

NEITI Nigeria
Extractive
Industries
Transparency
Initiative



THE PRESIDENCY

NEITI AUDIT REPORT

2005
SIMPLIFIED

...promoting transparency, enabling prosperity



NETI AUDIT REPORT

2005

SIMPLIFIED

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The Nigeria Extractive Industries Transparency Initiative (NEITI) has become a catalyst for the application of the principle of transparency and accountability in the management of Extractive industries in Nigeria. Its periodic audits have opened up, widely, a hitherto opaque industry to public scrutiny.

FOREWORD

The Nigeria Extractive Industries Transparency Initiative (NEITI) has become a catalyst for the application of the principle of transparency and accountability in the management of Extractive industries in Nigeria. It is today an ethical reference point for the ongoing reform in Nigeria's Petroleum Industry. For instance, the Petroleum Industry Bill provides that "all institutions in the industry as well as the Nigeria National Petroleum Corporation (NNPC), in achieving their functions and objectives, shall be bound by the principles of NEITI Act 2007". As a result of the valuable work of NEITI in identifying institutional and process deficiencies, and suggesting remedies, such key agencies as the Department of Petroleum Resources (DPR) and the Federal Inland Revenue Service (FIRS) have promised to embark on reforms aimed at building their capacity to perform their tasks more effectively. The Board and management of NEITI intend to partner with the agencies to ensure that this is realized. Overall, NEITI has had a significantly beneficial impact on the Nigerian economy, state and society. Its periodic audits have opened up, widely, a hitherto opaque industry to public scrutiny.

It is noteworthy, that the NEITI audit reports have placed immensely rich data and information in the public domain thereby strongly empowering civil society to hold government to account. The reports have facilitated the process of recovery of significant amounts of underpaid revenue for the state and helped to improve the domestic

climate for foreign direct investment. By placing embarrassing facts and figures about the bulk of Nigeria's public revenue in the public domain, NEITI has become both an instigator of civic interrogation of public officers and a social safety valve, redirecting youthful energies from resorting to violent conflicts to engagement in civil debate on sensitive issues. The audit reports of NEITI will have even greater impact on the nation in the future, given the provision of the NEITI Act that the Auditor –General for the Federation shall, within three months after the submission of the report to the National Assembly, “publish any comment made or action taken by the Government on the audit report”. The 2005 NEITI Audit, the second in the series is another bold step in advancing this process.

This publication is in response to public demands for a simplified version of the report. It is carefully presented in an enlightening, engaging comprehensive, and concise informative manner supported with rich but simple data. The objective is to ensure that an average Nigerian and stakeholder can easily read, understand and internalize its meaning, import, processes and implications for both policy and action. These will serve as major tools for asking informed questions and contributing to meaningful discussions as well as constitute debates on these issues. I am delighted to assure all Nigerians that the annual audits will be more regular as we strive to close the yawning gaps that now exist. Already, the audit of the oil and gas sector for the periods 2006 to 2008 is expected to be ready on or before January 15th, 2011. We have also received expression of interest to engage auditors for the 2009 audit. Furthermore, we have decided to extend for

the first time, the audit process to cover the solid minerals sector, covering the period 2007 – 2009.

I urge Nigerians to take advantage of this openness and ask informed questions of government at all levels but also make suggestions on how to entrench even greater degree of transparency and accountability in the extractive industry sector.

Prof Humphrey Assisi Asobie

Chairman of NEITI & Member EITI International Board.

The objective of NEITI audit is for the average Nigerian to use the data generated from the audit to ask informed questions and hold government to account.

INTRODUCTION

As a Nigerian, do you know how much companies are paying to government for the oil, gas and mineral resources they extract in Nigeria? Do you also know how much our government receives and how much of this money is channeled to development of our country? Have you also asked if government is receiving what it should receive and if the companies are paying what they should pay? Why is information on revenue accruing from our natural resources always kept very secret? Do you know why majority of citizens from countries blessed with natural resources like Nigeria wallow in abject poverty?

Attempts to find answers to these basic questions will enable you appreciate the reasons for the establishment of Extractive Industries Transparency Initiative EITI, domesticated in Nigeria as NEITI since 2004.

