S.S. Afemikhe & Co. Consulting Ltd

# Nigeria Extractive Industries Transparency Initiative (NEITI)

REPORT 2006 - 2008

# EXECUTIVE SUMMARY OF RECOMMENDATIONS AND PROPOSED ACTIONS

Issued
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Based on information received by 31st March 2011

Presented to the National Stakeholder Working Group
*by*
Hart Resources Ltd
*in association with*
S.S. Afemikhe & Co. Consulting Ltd.

The report and all appendices relating to the report are intended for the use of the NEITI for the purpose of that initiative and are not to be relied upon by other parties.

# Nigeria Extractive Industries Transparency Initiative (NEITI)
# 2006-2008 Report

## INDEX OF REPORTS

## Preface

This independent Nigeria Extractive Industries Transparency Initiative audit was commissioned by the National Stakeholder Working Group, under the mandate of the NEITI Act, and covers the calendar years 2006, 2007 and 2008. The scope was set out in Terms of Reference that specified a set of tasks and deliverables, grouped into Financial and Physical & Process audits applicable to a defined set of entities of the oil and gas sector.

The findings of the audits are set out in a Financial Report and a Physical and Process report, addressing:

- Reconciliation of movements of hydrocarbon production and distribution
- Revenue flows in the oil and gas industries, reflecting certain streams of payments by Covered Entities to any Federation (Federal Government, State Government, or Local Government) entity.
- Calculations that underlie the calculation of Petroleum Profits Tax and Royalty liabilities of companies;
- Investment flows involving Government payments by way of Joint Venture investment, loan (including loan repayment), and equity investment transactions in Covered Entities; and
- Certain key processes by which the government manages the sector.

These reports are intended for the use of the National Stakeholder Working Group of the NEITI for the purpose of that initiative and are not to be relied upon by other parties.

In accordance with the request of the NSWG, the assignment was concluded based on information received up to 31st May 2011.

Three companies have not cooperated with the audit: Cavendish, NLNG and Shebah Exploration & Producing Company Limited. Shebah is the technical partner of the Ukpokiti field which is owned by Express. Express Petroleum and Gas Company and Camac International Nigeria Limited expressed inability to populate most of the templates due to the non availability of data as a result of Shebah's refusal to supply them with the required information.

This summary sets out:

Part A: Financial overview

Part B: Volumetric summary and reconciliations

Part C: Financial reconciliations

Part D: Principal recommendations

Reference is to be made to the detailed reports for full background.

# EXECUTIVE SUMMARY

# PART A – FINANCIAL OVERVIEW

## FINANCIAL FLOWS TO GOVERNMENT

Financial flows to Government from the oil and gas sector captured by the EITI reconciliation are set out in this section. In addition, companies make contributions to NDDC, as well as payments to government (both Federal and States) which are not sector specific – e.g. PAYE, some withholding taxes. These payments are also set out in this section.

Flows are primarily received in US dollars; where flows have been received in Naira or other currencies, they are expressed in the table below in US dollars, converted at the average exchange rate for the year. Details of these flows can be found in the sections dealing with individual flows.

The financial flows to Government during the period from the oil/gas sector, as reported by the Central Bank of Nigeria (except where noted), are shown in summary in the following table.

| | 2006<br>US$ m | 2007<br>US$ m | 2008<br>US$ m |
|---|---|---|---|
| Proceeds of crude oil and gas sales | 27,176.7 | 29,200.6 | 41,217.0 |
| PPT | *10,626.7* | *8,084.7* | *10,961.4* |
| Royalty | *4,418.5* | *3,895.9* | *5,478.0* |
| Signature bonuses | *985.1* | *510.0* | *28.2* |
| Withholding taxes | *450.2* | *676.4* | *775.1* |
| VAT | *89.6* | *216.2* | *398.1* |
| PAYE | *0.4* | *0.9* | *1.8* |
| Education Tax | *430.1* | *522.7* | *698.4* |
| Company Income Tax | *137.3* | *193.9* | *215.3* |
| Dividends & loan interest from NLNG | *0.0* | *0.0* | *0.0* |
| ***Sub-Total - Federation*** | **44,314.6** | **43,301.3** | **59,773.3** |
| Withholding taxes | *5.2* | *32.3* | *62.4* |
| PAYE | *106.3* | *150.7* | *195.8* |
| ***Sub-Total - states*** | **111.5** | **183.0** | **258.2** |
| Contributions to NDDC | 261.0 | 297.0 | 333.0 |
| **Total** | **44,687.1** | **43,781.3** | **60,364.5** |

*Table 4.1*

These flows are before cash calls are deducted.

# FEDERATION FINANCIAL INVESTMENT IN JOINT VENTURE OPERATIONS

The Federation invests in Joint Venture operations by cash contributions to the financing requirements of each JV.

The proceeds of oil and gas sales accruing to the Federation in 2006, 2007 and 2008 described in the preceding section were reduced by the amounts shown below. These amounts were allocated for cash calls and transferred to NNPC.

| Gross and net flows to the Federation | | | |
|---|---|---|---|
| US$ m | **2006** | **2007** | **2008** |
| Flows to the Federation - gross | 44,314.6 | 43,301.3 | 59,773.3 |
| Funds transferred to NNPC for cash calls | -4,175.0 | -4,451.0 | -4,955.0 |
| Flows to the Federation - net | 40,139.6 | 38,850.3 | 54,818.3 |

In addition, there were cash calls settled by direct funding of $213m in 2006, $1,300m in 2007 and $25.9m in 2008 respectively from Bank of International Settlement, Switzerland.

The amounts of cash calls paid by NNPC (including the Naira component) were:-

2006 $ 4,113 million
2007 $ 4,998 million
2008 $ 5,044 million

These amounts were confirmed by the receiving companies.

At each year end, NNPC held bank balances for future cash call disbursements as follows:

2006 $ 1,225 million
2007 $ 1,496 million
2008 $ 763 million and Naira 12.8 bn

# PSC OPERATIONS

It should be noted that there is a dispute between NNPC and the PSC operators as to the calculation of PSC royalty and PPT liabilities and hence as to the calculation of the quantities of oil that should be lifted in order to settle royalty and PPT, and the remaining profit oil. PSC operators claim that NNPC has over-lifted. As this dispute is now before an arbitral panel, some operators considered it inappropriate to provide comprehensive information, particularly as to their view on oil valuation, which we requested for the reconciliation.

The entitlement to production was reported by NNPC and by the Contractor, for each PSC. Each party reported how it assessed the entitlement of NNPC (for the Federation) and the PSC Contractor to production.

