

**BASIC STEPS**  
**In**  
**NEITI Audit Process**

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## ***Foreword***

One of the primary objectives of NEITI as provided in section 2 of NEITI Act 2007 is to ensure that there is due process, transparency and accountability in what companies doing business in Nigeria's oil and gas industries, solid minerals and others in the extractive sector pay to government of Nigeria in the form of tax, royalty, bonuses, levies etc. Besides, NEITI is also to ensure that due process, transparency and accountability is strictly applied in what government receives, ensure that government receives what it is expected to receive and that companies pay what they are expected to pay to government as at and when due.

Under the same objectives in the same section of the law, NEITI is empowered to monitor and eliminate all forms of corrupt practices in the determination, of payment, receipts and postings of revenue due to Federal Government from the companies. It is also the work of NEITI to work very closely with government to ensure that revenues received from companies are prudently and transparently applied to provide infrastructure, basic social services like education, health care, security, housing and others towards improving the general standard of living of Nigerians through poverty reduction. How NEITI can meet each of the objectives was further explained in the functions of NEITI provided for in Section 3 of NEITI Act, 2007.

As part of its major functions to meet the objectives, NEITI conducts regular Audits to establish what companies have paid to government, what government has received during the period under review; if government has received what it is expected to receive and if companies have paid what it is expected to pay. The NEITI Audits also cover such important areas as financial flows, process lapses,

and physical issues such as the volume of crude produced; the share of the crude to the federation and the measurement and pricing of the crude produced.

On completion, the Audit Report of NEITI is released to the National Assembly and the Auditor General of the Federation in compliance with section 4 (3) of NEITI Act. The Report is also for wide dissemination to the public through the media and the civil society as major tools for advocacy, debate, dialogue and discussions for purposes of holding government and companies to account.

This publication therefore is to lead stakeholders and the public through the important stages and basic steps in the audit process.

**ZAINAB S. AHMED**

**NEITI Executive Secretary**

## **WHY NEITI AUDITS?**

The Nigerian Extractive Industries Transparency Initiative (NEITI) occupies an important place in Nigeria's socio- economic reform agenda. It represents a national domestication of the global Extractive Industries Transparency Initiative (EITI), aimed at people centered development.

The underlying principle of the EITI is the belief that sustainable development which encapsulates eradication of poverty is possible in resource rich countries which are often victims of "resource curse". But it is only possible when the government of resource rich countries recognize that it is their sovereign duty to manage their country's resource wealth for the benefits of all their citizens. A complementary fundamental tenet of the EITI is the conviction that public understanding of national revenue and public expenditure, over time, facilitates public debate and informs rational choice of appropriate options and strategies for sustainable development.

Implementation of EITI must be consistent with the criteria below:

1. Regular publication of all material oil, gas and mining payments by companies to governments ("payments") and all material revenues received by governments from oil, gas and mining companies ("revenues") to a wide audience in a publicly accessible, comprehensive and comprehensible manner.
2. Where such audits do not already exist, payments and revenues are the subject of a credible, independent audit, applying international auditing standards.
3. Payments and revenues are reconciled by a credible, independent administrator, applying international auditing standards and with publication of the administrator's opinion regarding that reconciliation including discrepancies, should any be identified.
4. This approach is extended to all companies including state-owned enterprises.
5. Civil society is actively engaged as a participant in the design, monitoring and evaluation of this process and contributes towards public debate.

6. A public, financially sustainable work plan for all the above is developed by the host government, with assistance from the international financial institutions where required, including measurable targets, a timetable for implementation, and an assessment of potential capacity constraints.