Extractive Industries Transparency Initiative (EITI)

The Extractive Industries transparency Initiative was set up in September 2002 at the World Summit on Sustainable Development held in Johannesburg South Africa as a global initiative to help improve the management of oil, gas and mining revenues in resource –rich countries. The objective is to ensure that huge revenues accruing to government from payments made by extractive companies are managed transparently to promote development, reduce poverty, conflict, ignorance, deprivation and disease. The EITI operates on two basic

principles. The first is for companies to disclose publicly, payments made to government for government to disclose publicly revenues received from companies. The second principle is for an independent audit to be conducted to verify and reconcile these figures under the management of a multi stakeholder committee. The objective is for the average citizen of these countries to use the data generated from the audit to ask informed questions and hold government to account.

QUESTIONS AND ANSWERS

1. *What are the Extractive industries?*

Answer: Extractive Industries are companies involved in oil prospecting and exploration, mining companies, forestry, fishing, agriculture, animal husbandry, or any others that might be involved with resources of a regenerative nature.

2. *How does NEITI relate to EITI?*

Answer: NEITI means the Nigeria Extractive Industries Transparency Initiative. The NEITI was set up by NEITI Act of 2007 to implement EITI principles and objectives with Nigerian content and peculiarities in the Nigerian Extractive sector. NEITI is therefore EITI arm in Nigeria.

NEITI is made up of the National Stakeholders Working Group NSWG which is the Board and the NEITI Secretariat which runs the day to day management of the Initiative. The NSWG is made up of representatives of the civil society, the private and public sectors, companies, community and other strategic interests.

3. *Why does NEITI conduct Audit?*

Answer: Over the years information about revenue flow in the extractive sector (oil, gas and solid minerals) has been kept secret. This created mistrust, mutual suspicion, hostility and conflict. This is because Nigerians hardly knew how much money companies pay to government in the form of royalty, profit tax, bonuses etc. Nigerians also

did not know how much Nigeria received and how the revenue supported the provision of social amenities, to make their lives better. NEITI Audits generates vital information and places the information in the public domain to promote dialogue, debate and informed discussions around these issues.

4. *Who Audits who and how?*

Answer: NEITI through independent consultants and public regulatory agencies audits the companies involved in the extractive industries sectors such as oil, gas, solid minerals. In Future fisheries and forestry will be included So far however; audits have been conducted only in the oil and gas sector. Plans to expand to other sectors have reached advanced stages. NEITI carries out these responsibilities through independent reputable auditors engaged through open, transparent and competitive process.

5. *Apart from the companies involved in the Extractive business which government Agencies were involved in the 2005 NEITI Audit and why?*

Answer: The relevant government agencies are: Federal Inland Revenue Service (FIRS), Department of Petroleum Resources (DPR), Central Bank of Nigeria (CBN), Office of Accountant-General of the Federation (OAGF), Nigerian National Petroleum Corporation (NNPC). Others are Crude Oil Marketing Company (COMD), National Petroleum Investment Management Services (NAPIMS), Pipelines and Products Marketing Company (PPMC), Revenue Mobilisation, Allocation and Fiscal Commission (RMARF), Petroleum Technology Development Fund (PTDF), Niger

Delta Development Commission(NDDC), Education Tax Fund(ETF), Crude Oil Reconciliation Commission(CORC) and Petroleum Products Sales Reconciliation Committee(PPSRC).

A. Federal Inland Revenue Service (FIRS)

The Petroleum and International Tax Department (PITD) of FIRS is responsible for assessing and collecting PPT and other direct taxes from the joint ventures, production-sharing contractors and sole risk operators.

B. Department of Petroleum Resources (DPR)

Has overall responsibility for regulating the industry. It approves exploration licenses, drilling programmes, development and production activity, and capital equipment imports. It also monitors and collects royalties, and compiles production data used in the calculation of PPT. It is part of the Ministry of Petroleum.

C. Central Bank of Nigeria (CBN)

Is Nigeria's banker, depository for royalties, PPT and other direct taxes; it also provides collection information for reconciliation with the tax assessments of Federal Inland Revenue Service.

