

# INTERNAL AUDIT REPORT ON THE ACTIVITIES OF FUNAAB'S CENTRE OF EXCELLENCE IN AGRICULTURAL DEVELOPMENT AND SUSTAINABLE ENVIRONMENT (CEADESE)

## 1.0 KEY INFORMATION ON THE PROJECT

<b>Project Name and State</b>	African Higher Education Centres of Excellence Project/Ogun State
<b>Project ID</b>	ACE 023 - Centre of Excellence in Agricultural Development and Sustainable Environment
<b>IDA Credit/Grant No.</b>	5415-NG
<b>Implementing Agency</b>	National Universities Commission/ Federal University of Agriculture, Abeokuta, Nigeria.
<b>Effectiveness Date</b>	July, 2015
<b>Closing Date</b>	Sept 2018
<b>Credit/Grant Amount</b>	\$8 Million
<b>Project Duration</b>	4 years
<b>Remaining Period to Closing</b>	2 years
<b>Conversion Rate on the date of First Disbursement</b>	₦198.91 to \$1
<b>Disbursed Amount to date &amp; Percentage</b>	\$1,570,903.68; 19.637%
<b>Period Covered by Review</b>	January 1 to June 30, 2017.
<b>Internal Auditor</b>	Amubode, O.O. (Ag. Head, Internal Audit - FUNAAB); Enilolobo, V. B. (Internal Audit Representative in CEADESE)

## 2.0 PREAMBLE

The Centre of Excellence in Agricultural Development and Sustainable Environment (CEADESE) is an African Centre of Excellence in the West Africa and Central African Sub-region anchored at the Federal University of Agriculture Abeokuta (FUNAAB), Nigeria and funded by the Nigerian Government through a World Bank loan.

The Directorate of Internal Audit has been consistent with its mission in providing management with information, appraisals, risk based audit, recommendations and counsel regarding the activities of the Centre. In accordance with Internal Audit's

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overall strategy, we evaluate the adequacy of the systems of internal controls, assessment of compliance with policies, procedures, project guidelines and sound research practice and the review of compliance to state and federal laws.

It is our belief that our report gives insight to ways of reducing exposures to risk (financial or otherwise), promoting internal controls and developing effective safety programs for the project by the Centre's team.

### **3.0 EXECUTIVE SUMMARY**

This report covers receipts, payments, reconciliation of cashbook and bank statements, budget performance and other financial and accounting records for the period ended June 30, 2017.

When the annual budget was compared with the six (6) months performance; only 11.31% budget performance was achieved so-far from the annual budgeted expenditure during the 6-months period under review. Internal Audit observed that one of the reasons for the low budgetary performance was because majority of stakeholders did not understand the budgetary information of their disbursement link and did not understand the linkage of financial performance results to resource allocation.

During the period the second disbursement (for verified results) was paid into the Centre's TSA with CBN through NUC from World Bank in the sum of eight hundred and thirty-one thousand, nine US dollars, sixty-two cent (\$831,009.62). The total disbursement to date is one million, five hundred and seventy thousand, nine hundred and three US dollar, sixty-eight cent (\$1,570,903.68), representing just 19.637% of the expected fund from World Bank.

Furthermore, it was observed that the total disbursement from World Bank IDA Funds during the period was eight hundred and thirty-one thousand, nine US dollars, sixty-two cent (\$831,009.62) which is two hundred and fifty three million, four hundred

and fifty seven thousand, nine hundred and thirty four naira, ten kobo (₦253,457,934.10) in naira value. With the sum of forty two million, sixty seven thousand, six hundred and thirty six naira, thirty kobo (₦42,067,636.30) that was paid directly on behalf of the Centre by NUC, the total fund disbursed by World Bank IDA is two hundred and ninety five million, five hundred and twenty five thousand, five hundred and seventy naira, forty kobo (₦295,525,570.40).