In line with the above criteria, the NEITI Act of 2007 empowered the NEITI to undertake the following functions:

(a) to develop a framework for transparency in the reporting and disclosure by extractive industry companies of revenue due to or paid to the Federal Government;

(b) to evaluate the practices of extractive industry companies regarding acquisition of acreages, budgeting, contracting, materials procurement and production cost profile in order to ensure due process and transparency;

(c) to ensure transparency in the management of the investments of the Federal Government in extractive industry companies;

(d) to request, as may be deemed necessary, from any company in the extractive industry an accurate record of the cost of production and volume of sale of oil, gas or other minerals extracted by the company at any period;

(e) to request from any company in the extractive industry, or from any relevant organ of the Federal, State or Local Government, an accurate account of money paid by and received from the company at any period, as revenue accruing to the Federal Government from such company for that period;

(f) to ensure that all payments due to the Federal Government from extractive industry companies, including taxes, royalties, dividend, bonuses, penalties, levies and such like, are duly made;

(g) to identify weaknesses and undertake measures that will enhance the capacity of any relevant organ of the Federal, State or Local Government having responsibility to monitor revenue payments by extractive industry companies to the Federal Government;

(h) to disseminate by way of publication of records, reports or otherwise, any information concerning the revenue of the Federal Government from extractive industry companies, as it may consider necessary;

(i) to promote or undertake any other activity related to its functions and which, in its opinion, is calculated to help achieve its overall objectives.

The Act in section 4(1) also empowered the NEITI to “in each financial year appoint an independent auditor for the purpose of auditing the total revenue which accrued to the Federal Government for that year from extractive industry companies, in order to determine the accuracy of payments and receipts”.

Thus, since it proclaimed its policy of implementing EITI in 2003 and commenced implementation in 2004, Nigeria has produced and published three EITI reports, spanning ten years: 1999-2004, 2005; and 2006-2008. Auditors have recently been engaged for the 2009-2011 oil & gas industry audit and the 2007-2010 solid minerals audit.

The EITI reports emanating from NEITI are unique in several respects. The scope of the issues covered is large, diverse and complex: they consist of financial, physical and process Audit reports. The data and information placed in the public domain by their publication are immense. Therefore, the public debate which they generate is wide-ranging, profound and critical for national development. The reports have stimulated public policy reforms that are far reaching in consequence and new pieces of legislation that are revolutionary in import.

Nigeria’s commitment to EITI implementation is very strong for several reasons. Nigeria is a quintessential resource rich country with a large population of very poor people. Several national and international studies have shown that, at the root of Nigeria’s underdevelopments and its people’s poverty is the lack of transparency and accountability in the management of the revenues derived from its natural resources. It is not surprising that Nigeria has played a key role in shaping the nature of the EITI’s framework of governance and rules of engagement. The NEITI is also not just a subset of EITI; it is EITI and extra.





**NEITI's Management & Staff on a tour of Shell facilities in Port Harcourt and Bonny, Rivers State in May, 2012.**



**Participants at a Workshop on Result-Based Monitoring and Evaluation Framework and Reporting Framework for NEITI Remediation Programme held for NEITI's Stakeholders on 7<sup>th</sup> February, 2012 in Abuja**



**NEITI Executive Secretary Zainab Ahmed exchanging pleasantries with a representative of the Audit firm Haruna Yahaya & Co. during the contract signing ceremony for the 2007-2010 Solid Minerals industry audit at the NETIT Secretariat Abuja on 1<sup>st</sup> March,2012**



**NEITI Executive Secretary Zainab Ahmed in a handshake with a representative of the Audit firm Sada Idris & Co. during the contract signing ceremony for the 2009-2011 Oil and Gas industry audit at the NETIT Secretariat Abuja on 1<sup>st</sup> March,2012.**



**Participants at the Templates workshop organized by NEITI to prepare Covered Entities for the 2009-2012 Oil and Gas Audit cycle in Lagos.**



**A Participant seeking clarification at the Templates workshop organized by NEITI to prepare covered entities for the 2009-2012 Oil and Gas audit cycle in Lagos.**



**NEITI's Director, Technical Tariye George explaining a point to Participants at the Solid Minerals template workshop in Akwanga 23<sup>rd</sup> February, 2012**



**Participants at the Templates workshop organized by NEITI to prepare Covered Entities for the 2007-2010 Solid Minerals audit on 23<sup>rd</sup> February in Akwanga, Nasarawa State.**

## STEPS IN THE AUDIT PROCESS

The NEITI industries audit takes the following basic and important steps:

- **Open, competitive, transparent procurement process to select Independent Auditors for the assignment**

Selection of independent Auditors for the project follows international competitive bid process. It begins with advertisement in at least two national newspapers, an international and NEITI website. The process must also conform to the requirements of the public procurement act and bidding regulations of the Bureau of Public Procurement. The goal is to ensure that only companies with competence, integrity, professionalism and cost efficiency are engaged for the assignment.

