INDUSTRY STRUCTURE, SYSTEMS AND PROCESSES

Introduction

The oil and gas industry is divided into the upstream, midstream and downstream sectors. The upstream operations covers the exploration, field development and production operations; the midstream covers the processing, storage & distribution, marketing and transportation of crude oil, gas, gas-to Liquids and liquefied natural gas; while the downstream covers manufacturing, refining & petrochemicals and wholesale and marketing.

Upstream sector

Companies engaged in the upstream sector are typically engaged in exploration and production of crude oil and/or gas. Operators in this sector pay royalty as defined in the Petroleum Act 1990 (as amended 1969), Deep Offshore and Inland Basin Production Sharing Contracts Act (No. 9 of 1999 as amended – (1993) and the first Memorandum of Understanding (MOU) signed between Industry operators and Government (1986). They are also subject to tax under the Petroleum Profits Tax Act, 2004 (PPTA), as amended or Company Income Tax Act, 2004 as amended 2007. Government participates in this sector through the NNPC. It operates as an upstream company through the Nigerian Petroleum Development Company (NPDC). It also provides geophysical and engineering services through the Integrated Data Services Limited (IDSL). Upstream companies operate in a license area under either of four production arrangements;

a) Joint venture
b) Production sharing contract
c) Service contract
d) Marginal field operator

The production arrangement determines the fiscal terms for the operation.

Midstream sector

The Midstream sector is where crude oil, natural gas and gas liquids are transported, processed, and transformed into products for the retail market. In Nigeria, the transportation of oil and gas to the refinery and gas station is carried out via the pipeline network from the terminal to the refinery or plant. Tankers and purpose-built vessels are also used for this purpose.

Downstream sector

Nigeria has four refineries: two situated in Port Harcourt and one each in Warri and Kaduna. The refineries are all wholly owned by the NNPC. However, only 5.86% of crude allocated to the refineries was processed in 2015. This has forced government to import refined products to meet domestic demand through offshore processing arrangements (OPA). The government participates in the downstream sector through NNPC Retail, Nigeria Pipeline and Storage Company (NPSC) and the Petroleum Products Marketing Company (PPMC).

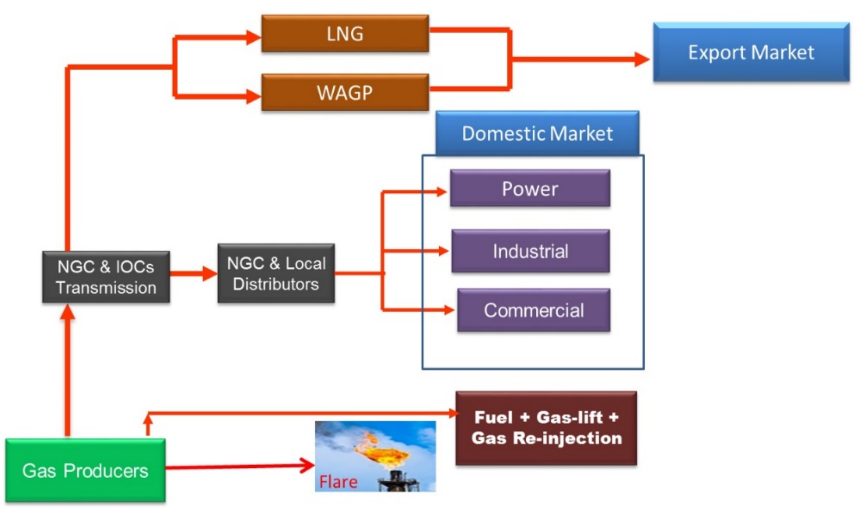
Distribution and marketing of refined petroleum products are complementary activities. Distribution involves the transportation of refined petroleum products from the refineries through pipelines, coastal vessels, road trucks, rail wagon to the storage and sale depots. Petroleum products are supplied principally through the NPSC (former PPMC) pipeline system, which links the refineries to the about 21 regional storage/sale depots. Petroleum product marketing involves the procurement and sale of refined petroleum products. Marketers lift products from NPSC depots and deliver to their various retail outlets. They also import refined products from outside of Nigeria to meet the demands of their customers. There are however guidelines issued by the DPR to prevent importation of substandard products.

Gas sector

The primary market for Nigeria's natural gas was historically the export market. However, there is increased local demand for natural gas. Domestic consumption of natural gas is mainly for;

a) Power generation
b) Fertilizer production
c) Methanol production
d) Aluminum smelting
e) Cement production
f) Steel manufacturing
g) Residential consumption of bottled liquid propane gas (LPG)

Figure 1: Production and utilization of gas



Source: NEITI 2013 oil and gas report[1]

Gas produced is supplied by the NNPC and oil companies for sales through the Nigeria Gas Marketing Company (NGMC)[2]. A portion of gas produced is also supplied

[1] 2013 Audit Report

to the Nigeria Liquefied Natural Gas (NLNG) mostly for export[3]while another portion is used for processing and another volume is flared. See Section 9.20 of the main report for details on gas production and utilization for the year.

Role of government institutions in the sector

The Ministry of Petroleum Resources has overall regulatory oversight of the Nigerian oil and gas industry. The Ministry acts primarily through the Department of Petroleum Resources (DPR). Other regulatory bodies include the Petroleum Products Pricing Regulatory Agency(PPPRA), which regulates the rates for the transportation and distribution of petroleum products; the Ministry of Environment, which is responsible for approving environmental impact assessment reports in respect of oil and gas projects; the Nigerian Content Development and Monitoring Board(NCDMB), which is responsible for ensuring compliance with the Nigerian Content Development Act (NCDA); and the Nigeria Sao Tome Joint Development Authority(NSTJDA), which is responsible for the supervision of petroleum activities within the joint development area. The Nigeria National Petroleum Corporation (NNPC) is the state owned corporate entity through which the Nigerian government participates in the industry.

Ministry of Petroleum Resources (MPR)

The MPR has overall regulatory oversight of the Nigerian oil and gas industry. The MPR is primarily responsible for the articulation, implementation and regulation of policies in the sector. The NNPC, DPR and PPPRA are all subordinate agencies of the Ministry. For more on the MPR, visit www.petroleumresources.gov.ng.

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[2] NGC was restructured in 2016 to form NGPTC and NGMC

[3] NLNG also supplies LPG to the domestic market

Nigerian National Petroleum Corporation (NNPC) and its subsidiaries

The NNPC is Nigeria's national oil company, representing the federation in all petroleum activities. It is wholly owned by the State and is a fully vertically integrated oil company. NNPC operates in the upstream through Nigerian Petroleum Development Company (NPDC)[4] and Integrated Data Services Limited (IDSL)[5], in the Downstream through Nigerian Product Marketing Company (NPMC), Nigeria Pipeline & Storage Company (NPSC), NNPC Retail, formerly Pipelines and Products Marketing Company (PPMC)[6] and the refineries; Warri Refining and Petrochemical Company (WRPC)[7], Kaduna Refining and Petrochemical Company (KRPC)[8], and Port Harcourt Refining and Petrochemical Company (PHRC)[9]. In the gas sector, NNPC operates through the Nigeria Gas Processing and Transmission Company (NGPTC), Nigeria Gas Marketing Company (NGMC)[10] and the Gas and Power Investment Company. Other subsidiaries are Duke Oil[11], an international wholly owned subsidiary of NNPC engaged in the trading of crude oil in the spot market. National Petroleum Investment Management Services (NAPIMS)[12] and the Crude Oil Marketing Department (COMD) are strategic business units of the NNPC. NNPC also holds 49% of the shares in Nigeria LNG Limited, 24.9% in the West African Gas Pipeline Company limited (WAPCo), and part owner in Nigeria Engineering and Technical Company (NETCO) and Hyson (Nigeria) Limited. For more information, The NNPC Group is comprised of the following subsidiaries.

