

**AUDIT OF GRANT # OR2013-09967 TO THE UNIVERSITY OF NIGERIA FOR THE
IMPLMENTATION OF “AFRICA CLIMATE CHANGE ADAPTATION INITIATIVE”
PROJECT**

From: OSF Audit Department

To: Katalin Miklos, HESP

Date: July 3, 2015

I. INTRODUCTION

The “*Higher Education Support Program*” (HESP) requested the OSF Audit Department to perform an audit and establish whether the terms and conditions of the grant # OR2013-09967 made to the University of Nigeria, Nsukka (UNN) have been complied with. We have also aimed to understand how the basic internal control mechanisms are designed and operated and how the governance and executive functions are set up.

In November 2010, OSF made a grant #OR2010-18946 of USD 2,191,449 to UNN. The period of the grant was from November 2010 to December 2013 and the objective of the grant was to implement the project called “*Africa Climate Change Adaptation Initiative*” (ACCAI). The project, which is solely funded by HESP/OSF, is also known as ACCAI-UNN.

Two instalments totaling USD 646,947 (i.e. USD 165K and USD 481K) were paid to UNN under this grant and related to the period from Dec 2010 to Nov 2011. Due to many challenges during grant implementation and delays in both financial and narrative reporting, the payment of subsequent tranches on the balance was put on hold until those issues are resolved.

In June 2013, in replacement of the original grant (i.e. Grant #OR2010-18946), a new grant contract (Grant # OR2013-09967) was signed in the amount of USD 1,544,497 (i.e. the remaining unspent balance on the original grant amount) for the grant period of July 2013 to December 2014.

In July 2013, a first tranche on this new grant contract of USD 285,641 was paid to UNN. Unfortunately, as it was previously the case, HESP continued to experience the same challenges which necessitated that OSF Audit Department visits this organization. During our work, we also aimed to obtain a better understanding of these challenges.

Our report is intended solely for the information and use of OSF and should not be distributed to other parties. Please refer to Sections II-III for our observations related to the grant compliance assessment, Section IV for our note related to internal control assessment, Section V. for our overall recommendations, and Section VI for the work we completed.

II. EXECUTIVE SUMMARY

Overall, based on the review of a sample of transactions pertaining to implementation of the 1st tranche, (the first and only tranche so far released under the new grant), it was noted that there is significant room for improvement in key internal control areas such as internal controls regarding cash and bank, procurement, reliability (quality) of supporting documents and reporting.

Below is a summary of the key issues identified, which are further discussed under section III):

1) Cash and Bank:

- a. ACCAI program has a dedicated bank account # 2017099343 UNN (OSI-ZUG) CLIMATE CHANGE, USD opened within First Bank, Nigeria, However, this account was opened and is managed by the University (The Bursar Office) and not by the ACCAI-UNN project's officials. Bank signatories are university staff and hence ACCAI's senior management does not have control over its funds. If the HESP considers resuming this project, it would be advisable to take into consideration the potential implications (risks) associated with this set up (such as potential loss of control or access to the project's funds, or foreign exchange related risks as discussed below);
- b. We noted that the exchange rate used when recording different expenses incurred for this project was the Nigeria Central Bank's rate at the time this tranche was paid instead of using the prevailing exchange rate when payments were actually made to suppliers and other service providers. As a result, the financial reports may have been overstated due to this practice as the Central Bank's rate is usually lower than the commercial bank's rates, at which UNN, normally, exchanges its foreign currencies to local currency (Naira).
- c. Based on the financial report submitted, out of the USD 285K paid, UNN reported expenses worth USD 259,546. Therefore, there was a balance of USD 26,095 of unspent funds. As per the most recent bank statements (31 May 2015), (bank account in the name of ACCAI but managed by the university), there was a balance of USD 47,599 which was enough to ensure that the above unspent amount is available. Therefore, HESP may consider taking into account this balance when making the next payment to UNN.

2) On expenses reported on this grant,

- a. Based on the review of a sample of transactions, we noted that payment requests are made by the Director of ACCAI or her delegate and are authorized by the Chairman of ACCAI, who is also the *Vice Chancellor* for academic affairs of the university and in charge of the overall project (i.e. the Director reports to the Vice Chancellor). We were satisfied by this level of segregation in the expense

approval process. However, we noted that, for some expenses, supporting documents did not always provide enough information (i.e. quantity, unit price, etc.) and as such, it was not clear to know what exactly has been purchased and paid for (discussed in detail under point III/2 below).