- **Selected Auditors sign an agreement on Terms of Reference, rules of engagement, codes of conduct, principles and conditions for the assignment.**

NEITI Legal Department is expected to develop a legal agreement to cover the terms and conditions of the contract. The agreement is sent to the auditors to study and make comments after which the auditors are expected to endorse the document. This agreement is expected to protect the interest of both parties and ensure that both parties fulfill their respective terms as at and when due.

- **Unique Templates to capture all comprehensive information and data required for the Audit designed and thereafter approved by NEITI National Stakeholders Holders Working Group.**

A Template is a unique format used for the audit. It contains comprehensively all necessary questions which the auditors expect the companies and affected government agencies to provide answers. It is usually developed by the auditors, vetted by the technical department of NEITI and Management and approved by the National Stakeholders Working Group of NEITI, as a working document for the audit. Responses to the questions in the Template by all affected by the audit

remain key to obtaining valid information and data for analyses and reconciliation.

- **Workshop on understanding and use of the approved Templates holds to enlighten, educate and guide all companies and relevant government agencies covered by the Audit.**

Workshop, meetings and conferences are necessary to explain to the companies how to complete the template; appropriate responses, information and data needed. It is also a forum to build confidence, allay unnecessary fears, concerns and a platform for companies, government agencies and NEITI to meet and exchange views on the process, methods and timelines for the audit process.

- **Confidentiality agreement signed with respective companies and government agencies to protect and preserve their peculiar business and corporate information in the course of the Audit.**

Every organization has a peculiar information; strategies and policies that keeps such an organization in business and make it different from others. It is not the intention of NEITI to or its auditors or both to go after such information or jeopardize the interest of companies or government agencies to compete favorably in their environment. The signing of the confidentiality agreement is therefore to protect the business integrity of all companies and agencies covered by the audit. It is not an exercise to restrict information flow needed for the audit as some would want to imagine.

- **Designed Templates officially dispatched to all companies and agencies affected by the audit for completion and return to NEITI Auditors within a given deadline**

The designed templates are officially sent to the affected companies and government agencies through a documented process. The process of completion is defined and deadline given for completion and return of the templates with all required information and data to NEITI auditors.

- **Completed Templates returned to NEITI Auditors by covered entities on or before deadline.**

NEITI auditors take painstaking measures to ensure that completed templates are returned as and when due with required information and data provided.

- **Verification and validation of information and data supplied in the Templates by NEITI Auditors through visits to the covered entities**

This is where the complex work lies. Verification and validation of information and data supplied in the templates is a painstaking exercise. It involves visits to the agencies, companies, meetings with schedule officers and high level consultations with the respective managements where necessary. The auditors ensure that the information and data supplied in the template are as contained in the original and recent audited documents of the companies, etc.

- **Reconciliation and Analyses of Information and Data by NEITI Auditors**

This is a stage where the NEITI Auditors begin to compare, reconcile and analyse if what companies claimed that they have paid at a given period matches what government agencies claim were received. It also includes determining if companies paid what they were expected to pay and if government agencies received what they were expected to receive. The Auditors trace the flows of the payments and receipts to their logical conclusion.

- **Enlarged Reconciliatory Forum convened by NEITI Auditors with representatives of companies, government agencies and NEITI technical department to discuss discrepancies, information gaps and sundry issues arising from the Audit.**

Because of discrepancies in what was claimed to have been paid and what was claimed to have been received, NEITI Auditors usually convene a meeting of all companies and government agencies to meet face to face to validate the claims with evidence of payments and receipts. The NEITI management usually attends the meeting. It is a very tasking and sensitive part of the Audit which NEITI takes very seriously.