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[4] NPDC
[5] IDSL
[6] PPMC
[7] Warri Refining & Petrochemical Company Limited
[8] Kaduna Refining & Petrochemical Company (KRPC) LIMITED
[9] Port Harcourt Refining Company Limited (PHRC)
[10] The NGC was restructured in 2016 to form NGMC and NGPTC
[11] DUKE OIL
[12] National Petroleum Investment Management Services (NAPIMS)

Department of Petroleum Resources (DPR)

The DPR is responsible for the processing of application for licenses and monitoring the operations along the entire value chain of petroleum activities. It is also responsible for maintaining of all records related to petroleum reserves, technical viability of production and supervision of exports of crude oil, gas and condensates. Related revenue flows include royalty oil, royalty gas, gas flare penalty, concession rentals and signature bonus. For more on the DPR, visit https://www.dpr.gov.ng

The Petroleum Products Pricing and Regulatory Agency (PPPRA)

The PPPRA is the Government agency that fixes the benchmark prices of petroleum products. It is also responsible for regulating and monitoring the transportation and distribution of petroleum products throughout Nigeria. For more on the PPPRA, visit http://www.pppra.gov.ng

Federal Ministry of Environment

The ministry is responsible for effective coordination of all environmental matters. For more on the ministry visit http://www.environment.gov.ng

Nigerian Content Development and Monitoring Board (NCDMB)

The Board is responsible for the development and utilization of in-country capacities for the industrialization of Nigeria through the effective implementation of its enabling Act. Key focus of the Act is to;

- Integrate oil producing communities into the oil and gas value chain
- Foster institutional collaboration
- Maximize participation of Nigerians in oil and gas activities
- Link oil and gas sector to other sectors of the economy

- Maximize utilization of Nigerian resources i.e. goods, services and assets
- Attract investments to the Nigeria oil and gas sector (service providers, equipment suppliers etc)

Related revenue flow is the 1% of contract value of contracts in upstream operations (NCDF deduction). For more on the NCDMB, visit

http://www.ncdmb.gov.ng

Central Bank of Nigeria (CBN)

The CBN Act of 2007 mandates the Bank with overall control and administration of monetary and financial policies of the Federal Government. It is the custodian of all Federal Government funds and acts as financial advisor to the Government. For more on CBN, visit https://www.cbn.gov.ng

Office of the Accountant General of the Federation (OAGF)

The OAGF is a parastatal in the Ministry of Finance and is headed by the Accountant General of the Federation (AGF). The AGF serves as the Chief Accounting Officer for the Federation. The AGF is responsible for all receipts and payments on behalf of the Government, supervises the accounts of Federal Ministries and Extra Ministerial Departments, manages and operates the Consolidated Revenue Fund and other public funds, and maintains all the federation accounts. For more on the OAGF, visit http://www.oagf.gov.ng

Revenue Mobilization and Fiscal Allocation Commission (RMAFC)

Paragraph 32 of Part I of the Third Schedule to the 1999 Constitution of the Federal Republic of Nigeria confers the under-listed powers and responsibilities on the Commission;

- Monitor the accruals into and disbursement of revenue from the Federation Account;
- Review from time to time, the revenue allocation formulae and principles in operation to ensure conformity with changing realities: Provided that any revenue formula which has been accepted by an Act of the National Assembly shall remain in force for a period of not less than five years from the date of commencement of the Act;
- Advise the Federal, State and Local Governments on fiscal efficiency and methods by which their revenue is to be increased;
- Determine the remuneration appropriate to political office holders, including the President, Vice-President, Governors, Deputy Governors, Ministers, Commissioners, Special Advisers, Legislators and the holders of the offices mentioned in Section 84 and 124 of the Constitution; and
- Discharge such other functions as are conferred on the Commission by the Constitution or any Act of the National Assembly.

For more on the RMAFC, visit http://www.rmafc.gov.ng

Federal Inland Revenue Service (FIRS)

The FIRS is the agency responsible for assessing and collecting all tax revenues accruable to the Federal Government. It was established by Federal Inland Revenue Services Act, 2007. Related revenue flows include PPT, CIT and EDT. For more on the FIRS, visit http://www.firs.gov.ng/Pages/Default.aspx

Niger Delta Development Commission (NDDC)

The Niger Delta Development Commission (NDDC) was established in 2000 in order to facilitate rapid, even and sustainable development of the Niger Delta region with a view to making the region "economically prosperous, socially stable, ecologically regenerative and politically peaceful"[3]. All upstream companies in the region are mandated by the NDDC Act, to pay 3% of their total annual budget to the commission. Related revenue flows include 3% NDDC levy paid by upstream companies. For more on the NDDC, visit http://www.nddc.gov.ng

Other institutions and their roles in the industry include;

Nigeria Liquefied Natural Gas Limited (NLNG)

The NLNG is a limited liability company incorporated in 1989 for the purpose of harnessing Nigeria's natural gas resources to produce Liquefied Natural Gas (LNG) and Natural Gas Liquids (NGL) for export. The company is owned by the Federal Government of Nigeria, represented by Nigerian National Petroleum Corporation, Shell, Total Gaz Electricite Holdings France, and Eni. The establishment of NLNG is backed by the NLNG Act. For more on the NLNG visit,

http://www.nlng.com/nignlng/home.aspx#

Nigeria–São Tomé and Príncipe Joint Development Authority (NSTPJDA)

The NSTPJDA is the institution charged with the responsibility of managing the activities relating to the exploration for and exploitation of petroleum resources in the joint development zone between Nigeria and Sao Tome and Principe located in the Gulf of Guinea. For more on the joint development zone visit, http://www.nstpjda.com/#

State participation

The Nigerian National Petroleum Corporation (NNPC) is the government-owned corporation that operates in the oil and gas industry. The Nigerian National Petroleum Corporation Act[13] was enacted on the 1st of April 1977. The Act establishes the NNPC, empowering it … *"to engage in all commercial activities relating to the Petroleum industry and to enforce all regulatory measures relating to the general control of the Petroleum sector through its Petroleum Inspectorate department"*. It was reorganised in 1988. This led to the transfer of the Petroleum Inspectorate to the Ministry of Petroleum Resources becoming the entity now referred to as the Department of Petroleum Resources (DPR). NNPC and its subsidiaries participate in all sectors of the industry including exploration, production, refining, pipelines, marketing, crude/product exports, and petrochemicals. There were no noted changes in state participation in the sector in 2015.

Part I section 1(2) of the Act provides that the affairs of the corporation shall be conducted by a Board of Directors. Part 1 section 7 (1, 2, 4 and 5) provide that;

(1) The Corporation shall keep proper accounts and proper records in relation thereto in a form which shall conform to the best commercial standards.

(2) The Corporation shall as soon as may be after the end of the financial year to which the accounts relate cause its accounts to be audited by auditors appointed by the Corporation, with the approval of the National Council of Ministers, from the list of auditors and in accordance with the guidelines laid down by the Auditor-General of the Federation.

(4) The Corporation shall maintain a fund which shall consist of-

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[13] NNPC Act 1977

(a) such moneys as may from time to time be provided by the Federal Government for the purposes of this Act by way of grants or loans or otherwise howsoever; and

(b) such moneys as may be received by the Corporation in the course of its operations or in relation to the exercise by the Corporation of any of its functions under this Act, and from such fund there shall be defrayed all expenses incurred by the Corporation.

(5) The Corporation shall submit to the National Council of Ministers not later than three months before the end of each financial year estimates of its expenditure and income relating to the next following financial year.