These are set out in the following table that summarises all three years (2006 – 2008).

| | NNPC view of entitlement in the PSCs | | | | | | Contractor view of entitlement in the PSCs | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Abo | Bonga | Erha | Antan | Okwori | Total | Abo | Bonga | Erha | Antan | Okwori | Total |
| | bbl m | bbl m | bbl m | bbl m | bbl m | bbl m | bbl m | bbl m | bbl m | bbl m | bbl m | bbl m |
| **Totals 2006 - 08** | | | | | | | | | | | | |
| NNPC entitlement | 9.80 | 47.70 | 55.70 | 31.10 | 19.30 | 163.60 | 3.70 | 36.40 | 55.90 | 28.60 | 19.70 | 144.30 |
| Contractors entitlement | 11.80 | 139.80 | 130.10 | 22.60 | 22.80 | 327.10 | 21.20 | 170.60 | 143.70 | 37.70 | 22.50 | 395.70 |
| Total entitlement | 21.60 | 187.50 | 185.80 | 53.70 | 42.10 | 490.70 | 24.90 | 207.00 | 199.60 | 66.30 | 42.20 | 540.00 |
| **Production v entitlement** | | | | | | | | | | | | |
| Reported total production | 21.90 | 204.55 | 194.34 | 66.51 | 42.34 | 529.64 | 21.90 | 204.55 | 194.34 | 66.51 | 42.34 | 529.64 |
| Difference from entitlement | -0.30 | -17.05 | -8.54 | -12.81 | -0.24 | -38.94 | 3.00 | 2.45 | 5.26 | -0.21 | -0.14 | 10.36 |

The two views differ in total and for each operation. The total differences are:

| | bbl m |
|---|---|
| Difference as regards NNPC entitlement | 19.3 |
| Difference as regards Contractor entitlement | (68.6) |
| Difference as to total entitlement | 49.3 |

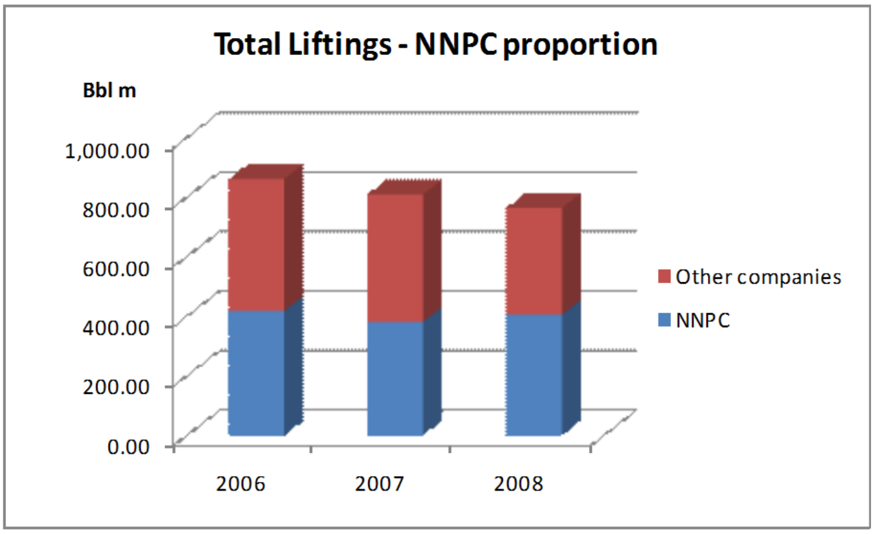
The difference in total entitlement should be zero, because entitlement should equal actual production. Thus, the figures supplied to us are by definition incorrect and impossible. The deficiency arises from:

| | bbl m |
|---|---|
| Errors in NNPC figures | 36.5 |
| Errors in Contractors' figures | 12.8 |
| Total difference | 49.3 |

# PART B – VOLUMETRIC SUMMARY

## CRUDE OIL LIFTINGS

Total liftings of crude oil by NNPC and by other companies, including supplies to refineries, during the period 2006 – 2008, as reported by the lifting company, are shown below.




| | 2006 | 2007 | 2008 |
|---|---|---|---|
| **Total Liftings** | | | |
| NNPC | 417.89 | 381.82 | 406.18 |
| Other companies | 443.00 | 427.45 | 358.15 |
| | **860.89** | **809.27** | **764.33** |
| *Table 2.6* | | | |

Terminal operators in some instances reported different lifted quantities from those reported to us by the company making the lifting.

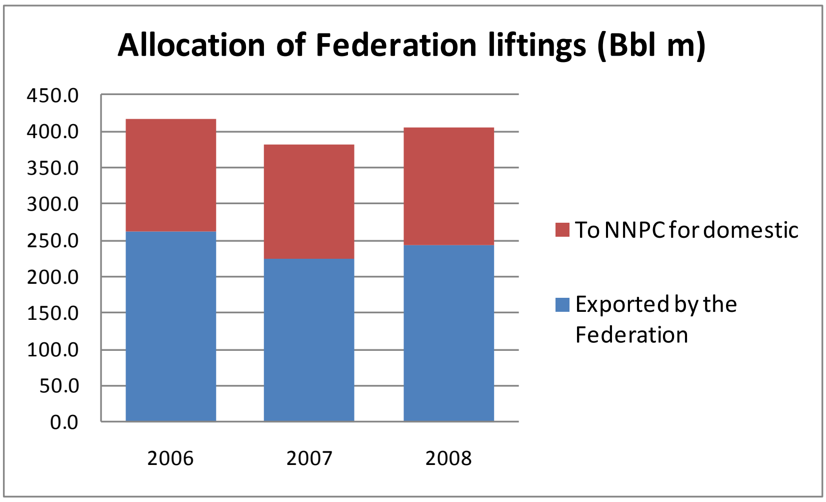
DPR confirmed total export volumes[1] but had different information from lifters about the ownership of the cargoes.

The operators of terminals used by joint ventures did not confirm the ownership of the terminal stocks, because the point at which stock ceases to be Joint Venture stock and becomes the sole ownership of each partner appears not to have been defined. Some PSC stocks were not confirmed by the PSC

[1] DPR reported 1.2m barrels less in 2006, 0.8m barrels more in 2007 and 1.4m barrels more in 2008, than was reported by companies. Details are set out in the Physical Report

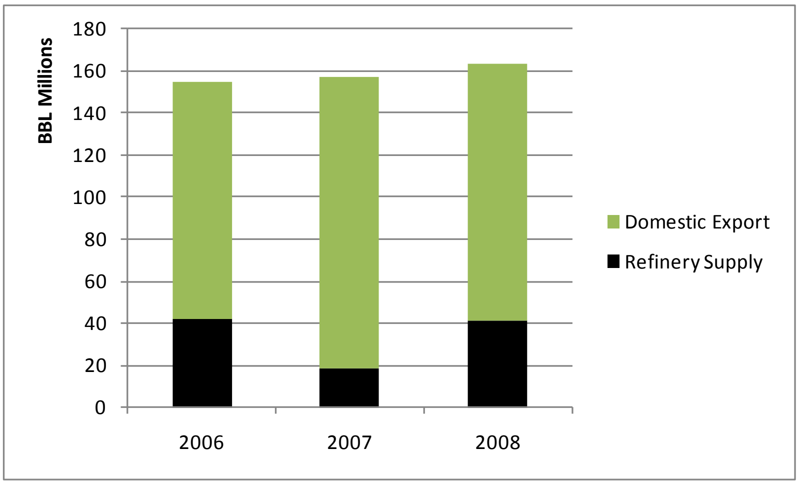
operators because of the dispute between NNPC and these PSCs. Accordingly, although production and exports could be reconciled in total, stock ownership (including over-liftings) could not be allocated specifically to companies.

