2012 OIL AND GAS INDUSTRY AUDIT REPORT SIMPLIFIED

NEITI
Nigeria Extractive Industries Transparency Initiative

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INTRODUCTION

The Nigeria Extractive Industries Transparency Initiative (NEITI) oil and gas industry audit reports are not just mandatory and routine publications but veritable instruments in the hand of citizens to hold companies and government to account on the management of Nigeria's hydrocarbon industry. The data and information contained in these reports are expected to be used by the civil society, media and general public to demand accountability and good governance in the industry.

However, because of the complex nature of oil and gas industry, the audit reports are usually very technical, voluminous and difficult to read and comprehend by average citizens and most industry stakeholders. As a result, most of the reports published by NEITI end up gathering dust in the archives and libraries. This remains one major challenge to the expected roles of state and non-state actors in the implementation of the global Extractive Industries Transparency Initiative (NEITI).

To address this challenge, the international secretariat of EITI encourages implementing countries to, as part of their communications and outreach activities, make conscious and deliberate efforts to simplify audit reports to make them reader-friendly, easy to understand and use for advocacy and to demand accountability.

This explains the basis for this simplification; this publication is a summarized and simplified version of the NEITI's oil and gas audit report covering the period 2012. The main report, which is about 400 pages has been simplified and reduced into few interesting pages to make it easy to read and comprehend by all categories of stakeholders.

The areas covered by the simplification include: the scope of the audit; key findings of the audit – earnings to the Federation account, underpayment and underassessment issues, subsidy payments, sale of government share in the joint venture/production sharing contracts (NNPC/IOCS TO NPDC), cash call payments. Other areas covered by the simplification are: crude oil production and lifting; crude oil theft; issues of domestic crude oil allocation,crude for product (SWAP) and offshore processing arrangements (OPA). The publication also highlighted the roles of stakeholders in the implementation of the audit recommendations, among others.

However, it is important to note that this simplified version does not foreclose the reading of the main report which contains more comprehensive analysis of the audit findings within the period under review.

On this note, I am pleased to present for public information, education and enlightenment this simplified version of the NEITI 2012 oil and gas audit report. It is my hope that the civil society, media public will adequately use this tool to demand accountability and ask informed questions on the management of revenues from Nigeria's oil and gas sector. This will invariably lead to reduction of poverty and improve the quality of life of our citizens.

TYPES OF THE AUDIT AND AREAS COVERED

The 2012 Oil & Gas Audit is divided into three parts. Each part covers specific areas considered important to getting the information the Auditors required. The three parts of the Audit are:

A. Financial

This part of the Audit looked at the monetary transactions (income and expenditure) in the sector between the companies and Government Agencies during the period under review. They covered:

- Money that Government earned from sale of crude oil and gas,
- Money that Government earned from taxes, Royalties, rents etc
- Money that Government invested in the industry
- Money that companies paid directly to specific Government Agencies outside the Federation Account
- Profits from Government's investments in Nigerian Liquefied Natural Gas company (NLNG), etc.

B. Physical

The Physical aspect of the Audit looked at the Quantity of crude oil produced, imported, exported and used for local consumption. It covers areas such as:

- Quantity of crude oil produced and the balance at the terminals before export.
- The basis for costing of Government's share of the crude produced
- Quantity of crude oil lifted by the parties
- How the Government's share of crude oil was utilised
- How refined products are imported and distributed

- How much gas is produced and sold, in the country
- Measurement of crude oil produced.
- The various agreements on production and licensing

C. Process

This Audit examines the methods and procedure adopted by both companies and Government Age in the discharge of their duties at various stages of the business transactions. It also looked at how methods and procedure adopted conformed to EITI principles of transparency and accountability.

AGENCIES & COMPANIES COVERED BY THE AUDIT

The following Federal Government Agencies participated in the Audit: Nigeria National Petro Corporation –NNPC and its sub-units.