D. Accountant General of the Federation (AGF)

Accountant to the Federal Government and "owner"/manager of Federal Government Accounts with the Central Bank.

E. Nigerian National Petroleum Corporation (NNPC)

NNPC is state-owned oil company that manages Nigeria's interest in the oil and gas sectors through the joint venture partners and the following subsidiaries:

- **Crude Oil Marketing Division (COMD)**

The COMD is responsible for verifying production and sales data, and for establishing a representative price for tax purposes for different crude oils based on market realisations.

- **National Petroleum Investment Management Services (NAPIMS)**

Manages the government's upstream investments in joint ventures, approves capital expenditure, purchase contracts, monitors operating and financial results from NNPC's joint ventures with international firms and production-sharing contracts. NAPIMS also receives management reports and audited accounts from the upstream companies, which positions it for review and audit of Petroleum Profits Tax (PPT).

- **Pipelines and Products Marketing Company (PPMC)**

Transports crude to refineries, imports and distributes petroleum products.

- NPDC-This is the production arm of the NNPC
- Finance and Accounts Directorate-Reports on Federal Accounts revenue issues at revenue commission meetings.

E. Revenue Mobilisation, Allocation and Fiscal Commission (RMAFC)

Constitutionally empowered to monitor revenues and allocate them to Federal, State and Local Governments.

F. Crude Oil Reconciliation Committee

Performs the actual reconciliation of crude oil revenue with Central Bank of Nigeria.

G. Petroleum Products Sales Reconciliation Committee

Reconcile revenues received from petroleum products sales and revenues received in relation to government allocations of crude oil to NNPC for the purpose of meeting domestic petroleum product demand.

H. Niger Delta Development Commission (NDDC)

NDDC was established as a regional development intervention agency for the oil producing communities and areas. The oil companies pay it 3% of their annual operating budget to invest in development projects in the nine states that are covered by NDDC.

6 ***Which major companies were covered by the audit?***

Answer: The major companies covered by NEITI Audit include:

- Chevron Nigeria Limited 60%
- Elf Petroleum Nigeria Limited 60%
- Mobil Producing Nigeria Unlimited 60%
- Nigerian Agip Oil Company (NAOC) 60%
- Panocean Oil Corporation 60%
- Shell Petroleum Development Company (SPDC) 55%
- Texaco Overseas (Nigeria) Petroleum Company 60%

These companies are in joint venture business with Nigeria through the NNPC. (For more details on sharing formular, please visit the website of the listed companies)

7. ***Are there other companies whose account books were opened for the 2005 NEITI Audits?***

Answer: Yes, the following companies participated as required by NEITI Act of 2007.

- **AMNI International Petroleum Development Company**
- **Atlas Petroleum International**
- **Cavendish Petroleum Nigeria**
- **Chevron Oil Company Nigeria**
- **Chevron Texaco**
- **Conoil Producing**
- **Continental Oil and Gas**
- **Dubri Oil Company**

- Elf Petroleum
- Express Petroleum
- Moni Pulo Petroleum Development Company
- Nigerian Agip Energy & Natural Resources
- Nigerian Agip Exploration
- Nigeria LNG
- Ocean Energy
- Panocean
- Petrobras
- Phillips Oil Company (Nigeria)
- Shell Nigeria Exploration and Production Company
- Statoil Nigeria
- Addax Petroleum.

8. *Why should these companies provide information*

on payments to government during NEITI Audit?

Answer: Open and free disclosure of payment to government for purposes of NEITI Audit is statutory requirement as provided for in the NEITI Act Section 3(e & f) of 2007. Failure to comply with the requirements is a violation of the Law of the Land. All oil, gas and solid minerals companies are required to comply because the citizens require this information to enable them hold their government to account.

9. ***Which specific areas were covered during the audit?***

Answer: NEITI Audit covered the following critical areas.

- Physical production volumes
- Revenue / Financial flows Production and marketing of crude oil
- Management Process / system
- Marketing and distribution of Crude products

10. ***Why was the audit limited to only these areas?***

Answer: This was to establish how these companies report their payments and establish oil prices. It is also to find out how regular key agencies involved in revenue collection like the Department of Petroleum Resources (DPR), the Federal Inland Revenue Services (FIRS) etc. monitor strictly the financial flow in the sector.