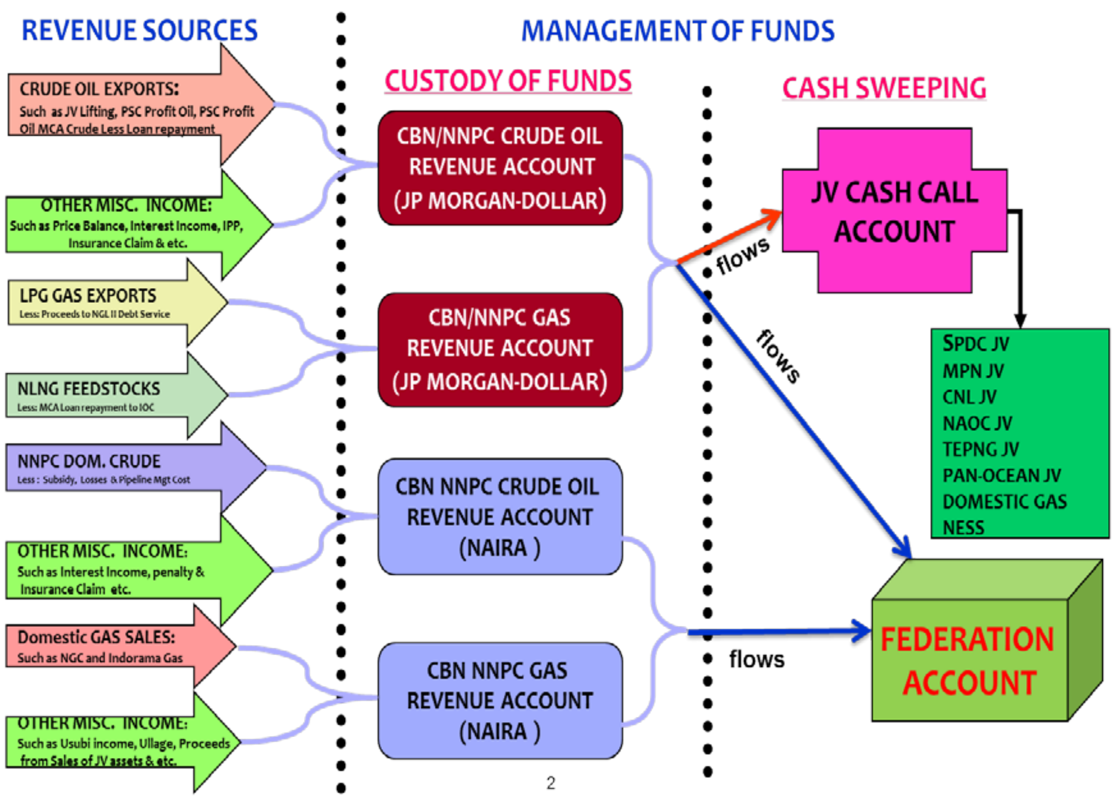
Section 7 (4) appears to give the Corporation broad authorisation as far as its treatment of expenses incurred in the course of its operations is concerned, but when read along with section 7 (5), it means that NNPC will be required to submit in advance, an estimation of what those retained earnings may be. It is also required through Section 7(1), to cause for an audit of its account for a given financial year at the end of that year according to guidelines laid down by the Auditor-General of the federation. Part IV Section 19 further requires that the Corporation shall submit to the National Council of Ministers, a report on the activities of the Corporation including a copy of the audited accounts for the financial year and the auditor's report thereon.

8. (1) Subject to the other provisions of this section, the Corporation may from time to time borrow by overdraft or otherwise howsoever such sums as it may require in the exercise of its functions under this Act.

Part IV19. The Corporation shall prepare and submit to the National Council of Ministers, through the Minister not later than 30th June in each financial year, a report on the activities of the Corporation during the immediately preceding *financial year, and shall include in such report a copy of the audited accounts of the Corporation for that year and the auditors' report thereon.*

In practice, the flow of government revenue from oil and gas is shown in the figure below;

Figure 2: Flow of oil and gas revenue into the federation account.



Source: NNPC presentation to NEITI, August 2017

Sources of federation revenue from include;

a) Government equity share of crude oil (export and domestic) lifted by the NNPC and other miscellaneous income
b) LPG gas exports and NLNG feedstock
c) Domestic gas sales and other miscellaneous income

Other revenue sources to the federation include;

d) Royalty on petroleum operations through DPR
e) Taxes on petroleum operations through FIRS

NNPC lifts government equity crude from joint venture operations, balance of government equity in alternative funding and modified carry arrangements (after lifting of IOC shared oil and carry oil). It also lifts crude for royalty, tax and profit oil from production sharing contracts and royalty, tax and remuneration oil from service contracts. See Chapter 6 of main report for details.

A portion of government equity crude is allocated daily as domestic crude. This is the 445 mbbls/day allocated to the Petroleum Products Marketing Company for domestic use (162,425 mbbls/year), the rest is categorized as export crude. A portion of export crude is allocated to 3rd Party Finance Liftings. Export crude proceeds are paid into the CBN/NNPC JP Morgan Chase USD Crude Oil Account; from this account payments are made to CBN/NNPC JVCC Account to fund cash calls and the federation account. Other liftings are made by NNPC in respect of royalty oil on the account of DPR and tax oil on the account of FIRS. Proceeds are paid into CBN/DPR JP Morgan Crude Oil Account and CBN/FIRS JP Morgan Crude Oil Account respectively. For more details see Section 10.1 – 10.10 of the main report.

Crude supplied to local refineries, crude allocated for offshore processing and crude exported[14] make up domestic crude allocation. In 2015 local refineries refined only

[14] This volume of crude is not included in the federation equity export described earlier.

5.6% of crude allocated for domestic purposes. 57% was allocated for offshore processing and 37% was exported as unprocessed crude. The proceeds from domestic allocation were remitted in to the federation account after making adjustments for subsidy costs, pipeline management and losses. See Section 6.10 of the main report for details.

The Report has established a deviation from statutory requirements in financial relations with the federation by the NNPC. In fulfilment of Part 1 Section 7(2) of the NNPC Act, as at December 2015, the corporation had not had its account independently audited since 2011[15].

The Report has also highlighted the loan extended to Pan Ocean and the sovereign loan extended to NLNG. For more details on the loan extended to Pan Ocean by NNPC, see section 6.4 of the main report. For more on the repayment of the loan to NLNG, see section 8.5.2 of the main report. The Report did not establish any other loans or loan guarantees extended by the federal government to companies operating in the sector.

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[15] NNPC announced (on 9th April 2018) completion of group financial audits from 2011 – 2016, NNPC: We've cleared backlog of 65 unaudited financial statements

Systems and processes for paying/receiving entities

The procedures for paying for royalty, taxes etc. are described below according to the respective agencies:

Department of Petroleum Resources (DPR)

Department of Petroleum Resources (DPR) started as a Hydrocarbon Section of the Ministry of Lagos Affairs in 1947.

The Department of Petroleum Resources (DPR) was created as a Department in the Ministry of Petroleum Resources with the excision of the Petroleum Inspectorate of the NNPC upon commercialization in 1988.

Its mission statement is stated as “To ensure the sustainable development of Nigeria’s Oil and Gas resources across the value chain for our stakeholders through effective regulation, while entrenching world class professionalism, accountability and transparency”.

DPR has the statutory responsibility of ensuring compliance to petroleum laws, regulations and guidelines in the Oil and Gas Industry. The discharge of these responsibilities involves monitoring of operations at drilling sites, producing wells, production platforms and flow-stations, crude oil export terminals, refineries, storage depots, pump stations, retail outlets, any other locations where petroleum is either stored or sold, and all pipelines carrying crude oil, natural gas and petroleum products.

DPR, as the regulatory body in the Oil and Gas Sector, is vested with powers by various legal provisions to discharge the following functions:

- Supervise all petroleum industry operations being carried out under licenses and leases in the country
- Monitor the petroleum industry operations
- Enforce health safety and environmental regulations and ensure that those operations conform to national and international industry practices and standards.
- Maintain records on petroleum industry operations, particularly on matters relating to petroleum reserves, production and exports of crude oil, gas and condensate, licenses and leases as well as rendering regular reports on them to Government.

- Advise Government and relevant Agencies on technical matters and policies which may have impact on the administration and control of petroleum.
- Process all applications for licenses so as to ensure compliance with laid-down guidelines before making recommendations to the Minister of Petroleum Resources.
- Ensure timely and adequate payments of all rents and royalties as at when due.
- Monitor Government Indigenization policy to ensure that local content philosophy is achieved.
- Maintain and administer an effective repository for archiving and retrieval of all oil and gas data in Nigeria.
- Administer and manage oil and gas acreages and concessions in Nigeria.
- Implement all policies of government on oil and gas matters.

Classes of revenue received by DPR

DPR operates a Cashless Revenue Collection System. All the Revenue collected by the DPR is done either by Bank Drafts or direct wire transfer by the Oil companies into FGN accounts domiciled with the CBN.
DPR computes revenue due to the FGN using the reconciled field production figures. Companies are also allowed to do self-assessment, effect payments and advice DPR accordingly. Companies are allowed sixty days to make monthly payments. The DPR receives pay advice from companies, confirms payment on the CBN Monthly JP Morgan Bank Statement and holds meetings with the companies to reconcile payments with the amounts due.