- Crude Oil Marketing Division (COMD)
- National Petroleum Investment Management Services (NAPIMS)
- Pipelines Petroleum Marketing Company (PPMC)
- Nigerian Gas Company (NGC)
- Nigeria Petroleum Development Company (NPDC)

Niger Delta Development Commission (NDDC)
Nigeria Content Development Management Board (NCDMB)
Central Bank of Nigeria (CBN)
Office of the Accountant General of the Federation (OAGF)
Department of Petroleum Resources (DPR)
Federal Inland Revenue Service (FIRS)
Petroleum Products Pricing Regulatory Agency (PPPRA)
National Inland Waterways Authority(NIWA)

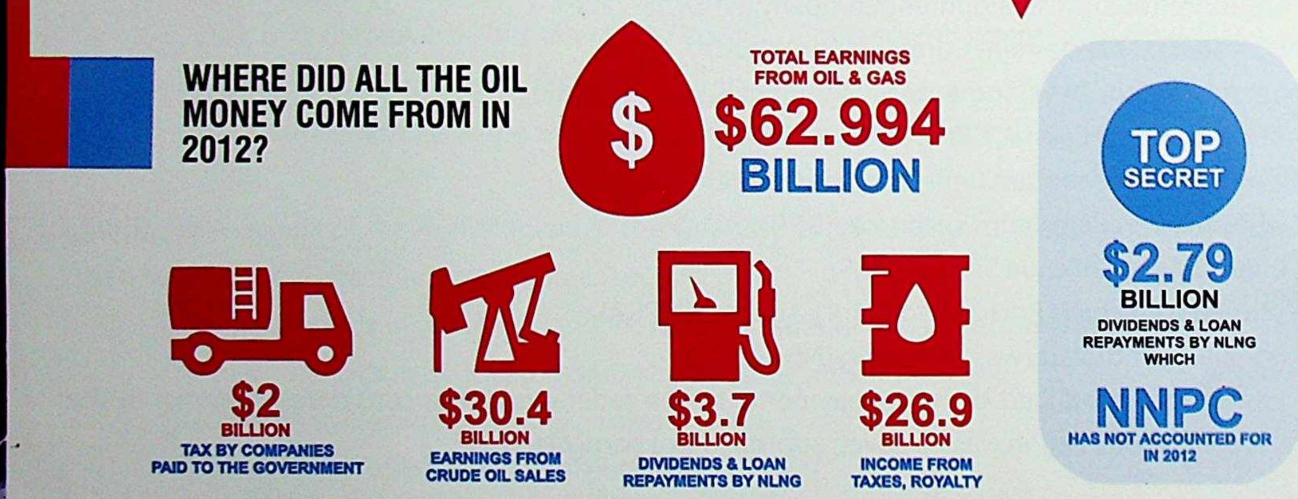
All companies that produced or made payments to the federation were considerec audit.The limit of reconciliation was however, approved to a particular limit.

KEY FINDINGS

The following revelations were thrown up by the Audit and now available in the public domain.

A. The Federation earned a total of $62.944 billion (Sixty two billion, nine hundred and forty four thousand dollars) from the oil and gas sector during the period. The breakdown is below:

- Sale of Government's share of crude oil - $30.4 Billion.
- Income from taxes/royalty etc - $26.9 Billion.
- Total dividends, loan repayments by NLNG etc - $3.7 Billion.The total amount received from NLNG to date (including amounts revealed in previous audit reports)stand at $11.631billion.
- Tax by companies paid directly to States, Local Governments and other Government agencies as required by law – $2 Billion.



RECONCILIATION

A summary of the reconciliation of the payments (by companies) and receipts (by government) with respect to all the payments (taxes, royalties, etc.) revealed an aggregate difference of $47.5Million. Companies reported paying $30.862 billion while government reported receiving $30.815billion.

RECONCILIATION OF PAYMENTS

UNDER ASSESSMENT BY LAW

The Audit disclosed that the country may have lost the sum of $210.051million and $465.871 Million as a result of poor assessment by the responsible government entities and wrong computation of petroleum profit tax and royalties by the companies partly due to the wrong interpretation of the tax laws.

UNDER ASSESSMENT BY LAW
MONEY LOST

$210.051
MILLION
THROUGH POOR ASSESSMENT BY THE GOVERNMENT

$465.871
MILLION
THROUGH WRONG COMPUTATION OF PETROLEUM PROFIT TAX

SUBSIDY PAYMENTS

Fuel subsidy is the financial assistance by Government to marketers that import petroleum products to enable them to supply the products at a cheaper rate for the good of the general public.