The Federation liftings were dealt with as follows:




| Volume (mmbbls) | Year | | |
|---|---|---|---|
| | 2006 | 2007 | 2008 |
| Exported by the Federation | 263.04 | 224.51 | 242.53 |
| To NNPC for domestic | 154.85 | 157.31 | 163.66 |
| | 417.89 | 381.82 | 406.18 |

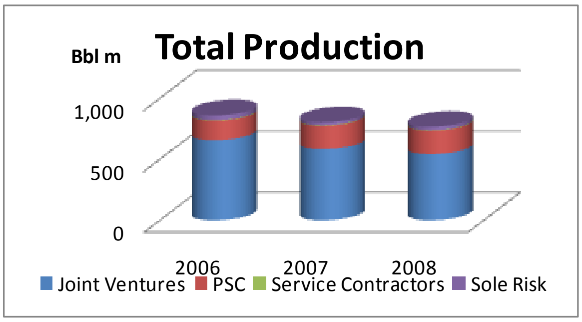
NNPC allocated its Domestic Crude liftings between Refineries and Export, as follows:



| Volume (Bbls m) | Year | | |
|---|---|---|---|
| | 2006 | 2007 | 2008 |
| Refinery Supply | 41.66 | 18.38 | 41.32 |
| Domestic Export | 113.19 | 138.93 | 122.34 |
| | 154.85 | 157.31 | 163.66 |

## CRUDE OIL PRODUCTION

Total production of crude oil by type of producing operation during the period 2006 – 2008 is shown below.

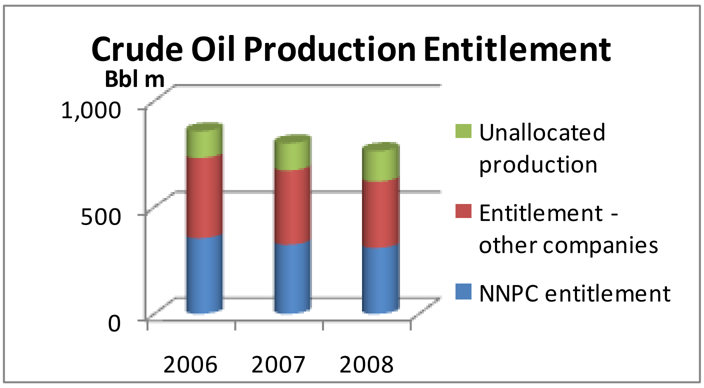



| | 2006 | 2007 | 2008 |
|---|---|---|---|
| **Total Production (bbl m)** | | | |
| JV | 656.67 | 582.27 | 540.08 |
| PSC | 159.24 | 191.61 | 193.75 |
| SC | 4.05 | 4.00 | 3.44 |
| SR | 38.24 | 23.99 | 27.98 |
| | **858.20** | **801.87** | **765.25** |
| *Table 2.2* | | | |

During the period, total production has fallen by around 100m barrels per annum, but the proportion of production coming from the new contractual arrangements (PSCs) has increased, while the proportion coming from joint venture operations has declined. This can be seen in the following table:-

| | 2006 | 2007 | 2008 |
|---|---|---|---|
| **Production by operation as % of total** | | | |
| JV | 76.5% | 72.6% | 70.6% |
| PSC | 18.6% | 23.9% | 25.3% |
| SC | 0.5% | 0.5% | 0.4% |
| SR | 4.5% | 3.0% | 3.7% |
| *Table 2.3* | | | |

Total entitlement to production of crude oil during the period 2006 – 2008 is shown below.




| | 2006 | 2007 | 2008 |
|---|---|---|---|
| **Entitlement to production** | | | |
| NNPC entitlement | 354.83 | 324.17 | 309.31 |
| Entitlement - other companies | 378.55 | 350.56 | 313.33 |
| Unallocated production | 124.82 | 127.14 | 142.61 |
| | **858.20** | **801.87** | **765.25** |
| *Table 2.4* | | | |

Unallocated production is crude oil production where it has not been possible to assess the entitlement. This is because:-

a. There is a dispute between NNPC as Concessionaire and the PSC Contractors of three of the six PSC operations which were producing oil during the period. The dispute relates to interpretation of a number of aspects of the PSC (see Section 2.13.2 of the Physical Report).

b. The production information necessary to carry out an assessment of entitlement was not returned in respect of Zafiro (unitised field, operated by Mobil Equatorial Guinea, which is not a covered entity for the purpose of this assignment).

## CRUDE OIL LIFTINGS AND PRODUCTION

Production and liftings for the period were reported by the companies as follows.

Data reported by DPR, companies (including NNPC) and terminal operators is not always consistent. The differences are set out in the Physical and Process Report and prevent a coherent mass balance being presented. With the caveat that individual figures are reported differently by different sources, the general picture may be presented as follows:

| Bbl millions | 2006 | 2007 | 2008 |
|---|---|---|---|
| Inferred production | 858.20 | 801.87 | 765.25 |
| Terminal adjustments and stock increase / decrease | -2.69 | -7.40 | 0.92 |
| Total liftings | 860.89 | 809.27 | 764.33 |
| *Of which:* | | | |
| Exported or sent to Nigerian refineries by NNPC | 385.97 | 381.82 | 406.18 |

Most companies declined to report wellhead or field measurements of production from onshore terminals. The data we report as Production is therefore inferred, not measured.

Total production and total liftings during the period were reported by the terminal, sole risk or PSC operators, and also by DPR

| *Millions barrels* | 2006 | 2007 | 2008 |
|---|---|---|---|
| **Production** | | | |
| *Reported by Operators* | | | |
| JVs | 656.67 | 582.27 | 540.08 |
| PSCs | 159.24 | 191.61 | 193.75 |
| Service Contractor | 4.05 | 4.00 | 3.44 |
| Sole risk | 38.24 | 23.99 | 27.98 |
| **Total** | **858.20** | **801.87** | **765.25** |
| *Reported by DPR* | | | |
| **Total** | **856.59** | **785.69** | **722.10** |
| **Difference** | **1.61** | **16.18** | **43.15** |
| **Liftings** | | | |
| *Reported by lifting company* | | | |
| JVs | 671.75 | 596.69 | 555.33 |
| PSCs | 159.61 | 191.40 | 189.84 |
| Service Contractor | 5.90 | 2.51 | 2.70 |
| Sole risk | 23.64 | 18.67 | 16.46 |
| **Total** | **860.90** | **809.27** | **764.33** |
| *Reported by DPR* | | | |
| **Total** | **859.71** | **810.11** | **765.70** |
| **Difference** | **1.19** | **-0.84** | **-1.37** |

*Table 6.1*

The figures reported by DPR for production differ from those reported by the operators due in large part to gaps in the data provided by DPR – for example, where data for particular months was not provided.

The differences in lifting volumes reported by the companies and by DPR arose at the following terminals (a negative figure indicates that the company reported liftings were lower than the DPR reported liftings):

| *Millions barrels* | **2006** | **2007** | **2008** |
|---|---|---|---|
| Bonny | | | -0.30 |
| Escravos | | | -1.07 |
| Forcados | -0.18 | -1.37 | 0.00 |
| Obe | -0.64 | -0.13 | 0.00 |
| Ukpokiti | 0.19 | -0.07 | -0.01 |
| Zafiro | 1.80 | 0.74 | |
| **Total** | **1.17** | **-0.83** | **-1.38** |

## AGREEMENT OF VOLUMES BETWEEN PHYSICAL AND FINANCIAL AUDITS

COMD arranges the sale of the Federation's share of crude oil and maintains records of liftings and values received which were examined as part of the Financial Audit. NNPC also reported under the Physical Audit volumes of oil lifted from each terminal, which were compared to figures reported by DPR and terminal operators.

