

**FAAC POST-MORTEM SUB-COMMITTEE REPORT TO  
FEDERATION ACCOUNT ALLOCATION COMMITTEE (FAAC) PLENARY MEETING  
HOLDING ON FRIDAY 22<sup>ND</sup> OCTOBER, 2021**

**1.0 PREAMBLE**

- 1.1 The FAAC Post-Mortem Sub-Committee meeting for the Month of October, 2021 was held on Wednesday, 20<sup>th</sup> October, 2021 at the Board Room of the Revenue Mobilization Allocation and Fiscal Commission (RMAFC). The meeting was attended by Members of the RMAFC, representatives of Commissioners of Finance and Accountants-General from all the geo-political zones, as well as representatives of the Revenue Generating Agencies and Consultants to FAAC Post Mortem.
- 1.2 The Sub-Committee discussed several issues and hereby present the summary to the FAAC Plenary for consideration.

**2.0 UPDATE ON OUTSTANDING ISSUES REFERRED TO THE SUB-COMMITTEE BY FAAC**

- a) Waivers on Taxes:** The Federal Inland Revenue Service (FIRS) reported that it is still handling the process of recovery according to legal procedures and requirements. However, an inflow of **₦4,687,847.96** was received as a result of reconciliation of payments made in 2018 and 2019 in respect of waivers which further reduced the balance to **₦3,3653,440,876.43**. Additional update would be provided as and when reported by FIRS.
- b) Update on NNPC's Deductions in Respect of Government Priority Projects:** NNPC is expected to provide further additional and comprehensive information on six (6) other Government Priority Projects from inception and for second quarter, 2021. Members may note the Sub-Committee's inability to analyze the data presented by NNPC because it was incomplete. At the meeting held on Wednesday, 20<sup>th</sup> October, 2021, NNPC was called upon to respond promptly by supplying the information as the template to enable the Sub-Committee fill in the observed gaps.
- c) Update on the Review of Indices for the Horizontal Sharing of Revenue in the Federation Account:** The matter is still work in progress.
- d) Update on ₦6.32 Trillion Withheld by NNPC:** The Sub-Committee held several reconciliation meetings with Stakeholders to resolve this matter. Members may recall that several resolutions were reached in the reconciliation meetings held from 12<sup>th</sup> to 16<sup>th</sup> July, 2021. However, to bring the matter to a closure, another round of reconciliation between FAAC Post Mortem Sub-Committee, OAGF and NNPC led to an adoption of the sum of **₦4,026,369,898,361.67** as Subsidy Claims certified by

PPPRA out of the sum of **N6.32 Trillion** in contention. This left an outstanding balance of **₦2,391,001,082,722.30** as Domestic Crude Cost withheld by NNPC from January, 2012 to September, 2020, yet to be reconciled. A copy of the sign-off between NNPC and OAGF is marked as **Annexure 'A'**.

**e) Update on \$2,226,998,165.02 NPDC Indebtedness to DPR on Forcados Assets OML 119, 60-63, 11, 24 and 98:** Members may recall that in order to resolve this issue, a final reconciliation meeting was slated to hold in September, 2021 but could not hold due to unavoidable reasons. However, the meeting has been scheduled to hold from Monday, 1<sup>st</sup> November, 2021 after which the Report of the outcome will be presented to FAAC at its November, 2021 meeting.

**f) Update on Various Deductions by Nigeria National Petroleum Corporation (NNPC) Before Computation of 13% Derivation to Oil Producing States:**

You may recall that at the Federation Account Allocation Committee (FAAC) meeting held on Friday, 20<sup>th</sup> August, 2021, the issue of deductions on Priority Projects, under-recovery and Cost of Collection before computing 13% derivation to Oil Producing States was discussed. Consequently, FAAC directed the Sub-Committee to examine the matter.

