 1 above, actual expenditure for the period under review was 114.7% higher than budget in the work plan. The sum of ₦133,183,333 was budgeted for expenditure while actual expenditure was ₦285,968,638. This led to a negative variance amount of ₦152,785,305. Further analysis of this negative variance is detailed below:

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

<b>JULY TO DECEMBER 2017</b>				
	<b>BUDGET (₦)</b>	<b>ACTUAL (₦)</b>	<b>VARIANCE</b>	<b>% VAR</b>
<b>GOODS</b>	34,566,666.67	92,927,668.26	-58,361,001.59	-168.8%
<b>WORKS</b>	34,566,666.67	72,510,586.23	-37,943,919.56	-109.8%
<b>OPERATING COST</b>	64,050,000.00	120,530,383.75	-56,480,383.75	-88.2%
	<b>133,183,333.33</b>	<b>285,968,638.24</b>	<b>-152,785,304.91</b>	<b>-114.7%</b>

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 ₦34,566,666.67 was budgeted for goods, ₦92,927,668.26 expenditure was incurred for this expenditure category leading to a variance of ₦58,361,001.59 This implied a 168.8% negative and significant variance because actual expenditures far exceed budgeted expenditure. In addition, the sum of ₦34,566,666.67 was budgeted for works. Actual expenditure for works amounted to ₦72,510,586.23. This yielded 109% negative variance indicating that actual expenditure on works far exceed amounts budget for works.

Finally, the sum of ₦64,050,000.00 was budgeted for operating costs. However, the sum of ₦120,530,383.75 was actually spent as operating expenditure within the period under review. This amounted to a significant negative variance of 88.2% implying also that actual operating expenses were significantly higher than the budget sum for this category.

Analysis indicates that in aggregate, there were significant negative variances for goods, works and operating costs within the period under review.

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 ₦305.

**Recommendation**

It is recommended 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:**

Expenditure were more than the sum budgeted within this period because most expenditure budgeted for in the first half of the year were actually spent in this half upon completion of the CEFOR Building.

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.

**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) Payments were done via transfers using Remita. All payments were made using payment vouchers (PVs) and followed due process.

- c) Payments for ACE PhD lecture refreshment were paid to CPRT instead of paying directly to the vendor (Jovit). For instance:
- 1st series (21-25 Aug. 2017) of N2,095,000
  - 2<sup>nd</sup> series (18-22 Sept. 2017) of N1,895,000
  - 3<sup>rd</sup> series (23-27 Oct. 2017) of N1,895,000
- d) Bank reconciliations were prepared for all bank accounts of the Centre, but bank charges for the period were not reflected in the books of accounts after the monthly bank reconciliation.
- e) There were inconsistencies in the following expenditure heads in the ledger and in the receipt and payment account presented:

	Incorrect	Correct
801A-CEOR building	111,375,222.81	111,566,262.81
811A-Office E-library classroom furniture	76,948,316.60	76,757,275.75

- f) There were some improper postings in the ledger accounts. The VAT and WHT components were not aggregated in the total value of the asset hence, underestimating the total value of the assets. Examples:

Date	Transaction	Amount	VAT	WHT
21/12/17	Payment for 100 KVA Diesel Gen. with Accessories to PEZZL contracting services limited	11,293,276.10	594,382.95	594,382.95
21/11/17	payment for purchase of E-library and classroom furniture and fittings to Eagles and Eaglet limited	55,284,571.42	2,909,714.29	2,909,714.29
21/12/17	payment for purchase of E-library and classroom furniture and fittings	14,162,487.59	745,394.03	745,394.03

	Eagles and Eaglet limited			
24/12/17	payment to Eagles and Eaglets ACE CEFOR building	1,814,880.00	95,520.00	95,520.00
21/12/17	payment to PEZZL contracting for generator house	1,520,000.00	80,000.00	80,000.00

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

**Recommendations:**

1. Bank charges/processing fees should be reflected in the books (cashbook, ledger, receipt and payment) of account after bank reconciliations on monthly basis.
2. Wrong posting in the ledger and receipt and payment should be corrected and posted accordingly.
3. All payments from the IGR should follow due process. Also, payments should be made to beneficiaries/vendors directly.

**Management Response:**

The inconsistencies and improper posting in the ledger and receipt/payment accounts were due to software (system) issues.

The Payments made for ACE PhD lecture refreshment were paid to CPRT account because the CPRT had already paid for the expenditure.

## 2.3 INTERNAL CONTROL

### Observations:

a) Internal control was adequate and compliance with financing agreement/work plan in executing major projects budgeted for the 2nd half year for 2017 was effective. 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:

### b) Work in progress

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

S/ N	Component	Sub-Component	Actual (N)	Work Plan (N)	% of comp.
1	Operating cost	Accreditation/Gap Analysis.	7,922,043.65	0	-100
2	Operating cost	Communication and Marketing.	2,279,018.85	0	-100
3	Operating cost	Students and Faculties support.	45,371,400	0	-100
4	Operating cost	Regional students enrolment and support.	0	0	-100
5	Operating cost	National registry of environmental professionals (NREP), USA certification.	6,250,000	0	-100
6	Operating cost	Hold project implementation meetings.	3,597,500	6,100,000	58.97
7	Operating cost	Vigorous awareness campaigns within	6,443,100	12,962,500	49.71

		and outside region.			
8	Operating cost	Explore recognition as regional centre of expertise.	4,262,800	6,100,000	69.88
9	Operating cost	Negotiate and sign memoranda with project partners.	3,311,815	6,100,000	54.29
10	Operating cost	Attend ACE meetings.	5,807,732.75	3,812,500	-52.33
11	Operating cost	Attend short courses by steering committee members.	33,161,921.10	22,875,000	-44.97
12	Operating cost	Administrative charges (bank transaction; stationery; internet; communication; bills; fuels, car maintenance, etc.	3,712,862.40	6,100,000	60.87
13	Goods	Teaching aids (Projectors, data services and installation).	0	0	0
14	Goods	Books and Journals	2,098,540.51	0	-100
15	Goods	100 KVA Diesel Generator with accessories.	14,162,042.0	0	-100