The volumes of crude oil reported by COMD under the Financial Audit as lifted and sold during the period and the volumes reported by NNPC under the Physical Audit as lifted during the period were as follows:

| Bbl m | | 2006 | 2007 | 2008 |
|---|---|---|---|---|
| COMD | | | | |
| | Export crude | 229.9 | 202.5 | 166.5 |
| | Domestic crude | 155.1 | 157.3 | 164.7 |
| | Re PSC PPT/royalty | 0.0 | 20.1 | 65.5 |
| | Total | 385.0 | 379.9 | 396.7 |
| NNPC | | | | |
| | Export crude | 231.1 | 202.5 | 167.5 |
| | Domestic crude | 154.9 | 157.3 | 163.7 |
| | Re PSC PPT/royalty | 0.0 | 20.1 | 65.5 |
| | Total | 386.0 | 379.9 | 396.7 |
| Difference | | | | |
| | Export crude | 1.2 | 0.0 | 1.0 |
| | Domestic crude | -0.2 | 0.0 | -1.0 |
| | Re PSC PPT/royalty | 0.0 | 0.0 | 0.0 |
| | Total | 1.0 | 0.0 | 0.0 |

The difference in 2006 relates to condensate at Forcados, where NNPC reported that it physically lifted all the condensate on behalf of the SPDC JV and then reimbursed the partners (per their equity share). This was treated differently in reporting the financial figures.

## REFINED PRODUCT IMPORTATION AND DISTRIBUTION

NNPC PPMC provided data on importation and inland distribution but we are unable to confirm the overall mass balance for the following reasons:

- Marine transfer data is incomplete. It appears to cover only the immediate Lagos area, not transfers between Port Harcourt, Warri and Calabar. And it is ambiguous about the owner of the product at the discharge port (PPMC or a 3rd Party).
- Importation data for split cargoes does not differentiate volumes to each destination. Furthermore, many of these split locations deliver to both PPMC and 3rd parties.
- PPMC was unable to differentiate depot transactions that are sales to 3rd parties from those that are supplies to PPMC. Only the Mosimi Area identifies significant sales.
- No data was provided on 3rd party storage (where PPMC contracts with 3rd parties to store product at their facilities) which is known to have occurred during the period.

# PART C – FINANCIAL RECONCILIATIONS

## PETROLEUM PROFITS TAX

The PPT payments initially reported by CBN and the PPT payments initially reported by the companies, together with adjustments made as a result of the reconciliation and any unresolved differences remaining, are shown below.

| | Initial templates | | | Adjustments | | Adjusted figures | | |
|---|---|---|---|---|---|---|---|---|
| **PPT Summary** | Govt US$ 000 | Company US$ 000 | Difference US$ 000 | Govt US$ 000 | Company US$ 000 | Govt US$ 000 | Company US$ 000 | Unresolved Difference US$ 000 |
| **2006** | | | | | | | | |
| Total | 10,395,167 | 9,428,208 | 966,959 | 231,564 | 1,198,524 | 10,626,731 | 10,626,732 | -1 |
| **2007** | | | | | | | | |
| Total | 7,995,316 | 8,620,055 | -624,739 | 89,388 | -535,351 | 8,084,704 | 8,084,704 | 0 |
| **2008** | | | | | | | | |
| Total | 9,463,900 | 9,844,206 | -380,306 | 1,497,536 | 1,117,230 | 10,961,436 | 10,961,436 | 0 |

All PPT transactions were confirmed between companies and CBN.

Calculations prepared by Chevron Nigeria Limited and Mobil Producing Nigeria Unlimited or their PPT liabilities could not be reconciled to their financial statements. PPT computations of all other JV companies were reconciled to their audited financial statements.

# ROYALTY

The Royalty payments initially reported by CBN and the Royalty payments initially reported by the companies, together with adjustments made as a result of the reconciliation and any unresolved differences remaining, are shown below.

| | Initial templates | | | Adjustments | | Adjusted figures | | |
|---|---|---|---|---|---|---|---|---|
| **Royalty Summary** | Govt US$ 000 | Company US$ 000 | Difference US$ 000 | Govt US$ 000 | Company US$ 000 | Govt US$ 000 | Company US$ 000 | Unresolved Difference US$ 000 |
| **2006** | | | | | | | | |
| Total | 4,399,610 | 4,350,570 | 49,040 | 18,919 | 107,359 | 4,418,529 | 4,457,929 | -39,400 |
| **2007** | | | | | | | | |
| Total | 3,944,914 | 5,060,475 | -1,115,561 | -49,013 | -1,154,507 | 3,895,901 | 3,905,968 | -10,067 |
| **2008** | | | | | | | | |
| Total | 5,207,856 | 5,217,831 | -9,975 | 270,175 | 237,023 | 5,478,031 | 5,454,854 | 23,177 |

*Table 6.3*

Unresolved differences on royalty transactions, above, arise in transactions between the following companies and CBN:-

| Royalty | Confirmed only to Coy's Records | Confirmed only to CBN's Bank Statement | Comments |
|---|---|---|---|
| **2006 - Royalty** | | | |
| **Company** | **Amount** USD'000 | **Amount** USD'000 | |
| Atlas Summit | (1,408) | (404) | Payment reported by coy but not confirmed to CBN statement. However, the company provided treasury receipt issued by DPR |
| Express | (5,957) | | Payment confirmed only to copy of swift advise issued by Coy's bankers but not yet traced to CBN bank statement |
| Conoco Phillips | (7,775) | | Payments reported by coy but not confirmed to CBN statement. The company provided treasury receipt issued by DPR as well as the coy's bank statements; |
| Conoil | (7,000) | | Payment confirmed only to company's bank statement and not in CBN bank statement |
| Moni Pulo | | (2,583) | Differences between amounts reported by company and by CBN |
| NDPR | (212) | | This payment was confirmed only to company's bank statement. CBN claimed that the payment did not hit CBN Bank account |
| NPDC | (19,852) | | Payments reported by NPDC but not found in CBN |
| TEPNG | (183) | | Payment reported by CBN not confirmed by TEPNG. However, during the reconciliation meeting, it was agreed that the payment should be taken off CBN as it may have been introduced in CBN template in error |
| **2007 - Royalty** | | | |
| Atlas Summit | (12,457) | (5,793) | Payments reported by company not confirmed to CBN statement. The company provided treasury receipt issued by DPR to substantiate the payment. Also, payments reported by CBN not reported by the company |
| Conoco Phillips | (8,544) | (7,952) | Unreconciled differences |
| Express | (2,615) | | Payment confirmed to the SWIFT advice from Coy's bankers but not in CBN bank statement |
| NDPR | (196) | | Payment confirmed to company's bank statement. CBN claimed that the payment did not reach CBN Bank account |
| **2008 - Royalty** | | | |
| AMNI | (3,500) | | Payment reported by coy not confirmed by CBN. The company provided swift advise from their bankers to substantiate the payment |
| Atlas Summit | (9,242) | | Payment reported by company not confirmed by CBN. The company provided treasury receipt issued by DPR to substantiate the payment |
| NPDC | | (36,377) | Payments reported by CBN but not by company and not found in CBN bank statement |
| Platform | (458) | | Payment reported by company not confirmed by CBN. The company provided trace document from its bankers to substantiate the payment |

# SIGNATURE BONUS

The signature bonus payments initially reported by the OAGF and DPR and the signature bonus payments initially reported by the companies, together with adjustments made as a result of the reconciliation and any unresolved differences remaining, are shown below.

| | **Initial templates** | | | **Adjustments** | | **Adjusted figures** | | |
|---|---|---|---|---|---|---|---|---|
| | Govt | Company | Difference | Govt | Company | Govt | Company | Unresolved Difference |
| | US$ m | US$ m | US$ m | US$ m | US$ m | US$ m | US$ m | US$ m |
| 2006 | 888.1 | 12.6 | 875.5 | 97.0 | 942.4 | 985.1 | 955.0 | 30.1 |
| 2007 | 700.2 | 115.3 | 584.9 | -190.2 | 372.4 | 510.0 | 487.7 | 22.3 |
| 2008 | 45.3 | 0.0 | 45.3 | -17.1 | 28.1 | 28.2 | 28.1 | 0.1 |

Government recorded higher figures than companies reported. This occurred because some companies did not report the signature bonuses they paid.