#### 4.0 FINDINGS, OBSERVATIONS AND RECOMMENDATIONS

##### 4.1 Budgeting

###### Reviewed Summary of Comparison of Budget and Actual Expenditure as at June 30, 2017

	Annual Budget <u>₦ (₦340/\$)</u>	Actual Exp. <u>₦</u>	Variance <u>₦</u>	%
DL.1	271,728,000.00	40,792,076.68	230,935,923.32	15.01
DL.2 <small>(without DLR.2.7)</small>	820,250,000.00	83,704,289.86	736,545,710.14	10.20
DL.3	34,000,000.00	3,533,911.73	30,466,088.27	10.39
DL.4	<u>34,000,000.00</u>	<u>3,126,254.80</u>	<u>30,873,745.20</u>	9.19
<b>TOTAL</b>	<b><u>1,159,978,000.00</u></b>	<b><u>131,156,533.07</u></b>	<b><u>1,028,821,466.93</u></b>	
<b>Percentage</b>	<b>100%</b>	<b>11.31%</b>	<b>88.69%</b>	

The financial records examined and reviewed by Internal Audit revealed that the total year 2017 budget (calculated at ₦340 per US Dollar) for the project is One billion, one hundred and fifty nine million, nine hundred and seventy eight thousand naira (₦1,159,978,000) only while the total amount expended as at June 30, 2017 totalled one hundred and thirty-one million, one hundred and fifty-six thousand, five hundred and thirty-three naira, seven kobo (₦131,156,533.07) only including the associated bank charges. This represents 11.31% of (year 2017) budgeted amount that was actually expended for the first six months in the period under review.

S/N	OBSERVATIONS	RESPONSE
4.1.1	<p>The records checked by Audit revealed that only 11.31% budget performance was achieved during the 6-months period under review out of the annual budgeted amount. Furthermore, the performance rate according to disbursement link indicator showed 15.01% for DLI.1; 10.20% for DLI.2; 10.39% for DLI.3 and 9.19% for DLI.4.</p> <p>This budgetary performance rate is very low and time value for money was not adequately utilised.</p> <p><b>Recommendation</b> We recommend timely execution of major part of the annual budget and use of fund in order to enjoy timely value for money.</p>	<p>A major reason for this low budgetary performance was “administrative”; Delays in receiving approvals for fund utilization even when funds were available.</p>
4.1.2	<p><b>DLR. 1.7- Facilitation of Industrial Relations</b></p> <p>We observed that there was no (nil) budgetary performance on DLR.1.7 (Facilitation of Industrial Relations). When there is financial commitment in improving the industrial relationship of Centre and FUNAAB at large, this will guarantee uninterrupted research and extension activities of the Centre.</p> <p><b>Recommendation</b> We recommend effective, efficient and timely utilisation of fund allocated to this budget line in order to</p>	<p>The reason here is due to overlaps in budgetary classifications:</p> <ul style="list-style-type: none"> <li>- Funds were used for payment of travels by industrial and institutional partners.</li> <li>- Honourarium payment for meetings and committee membership.</li> </ul>

	<p>improve, ensure and guarantee uninterrupted research activities, extension services and good industrial relationship of the Centre at large.</p>	<p>- Mileage claims.</p>
<p>4.1.3</p>	<p><b>DLR.1.10- Facilitation of Communication Office</b>  We observed that there was no (nil) budgetary performance for DLR.1.10 (Facilitation of FUNAAB Communication Office). This budgetary performance rate on DLR.1.10 revealed that there was no proper financial facilitation of the communication office to improve the effective communication of the Centre's activities within and outside the University environment.</p> <p>It is highly believed among communication experts that fund's availability for communication determines the promptness, timeliness and effectiveness of communication.</p> <p><b>Recommendation</b>  We recommend that fund should be adequately and timely utilised in facilitating the communication office of the Centre toward effective, timely and proactive communication; which will lead to an informed internal and external environment in relation to the activities of the Centre</p>	<p><b>The communication Unit of CEADSE is a new introduction.</b></p> <p><b>Hopefully before the end of the financial year, funds would have been committed to some of their activities.</b></p>