16	Goods	Laboratory Equipment and associated furniture.	0	0	0
17	Goods	Office, e-library and classroom furniture with accessories.	76,757,275.75	34,566,565	-122.06
18	Works	CEFOR building (Abandoned AFREN building at 75% completion).	70,735,066.23	34,566,565	-104.63

- a) No Fixed Asset Register was presented to us for the Centre within the period under review and the assets acquired were not coded. 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 was kept.
- c) 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.)
- d) The vouchers for expenditures were raised by the Project Accountant; certified by the Project Auditor and approved by the Chairman of the Project Steering Committee. Committees exist for various duties except for budget committee; they include the Project steering committee and the Procurement committee.

**Recommendations:**

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

- c) All the assets acquired within the period should be coded to discourage theft.

### **Management Response:**

Payments for items in the work plan which were supposed to have been done in the first half were carried over to the 2<sup>nd</sup> half year. The delayed in the completion of the ACE CEFOR building accounted for this. Some items for operating costs were incurred in the previous period and were paid within the period under review.

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

The unit of the University charged with the responsibility of coding assets will be invited to do the needful.

## **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 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 Audit 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**

There were no disbursements to the Centre within the period under review.

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

## **2.6 FINANCIAL REPORTING**

As at the time of this Audit, there was no Audited Annual Financial Statement for the Center for the year ended 31<sup>st</sup> December 2017. The semi-annual report for the half year ended 31 December 2017 has been submitted to the World Bank and was examined during the Audit Exercise.

Computerized accounting system is used to generate accounting information.

## **2.7 EXTERNAL AUDIT**

The year ended December 31, 2017 audited account and managements letter are yet to be submitted to World Bank.

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

### **Recommendation**

The external audit exercise should commence and be completed within stipulated deadline.

### **Management Response**

The External audit report will be submitted within stipulated time.

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

No disbursement to the Center was made 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:

24/12/2017- CPRT 2- refund of steering committee Meeting expenses for 2014  
N85,000.00

24/12/2017 -CPRT 2-refund of steering committee Meeting expenses for 2017  
N465,000

24/12/2017-CPRT 2-school for 2014/2015 session for 1 <sup>st</sup> batch of ACE CEFOR Ph. D student	N27,500,000.00
24/12/2017-CPRT 2-expenses incurred during 2017 PhD screening exercise	N260,000
24/12/2017-CPRT 2 refund of steering committee Meeting expenses for 2015	N510,000
24/12/2017-CPRT 2 refund of steering committee Meeting expenses for 2016	N350,000
24/12/2017-Eagles and Eaglet limited ACE CEFOR building	N1,814,880
FIRS VAT	N95,520
FIRS WHT	N95,520
24/12/2017 PEZZL-contracting services limited Generator house	N1,520,000.
FIRS VAT	N80,000
FIRS WHT	N80,000

### **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 but they were highlighted because they were made towards the end of December, 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 following due process.

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

## **2.11 PHYSICAL VERIFICATION**

We were unable to access the Fixed asset register for the period under review. However, Existence of assets purchased within the period was verified; also, project vehicles were adequately insured. Nevertheless, most fixed assets acquired within the period 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 setting up and printing of the fixed asset register. 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 which passed through due process within the period under review.

## **2.13 OTHER MATTERS**

There has not been a change in project staffing and Financial Management staffing since inception.

### 3.0 ACTION PLAN

#### Status of previous internal audit Action plan

S/N	Issues	Agreed Actions	By Whom	Status
1	Revenue Generation	To establish a programme for sustainability	Centre leader	In process
2	Overpayments	To recover ₦40,000 excess paid to MR. Nmecha Alex	Project Accountant	Recovered
3	Project audited account not integrated with that of the University account.	To integrate both audited accounts subsequently	Project Accountant	Yet to be done
4	Audit committee not involved in the activities of the Centre.	Will ensure they get involved hence forth	Centre leader	Yet to be done
5	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	Yet to be done
6	Uncleared mandate and unpaid expense	Ensure that all outstanding payments gets to the beneficiaries	Project Accountant	Done
7	bank reconciliation	To ensure that all accounts owned by the Centre are reconciled.	Project Accountant	Done
8	Wrong posting in ledger	To correct wrong posting in ledger account	Project accountant	Done

9	Transaction in the ledger/Trial balance	To ensure that all transactions are reflected in the books of accounts	Project accountant	Done
10	Bank statement for the Dollar account	To ensure that the Bank statement for Dollar account is available.	Project Accountant	Done

### **New/updated internal audit action plan**

S/N	Issues	Agreed Actions	By whom	By when
1	Uncleared mandate and unpaid expense	Ensure that all outstanding payments gets to the beneficiaries	Project Accountant	Before the next audit
2	Fixed asset register.	To create Fixed asset register to reflect all asset owned by the Centre	Project accountant	Before the next audit
3	Wrong posting in ledger	To correct wrong posting in ledger account	Project accountant	Before the next audit
4	Transaction in the ledger/receipt and payment account	To ensure that all discrepancies in the books of account are corrected.	Project accountant	Before the next audit
5	Bank reconciliation	To ensure that all accounts are updated with bank/transfer charges monthly after reconciliation.	Project Accountant	Before the next audit
6	Payments	To ensure that all payment are made to beneficiaries/vendors directly.	Project Accountant	Before the next audit