## DIVIDENDS AND DEBT SERVICING PAYMENTS FROM NLNG

The payments and receipts reported by the various parties during the period were:-

| | NLNG Paid $ 000 | NNPC Received $ 000 | NNPC Paid $ 000 | Govt Received $ 000 |
|---|---|---|---|---|
| Dividend | | | | |
| 2006 | | 332,980 | | |
| 2007 | | 842,957 | | |
| 2008 | | 2,613,170 | | |
| Loan interest | | | | |
| 2006 | | | | |
| 2007 | | | | |
| 2008 | | | | |

*Table 7.1*

NLNG has not reported, NNPC reported only dividends received from NLNG but did not report whether any payments were made to the Government.

## OTHER FINANCIAL FLOWS TO GOVERNMENT

Companies in the oil and gas sector, in common with other businesses, make payments of Withholding Tax to the Federation and to state governments. They also make deductions of tax from employees' remuneration – Pay As You Earn – and pay this to the states in which their operations are located, along with certain other taxes, of which Value Added tax and Education Tax were included within the scope covered by this assignment.

The amounts declared by companies as having been paid during the period were:-

| | Flows to Federation | | | Flows to states | |
|---|---|---|---|---|---|
| | In US $ | Other currencies | In Naira | In US $ | In Naira |
| | US $ 000 | US $ 000 | N 000 | US $ 000 | N 000 |
| **2006** | | | | | |
| Withholding taxes | 402,574 | 3,623 | 5,469,445 | 2,191 | 370,526 |
| VAT | 87,551 | 88 | 243,027 | 0 | 0 |
| PAYE | 0 | 0 | 52,282 | 0 | 13,202,973 |
| Education Tax | 430,092 | 0 | 0 | 0 | 0 |
| Company Income Tax | 137,326 | 0 | 0 | 0 | 0 |
| | 1,057,543 | 3,711 | 5,764,754 | 2,191 | 13,573,499 |
| **2007** | | | | | |
| Withholding taxes | 620,520 | 2,667 | 6,509,747 | 28,692 | 439,353 |
| VAT | 188,260 | 91 | 3,414,143 | 0 | 0 |
| PAYE | 0 | 0 | 106,087 | 0 | 18,441,433 |
| Education Tax | 522,687 | 0 | 0 | 0 | 0 |
| Company Income Tax | 193,879 | 0 | 0 | 0 | 0 |
| | 1,525,346 | 2,758 | 10,029,977 | 28,692 | 18,880,786 |
| **2008** | | | | | |
| Withholding taxes | 697,327 | 1,436 | 8,943,953 | 58,312 | 480,425 |
| VAT | 283,329 | 62 | 13,434,409 | 0 | 0 |
| PAYE | 0 | 0 | 215,032 | 0 | 22,932,198 |
| Education Tax | 698,376 | 0 | 0 | 0 | 0 |
| Company Income Tax | 215,263 | 0 | 0 | 0 | 0 |
| | 1,894,295 | 1,498 | 22,593,394 | 58,312 | 23,412,623 |

# COMPANY PAYMENTS TO NIGER DELTA DEVELOPMENT COMMISSION

Companies declared that they made certain payments to NDDC during the period and NDDC declared the amounts it received from companies, in US dollars and Naira respectively. The payments to NDDC initially reported by the Commission and the payments to NDDC initially reported by the companies, together with adjustments made as a result of the reconciliation and any unresolved differences remaining, are shown below.

| | Initial templates | | | Adjustments | | Adjusted figures | | |
|---|---|---|---|---|---|---|---|---|
| | Govt | Company | Difference | Govt | Company | Govt | Company | Unresolved Difference |
| | US $ 000 | US $ 000 | US $ 000 | US $ 000 | US $ 000 | US $ 000 | US $ 000 | US $ 000 |
| 2006 | 164,897 | 161,393 | 3,503 | 2,725 | 603 | 167,622 | 161,996 | 5,626 |
| 2007 | 178,454 | 196,694 | -18,240 | 8,412 | -18,098 | 186,866 | 178,596 | 8,270 |
| 2008 | 187,510 | 159,612 | 27,898 | 1 | 27,899 | 187,511 | 187,511 | 0 |

| | Initial templates | | | Adjustments | | Adjusted figures | | |
|---|---|---|---|---|---|---|---|---|
| | Govt | Company | Difference | Govt | Company | Govt | Company | Unresolved Difference |
| | N 000 | N 000 | N 000 | N 000 | N 000 | N 000 | N 000 | N 000 |
| 2006 | 11,524,222 | 12,887,051 | -1,362,828 | 22,332 | -1,700,260 | 11,546,554 | 11,186,791 | 359,763 |
| 2007 | 14,546,746 | 14,838,634 | -291,888 | -887,898 | -2,226,021 | 13,658,848 | 12,612,613 | 1,046,235 |
| 2008 | 18,292,447 | 15,712,895 | 2,579,552 | -248,746 | 434,802 | 18,043,701 | 16,147,697 | 1,896,004 |

*Table 6.7*

# PART D- RECOMMENDATIONS

We set out our principal recommendations, based on matters that came to our attention in the course of the audit work done, which concerned 2006 - 2008. More recent developments are mentioned to the extent we are aware of them.

A number of the recommendations relate to areas where a significant financial impact on Federation revenues was noted during the audit, for example the dispute over entitlement to oil from PSCs, control over the calculation and reconciliation of royalty payments, arrangements for commercialisation of gas produced by PSCs. Other recommendations relate to introduction of best practice and of processes which would improve control over activities in the sector.

We welcome the actions taken in response to recommendations from previous NEITI reports, whilst noting that in a number of areas there have been no process improvements, resulting in continuing weaknesses.

## REPLACEMENT OF THE 2000 MOU

The fiscal regime set out in the year 2000 Memorandum of Understanding between NNPC and the Joint Venture partners should be replaced. The MOU has been cancelled but, in accordance with its terms, it can be argued that a replacement (new) fiscal regime has not yet been determined, with the result that the MOU terms continue to apply.

**Action:**

**FIRS with NNPC and the JV partners should conclude on a new fiscal regime.**

## PSC MANAGEMENT ISSUES

The first of the operations under a Production Sharing Contract began producing in 2004. Previous reports noted that there were unresolved accounting issues in the area of PSC tax and royalty oil and that the accounting methodologies for in-kind transactions are under-developed and were not adequately managed by NNPC.

Separate FIRS and DPR accounts were opened in 2007 for the collection of tax oil and royalty oil proceeds respectively but the system did not work well in the period under review. The proceeds should be regularly reconciled between NNPC and FIRS and DPR. Our work indicated this is not being done. The method of settling liabilities in this way appeared not to have been thoroughly thought-through.