11. ***What did the audit achieve?***

Answer: The audit raised critical questions over companies' practices, especially production calculations. It also raises issues over modalities for tax assessment, quality of regulation by these relevant agencies with a view to exposing mismanagement and opportunities for corruption.

12. ***What was the scope of the Audit?***

Answer: The Audit covered:

- Financial flows
- Physical products flows
- Process/ *Governance of the sector*

13. **What are Financial, Physical and Process Audits?**

Answer:

Financial Audit examined the financial flows and outlined the chain of custody for finances so that specific agencies could be held accountable. It reconciled company payments with receipts by the government's banker, the Central Bank of Nigeria, and with the records of the Federal Inland Revenue Service, the department responsible for petroleum profit tax (PPT) assessments, and the Department of Petroleum Resources (DPR). Then it sampled some companies' tax returns and royalty statements to verify the calculations, and the assessments of FIRS and DPR.

Physical Audit process mapped the sector's oil and gas and refined product flows. It checked that the extracted volumes are accurately reported, and that each company's reported production tallied with the numbers the government used for tax and royalty calculations. This took the audit into some highly technical areas that featured metering, temperature and pressure measurements, as well as the more controversial areas of oil theft.

Process Audit examined how key agencies run the business. It explored how the regulator auctioned

and sold oil blocks, and put DPR's conduct of the 2005 upstream licensing round under the microscope. It assessed whether NNPC's Crude Oil Marketing Department (COMD) priced the government's share of equity crude accurately, and how and why other companies were contracted to export this crude. The audit also examined NNPC's upstream division, National Petroleum Investment Management among other process related integrity issues.

14. ***Why was the latest NEITI Audit only for 2005?***

Answer: NEITI was set up in 2004. It conducted the first ever comprehensive audit in the oil and gas sector 'retroactively' to cover a period of six years (1999-2004). The profound success of that landmark exercise and its findings promoted public demands for regular audit of the extractive sector. NEITI therefore is mandated to carry out the audit every year.

15. ***Was it the same Auditing firm that conducted the first audit that was used for the 2005 Audit?***

Answer: Yes! It was the same Hart Group, in association with Chris Morgan Associates and SS Afemike and Co. The reasons are: the company won the competitive bid, did a good job before, has firm understanding of Nigeria's environment, the oil and gas sector and put NEITI in a better position to sustain continuity, competence and integrity of the exercise based on established track record. However, by NEITI Act of 2007, Audit firms

are only allowed a maximum of two times to handle NEITI Audits and no more. Therefore, Hart Group is currently handling its last job (2006 – 2008 audits) and the first to be covered by the NEITI act. It will not be eligible to bid for the 2009 audit.

16. ***What were the dominant features in the audit?***

Answer: It represented an overview of the data collected from companies (field operators, terminal operators, lifters), NNPC and the Department of Petroleum Resources. The different sets of Data were reconciled by the auditors with the following outlines:

- Individual shareholders' equity stake in the hydrocarbon streams
- oil and gas produced and used for calculating petroleum profit tax (PPT) and royalty payments
- Oil and gas used for PPT purposes by operating companies' records with those by Department of Petroleum Resources (DPR) records.

17. **What were the key findings of NEITI 2005 audit?**

Answer: The 2005 Audit of the Oil and Gas Industry revealed the following:

- A total of 917 million barrels of crude oil were produced during the period under review.
- The Central Bank of Nigeria received from the oil and gas sector, a net revenue of US\$ 28 billion and a value of N790 billion.
- Amount owed by NNPC to the federation

account: domestic crude and other income was N654.8 billion and dividend payments from NLNG were \$.2billion.

- Underpayments for Recovery in 2005 amounted to \$.8billion and a value of N1.5 billion.
- More revenue would have accrued to the federation but for the losses occasioned by the significant process weaknesses identified in the system.

18. Were there specific findings of the physical aspects of the audit?

Answer: The specific and interesting findings in the physical audit include the following revelations;

- The quantity of oil produced during the period under review was not reliably known.
- No data estimated, measured or inferred on possible product losses between the production point and the terminal.
- Complex agreements impact on determination of company oil entitlements.
- Unclear ownership of terminal stocks.
- No system for measuring production, other than through monitoring terminal receipts.