<p>4.1.4</p>	<p><b>DLI.2</b></p> <p>A very low rate of 10.20% performance rate was achieved on DLI.2 which covers the cost on students, teaching, learning and research activities.</p> <p>Findings revealed that the approval for cost of research and support was given during the second quarter of the budget year under review, this late approval might have been one of the causes of the low performance under expenditure classification two (DLR.2)</p> <p>Analysis of expenditure also revealed that the budgeted expenditure performance on teaching materials and softwares, publication of workshop reports, course materials for PhD &amp; M.Agse, operation and research theses/ dissertations were nil.</p> <p><b>Recommendation</b></p> <p>For timeliness and time value for money, we recommend early presentation of request relating to teaching, learning and research in order to obtain prompt approval from the approving authority.</p>	<p><b>Approval for the commitment of funds came only late during the second quarter/ beginning of third quarter.</b></p> <p><b>Contacts for supply of goods and services have been awarded and delivery is ongoing.</b></p>
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<p><b>4.1.5</b></p>	<p><b>DLR.3 – Project Implementation Plan</b></p> <p>A very low rate of budgetary performance of 10.39% rate was achieved on DLR.3 which covers the financial management, reporting, auditing and controls activities of the Centre.</p> <p>Records examined revealed that out of eight budgeted expenditure heads in DLR.3, only three budgeted heads' activities achieved the 10.39% rate of performance.</p> <p><b>Recommendation</b></p> <p>We recommend timely, efficient and effective utilisation of fund budgeted under expenditure classification 3 (DLR.3) in order to achieve excellent financial controls, reporting and auditing in the Centre.</p>	
<p><b>4.1.5</b></p>	<p><b>DLR.4 – Procurement Process</b></p> <p>A budgetary performance of 9.19% rate was achieved under DLR.4 which covers the procurement activities of hiring procurement consultant and timeliness of procurement progress for the Centre.</p> <p>Despite the progress achieved so far on the procurement activities of the Centre, financial records examined revealed that no procurement consultant is yet to be engaged for the procurement activities of the Centre.</p> <p><b>Recommendation</b></p>	<p><b>Noted</b></p> <p><b>The engagement of procurement consultant was seeded to the NUC. The procurement consultant had started work. We believe that</b></p>



	We recommend timely and efficient use of fund to make the procurement activities of the Centre more timely and be of the Centre by third party as required.	<b>this allocation might be deducted at source by the NUC.</b>
<b>4.1.6</b>	<p><b>Weakness in Budgeting</b></p> <p>Audit observed that majority of stakeholders did not know what each disbursement link of the budget for the Centre entails nor understand details of how to utilize the budget to advance their Unit in the Centre.</p> <p>This observation is one of the major causes of low performance in executing the budget.</p> <p><b>Recommendation</b></p> <p>We recommend that the Budget Committee should from time to time educate stakeholders on areas to explore the budget to advance their units or research areas.</p>	<p><b>I am not sure about this.</b></p> <p><b>Noted</b></p>

#### 4.2 Accounting.

S/N	OBSERVATIONS	RESPONSE
4.2.1	<p><b><u>Electronic Students' Ledger</u></b></p> <p>We observed that as at the time of writing this report, the electronic student ledger (for accounting purpose) of the Centre is yet to be enabled for use by the consultant managing the Accounting package.</p> <p>This is one of the reasons why the Accounting package could not generate a comprehensive electronic final</p>	<p><b>This will be referred to the consultant and the required attention devoted to it.</b></p>

	<p>account for the Centre.</p> <p><b>Recommendation</b></p> <p>We recommend that all necessary electronic modules on the Accounting package that will give a complete accounting system should be activated as soon as possible by the consultant as soon as possible.</p>	
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**4.3 Internal Controls**

S/N	OBSERVATIONS	RESPONSE
4.3.1	<p><b><u>Advance</u></b></p> <p>One of the controls on cash advance is that it should be retired within two week but we observed that there is general delay in the retirement of cash advances given to officers and research supervisors.</p> <p>Information obtained revealed that majority of advances released for research work may not be retired within two weeks because each stage of the research work process will take not less than three months.</p> <p><b>Recommendation</b></p> <p>We recommend that reminder letters should be sent to officers that are yet to retire cash advances given to them and pending payments to them should be withheld until necessary retirement/ refund are done by them.</p>	Noted
4.3.2	<p><b><u>Segregation of Accounting Duties</u></b></p> <p>We observed that the payment vouchers raised from the accountant's office were cross-checked <i>manually</i></p>	This will be referred to

	<p>by superior accounting officer but the electronic aspect of preparing, checking and approving of payment voucher and also the preparation of mandate was done by only one finance officers.</p> <p>When an officer initiates and completes the electronic accounting process, such process may be prone to high degree of errors.</p> <p><b>Recommendation</b> We recommend segregation of duties in the electronic aspect of accounting process in order to reduce avoidable accounting errors and promote accuracy in the system.</p>	<p><b>the bursary (bursar) for attention.</b></p>
<p><b>4.3.3</b></p>	<p><b><u>Approval on Payment Voucher</u></b></p> <p>We observed that the Accounting process and control of obtaining approval from a superior finance officer to prepare payment voucher and make payment has been deleted from the electronic accounting system. The Centre Accountant was informed about this observation earlier but no rectification was done till date.</p> <p>This development is contrary to the laid down payment controls and may lead to high financial management risk.</p> <p><b>Recommendation</b> We recommend strict adherence to the laid down accounting process and</p>	<p><b>This will be rectified. I wished this was pointed out at its initial discovery so that it can be corrected.</b></p>

	controls in order to reduce financial risk in the Centre.	
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#### 4.4 Fund Flow