Fuel subsidy was introduced as a policy in Nigeria during the Military rule when refineries failed due to poor maintenance. The policy which began as a temporary measure to reduce the price of petroleum products, provide relief and ensure availability of imported products (while the local refineries underwent rehabilitation) has since become a standing policy of successive governments.

The objective of subsidy is for the PPPRA to reimburse marketers, the extra cost they incurred during importation of refined products. The reimbursement will be based on the difference between Government agreed price and the landing cost of the products. However, management of the subsidy over the years has been trailed by allegations of fraud, corruption and arm twisting.

FOLLOW THE SUBSIDY MONEY

N1.355 TRILLION
PROCESSED FOR PAYMENTS BY PPPRA

N690 BILLION
WAS ACTUALLY PAID

N430 BILLION
WAS ACTUALLY PAID TO INDEPENDENT MARKETERS FOR 2012

N260 BILLION
WAS ACTUALLY PAID FOR SUBSIDY CLAIMS BY NNPC IN 2011

N1.9 TRILLION
SUBSIDY CLAIMS SIGNED FOR BY NNPC PPMC IN 2011

N871.1 BILLION
SUBSIDY CLAIMS SIGNED FOR BY NNPC PPMC IN 2011

118
NUMBER OF IMPORTERS IN 2011

49
NUMBER OF IMPORTERS IN 2012

ainst this background, the Audit discovered that in 2012, although N1,355 Trillion was processed for ment by PPPRA only N690Billion was actually paid. Of the N690Billion, N430 Billion was paid to ependent marketers in 2012 while N260 Billion was in respect of the 2011 subsidy claims by NNPC. vever, the Audit further revealed that a document presented during the exercise and signed by PC/PPMC puts the actual subsidy claims for year 2012 at N871.1 Billion.
e subsidy claims in 2012 when compared to N1.9 Trillion paid in 2011 shows a 29% reduction. The nber of importers also drastically reduced from 118 in 2011 to 49 in 2012. These reductions may be as a ilt of the January 2012 national protest against subsidy resulting in public demand for accountability in

OINT VENTURE/PRODUCTION SHARING)

Between 2010-2012,, NNPC sold Government's 55% share in eight oil blocks to NPDC. The Minister of Petroleum was reported by the Audit to have approved the transaction. The 8 oil blocks were sold for a total sum of $1.85 Billion.
Out of this amount, NPDC claimed to have made a part payment of $100 Million in February, 2014. NEITI has been able to trace the payment of $100 Million to the CBN account.
However, the position of the audit was that this transaction was not transparent.

CASH CALL PAYMENTS

This is cash advanced or prepayment of the estimated cash requirements for operations in the oil and gas sector. It is usually between partners who agree on the mode of operation and the ratio that the payments will be shared among the partners or operators.
In 2012, the Audit disclosed that N612.9 Billion was paid as cash calls. This represented an increase of 47.14% or N196.5 billion compared to what was paid in 2011. This is in addition to another $3.1Billion paid by NNPC/NAPIMS to its joint venture partners. The Audit disclosed that Cash Calls were paid by NNPC/NAPIMS to its Joint Venture Partners in both Dollar and Naira currencies.

862,713,3
BARRELS
TOTAL PRODUCTION OF
CRUDE OIL

380.6 MILLION
BARRELS
WORTH
$39.8BILLION
ACTUAL NNPC CRUDE OIL LIFTINGS

REVEALED

403MILLION
BARRELS
ACTUAL LIFTINGS FOUND
AFTER AUDIT

22MI
BARRE
NOT DISCLOSED B

...ting Division of the NNPC, a total of 162.3 million barrels of crude ... allocated for domestic use. Out of this quantity, only about 35 Million barrels were refined in the country. This allocation is based on NNPC's daily allocation quota of 445,000 barrels per day. The rest were either exported or used for offshore processing and product exchange. This is a situation where crude oil is exchanged for refined petroleum products like Kerosene, PMS, etc (trade by barter system). However, NEITI Audit reported that PPMC records disclosed 33.4 million barrels as the pumped crude oil to the refineries. This shows a difference of 1.5 million barrels between the PPMC records and that of the NNPC.