Further meetings and inter-agency deliberations was held to resolve the issue. As a follow up, Members may be informed that the Office of the Accountant-General of the Federation and NNPC had made submissions on the subject explaining the basis of their roles in the various deductions and computation. The Sub-Committee also considered provisions affecting 13% derivation in Section 162 (2) of the 1999 Constitution of the Federal Republic of Nigeria (As amended) and made some observations including the following:

- i. Section 162 (2) of the 1999 Constitution of the Federal Republic of Nigeria (As Amended) which provides for 13% Derivation on natural resources is not subject to any other law, thus the provision of the Constitution on the application of the Derivation principle should take precedence.
- ii. The Revised 2020-2022 Medium Term Fiscal Framework indicated the deduction of cost recovery from gross Federation Account inflow of Oil revenue;
- iii. The Revised 2020-2022 Medium Term Fiscal Framework shows that other deductions such as Priority Projects, 13% Derivation and Special Federation transfers are deductions to be made on Total Oil and Gas Revenue after Cost Recovery, **however it did not categorically state that Government Priority Projects should be deducted before the payment of 13% derivation to Oil Producing States;**
- iv. The Revised 2020-2022 Medium Term Fiscal Framework shows that Net VAT revenue is arrived at after cost of collection, transfer to North East Development Commission (NEDC) have been deducted. **In this case cost of collection is**

- v. **removed and credited to the relevant Agencies before transfers are made to NEDC.**
- vi. NNPC Act, Chapter N123, laws of the Federal Republic of Nigeria 2004 Part 1, Section 7, Sub-Section 4 (b) allows NNPC to defray all expenses incurred in the conduct of its business before remitting operating surpluses.
- vii. That funding for **Government Priority Projects are not part of cost associated with production but rather are investment expenditure;**
- viii. NNPC Act, Chapter N123, laws of the Federal Republic of Nigeria 2004 part V, Section 53 (7) grants NNPC the right to conduct their affairs on a commercial basis in a profitable and efficient manner without recourse to government funds:
- ix. The Fiscal Framework and North East Development Commission Establishment Act, 2017 empowers the deduction of funds for the Commission on gross VAT revenue;
- x. There was no justification to the disparities observed in the distribution of Oil revenue and that of VAT revenue;
- xi. That deductions made in respect of under recoveries (PMS Subsidy) is not part of cost associated to production of oil and gas and is exposed to the vagaries of international oil market prices;
- xii. That such deductions as under recoveries, cost of collection, funding for Priority Projects greatly reduce the amounts payable to the beneficiaries of 13% derivation on oil and gas and thus negates the intent and spirit of the provisions in Section 162 (2).

However, the matter is work in progress as the final recommendations and possible fallouts of the issues are still being looked at by the Committee.

- g) Update on Increased Gas Revenue Inflow to the Federation Account in the Month of July, 2021:** It would also be recalled that at the Federation Account Allocation Committee (FAAC) meeting held on Friday, 20<sup>th</sup> August, 2021, it was observed that Gas revenue accruable to the Federation Account exceeded the revenue from Crude in the month of July, 2021. Consequently, the matter was referred to the FAAC Post Mortem Sub-Committee to critically examine and report back to FAAC Plenary. Members may note that the relevant information had been received from NNPC, while additional information is being expected from DPR to enable the Committee complete its assignment.
- h) Concerns Raised by the Sub-Committee on the Implementation of the Petroleum Industry Bill:** The Sub-Committee expressed concerns about likely fallouts of implementation of the Petroleum Industry Act (PIA) and its possible impact on Federation revenue Accounting and processes. It noted that with several reforms being expected, the roles of certain agencies involved in the management

- i) of Federation's interest in the oil and gas industry as well as their capabilities may change and wondered how these may affect the Federation's interest. The Sub-Committee hopes adequate enlightenment would be provided to stakeholders and that its views and suggestions on critical issues as they relate to the operations of these key agencies and the Federation Account itself would be sought.
- j) **Assessing the impact of FAAC PMSC on Outstanding Arrears of Revenue Inflows to the Federation in August, 2021:** For the Month of August, 2021, the Sub-Committee wishes to report that a total sum of **\$301,139,689.12** which was equivalent of **₦213,641,395,325.26** was received in the Federation as arrears payment from different sources as depicted in Table 1 below. These payments were as a result of the monthly analysis and reconciliation of revenue collections and remittances into the Federation Account and had remarkably reduced the amount of arrears against some of the Revenue Generating Agencies. Table 2 shows the cumulative amount received into the Federation Account from January to August, 2021 as arrears owed to the Federation Account amounting to **\$2,233,686,283.62** or **₦975,715,199,541.76**.