S/N	OBSERVATIONS	RESPONSE
4.4.1	<p><b><u>Delay in draw down in CBN Accounts</u></b></p> <p>We observed a delay in the drawn down from the Centre's TSA Dollar Account to Naira Account. This situation led to delay in paying suppliers that have duly completed the supplies of goods and services.</p> <p>Furthermore, the implication of this situation is impairment in the timely use of fund despite all effort by the Centre to get value in the timely use of fund available for the project.</p> <p><b>Recommendation</b></p> <p>We recommend that effort should be made with the CBN to reduce the time lag in drawing Dollar Account to the Naira Account.</p>	<p>The delay was due to delay in the notification of fund released into the TSA account at the Central Bank.</p> <p>The Centre does not directly receive alerts of payment into Dollar accounts at the CBN.</p> <p>Desperate efforts were made to locate the disbursement by the Centre</p>

#### 4.5 Payment Procedures

S/N	OBSERVATIONS	RESPONSE
4.5.1	<p>We observed that payments were made on May 19, 2017 via Mandate No. CEADSE/PRO/17/00023 with neither any source document nor payment vouchers prepared. It was further revealed that the approved document relating to the payment was approved on May 30, 2017.</p> <p>Documents examined by Audit revealed</p>	

	<p>that the payees refunded the money after confirming that the payments were done in error.</p> <p><b>Recommendation</b> We recommend that payment procedures should be duly followed by finance officers. Furthermore, accounting officers and officers approving bank mandates should take necessary due care in signing mandate in order to avoid financial risk and malpractices.</p>	<p><b>Noted</b></p>
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**4.6 Procurement Activities**

S/N	OBSERVATIONS	RESPONSE
4.6.1	<p><b>Specifications for Goods by Users' Dept.</b> During the supplies of goods awarded to contractors for supply, we observed that some goods supplied were not given proper specification during the submission of needs by users' department to the procurement unit. This situation gave room for suppliers to make decision on what they felt is best for the end users.</p> <p>The implication of ambiguity in the specification of goods or equipment by users' department is that contractors may exploit this to supply goods with lesser price against bided price.</p> <p><b>Recommendation</b> We are of the opinion that when users' departments are submitting list of goods needed to the procurement Unit, the detailed specification with capacity should be clearly stated to avoid ambiguity in</p>	<p><b>Noted</b></p>

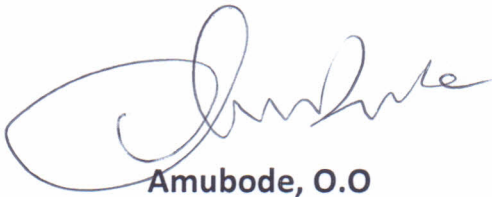
	procurement process.	
4.6.2	<p>We observed that because of the urgency in the need of goods or equipments by users' departments, they are usually eager to receive goods/ equipments supplied that may meet their needs (even if such goods/ equipments supplied did not meet up with the requirements stated in award of contract).</p> <p>The implication of this is that inferior or substandard goods or equipment may be received which may not last long and also be a value loss for the Centre.</p> <p>We commend the Director's office for given warning letters to contractors who tried this observed abnormally.</p> <p><b>Recommendation</b></p> <p>We recommend that the procedure in receiving and verifying supplies should be strictly adhered with. Furthermore, users' departments should ensure that supplies are in line with the requirements and specifications highlighted in the award of contract.</p>	<p><b>Note also that when such goods were supplied even when properly specified, the director had documented it, and revoked the contract.</b></p>
4.6.3	<p>We observed that there was a review of some of the contract originally awarded to suppliers due to inflationary changes in the general price of goods. This review was done by few members of committee that ratified and approved the award of contract.</p> <p><b>Recommendation</b></p>	<p><b>These were done because the Tenders Board granted permission for the variation after realizing that validation dates for the financial bids had long</b></p>

	Audit is of the opinion that for fair of judgment in the review the whole committee should be involved and due process (as laid down in the procurement Act) should be followed.	<b>expired.</b>  <b>Noted.</b>
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## 5.0 CONCLUSION

We believe that our observations and recommendations will be looked into by the management and useful for decision making purposes for the progress of the World Bank funded project and the overall interest of the University system as a Centre of Excellence in Africa.

Thank you Sir.



**Amubode, O.O**