- **Sign-Off on CORE EITI Report**

At this stage all the companies and agencies are expected to endorse this part of the audit which focuses mainly on financial flows. This endorsement is an approval for this phase of the report to be released to meet EITI international requirements. The release includes publication on NEITI website.

- **Production of CORE Extractive Industries Transparency Initiative (EITI) Report (Financial Flows)**

After this reconciliation and validation of data, a CORE EITI REPORT is produced. This is a report which NEITI is expected to produce to meet the requirements and conditions of its membership of international EITI; a CORE NEITI REPORT is only interested in financial flows – What was paid and what was received as well as dissemination of the information to the people for purposes of accountability and good governance.

- **Verification, reconciliation and validation of data for other components of the Audit – process and physical, continues.**

The Auditors continue with verification and validation of data for other components of the Audit provided for by the NEITI Act. These include Process and Physical Audit:

- **Physical Audit process** maps the sector's oil and gas and refined product flows. It checks that the extracted volumes are accurately reported, and that each company's reported production tallies with the numbers the government uses for tax and royalty calculations. This takes the audit into some highly technical areas that features metering, temperature and pressure measurements, as well as the more controversial areas of oil losses.



- **Process Audit** examines how key agencies run the business. It explores how the regulator auctions and sales of oil blocks are done, and puts the DPR's conduct of the upstream licensing round under close check. It assesses whether NNPC's Crude Oil Marketing Department (COMD) prices the government's share of equity crude accurately, and how and why other companies are contracted to export this crude. The audit also examines the operations of NNPC's upstream division, National Petroleum Investment Management among other process related integrity issues.

- **Production of Draft Comprehensive Report of the Audit**

A draft comprehensive report of the Audit is then ready for further discussion between NEITI, the Companies and Government Agencies.

- **Enlarged Forum of NEITI, Companies, and government agencies to discuss the Draft Report and Preliminary Findings**

NEITI then convenes another enlarged forum for Companies and Government Agencies to look at the draft report in its entirety and make comments and observations.

- **Final Sign - Off On The Report By Companies And Relevant Government Agencies Covered By The Audit.**

This is the final stage where Companies, Government Agencies and NEITI have come to a conclusion that what is contained in the Report cannot be reconciled further. Each of the companies and Government Agencies then make a decision to sign-off and endorse the content of the Report as binding.

- **Approval of the Audit Report by the NEITI Governing Board**

After the sign off by the companies and agencies, the NSWG, which is the governing board of NEITI considers and approves the report.

- **Release Of The Audit Report To The National Assembly And The Auditor General Of The Federation**

The Audit Report is then compiled and forwarded to the National Assembly and the office of the Auditor General of the Federation as required by Section 4(3) of NEITI Act. The National Assembly in particular is expected to study the report, debate same at plenary and use the information and data as tools for Legislative engagement and oversight in holding government and companies to account.

- **Publication And Dissemination Of Report To The General Public**

NEITI, through its communication department begins the process of dissemination. The first stage is to simplify, translate and publish the Report in English and some targeted local Nigerian languages. This is followed by town hall meetings, seminars, roundtables, workshops and other measures to ensure that Nigerians, the Media and Civil Society understand the Report, its highlights, and use the information and data contained therein to hold Government and Companies to account.

- **Implementation of Remedial Issues**

Remedial issues are those lapses discovered by the Audit which require urgent remedy. These issues are carefully identified and tabled before the Inter Ministerial Task Team set up by the FGN for this purpose. In the IMTT, all the Government Agencies like NNPC, DPR, CBN, FIRS, OAGF, and RMFAC are informed at the IMTT platform of the need to address these issues in their respective agencies. A formal Report on the audit with special emphasis on remedial issues is made by NEITI to the Federal Executive Council for, information and necessary action, on issues that require policy reviews; as well as alignments