**Table 1: Revenue Inflows of Arrears Owed to the Federation Account in August, 2021**

S/N	Detail	Amount of Receipts in USD (\$)	Amount in Naira Equivalent (₦)
i.	NLNG Sales (Arrears)	3,088,848.62	1,187,198,967.10
ii.	Shell Nigeria Exploration Miscellaneous Income	138,673,288.54	53,299,297,450.35
iii.	Southern Hydro-Carbon Resources (Ullage Fees)	6,187,433.97	2,378,140,246.37
iv.	Total EP Nigeria Miscellaneous Income	5,255,507.70	2,019,954,384.50
v.	NCS Arrears of Outstanding Inflow Payment to FA	-	39,037,855,938.80
vi.	NNPC JVRA Arrears of JVCC RA Debts	300,964,270.00	115,651,540,032.90
	DPR NLNG Gas Royalty	175,419.12	67,408,305.24
	<b>TOTAL</b>	<b>454,344,767.95</b>	<b>213,641,395,325.26</b>

Source: FAAC Analysis, September, 2021

**Table 2: Summary of FAAC PMSC Impact on Outstanding Arrears of Revenues Inflow to the Federation Account from January to August, 2021**

S/N	Month	Amount Paid in USD (\$)	Amount Paid in Naira Equivalent (₦)
i.	December/January, 2021	198,604,596.24	75,271,141,974.96
ii.	January/February, 2021	196,867,789.43	74,370,755,973.70
iii.	February/March, 2021	291,379,957.34	110,515,679,179.35
iv.	March/April	243,347,267.08	92,127,237,118.87
v.	April/May	16,909,826.53	8,925,572,165.05
vi.	May/June	504,093,635.91	216,756,717,795.29
vii.	June/July, 2021	328,138,443.14	184,106,700,009.28
viii.	July/August	454,344,767.95	213,641,395,325.26
	<b>Total</b>	<b>2,233,686,283.62</b>	<b>975,715,199,541.76</b>

Source: FAAC Analysis, September, 2021

### 3.0 SUMMARY OF GROSS FEDERATION ACCOUNT THE MONTH OF AUGUST, 2021

3.1 For the month of August, 2021, a total sum of **₦541,618,675,730.23** was remitted into the Federation Account as reflected in the Central Bank Component Statement. Details of each Agency's contribution to the Federation Account for the period under reference are as indicated in Table 3 below.

**Table 3: Summary of Gross Federation Account Revenue Collections Contribution as Indicated in CBN Component Statement for the Month of August, 2021**

S/N	Detail	August, 2021 (₦)	Percentage Contribution (%)
i.	NNPC Crude Oil and Gas Sales Revenue Receipts	52,205,685,062.76	9.64
ii.	Department of Petroleum Resources (DPR/MPR)	120,436,754,684.41	22.24
iii.	Federal Inland Revenue Service (FIRS)	215,965,302,289.79	39.87
iv.	Nigeria Custom Service (NCS)	151,739,745,112.24	28.02
v.	Ministry of Mines and Steel Development (MMSD)	868,586,050.19	0.16
vi.	FMF/OAGF/RMAFC	402,602,530.84	0.07
	<b>TOTAL</b>	<b>541,618,675,730.23</b>	<b>100</b>

Source: FAAC Analysis, August, 2021 (Please see End notes)

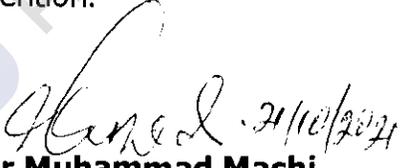
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3.2 Please note that, a total sum of **₦178.509** accrued into the VAT Pool Account for the month of August, 2021 as compared to the sum of **₦151.114 billion** in July, 2021.

#### 4.0 Conclusion

4.1 Thank you very much for your attention.

  
**Kabir Muhammad Mashi**

(Kaigaman Katsina)

Chairman, FAAC Post Mortem Sub-Committee

21<sup>st</sup> October, 2021

1

**Nigeria Custom Service Collections for August, 2021:** It was observed that in August, 2021, collections by Nigeria Custom Service (NCS) amounted to **₦116,873,746,667.27** while transfer to Federation Account was **₦151,774,807,236.24**, with a difference of **₦34,901,060,568.97**. Although it seemed that NCS performed well, this situation actually revealed a pattern of under remittances of collections made by the Nigeria Custom Service (NCS). The Sub-Committee noted these inconsistencies with concern, which raised questions about the reporting method deployed by NCS.

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**MMSD Collections for July, 2021:** The Sub-Committee noted that collections made by MMSD for July, 2021, totaling **₦957,667,468.19** were not completely remitted to Solid Mineral Revenue Account with the CBN as at when due. A difference of **₦534,688,015** was not transferred to Federation Account. This was noted with concern by the Sub-Committee.