- b. We also noted that some payments were made without clear trail to or justification of the services received (discussed in detail under point III/3 below).
- 3) On accounting and financial reporting, we noted that the accounting records are kept using manual general ledgers (handwritten cards) and, consequently, there was a high risk of human error in recording transactions and / or fraud in financial reporting (E.g. arithmetical errors, etc. and the possibility of manipulating donor reports).
- 4) On issues previously identified by HESP, ACCAI's management team agreed with most of the observations made and committed to address them as soon as possible. Some of the issues previously raised by HESP included conflict of interest, budget modifications without prior approval by the donor, reliability of financial reports, deliverables not always available at the reporting time, etc.

As a general remark, ACCAI's main explanation (excuse) to the different issues raised was that they did not know what the OSF standards and expectations are. Going forward, communication should be improved.

It should be noted that, there has been a lengthy email exchanges and as a result the project has been delayed as it was supposed to have been completed by 31st December, 2014.

We would like to draw your attention that, in this report, we mostly discussed the areas where ACCA-UNN has room for improvement in its practices but we did not make recommendations how to address them. However, on request, we would gladly share our recommendations with you if you deem it necessary for your discussions with ACCA-UNN.

III. OUR OBSERVATIONS ON THE IMPLEMENTATION OF THE GRANT (BASED ON THE REVIEW OF FIRST DISBURSEMENT ONLY)

1. Exchange rates used for reporting purposes

OS disbursements are directly made into a dedicated US Dollar account, which is in the name of ACCAI-UNN project but opened by the university. Then from time to time, the university transfers funds from this USD account into its other local currency bank accounts, which are used for payments of suppliers of goods and services. UNN exchanges dollars to Naira at the prevailing market rates. However, to report expenses to HESP, it uses the official Nigeria's Central Bank exchange rates. As the Central Bank's rates are dominantly lower than the commercial bank rates, the financial reports submitted to HESP were overstated in USD due to the use of an incorrect (low) exchange rate. To report expenses denominated in local currency

into dollar, UNN should have been using the relevant commercial bank’s exchange rates which were prevailing at the time of incurring the expense, or at the time of converting our USD to Naira, or at the time of making the payment (depending on what is more practical).

For example, on Sep 30, 2014, the Central Bank exchange rate was 1 USD = 155.73 Naira while based on OANDA website, 1 USD = 163.00 Naira for the same period.

As for the availability of the unspent balance of USD 26K, as indicated in the Executive Summary section, based on the bank statements received on June 12, 2015 (as of May 31, 2015), it was noted that the UNN USD account had a balance of USD 47K. However, the Financial Report submitted indicated that there was balance of USD 26K of unspent funds. This is because UNN has been using its own local currency bank accounts to settle ACCAI’s expenses and which contained funds for other university’s activities.

2. *Insufficient information on most of the supporting documents (e.g. invoices, contracts, etc.):*

Based on the review of a sample of transactions, it was noted that most of invoices do not provide sufficient information (e.g. quantity of goods purchased, the unit prices, etc.) that would enable the donors and the auditors to assess whether all of the purchased items were necessary (under the project) and obtained at a reasonable price. To illustrate this, the project purchased books valued at NGN 1,888,500 (or approx. USD 12K) but there was no indication of the quantity of the books purchased, let alone other important details such as title, author, etc. It was therefore not clear what was purchased and at what price. We discussed this concern with ACCAI’s team that this type of supporting documents did not meet the minimum acceptable standards for supporting documents. When we visited the ACCAI’s dedicated library, we noted that there were books displayed which could roughly be estimated between 50 and 60 books and all related to climate change. However, we were not able to confirm whether these books were the ones that were purchased due to insufficient information on the invoice

3. *Payments were made without clear justification of services or goods received and these practices carry high kick back risk:*