Various types of revenue are generated and collected by DPR on behalf of Federal Government of Nigeria namely:

- signature bonus
- concession rentals
- royalty on oil production
- royalty on gas sales
- gas flare penalty
- miscellaneous oil revenue

Signature bonus

This is the premium paid on account of concession granted the winner of an oil block to express interest in the concession. The payment of signature bonus is made directly to the FGN designated Accounts as advised by the OAGF. Payments are usually made either by US Dollar drafts or wire/telegraphic transfer. The Accounts to which payments have been made include:

- CBN/FGN Independent Revenue accounts with JP Morgan Chase Bank, New York, USA
- CBN/AGF FGN account with JP Morgan Chase Bank NY, USA
- Consolidated Revenue Fund (CRF) account with CBN

Concession rentals receipt procedures

Concession Rentals are paid by Oil and Gas companies as rent on oil blocks for which they have been granted concession. There are two categories of Rentals which are:

- Oil Prospecting Licenses (OPL)
- Oil mining Lease (OML)

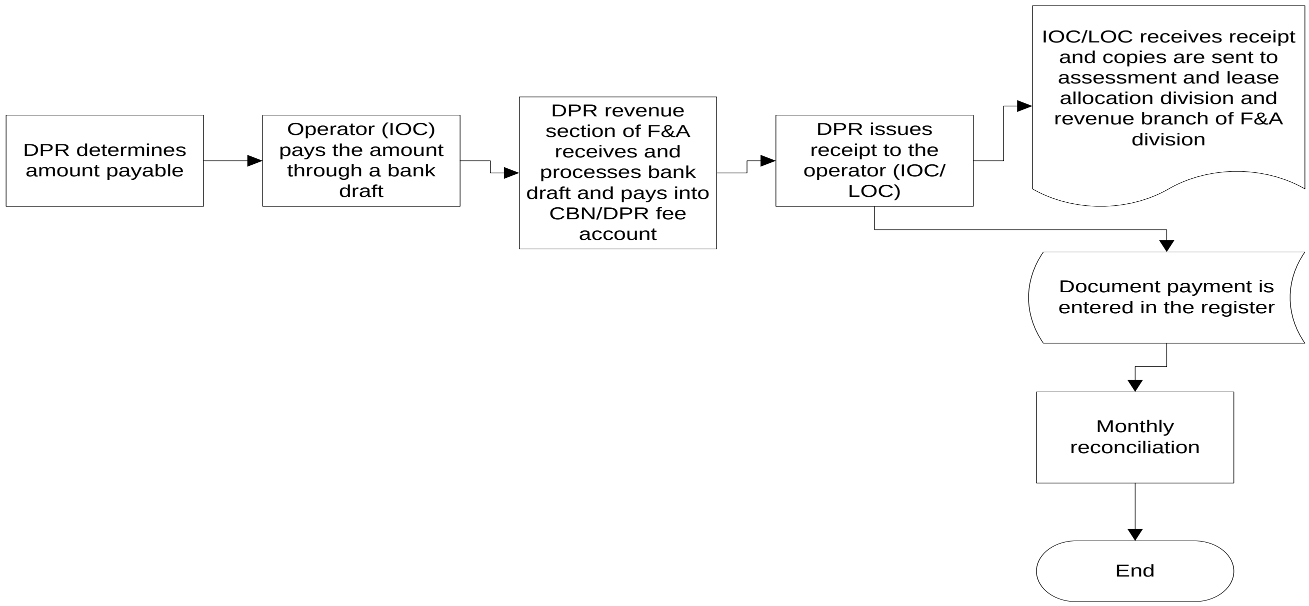
The license is non-exclusive and is granted for a period of one year. It is renewable annually.

The applicable rental rates are;

- OPL - US$10/SQ KM or part there Off (Non-Producing Block)
- OML - US$ 20.00/SQ KM or part there Off (up to 10 years of Conversion) and US$15.00/SQ KM or part there off (until the Expiration of the Lease)

Concession rentals are paid either on the anniversary of the concession or in advance. It is usually paid either in Naira or US Dollars. The process is depicted in the diagram below:

Figure 3 - Concession rentals process



Royalty on oil

Royalties originated in the United States of America, and takes the form of a percentage production which is payable in cash or in kind (Crude Oil) at the option of the host country. The purpose of royalties is to provide the owner of the subsoil with a steady income in compensation for the irreplaceable loss resulting from the exploitation of non-renewable reserves.

In the Nigerian Oil Industry, Royalty refers to payments, either in cash or in kind, made by a holder of a concession to the Federation based on the value of the quantity of Crude oil or Gas produced (saved after the oil has been separated from its components) from the field within the concession in line with the fiscal terms approved statutorily by the Government.

Royalty payment is a statutory obligation of every corporate body involved in the production of Oil and Gas. It is guided principally by the Petroleum Act of 1969 as amended by Cap 10 Volume 13 Law of Federation of Nigeria (LFN) 2004.

The Petroleum (Drilling and Production) regulations Act No. 69 LFN of 1996 Section 60 stipulates that Royalty on crude oil and casing head petroleum spirit is computed by applying the appropriate rate of royalty to the chargeable value of crude oil and casing head petroleum spirit under the regulation. Calculation of chargeable oil as provided in the 1996 regulation Act is as follows: -

a) ascertaining the quantity of crude oil produced on a field by field basis in the relevant OML; and
b) reducing that quantity by the deduction of:
    - Quantities used for production operations
    - Quantities used for re-injection.
    - Quantities lost through evaporation.

The above Act Interpretations (section 63) also explains that "casing-head petroleum spirit" means any liquid hydrocarbons which

c) have been obtained from natural gas by natural separation or by any chemical or physical process; and
d) have not been refined or otherwise treated;

From the above it can be inferred that Royalty is calculated on net crude oil produced on a field by field basis. Royalty paid is also determined by the operating contract.

Royalty on gas

Royalty on gas is based on gas sales. Royalty on gas sales refers to the sum paid by the holder of a Concession to the Federation based on the volume of gas produced and sold from the fields within the concession in line with the following fiscal terms:

a) Onshore 7% of gas sale
b) Offshore 5% of gas sale

Gas flare penalty

This refers to the amount paid for flaring gas in Nigeria (it is a penalty). The regulations governing gas flare penalty include:

a) Regulation 42 of the Petroleum (Drilling and Production) Regulations, 1969.
b) Associated Gas Re-injection Act, 1979.
c) Associated Gas Re-injection (Continued Flaring of Gas) Regulations, 1984.
d) Cap. 26 Laws of the Federation of Nigeria, 1990.

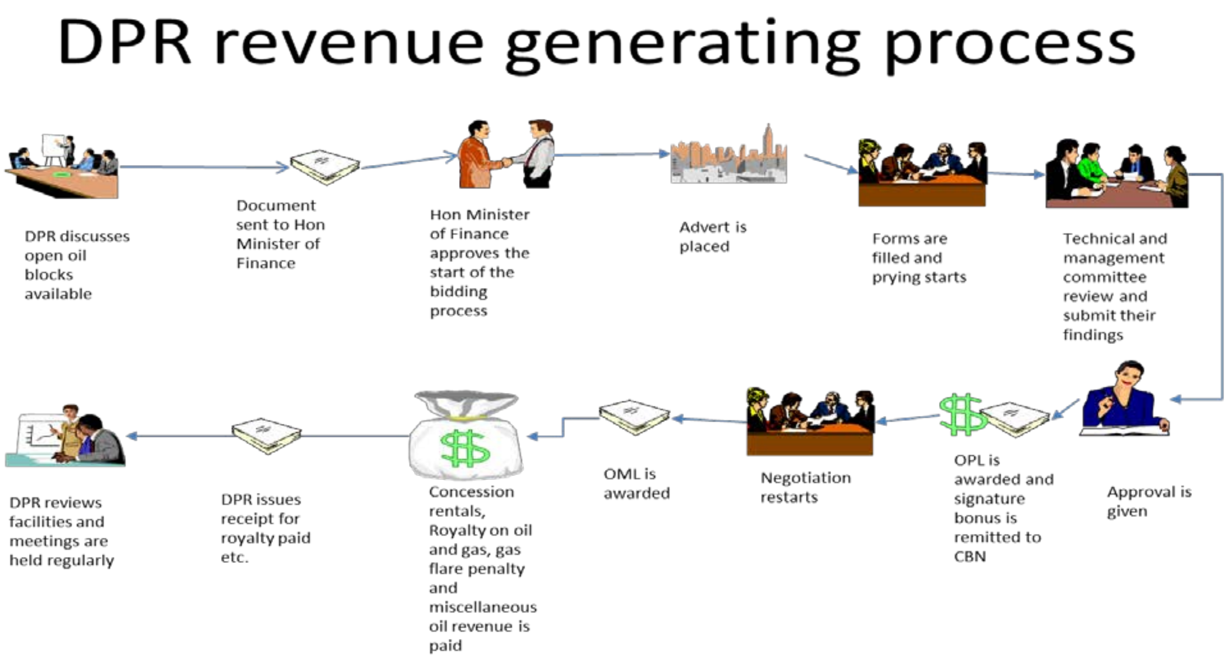
Gas flare penalty rates used under various fiscal regimes are:

a) 2K applicable from 1985 to June 1992
b) 50K applicable from July 1992 to December 1997
c) N10 applicable from January 1998 to March 2008
d) $3.5 applicable from April 2008 to Date (still in contention)

The rate of N10 as provided by the Regulation of January, 1998 is still being applied. We understand that lack of political will on the part of Government to uphold the April 2008 Regulation may be responsible for the non-implementation. The companies complete a Self -Assessment based on the parameters in the Act and make monthly payments to the designated JP Morgan Accounts which are subsequently reconciled with the DPR after receipt of calculations from the fields.

DPR process

Figure 4 - DPR high level process



Note:

DPR computes royalties due to FGN, using the reconciled field production data, API and crude oil prices advised by NNPC. Companies are allowed the option of performing a self-assessment of royalty due and to effect payment within 60 days of production and advice DPR accordingly. DPR receives the payment advice from companies which includes swift copies and confirms payment with the CBN/JP Morgan Chase Bank statements. DPR issues receipts to covered entities for all revenue received. DPR undertakes quarterly reconciliations with producing companies to ascertain differences if any. Operational penalty fees are charged when payments are not made when due.

National Petroleum Investment Management Services (NAPIMS)

National Petroleum Investment Management Services (NAPIMS) is the Corporate Services Unit (CSU) and the Exploration and Production (E&P) Directorate of the NNPC. It is charged with the responsibility of managing the Nigerian Government's investment in the upstream sector of the Oil and Gas industry. The operators in the relationship are:

- Shell Petroleum Development Company (SPDC)
- Mobil Producing Nigeria Unlimited (MPNU)
- Chevron Nigeria Limited (CNL)
- Total Exploration and Production Nigeria Limited (TEPNL)
- Nigerian Agip Oil Company Limited (NAOC)
- Pan Ocean Oil Company Limited (POOCN)

NAPIM’s objective is to enhance the margin accruing to the Federal Government through effective supervision of the Joint Venture Companies (JVCs), Production Sharing Companies (PSCs) and Service Companies (SCs). It aims to achieve its objective through adequate supervision of budgets and performance, as well as ranking of projects that give higher "returns on investment" to the Nigerian government.

NAPIMS processes – cash call process

Cash calls are based on the annual work programme (AWP) of each joint operation and covers such diverse areas as exploration, drilling, production, development, construction, engineering facilities, technical materials, for both crude oil and gas, in addition to administrative overheads, referred to as OPEX.

On receipt of the cash call, NNPC summons a meeting of the cash call processing committee where unacceptable items of cost are rejected and the net value accepted by the committee is signed by all parties i.e. NNPC and other partners including the operator. The IOCs are members of the cash call processing committee.

The work programme agreed in advance among the Joint Partners is approved by their operating committees (OPCOM) as provided in the JOA. The OPCOM is constituted in accordance with the JOA as the highest decision making authority and is charged with the overall supervision, control and direction of all matters pertaining to the joint operations.

Cash calls are initiated monthly by the JV operator and served on NNPC and other partners early enough to enable NNPC and all Partners including the operators to lodge their equity portions of the cash calls into the JV Dollar and Naira cash call bank accounts on or before the 1st day of the cash call month.

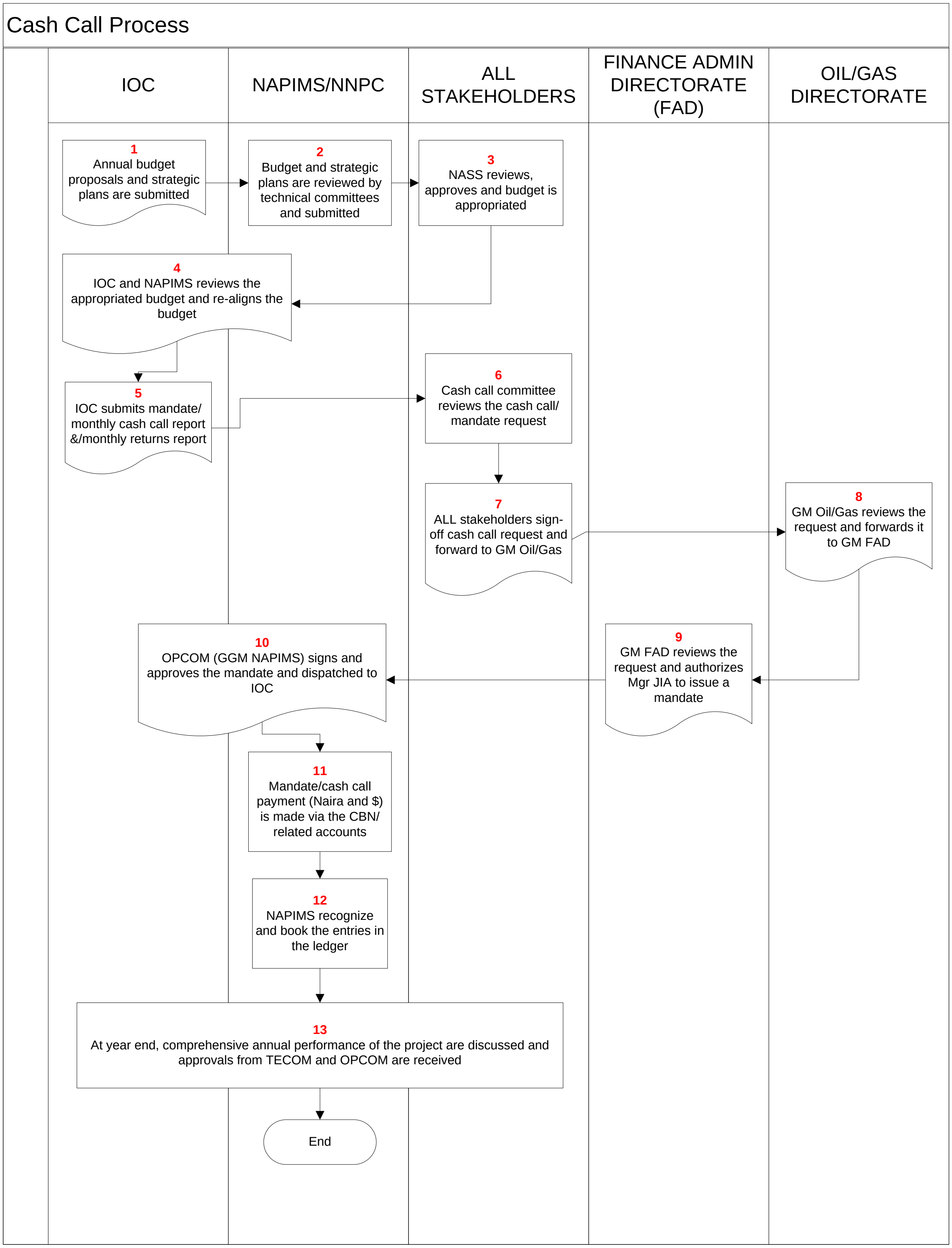
NNPC has prying and audit rights over all these Accounts, but the custody and transactional authority over these joint operating bank accounts rests with the operators.