19. **What about financial flows to the Federation Account from sales of oil and gas, taxation, dividends e.t.c?**

FINANCIAL FLOWS TO THE REVENUE ACCOUNT			
TABLE 1: AGGREGATED OIL - RELATED FINANCIAL FLOWS TO THE FEDERATION			
The amount received in 2005 by the Federation from the specified companies and in respect of the identified classes of financial flows were as follows:			
	Reported by companies	Reported by CBN	Difference
	US\$ 000	US\$000	US\$000
Petroleum Profits Tax	10,638,047	10,396,176	241,871
Reserves Additional Bonus	-	65,292	65,292
Royalty	4,357,491	4,679,468	-321,977
Gas Flare Penalty	18,605	28,909	-10,304
Sub-Total	15,014,143	15,169,845	155,702
Signature Bonus	90,025	-	90,025
Company Income Tax	55,595		
Total	<u>15,159,763</u>	<u>15,169,845</u>	<u>65,677</u>
<i>Analysis</i>			
IOC -owned companies	14,526,960	14,519,150	7,810
Other Companies	577,208	585,403	-8,195
Note that the Company Income Tax receipt could not be confirmed by CBN due to the way in which the system of tax collection operates, without distinguishing oil and gas payments from other payments. Accordingly, we do not identify any 'difference' against CIT.			

20. During the Audit, were there efforts to compare the data reported by companies and what the CBN actually received in terms of profit tax, bonuses, royalty e.t.c.?

Answer: Yes, see the summary of data comparison in the table below:

TABLE 4: NEITI 2005 FINANCIAL AUDIT SHOWING ROYALTY			
The Royalty payments recorded by CBN and the royalty payments recorded by the companies are shown in the table below, together with the net difference from CBN records.			
Royalty-IOC Owned Companies	Reported by Companies	Reported by CBN	Difference
	US\$ 000	US\$ 000	US\$ 000
Chevron Nigeria Limited	542,614	547,509	(4895)
ConocoPhillips	129,897	132,330	(2433)
ELF Petroleum Nigeria Limited	735,900	997,455	(261555)
ELF Petroleum Nigeria Limited(gas)	2,807	2,773	34
Mobil Producing Nigeria Limited	964,573	964,573	-
Nigerian Agip Oil Co. Ltd	327,598	334,801	(7203)
Pan Ocean Oil Corporation	36,225	40,077	(3852)
Shell Petroleum Development Co. Ltd	1,179,735	1,179,834	(99)
Total	3,919,349	4,199,352	(280003)
Royalty- Other Companies	Reported by Companies	Reported by CBN	Difference
	US\$ 000	US\$ 000	US\$ 000
Amni International Petroleum Ltd	3,654	3,779	(125)
Atlas Petroleum International	608	608	
Cavendish Petroleum Nigeria Ltd			
Conoil Producing Ltd	9,611	201,826	(192215)
Continental Oil & Gas	170,600	96,482	74118
Dubri Oil Co Ltd	1,492	1,352	140
Express Petroleum & Gas Co., Ltd			
Moni Pulo Ltd	49,843	63,882	-14,039
Nigeria Petroleum Development Company	202,334	112,187	90147
Brass Exploration Unlimited			
Total	438,142	480,116	(41974)
Analysis			
IOC Owned Companies	3,919,349	4,199,352	(280003)
Other Companies	438,142	480,116	(41974)

21. *What is an aggregated and disaggregated format in EITI Audit?*

Answer: An important feature of EITI Audit process generally is on whether or not the data published in the audit report are disaggregated to show what each of the companies paid to government. This means separately identifying payments made by individual companies and the types of payments made by them. NEITI requires companies to provide disaggregated statements for its audits to enable the report explain clearly and accurately, individual company payments with government receipts. It should be noted, however that there is no international EITI policy that requires any implementing country to adopt this method. Some countries publish aggregated data and this is not held against them.

22. *Which of the formats did NEITI adopt in the 2005 Audit?*

Answer: NEITI adopted both aggregated and disaggregated formats in the audits to present clearer picture of the findings.