NNPC, the Contractors, FIRS and DPR hold monthly reconciliation meetings. There is a need to support the results generated by these meetings by strengthening the interface accounting in the entire system from PPT and Royalty liability through volume lifted, the proceeds obtained from such liftings and how they tie in and extinguish the individual monthly liabilities.

There is no separate accounting for any holding gain or loss that NNPC might suffer as a consequence of being changes in the oil price between the month of an entitlement being allocated to NNPC and the month in which NNPC actually lifts it. If NNPC is unable to (or choosing not to) lift crude entitlements from PSCs, such gains or losses should be identified and accounted for. NNPC would then have a conflict of interest in deciding whether to nominate a particular cargo (which might have an inherent gain or loss) as export crude or domestic crude.

Improved accounting procedures are required to improve the transparency of NNPC's handling of these components of the proceeds of crude sales.

a) The method of accounting for tax and royalty PSC oil should be systematised.

b) There is a long-running dispute between NNPC and PSC operators as to the interpretation of the calculation of cost oil, tax oil and royalty oil under the PSC; this has the effect that the parties cannot agree on the amounts being lifted by NNPC and the Contractors. Amounts reported for this reconciliation revealed different interpretations of the same lifting transaction; the issue should be resolved speedily.

**Action:**

**Companies, FIRS, DPR, and NNPC should improve their systems and records to be able to cope with the reconciliation, validation and reporting that this intricate flow requires.**

**It is recommended that a comprehensive system documentation of NNPC records and reconciliation of volume and value of PSC and Carry transactions should be carried out.**

## PSC GAS

The PSCs signed to date do not provide for how the parties to the PSC should deal with any gas which is discovered and is available for commercial exploitation, except to say that the parties should conclude a separate agreement. So, for example, a contractual arrangement is required for the commercialisation of Bonga gas production: this gas is being piped to NLNG but the commercial arrangement is undefined and we were not able to determine whether there was, or should have been, a financial flow to the Federation from this activity. This can therefore result in a loss of income to the Federation.

**Action:**

**NNPC and the contractors should promptly agree a commercial regime for the sharing of gas revenues.**

## PSC COST AUDITS

Cost audits should be completed by NNPC NAPIMS within three years of each year end. If this is not done, according to the PSC, the costs declared by the PSC operator are deemed to be correct and no longer open to challenge.

These cost audits have not been completed by NNPC NAPIMS within the timescales set out in the PSCs. The matter is currently before an arbitration tribunal.

**Action:**

**NNPC NAPIMS should ensure that the cost audits are carried out on a timely basis within the timeframes set out in the PSCs.**

## TRIAL MARKETING PERIOD

Crude from newly producing fields is subject to trial marketing. A number of cargoes is lifted by NNPC and by the operator. After trial marketing, the parties meet to agree the pricing formula for that crude.

There appear to be different practices between PSCs as to how the proceeds of sale during the Trial Marketing Period (TMP) are managed. We recommend that NNPC establish a uniform methodology for managing the proceeds, including terms of escrow and policies on distribution of proceeds; this can be applied to all future TMP transactions. It is important that methods for calculating funds allocations are standardised and clarified.

**Action:**

**NNPC should specify a uniform methodology for managing crude sales proceeds during a TMP.**

## INFRASTRUCTURE BENEFITS

A number of issues arise from the introduction of "First Right of Refusal" allocated with the approval of the Presidency to certain bidders who undertook to make infrastructure investments. In the 2007 licensing round (continuing a pattern that commenced with the 2005 round), preference was given to bidders who offered to construct downstream processing projects and infrastructure. Significant commitments were offered, albeit mainly unquantified financially, and some such bidders were accepted and signed a PSC.

The provision of infrastructure as part consideration for the grant of an exploration block raises important issues. For example:

a) there was no transparency around how the rights were allocated
b) there is a perception that the commitments undertaken by successful bidders are not being followed through, compounded by the lack of transparency in the process for managing the timely implementation of the infrastructure projects.

**Action:**

- **the systems for recording, publishing and monitoring infrastructure benefit flows associated with the granting of oil and gas licences should be strengthened.**
- **DPR with NNPC NAPIMS should publicly identify the organisation that is responsible for enforcing the infrastructure commitments entered into by the contractor.**

- **NEITI should consider whether / how to capture these benefit flows in routine EITI reporting.**

## MEASUREMENT AND REPORTING SYSTEMS FOR CRUDE OIL FLOWS

Companies were requested to provide in-field measurement data for audit purposes. The templates received from companies did not include such data.

DPR should be strengthened to enable it to fulfil its strategic role in the industry.

**Actions:**

**DPR should be mandated to work together with operators to develop standards and guidelines for the routine reporting of a gross liquids and hydrocarbons mass balance. A policy framework and implementation plan should be presented by DPR.**

**DPR should report to Government regularly on all hydrocarbon flows and holders of OMLs and OPLs and any transfers of working interests thereon.**

**Annual audited cost reports submitted by companies to NAPIMS should include the hydrocarbon mass balance. Auditors should report on its compilation.**

## PROCESS OF MARKETING GOVERNMENT CRUDE

We updated the review of the process of marketing government crude that had been undertaken in the previous audit. Principal recommendations are:

(a) NNPC should review the appropriateness of Brent as a pricing benchmark, given the preponderance of sales into the US refining areas. West Texas Intermediate (WTI) might offer a better value basis than the European market benchmark Brent[2].

(b) Procedures and systems should be in place to ensure that without exception Letters of credit (L/Cs) are modified to provide full payment cover for the cargo to be loaded. We found examples where the value of L/Cs provided were too low to cover the financial exposure, as a result of market price increases over the period between the provision of the L/C and the relevant pricing period. On occasions this exposure reached $20-30 million on a single cargo[3].

(c) Final decisions about setting NNPC's Official Selling Price take much time before the approved OSP price can be communicated to the off takers, leading to unnecessary uncertainties with existing and new off takers, at an implied cost to the Federation. Decisions should be expedited and published earlier.

[2] Note that the differential between Brent and WTI is not relevant to this comment.
[3] NNPC stated that they have now adopted a more proactive stance in managing such situations.

(d) Guidelines for off taker selection should not include a requirement from the off taker to invest in Nigerian projects:

(i)COMD has no process for checking whether the required performance has indeed taken place, nor any defined procedure for the eventuality that it appears it has not.

(iii) Where the guideline is applied, the sale contract should include appropriate clauses dealing with the project.

(ii) it is economically questionable whether Nigeria receives value for money from such arrangements. Such a requirement will theoretically lead in the longer term to the Federation securing a lower price for its crude.

(e) The COMD offtaker list is not well balanced and should be reviewed. The ongoing practice of entering into export contracts for greater volumes than are available exacerbates the issue when Federation offtakers are cut back. NNPC should continue to reduce contracted volumes to better match expected production and also consider increasing the offtaker list to include final end user buyers/ major oil companies and reduce the current large contract allocation to traders[4].

(f) NNPC should review the use of its Joint Venture marketing companies, especially with regard to the sales of exported domestic crude. JV marketing may present a potential conflict of interest between the JV partner third party offtakers and NNPC, and there appears to be sufficient forward information from the quarterly PPMC oil supply/ demand process to place these additional cargoes into a broader customer base.

(g) All government crude sales should be invoiced on a timely basis. We identified one shipment that was lifted in November 2008 but not invoiced until January 2009.