162 MILLION BARRELS
FOR DOMESTIC USE

35 MILLION BARRELS
ALLOCATED TO LOCAL REFINERIES IN NIGERIA

33.4 MILLION BARRELS
WERE ACTUALLY REFINED IN NIGERIA AFTER AUDITING

CRUDE OIL SWAP AND COST TO NIGERIA

OIL **WORTH $6.4BILLION** ⇄ **WORTH $6.4BILLION**

REVEALED

$866MILLION LOSS
DURING SWAP WITHIN 2009-2011

$100MILLION LOSS
DURING SWAP IN 2012

CRUDE FOR PRODUCT (SWAP) AND OFFSHORE PROCESSING ARRANGEMENT (OPA): COST TO THE NATION

Under the Crude For Product (SWAP) and Offshore Processing Arrangement (OPA), Nigeria's crude oil would be exchanged under what could be described as a trade by barter arrangement. However, there have been public concerns that the noble objective of this arrangement have been compromised and abused. For instance, during the year under review, the cost of the Crude Oil that was swapped was $6.4 Billion while the value of refined products returned to the country in exchange for the swapped crude was $6.3 Billion. By this singular transaction the nation lost about $100 Million. Under the offshore processing arrangement (OPA), there was an under delivery of $135,793,318.

It is important to note that the NEITI Audit report that covered 2009-2011 made a similar revelation. It observed that the SWAP (refined products exchange and off-shore processing arrangements) resulted in a revenue loss or under delivery of products worth over $866 Million.

CRUDE OIL THEFT

Stealing of Nigerian crude, destruction of oil pipelines and losses due to outright sabotage and the economic cost to the nation were also investigated by the Audit. From the report the nation lost over 23 Million barrels of crude valued at over $2.6 Billion in 2012 alone. This figure was taken from a sampling of the operations of three major international oil companies namely, Shell, Agip and Chevron. The share of loss by the NNPC was also computed. The breakdown shows that NNPC lost over 13 Million barrels of crude valued at about $1.5Billion from theft and sabotage from export crude oil alone, while the three Companies lost over 10 million barrels of crude valued at $1.2 Billion.

CRUDE OIL THEFT IN 2012

23 MILLION BARRELS

WORTH
$2.6BILLION

13 MILLION BARRELS

WORTH
$1.5BILLION

LOST TO THEFT BY NNPC

10 MILLION BARRELS

WORTH
$1.2BILLION

LOST BY SHELL, AGIP AND CHEVRON

2012 AUDIT AND THE PREVIOUS YEARS

A close look at Government's earnings of $62.9 billion from the industry in 2012 clearly shows a decrease of 8% from $68.4 billion earned by the country in 2011. The report however showed that Nigeria exported more crude in 2011 than it did in 2012. In 2012 the country earned $21.61 billion from crude oil exports as against $24.76 billion recorded in 2011. On the other hand, the Audit disclosed an increase in the export of crude oil meant for domestic refineries from 24% in 2011 to 30% in 2012. This information confirmed a decline in capacity of our refineries to function. The local refining capacity fell from 28% in 2011 to 21.5% in 2012.

The Audit further reported an increased dependency by Nigeria on the use of alternative funding arrangements as a result of government's inability to meet its cash-call obligations.

Below is a summary of the highlights of the key findings and the recommendations contained in the NEITI 2012 Oil and Gas industry Audit.

S/N	KEY FINDINGS	AGENCIES RESPONSIBLE	RECOMMENDATIONS
1.	Lack of transparency and accountability in the sale of eight oil blocks by NNPC to NPDC	NPDC NNPC NEITI MPR	NEITI should lead an inter -agency indepth investigation into this transaction: A. To ascertain the integrity of the sale process B. The actual value of the oil blocks C. The revenue loss to the federation. D. Make specific recommendations to recover the funds arising from operation of the assets.