Under the activity called “Excursion to major Nigerian Climate Change Impact Sites”, we noted that there were payments made to local contacts (e.g. Local Chiefs, etc.), which were labelled as “Reconnaissance Survey” and “Honorarium to host communities”. The Excursion / field visit was conducted in the Nile Delta region, which was characterized by ACCAI members as very dangerous. We were told that the payment to four (4) people for the Reconnaissance Survey was for them to check the areas to ensure it is safe for the ACCAI team to visit (excursion) while the “Honorarium to Host Communities” were payments made to local Chiefs to allow them to visit and ask questions (survey) in their communities. While these could be justifiable for security

reasons and the amount paid is relatively not very substantial, it however raises the suspicion of potential kick back or corruption to the local communities. Unfortunately, we did not have any basis to assess how true or not was this information.

We also noted that the rates paid were inconsistent and that there was no basis for determining these amounts. Some local Chiefs (community leaders) were paid NGN 50, 000, others NGN 100, 000, etc.

Inconsistencies were also noted in other type of expenses paid under this budget line, such as car hire. Most of the rentals were for one day but there were two other car hire, which were for more, approx. 12 days, while the excursion was only for two days.

For the administrative expense budget line, our review indicated that, out of the budgeted amount of USD 25K, USD 15K was reallocated to the purchase of the minibus. The balance of USD 10,000 was later transferred into UNN accounts. ACCAI informed us that this budget line was intended to be money to be paid back to the UNN for different services rendered to the project (e.g. office space, utilities paid, etc.). However, we did not have any basis to verify this information (e.g. memo, etc.). We also noted that the reallocation of funds to the purchase of the minibus was decided by the PIC members (8 members) and not the University. However, if the budgeted administrative expense amount was to cover expenses incurred at the university as it was claimed, we therefore did not understand why it was not the university officials who should have notified ACCAI / PIC of this reallocation instead of the PIC officials (the reallocation was decided by ACCAI because they wanted to buy the minibus).

In the future, in the budget negotiation process, HESP should seek clarification on the budget lines, i.e. establish how the budget items build up and what types of expenses they are meant to cover; all of these need to be documented for future reference to avoid any doubts and misunderstanding.

4. Lack of basis on how the supplier for purchasing the Minibus was selected:

UNN purchased a Toyota minibus at N8.9M (approx. USD 55K). We noted that a minimum of three quotations were requested from Nissan, Hyundai and from Elizende, a private car dealer. We noted that Nissan and the private dealer offered vehicles of almost the same characteristics (i.e. a 16 seats minibus of 2.5L engine capacity (except that for the engine capacity was 2.7L and this was the sole difference), high roof, etc. Even though the characteristics were almost identical, the quoted price by Nissan was substantially lower (approx. 20% cheaper) compared to the private dealer. However, ACCAI finally decided to purchase the minibus from the private dealer despite the higher price offered.

Hyundai's offer was higher and for a lower capacity minibus (2.0L). We noted that this decision was, collectively, made by the eight PIC members, who made the selection committee, including its chairman. As per the Director of ACCAI, the rationale of selecting Elizende was based on the engine capacity (2.7L). It was however questionable whether this was justified, considering that, in order to buy this car, ACCAI had to re-allocate funds from other budget lines. As discussed here above, considering how this transaction was handled, it raised the concern over the possibility of kick back.

It should be noted that the minibus has indeed been purchased. It is still relatively new and it is written on it that it was donated by OSF for the ACCAI Program.

5. Payments to PIC members for services rendered (acting as consultants) in addition seating allowance paid every month

We even noted that some PIC members were paid for services rendered in addition to the stipend they receive every month. It was also noted that some of the services, by their nature, should not have been rendered by PIC members, who are normally senior officers. For example, we noted that one senior PIC member was paid an honorarium for collecting materials - see the "Compendium Section", and for collecting the minibus from Lagos. The incentive for the senior officers to provide this kind of services could be the extra payments (honorarium, etc.) made in addition to the regular stipend paid. Otherwise, these tasks should have been performed by someone else at a lower level (drivers, etc.).