Based on the Annual Budget allocated for Joint Venture Operations as approved by the Government and communicated to NNPC by the Budget Office of the Federation, a portion of revenue realized from the sale of crude oil and gas is set aside for the payment of Cash calls by NAPIMS.

a) Revenue from the sale of crude oil is paid into the JP Morgan Chase CBN/NNPC Crude Oil Revenue Account.
b) Revenue derived from Gas and Feed Stock is paid into JP Morgan CBN/NNPC Gas Revenue Account.
c) Funds from both Accounts meant for Cash Calls are subsequently paid into JP Morgan Chase CBN/NNPC JV Cash Call Payment Account.
d) From the account in (c) above, CBN disburses Dollars to the Dollar Accounts of the JV operators as authorized by NNPC mandates. A second amount of US Dollars is monetized from same Account into Naira and paid into CBN/NNPC JV Cash Call Naira Payment Account and from there is disbursed into individual JV bank accounts maintained by the operators.
e) The individual IOCs or JV partners will in turn pay their equity portion of the Cash Call into the JV Naira and Dollar Cash Call Account.

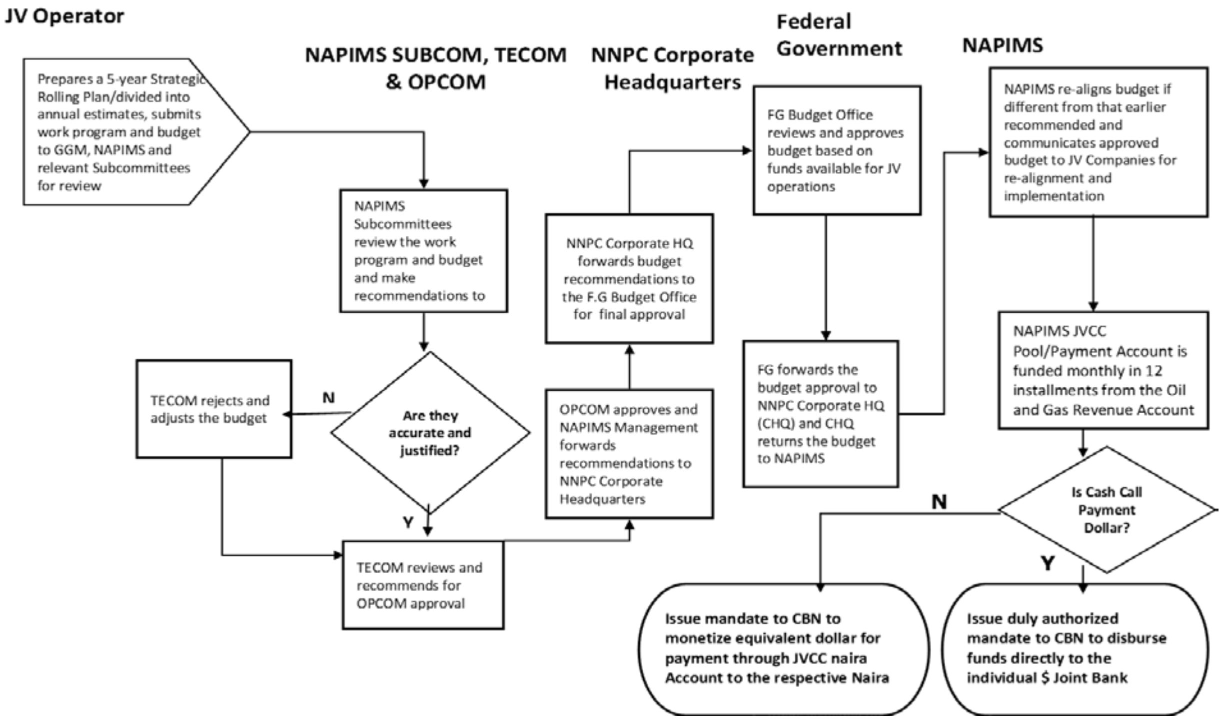
The summary of the cash call process is depicted in the diagram below:

Figure 5 - Summary of cash call process



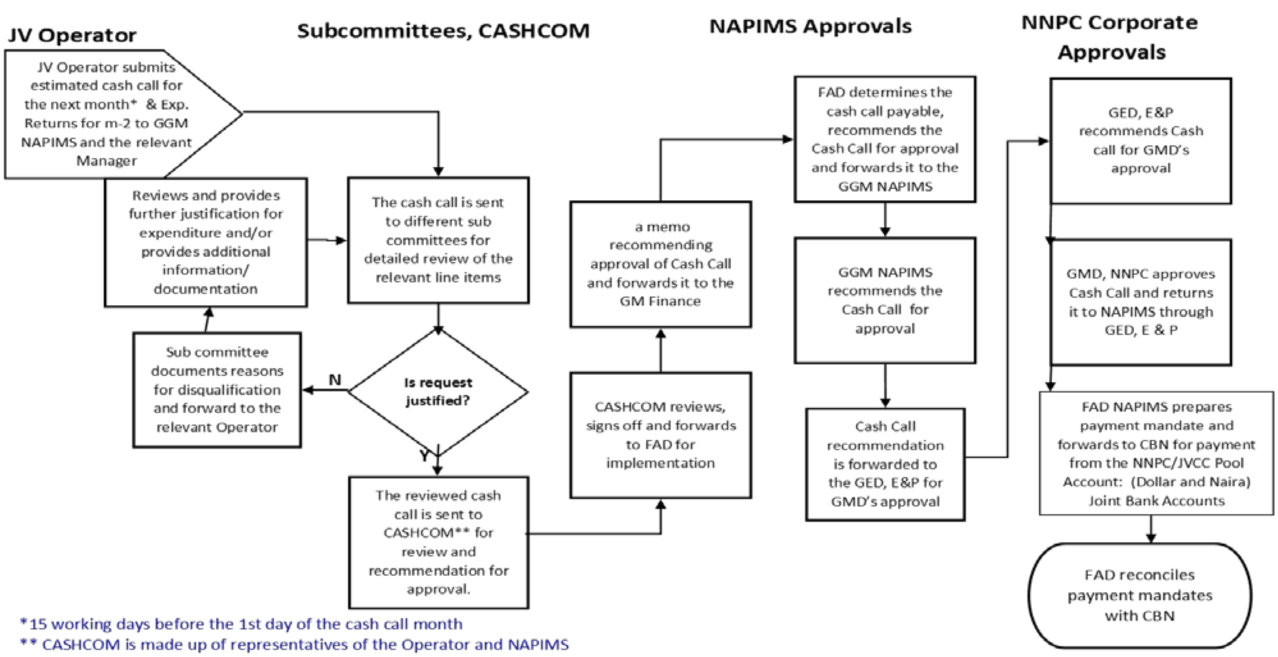
The cash call budgeting process is depicted below:

Figure 5.1 - Cash call budgeting process



The cash call disbursement process is shown below:

Figure 5.2 - Cash call disbursement process



*15 working days before the 1st day of the cash call month
** CASHCOM is made up of representatives of the Operator and NAPIMS

Federal Inland Revenue Service (FIRS)

The Federal Inland Revenue Service (FIRS) is saddled with the following key responsibilities:

- Assessment and collection of Taxes
- Accounting for taxes collected and maintenance of tax records
- Enforcement of payment of taxes as may be due to the Government
- Review the tax regimes and promote the application of tax revenues to stimulate economic activities and development.
- Establishment and maintenance of a system for monitoring international dynamics of taxation in order to identify suspicious transactions and perpetrators and other persons involved
- Issuance of taxpayer identification number
- Advising the Federal Board of Inland Revenue on professional and technical tax issues referred to it

Taxes with respect to the oil and gas industry are handled by three major departments/sections of FIRS:

- Upstream
- Downstream (for marketing companies)
- Oil Services

FIRS process- Tax identification number (TIN) process

The tax identification is illustrated below:

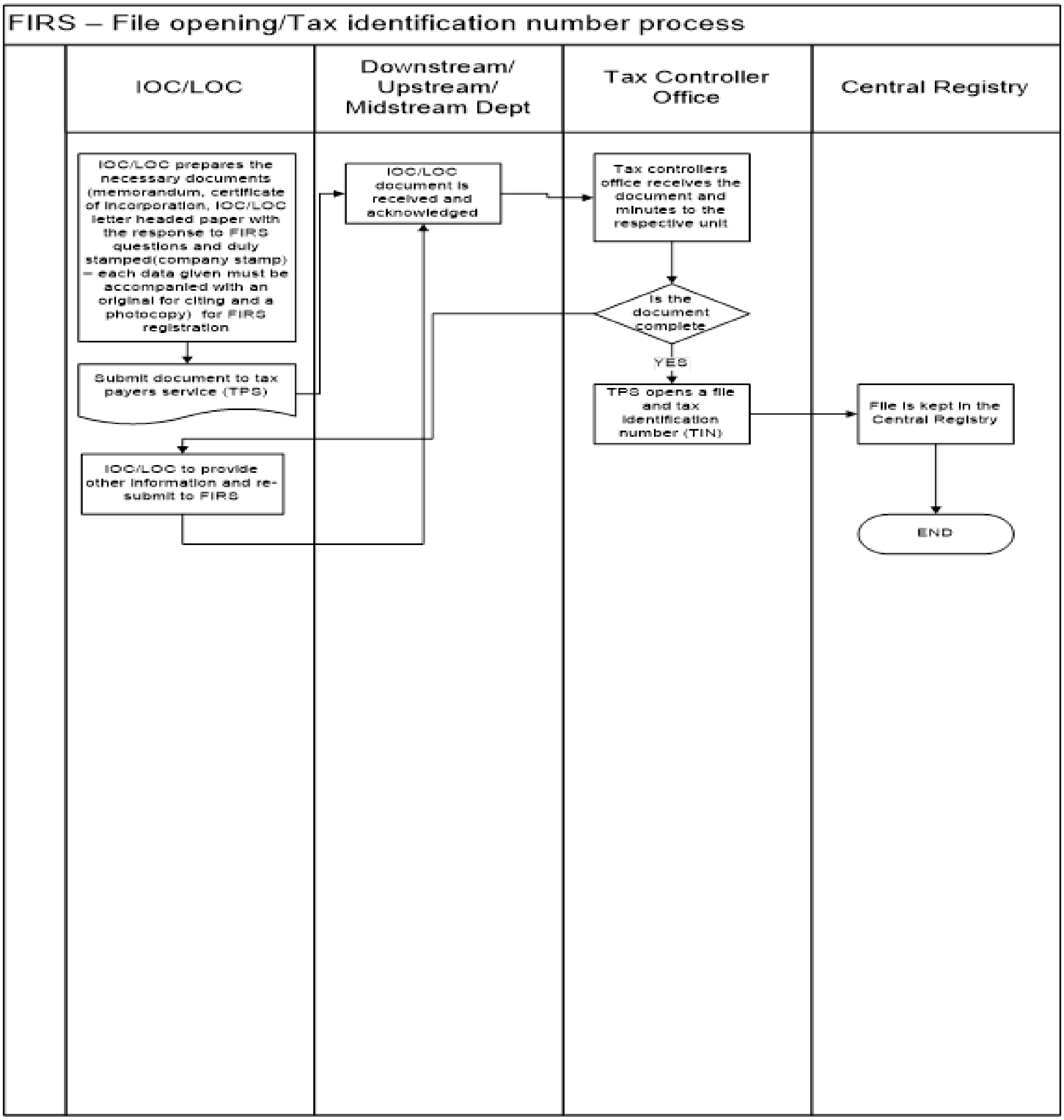
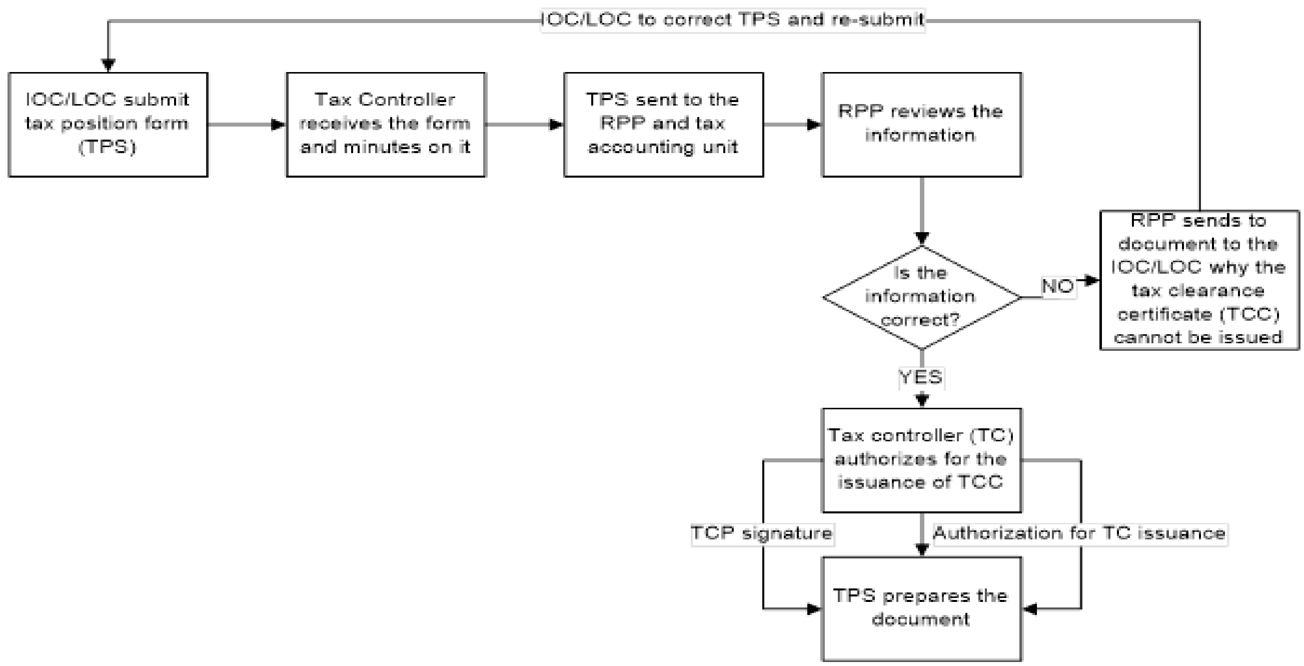


Figure 6 - Issuance of tax identification number process

Tax clearance certificate issuance

The tax clearance issuance process is depicted in the chart below:

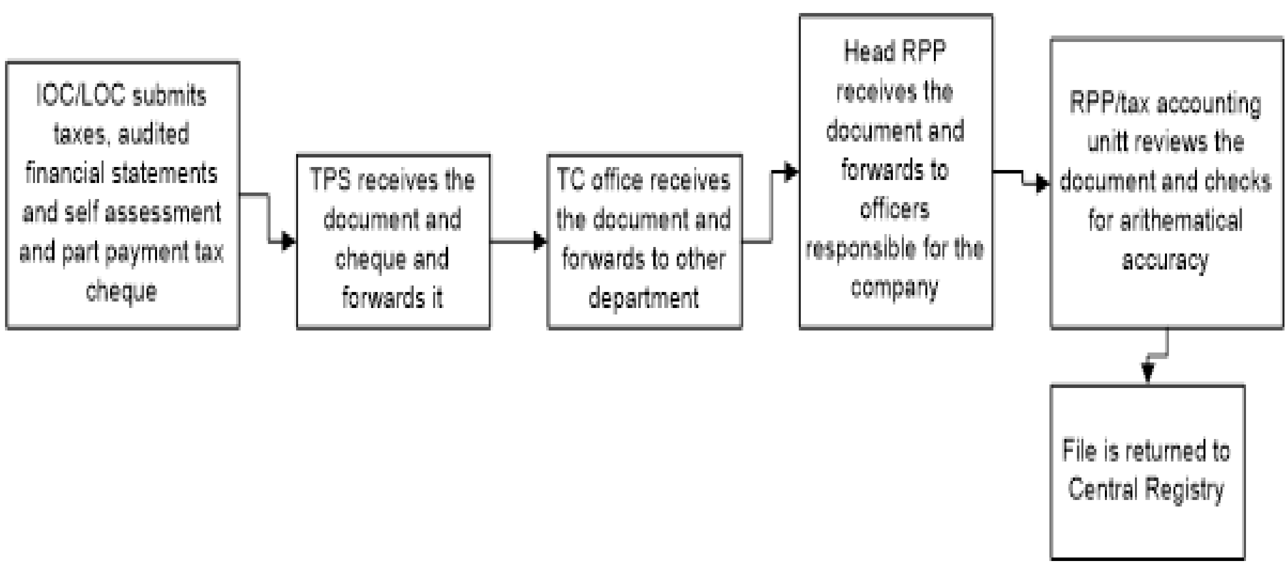
Figure 6.1 - Tax clearance certificate issuance process



Filing of returns

The filing of returns process is depicted in the chart below:

Figure 6.2 Filing of returns process



Tax monitoring

On a regular basis the various taxes are being monitored by the RPP unit. VAT (returns are expected by the 21st of every month) and WHT are being monitored too. The RPP unit reviews VAT returns and communicates to taxpayers.