**Action:**

**Some issues were raised in previous audits and improvements should now be implemented.**

## NNPC CONFLICT OF INTEREST

NNPC should not both (a) buy Federation crude oil and (b) sell the same crude on behalf of the Federation. NNPC obtains a financial benefit by delaying sales documentation until it can choose an advantageous pricing option and make additional profit with the benefit of hindsight. This is contrary to the spirit of the decision taken in 2002 that NNPC should pay the market price for domestic crude. In some instances, the valuation prices are not translated to the lifting profiles from where the receivable by the Federation for crude sold to NNPC is updated, leading to prices paid by NNPC being lower than those charged to other off-takers.

NNPC should pay for domestic crude in accordance with the correct credit period. NNPC has delayed payments to the Federation beyond the agreed terms. The arrears (amounts outstanding longer than the

[4] COMD comment: Contractual volume allocations are given subject to production forecast and availability. Unfortunately, during the period under review Nigeria suffered serious setbacks in production despite several new oil fields coming on stream. Going forward, NNPC will consider curtailing contractual volume or number of customers

authorised credit period) at 31st December 2008 amounted to 588 bn Naira (Financial Report, Appendix B).

**Action:**

**Restructuring of NNPC would provide an institutional foundation for the two separate activities and help ensure arm's length dealing between the Federation and NNPC in relation to the sale of crude.**

(See also the following recommendation, in relation to accounting systems.)

## ACCOUNTING FOR GOVERNMENT SALES OF CRUDE OIL

**Accounting system improvements**

The accounting system used by NNPC COMD for equity crude is still largely not automated with consequent reconciliation and fund sweeping interface difficulties. NNPC and the Federation should recognise that this system manages the largest single revenue stream to the Federation; it is therefore appropriate that it should be well designed and operated.

Although no funds were identified lost as a result of the above, nevertheless information cannot readily be obtained as to any arrears. NNPC was not able to provide for audit an aged analysis of Export crude debts for the three years under review. As recommended in previous years, COMD should maintain a real time sales ledger for the sale of Federation crude oil.

This is especially important in regard to domestic crude where NNPC fails to make timely payment and the Federation lacks the records to understand how much is payable by NNPC at any time. NNPC COMD lacks a system to manage and follow up unpaid debts for crude sold, particularly to NNPC itself.

It is important that the planned implementation of SAP Enterprise Resource Management should be accelerated.

**Action:**

**This transaction system manages the single most significant source of income to the Federation. The system should be urgently upgraded to best practice.**

## DEDUCTION OF SUBSIDY PAYMENT DUE TO NNPC FROM DOMESTIC CRUDE PROCEEDS

Subsidy payments should normally be made from the Central Bank of Nigeria (CBN) through the Petroleum Support Fund (PSF) on the approval of the Accountant General of the Federation based on claims approved by PPPRA. However, we observed that NNPC deducts the subsidy claims directly from the domestic crude proceeds before remitting to the Federation Account.

**Action:**

**We recommend that NNPC, like other petroleum product importers, should draw claims for subsidy from the PSF.**

## MONITORING INFLOWS TO THE FEDERATION ACCOUNT

The Revenue Mobilisation Allocation and Fiscal Commission has the senior role in the monitoring of revenues. However, its practical activity as regards income has been limited, in effect, to participation in the FAAC.

**Action:**

**In the light of the difficulties encountered in the course of the audit in determining definitive financial values, the Commission should make use of the audit findings and check whether the correct 2006, 2007 and 2008 figures were used for FAAC purposes. The commission should also put in place a more robust system to ensure that all flows to the Federation are all duly received.**

## REGISTER OF LICENCE HOLDERS

DPR experiences challenges in making available a comprehensive database of those who hold OML and OPL in the sector with the consequence that complete information on all the stakeholders in the sector cannot be readily obtained.

**Actions:**

**DPR should seek technical assistance to establish and maintain a database of licence holders and licence areas.**

**DPR should report regularly on transfers of working interests by holders of OMLs and OPLs.**

## UPSTREAM GROSS FLUIDS MASS BALANCE

The inter-relationship of physical and financial aspects is not being covered. In the short term this means that Government makes no direct correlation between physical production and the financial flows (taxation, equity crude) that are derived from production.

**Action: DPR should be strengthened to enable it to fulfil its strategic role in the industry.**DPR should report to Government regularly on all hydrocarbon flows.

Consultation should be undertaken between NSWG, DPR, NAPIMS and the operating companies on practical steps to achieve this.

# SIGNATURE BONUS

DPR is responsible for collecting signature bonus. In view of the persistent difficulty in obtaining reliable and comprehensive information on the arrears of signature bonus, DPR should select and implement an appropriate accounting system to manage all signature bonus commitments entered into by companies.

NNPC should inform DPR of the date of signing of each PSC; otherwise, DPR lacks the information to ensure that all committed signature bonuses are collected. There were inconsistencies between various schedules provided by DPR.

Some blocks are subject to court challenges in relation to DPR's right to offer the blocks. This happens sufficiently often that a review should be undertaken to identify accurately the specific issues that give rise to the disputes and seek to improve respective processes. The consequence of court challenges includes the sterilisation of the block; signature bonus payments that are locked in escrow accounts; effort and expense required to pursue litigation

Disputes have arisen in relation to bonuses on certain blocks. Such disputes tend to take long periods to resolve. DPR with NEITI should analyse the causes of the delay and seek to develop a process to reach resolution more rapidly. Disputes delay the allocation of blocks for exploration and development, with consequent delay in production and its concomitant income to the Federation.

**Action:**

**Disputes over block allocation should be resolved more expeditiously.**

# ROYALTY

**a) Definition of standards**

The industry has no consistent practice regarding the point at which production is measured for royalty purposes. The law is unclear. DPR has not promulgated a standard interpretation.

**Action:**

**Undertake a consultation process with operators to define a workable and clear basis on which production volumes and API for royalty purposes are to be determined.**

**b) Verification of Company Royalty calculations**

DPR has not rigorously verified royalty computations prepared by companies and the key related variables in computation - volume and API seem to be interpreted and applied subjectively by the companies.

Audit review of royalty calculations indicated an estimated US$ 2,333 million under-assessment of royalty for the three years, arising from the use of inappropriate pricing.

DPR informed us that it is in process of reconciling the outstanding royalty balances with companies and that the outstanding balances could change once the reconciliation exercise is completed. DPR stated that the reconciliation exercise which commenced in early 2007 will cover 1990 to the period of the audit.

We recommend that DPR concludes this historical reconciliation promptly, and in future carries out on a regular basis reconciliation of accounts with the producing companies so that the outstanding royalty payments are incontrovertibly established and strategies put in place to ensure that all arrears are collected. The review of old liabilities and lack of certainty as to quantum of liability is a deterrent to potential investment in Nigeria.

**Action:**

**DPR should**

i. **establish a system for verifying royalty volumes, API and applicable royalty rates to reconciled physical data.**

ii. **ensure that current royalty is completely and efficiently collected.**

iii. **promptly conclude its investigation into past royalty issues.**

## PETROLEUM PROFITS TAX

Companies self-assess their PPT liabilities. These assessments have tended to be accepted by FIRS without due validation beyond a preliminary desk review before assessments are raised. Field audits have been commenced but have become bogged down by unresolved issues.

The NEITI audit review highlighted many areas of difference relating to both to matters of principle and reconciliation of figures.