We discussed this matter with senior management of ACCAI and we indicated to the Director of ACCAI that there was a risk of potential conflict of interest as if PIC members, particularly for consultancy services, who are supposed to oversee the bidding processes, at the same time, act as potential service providers, that there was a high risk of conflict of interest. We strongly advised that UNN needs to address this issue by ensuring that possible Conflict of Interest situations are dealt with and that all members should be alert by signing the COI declarations. Good practices require that, in situations of possible COI, concerned individuals or parties should simply be excluded in the decision-making process, and perhaps even ask for the relevant donor's prior approval if such transactions were appropriate to proceed with in a given situation.

6. Issues and concerns previously raised by HESP

During our visit, we also attempted to obtain answers to the several questions which were raised by HESP through different communication exchanges with ACCAI-UNN management team. Together with ACCAI team and the HESP Officer, we went through those questions one by one. It was noted that a large number of those questions / issues have already been resolved and for those which were still pending, we discussed the proposed action plan to resolve them. ACCAI

team, led by its Director in the presence of HESP Officer, agreed with all the observations and committed to resolve them if this project was to continue.

IV. OUR OBSERVATIONS ON GOVERNANCE AND INTERNAL CONTROLS

a. GOVERNANCE

As indicated above, to implement this project, ACCAI – UNN set up a committee composed of eight (8) people called “Project Implementation Committee” or PIC. Members of this committee were selected and appointed by the Vice Chancellor of the university. We were informed that the formation of this committee was based on members’ knowledge and experience on the climate change adaptation. The committee is led by the Director of ACCAI, who is also responsible for implementing the project.

Based on the discussion with ACCAI’s senior management, we attempted to understand the governance of this project, i.e. its structure, reporting lines, adequacy of segregation of duties, etc. We also tried to determine whether there were any kinds of oversight over the actions / decisions made by the committee. Though it is an implementing committee, PIC is also perceived as the governing body of ACCAI as there is no any other decision making body above it. Obviously, this is a suitable structure as PIC members’ main role is the implementation of the project and thus cannot, at the same time, play an oversight role.

Considering that ACCAI is one of the programs within the university, it may consider having a Sub-Board or an Executive Committee, with powers delegated by the University board, to provide governance oversight over ACCAI’s, an specifically PIC’s, activities.

b. INTERNAL CONTROLS

We were informed that ACCAI follows UNN’s policies and procedures. However, we were not given access to them as the Bursary Office said that the Vice Chancellor needed to give a special permission. This was the same response we received when we asked for some supporting documents (bank statements, etc.).

Therefore, we were not able to assess the efficiency and the effectiveness of the internal control environment of the project, to ensure that there were no possible control deficiencies (e.g. in the areas of review and approval of expenses, segregation of incompatible duties, etc.) which could undermine the implementation of this project.

Should HESP decide to continue with this project, aspects of internal controls should be clarified (i.e. existence policies and procedures, their adequacy, issues around compliance, etc.).

V. OVERALL RECOMMENDATION

In order for OSF to continue with this project, we suggest implementing the following six measures:

- 1) ACCAI-UNN’s governance system should be improved, as suggested above;
- 2) ACCAI-UNN should ensure that it has a reliable accounting system in place to ensure reliability of financial reports;
- 3) ACCAI-UNN should implement a policy to ensure that the documentation retained for supporting transactions is adequate;
- 4) ACCAI-UNN’s internal controls should be assessed as we had no opportunity to review it;
- 5) Before further support is provided, we suggest that a mutually agreed upon detailed budget be developed and accompanied with a budget narrative that explains the restrictions of the budget categories. This is to avoid any future misunderstandings.
- 6) HESP should consider special scrutiny measures to be put in place to mitigate the risks connected to future support. We are happy to provide advice in that regard (size and frequency of future payments, grant monitoring activity).

VI. SUMMARY OF WORK DONE

We reviewed supporting documents and related payment documents for a sample of expenses charged against the HESP’s grant, to assess if expenses were reasonable, allocable and allowable under the grant and if payments of expenses were executed.

As discussed under section IV.b) above, we were not able to assess the efficiency and effectiveness of the internal controls as they were not availed to us.

The above procedures do not constitute an audit, the objective of which would be an opinion on the cash receipts and disbursements connected to the OSI Budapest grant. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported.

For questions on the content of this report, please feel free to contact either Greg Mushyirahamwe at gmushyirahamwe@osiwa.org or Antal Vincze at antal.vincze@opensocietyfoundations.org.