2	Non-remittance Of NLNG Dividends By NNPC To The Federation Account	NNPC NEITI RMAFC NLNG	1. NEITI should work with other Agencies to ascertain the status of the Federal Government's stake in NLNG. 2. NNPC should be compelled to comply with the provisions of the Fiscal Responsibility Act. The Act requires the payment of 80% of operating surplus to the Consolidated Revenue Fund.
3	Differences between what Companies paid and what Government received	FIRS, DPR NEITI, NNPC MOF	3. Regular quarterly reconciliation between Government agencies and the companies.
4	Under-assessment and underpayments	NEITI DPR FIRS MOF	1. NEITI should work with the FIRS and DPR to ensure the collection of the outstanding funds. 2. The following actions should also follow: A. Define the basis for calculating taxes that companies are expected to pay to avoid individual discretion or poor judgment. B. Agree on disputed water depth level for the contentious OMLs C. Review tax waivers often granted to companies (pioneer status) D. NEITI and other stakeholders should work with the National Assembly to pass PIB.

5	Crude oil allocation to NNPC for domestic use.	NNPC NEITI MPR	The crude oil allocation to the NNPC for the refineries should be limited to the current local refining capacity. The refineries should be privatized.
6	Crude Oil Swap and the Cost to the nation	NEITI NNPC MOF	NNPC should stop the barter arrangement using Nigeria's crude for refined product exchange NNPC should explore direct importation to eliminate middlemen
7	Funding of Joint Venture Operations.	NNPC DPR NEITI MPR	NNPC (Government) should explore cost – efficient means of funding Joint Venture Operations. The practice of using cash call funds for other purposes should be discontinued
8	Subsidy payments	PPPRA, DMO NEITI, NNPC PSF	A. Comprehensive reconciliation and investigation of all subsidy payments should be carried out through inter-agency collaboration.
9	Crude Oil theft and pipeline vandalism	FGN	Government should take steps to prevent and stop crude oil losses.
10	Measurement Of Crude	DPR, MoTI NEITI	Facilities for measuring crude oil should be put in place. There should be regular reconciliation by relevant agencies on quantity of crude oil produced, lifted and exported.

THE ROLE OF MULTI-STAKEHOLDERS IN THE IMPLEMENTATION OF THE AUDIT RECOMMENDATIONS

COMPANIES

From the recommendations of the 2012 oil and gas audit report the following issues affect the companies and their operations directly.

1. Funding of Joint Venture Operations (Cash calls)
2. Crude oil theft and pipeline vandalism

The oil companies in Nigeria will be more interested to see the above issues among many other recommendations immediately resolved because they impact negatively on their operations and deprive them of their profits.

GOVERNMENT

From the findings and recommendations of the report, the Nigerian Government has lost and continues to lose huge revenues as a result of the following:

1. Lack of transparency and accountability:

Sale of eight oil blocks by NNPC to NPDC

bsidy payments

Swap

nd underpayments

nds By NNPC To The Federation Account

NNPC

It is therefore in the over-riding interest of the Government to take immediate steps to address these issues because of the implications to increased revenue generation, corporate governance and investment flow into the sector.

LEGISLATURE

The NEITI Act section 4 (3) specifically assigns responsibilities to the National Assembly (The Legislature). The Law provides for NEITI to present its reports for debate at the Assembly with a view to ensuring that the content of the report is brought to the attention of all citizens through deliberate legislative action.

In the discharge of this responsibility, the National Assembly is expected to debate the above findings and recommendations of the report at a plenary. In addition, the National Assembly on behalf of the

CSO AND THE MEDIA

The civil society and the Media are important partners in the EITI process. The NEITI Act and the EITI Principles also assigned responsibility to the civil society. One of those responsibilities is to use the information and data in the NEITI reports as tools for advocacy, public debates and dialogue. It is also the role of the civil society to use the report to hold Government and companies accountable. It is therefore the function of the civil society to take up each of the findings and recommendations presented in the report and ensure remedy

CONCLUSION

This simplified version is a summary of the main report now in circulation and available on the NEITI website. It will enable the citizens to ask informed questions about the use of revenues from Nigeria's natural resources like oil, gas and solid minerals to reduce poverty, improve the quality of life of the citizens and for national development. The report of the 2012 oil and gas audit is in line with this objective. It is therefore the responsibility of the citizens to study the report and use the information to bring about positive change.

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