(See Table below)

TABLE 1: AGGREGATE D OIL - RELATED FINANCIAL FLOWS TO THE FEDERATION ACCOUNT

The amount received in 2005 by the Federation from the specified companies and in respect of the identified classes of financial flows were as follows:

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Other Companies	577,208	585,403	8,195

Note that the Company Income Tax receipt could not be confirmed by CBN due to the way in which the system of tax collection operates, without distinguishing oil and gas payments from other payments. Accordingly, we do not identify any 'difference' against CIT.

TABLE 2: AGGREGATED NON OIL RELATED FLOWS

Non oil flows are the figures reported by companies. The audit process did not include the confirmation of these flows from the transaction counterparty.		
	Reported by companies	Reported by companies
	US\$000	N'000
Withholding tax	177,090	8,994,822.00
Pay as You Earn	23,620	22,844,797
Value Added Tax	82,405	227,190
Education Tax	116,269	3,572,042
	399,384	35,638,851
Analysis		
IOC-owned Companies	355,488	31,254,164
Other Companies	43,896	4,384,687

TABLE 3: DISAGGREGATED FINANCIAL FLOWS TO THE FEDERATION SHOWING PETROLEUM PROFITS TAX

The foregoing figures are disaggregated to company level, as follows:

The PPT payments recorded by CBN and the PPT payments recorded by the companies are shown in the table below, together with the net difference from CBN records:

Petroleum Profit Tax - IOC Owned Companies	Reported by companies	Reported by CBN	Difference
	US\$000	US\$000	US\$000
Chevron Nigeria Limited	1,284,425	1,284,887	-462
ConocoPhillips	302,800	263,341	39,459
Elf Petroleum Nigeria Ltd	2,136,121	1,903,050	233,071
Mobil Producing Nigeria Ltd	2,717,631	2,717,631	-
Nigerian Agip Oil Co. Ltd	947,823	988,634	-40,811
Pan Ocean Oil Corporation	34,061	33,132	929
Shell Petroleum Development Company Ltd	3,105,136	3,105,142	-6
Adax Petroleum Development Company		7,350	-7,360
Total	10,527,997	10,303,167	224,830

Petroleum Profits Tax - Other Companies	Reported By companies	Reported By CBN	Difference
	US\$000	US\$000	US\$000
Amni International Petroleum Ltd			-
Atlas Petroleum International			-
Cavendish Petroleum International			-
Conoil Producing Ltd	29836	31670	-1834
Continetal Oil and Gas	61885	43160	18725
Dubri Oil Co. Ltd			
Express Petroleum Gas Development			
Moni Pulo Ltd	10941	10941	
Nigeria Petroleum Development Company			
Summit Oil & Gas worldwide Ltd	84	84	
Brass Exploration Unlimited	7304	7154	150
TOTAL	\$110,050	93009	17041
Analysis			
IOC Owned Companies	10527997	10303167	224830
Other companies	110050	93009	17041
TOTAL	10638047	10396176	241871

23 What roles are expected of the Civil Society during and after NEITI Audit?

Answer: The roles of the CSO are critical to the success of NEITI Audit before and after the exercise. The CSOs are expected to promote participation of companies and relevant government agencies in the audit through advocacy, monitoring and oversight. The CSOs are also expected to read the audit reports, digest and analyze the content and use the information from the audit findings to hold government to account. This can be done by presenting the issues arising from the audit as agenda for debate, constructive engagements, and dialogue with a view to building national consensus on how the revenues can aid sustainable development.

24. What challenges were faced by NEITI auditors during the exercise?

Answer: *The challenges were many, both institutional and "man-made"*

Some of them include:

- Oil companies and government institutions had problems complying with the auditors' requests for information in formats suitable for comparison.
- Difficulties in identifying covered entities as a result of poor record keeping by Department of Petroleum Resources.
- Two of the oil companies audited did not cooperate with the auditors.
- Delays by covered entities in returning requested data.
- Most of the entities operate different accounting/reporting system and were used to opaque business environment.

- Many do not understand the importance of the audit and therefore do not take the exercise seriously.