Central Bank of Nigeria (CBN)

The Central Bank of Nigeria has full responsibility for the custody of Federal Government Fund and is the supreme monetary authority in Nigeria. It issues Nigerian naira currency, maintains foreign currency reserves and is charged with the responsibility for maintaining monetary stability. It is also the lender of last resort for Nigerian banks. It was established by law in 1958.

The CBN operates various accounts for the federation (on behalf of the relevant agencies) in-flows shown in the table below:

Table 1 - CBN inflows account details (oil and gas sector revenue)

Government Agencies	Account description	Account details
NNPC NNPC operates Domiciliary Accounts with JP Morgan Chase Bank New York USA in the Central Bank of Nigeria (CBN) where revenue payments from the sales of Export Crude Oil and Gas to foreign Customers are paid and received. Nigerian National Petroleum Corporation (NNPC) Crude Oil Marketing Department (COMD) make Sales of Crude Oil and Gas to Foreign Customers, issues invoices to their foreign banks in line with terms of Letter of Credit, and payment is received within 30 (Thirty) days. The following accounts were in	NNPC/CBN Crude Oil and Gas Revenue (Export) Account	000000400941775
	NNPC/CBN Gas Revenue Account	000000816296438
	CBN/JV Cash Call Account	000000011658366

Government Agencies	Account description	Account details
operation during the 2015 Audit Year. All payments were received in United States of America (USA) Dollar. The accounts and records were maintained by the Foreign Operations Division of the CBN Banking and Payment Systems Department.		
NNPC- The Revenue proceeds arising from the sales of Domestic Crude Oil and Gas by the Crude Oil Marketing Department (COMD) of Nigerian National Petroleum Corporation (NNPC) was also maintained by the Central Bank (CBN) Banking Operations Department of the Banking and Payment Systems. The accounts were called NAIRA ACCOUNTS. All transactions were made and recorded in Naira.	NNPC/CBN Domestic Crude Oil Revenue Account	0020157141024
	NNPC/CBN Gas Revenue Account	20157141105
DPR It maintains JP Morgan Chase Bank New York with CBN for the collection of revenue i.e. signature bonus etc.	CBN Joint Venture Royalty	000000802906875
	CBN Production Sharing Contract Royalty	000000802906883
	CBN Gas Flared Penalty	000000802906909
	CBN Concession Rentals	000000802906917
	CBN Miscellaneous Oil Revenue	000000802906925
	CBN Gas Royalty	000000802906891
	CBN Signature Bonus	000000753811397
FIRS It maintains JP Morgan Chase Bank New York with CBN for the collection	FIRS/Petroleum Profit Tax	000000400216647
	FIRS/Companies	000000400216620

Government Agencies	Account description	Account details
of taxes	Income Tax	
	FIRS/Value Added Tax	000000400216698
	FIRS/With Holding Tax	000000400216639
	FIRS/Education Tax	000000400216728

Office of the Accountant General of the Federation (OAGF)

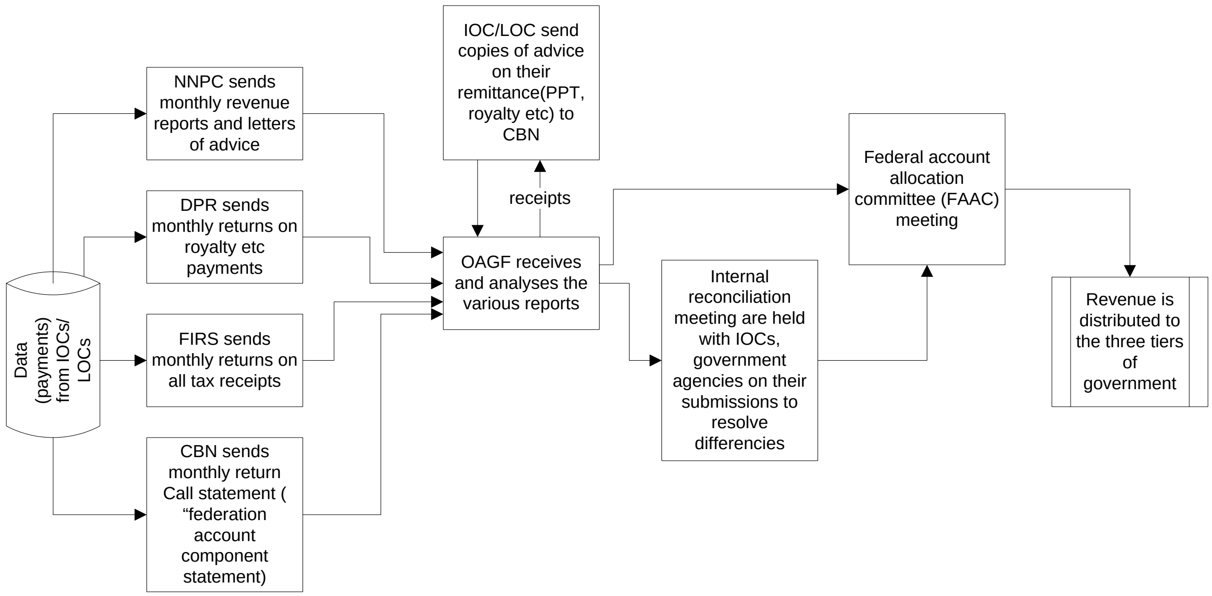
The Office of the Accountant General of the Federation (OAGF) was established for Treasury Management of Government. It has responsibility for providing adequate accounting systems and controls in the ministries, extra ministerial offices and other Arms of Government. The office also has the mandate of collating receipts and reporting on revenues of the Federal Government derived from Sec. 80(1) of the 1999 Constitution which stipulates that "All revenues or other money raised are received by the Federation (not being revenues or other moneys payable under this constitution or any Act of the National Assembly into any other public fund of the Federation established for a specific purpose) shall be paid into and from one Consolidated Revenue Fund of the Federation."

The Accountant - General of the Federation (OAGF) is the Chief Accounting Officer and is charged with the constitutional role of preparing the nation's financial statements arising from collection and receipts of income, fees, rentals and taxes and payments out of the Federation Account. Accordingly Sec 85 S.5 of the Constitution provides that, "the Auditor-General shall, within ninety days of the receipts of the Accountant-General's Financial Statement, submit his reports under this section to each House of the National Assembly responsible for public accounts".

The office of the Accountant-General of the Federation (OAGF) is the executive arm of Government responsible for maintaining records for all revenues and receipt and payments into and out of the Federation Account.

The OAGF transaction recording procedures can be depicted in the diagram below:

Figure 7 - OAGF transaction recording process


NNPC sends monthly revenue reports and letters of advice
DPR sends monthly returns on royalty etc payments
FIRS sends monthly returns on all tax receipts
CBN sends monthly return Call statement ("federation account component statement)
Data (payments) from IOCs/ LOCs
IOC/LOC send copies of advice on their remittance(PPT, royalty etc) to CBN
receipts
OAGF receives and analyses the various reports
Internal reconciliation meeting are held with IOCs, government agencies on their submissions to resolve differencies
Federal account allocation committee (FAAC) meeting
Revenue is distributed to the three tiers of government