The companies in many cases disagree with the findings of the review. Having regard to the amounts of money at stake, FIRS should follow up the issues with the companies. It is important to the stability of the sector investment environment that tax law should be clear and its application predictable.

**Action:**

**FIRS should prepare and issue a policy statement addressing the Issues of principle, including the interpretation of legislation, and should engage with companies to clarify how the legislation should be applied.**

### Agreement of company PPT Returns to audited financial statements

Two companies (Chevron Nigeria Limited and Mobil Producing Nigeria Unlimited) do not have JV AFS in Dollars but in Naira whereas the PPT return is filed in Dollars. The Naira JV audited financial statements, when expressed in US Dollars, do not reconcile to gross JV costs in the templates submitted for audit, nor to the JV approved performance for the year under review.

In recent years, additional sums have been approved as 'performance' long after the year end, complicating this reconciliation. The companies could not support their PPT returns with a meaningful reconciliation to audited financial statements.

**Action:**

**FIRS, with NEITI should carry out a detailed investigation into this issue with a view of establishing how Mobil Producing Nigeria Unlimited and Chevron Nigeria Limited have compiled their PPT returns cost in the past and what steps should be taken to improve the situation in future.**

### PPT Fiscal Value/Revenue

In the determination of the PPT Fiscal Value all the Joint Venture companies failed to apply correctly the Memorandum of Understanding (2000) as regards the use of Realisable Price (RP) to derive their PPT Fiscal Value. They did not elect PPT Fiscal Value on basis of higher of sale proceeds and Official Selling Price (OSP) as per section 2.4 of the 2000 MOU.

- Companies that are not covered by the MOU also used RP instead the OSP provisions set out in the PPTA.
- NNPC issued RP to companies instead of OSP,
- Misapplication of the MOU revealed significant differences which the FIRS should investigate with a view of issuing additional assessments.

The direct tax under assessment for the three years was US$1,115 million.

**Action:**

**FIRS, with NEITI should carry out a detailed investigation into this issue.**

### Carry agreements

NNPC enters into Carry Agreements with some of its Joint Venture Partners where the respective JV Partner funds the full cost of executing the development of a field or a Production Improvement Project (PIP). The Carry Party has a right to recover such cost together with interest, through Capital allowances and Investment Tax Allowances and sometimes by additional production entitlement. Arising from this review, it appears that there might be significant amounts of PPT underassessment.

**Action:**

**We recommend that NEITI, FIRS and NNPC should establish a working committee to address these issues.**

**Actions:**

**FIRS should follow up the apparent discrepancies in the PPT computations, raising revised assessments as applicable. Companies should be required to justify the figures they use in their self assessments.**

### *FIRS Capacity building*

FIRS requires significant capacity building. Assistance is required to strengthen its capacity to deal with technical oil industry accounting issues. The operational manual and hand book which FIRS has recently constructed will go a long way in this regards. These documents need to be rapidly operationalised for effectiveness. FIRS also needs better collaboration with DPR to ensure that PPT computations are consistent with production data. FIRS internal financial systems should be upgraded.

**Action:**

**FIRS has taken steps in this direction. We suggest that these steps should be intensified.**

## GAS INCOME SHARED WITH THE FEDERATION

The Federation is entitled to a share of the proceeds of gas sales, in accordance with the contracts governing each development.

NNPC NAPIMS is responsible to supervise / control whether the Federation is receiving its due share of income from gas sales. NAPIMS did not respond to audit requests for data on this Federation entitlement. It appears that the interest of the Federation was not being effectively protected.

A multiplicity of methods is used for paying the Federation share of gas proceeds. Some are accounted for by JV operators, some paid directly by gas purchasers to NNPC, some shared in terms of equity profit share of operations. The arrangements should be reviewed and a single method agreed that everybody understands and is readily verifiable.

**Action:**

**NNPC should design a system that suitably controls gas income to the Federation.**

## PAYMENTS TO NIGER-DELTA DEVELOPMENT COMMISSION

Oil companies use their budget at the beginning of the year rather than their performance budget at the year end to calculate their NDDC payments. There is need to work with NDDC and the companies to correct this.

**Action:**

**NDDC should strengthen the reconciliation process with the companies and improve its collection process.**

## MANAGEMENT OF REFINED PRODUCT IMPORTATION AND DISTRIBUTION

The system of measuring and recording refined product receipts and pipeline movements requires major upgrading. The measurement methods used by PPMC and DPR are not in accordance with best practice. They are not consistently applied and cannot be relied upon.

The systems for recording the movement of refined product through the PPMC pipeline system are outdated, paper-based and subject to error. The management and monitoring strategy requires revision and upgrading.

NNPC stated in the previous (2005) audit that it agreed with the foregoing comments and wished to proceed to upgrade the system. However, no action has been taken.

**Action:**

**NNPC PPMC should strengthen controls over product importation and distribution.**

## INSTITUTIONAL LINKAGE BETWEEN TECHNICAL AND FINANCIAL ASPECTS

A feature of Government systems is that responsibility for engineering issues (physical production, volumes etc) is separated from the responsibility for financial management. Yet, the validity of the financial data is dependent on the technical data. Our work has revealed unreconciled differences between the two, with potential for lost revenue. Preparation of volumetric reconciliations should be a normal feature of the management of the sector.

**Action:**

**Financial and physical data should be routinely reconciled. The outcome should be reviewed by NEITI.**

## GOVERNMENT INFORMATION SYSTEMS

We have commented previously on the reliance on decentralised, largely paper based systems. In the period under review, the use of suitable, secure IT systems to provide consistent data to various users and to analyse this data was limited. Financial information systems are not adequate for the purpose of controlling financial flows from the sector. Greater use should be made of IT systems to improve controls, to eliminate inconsistencies and to improve transparency by making possible a wider sharing of data.

**Action:**

**The Accountant General should implement modern financial management systems and techniques, including predictive modelling, to allow him to manage financial flows from the sector.**

The above will strengthen the OAGF's role as the Federation accounting office and ensure that the CBN is not continually put in the position of having to provide the timely and reliable management information that is required for ordinary Government management of flows from the sector.

## NEITI ENGAGEMENT WITH DPR

Experience indicates that DPR does not provide data on a timely basis to enable a reconciliation to commence reliably. NEITI should take steps to arrange with DPR to obtain this information on a regular, say 6-monthly, basis so that NEITI can maintain its own records of contact details of companies.

## TIMELINESS OF NEITI RECONCILIATION

NEITI should aim to publish an annual reconciliation report within 8 months of the end of the year to which it relates.

The report is of reduced relevance to stakeholders if it is unduly delayed. Reconciliation should be planned well in advance with a view to commencing around four months after the end of the year under reconciliation.

NEITI should establish a database and collect all relevant data from the companies on a quarterly basis at least in order to facilitate the annual audit process.

## ENGAGEMENT OF COMPANIES WITH NEITI

We recommend that NEITI should enhance its relationship with covered companies. This would yield benefits in terms of stakeholder understanding of company operations, constraints, opportunities etc and would benefit the reconciliation process in terms of improved preparedness. For example:

a) NEITI should maintain improved contact with covered companies and understand their operations
b) Companies should be asked routinely to submit their AFS to NEITI
c) NEITI should maintain its own database of covered entities and keep companies informed of EITI developments
d) NEITI should encourage companies to engage in activities that support dissemination of reconciliation results and have educative value generally.