25. How were the Challenges met by NEITI and by Government?

Answer: We have so far organized a workshop to acquaint the Oil companies and relevant stakeholders with the structure and application of NEITI audits data gathering templates.

NEITI has held various meetings with relevant government agencies to seek their cooperation on the issues that the audit generated. In addition, NEITI is working closely with civil society organizations involved in this thematic areas who are also mainstreaming with the entities on pending remediation issues.

26. What remedial actions were recommended by the 2005 Audit Report?

Answer:

- Department for Petroleum Resources need to work together with operators to develop a transparent way of determining actual production from oil well to terminal. This is necessary to ensure that there is no loss of revenue between the volume of crude produced and what is captured in the data.
- Annual audited cost reports submitted by companies to NAPIMS should include the production volumes.

- Accounting for Government sales of crude oil should be made in simplified and computerized manner to conform to best practices.
- Accounting procedures for the tax and royalty elements require improvement to enhance transparency by the way NNPC handles the process.
- The Petroleum Training Development Fund should be mandated to cooperate fully with NEITI Audit by providing all relevant bank statements.
- Accounting report, all signature bonus payments should be made by one clear method to an off shore account designated for that purpose to eliminate discrepancies.
- A comprehensive system of documentation of NNPC records and reconciliation of volumes and values of Production Sharing Contracts and Carrying transactions should be carried out in the subsequent audits.
- Department of Petroleum Resources requires technical assistance to establish and maintain a database of license holders and license areas.
- The Federal Inland Revenue Service needs to prepare and issue policy statement on addressing conformity issues on the principles guiding how companies conduct their self assessment of petroleum profits tax liabilities.
- There is need for NEITI, FIRS, and NNPC to establish a working relationship to address issues bordering on PPT administration on oil companies.

- The Accountant General should introduce and implement modern financial management systems and techniques that will allow government manage comprehensively, financial flows from the oil and gas sector more proactively.

27. *What has NEITI done to address these remedial issues?*

Answer: NEITI does not have power of enforcement but relies solely on the powers of NEITI Act of 2007 to urge, encourage, persuade, recommend and in circumstances compel compliance to remedial issues arising from its reports.

For 2005 Audit, NEITI has taken the following steps to ensure implementation of the recommendations:

- The audit report and its key findings have been communicated to the respective stakeholders through normal official channels, press briefings, road shows, town hall meetings, workshops, seminars and conferences.
- NEITI working in partnership with the civil society organizations have continued to put

pressure on key public sector organizations affected by the report like the Federal Inland Revenue Service, Nigerian National Petroleum Corporation and Department of Petroleum Resources to embark on remediation measures to address areas of discrepancies.

- NEITI has already begun the process of effecting recovery of the underpayments from the affected covered entities. However, this has remained a huge challenge that requires a more collaborative multi-sectoral approach to achieve any meaningful progress.

CONCLUSION

NEITI regular audits and reporting is to help build better understanding between the government, the companies, the civil society, the media, industry stakeholders and the larger population on issues of transparency and good governance of the extractive sector for sustainable development. The desire by Nigerians for good roads, efficient railway system, health care, good education, strong economy, employment opportunities, security of lives and property and general better living standard development depend on prudent management of revenues from Nigeria's natural resources to improve infrastructure. This is the goal of NEITI Audits. Information gap on how these revenues are generated paid and received through companies and government can create suspicion where there should be none. It can also generate avoidable tension, crises and conflicts that frustrate peaceful business environment for companies, the government and the people. NEITI audit provides reliable information based on data and puts same at the public domain for informed debates, and dialogue on how best to channel these resources to achieve common good.

It is therefore, in the best interest of companies, relevant government agencies, the civil society and the citizens to support NEITI audit, use the information generated by the audit to support sound advocacy for good governance.

The present challenges facing NEITI especially in the area of slow implementation of remediation issues and other recommendations of the Audit Reports require greater commitment by all stakeholders. We particularly commend the role of the CSOs who have consistently put these issues on the public domain. We hope that the findings of the 2006 -2008 Audit Report will be implemented with greater vigour.

NEITI

...promoting transparency, enabling prosperity



NEITI Nigeria
Extractive
Industries
Transparency
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