

## **AUDIT OF THE OIL AND GAS SECTOR BEGINS**

The process for comprehensive independent audit of the oil and gas sector by the Nigeria Extractive Industries Transparency Initiative (NEITI) has commenced.

The independent audit to be conducted in line with the principles and standards of the global extractive industries transparency initiative will cover the period 2015 and 2016 respectively.

The Executive Secretary of NEITI, Waziri Adio announced this in Lagos at a workshop for major oil companies and relevant government agencies expected to participate in the exercise.

Mr. Adio explained that the workshop was designed to acquaint the participants with the structure and content of the audit templates, the kind of questions that NEITI would ask and the answers expected to be provided by the covered entities. “This workshop is also to seek your views, suggestions and inputs as well as listen to your concerns on how to make the exercise hitch-free.” Mr. Adio added.

The workshop witnessed presentations on EITI processes, methods, principles and standards including emerging issues on beneficial ownership and contract transparency. The benefits of implementation of EITI in Nigeria’s extractive industry to the country, the citizens and investors also topped discussions at the interactive session.

The Executive Secretary announced that NEITI will introduce a ranking reward system to incentivize participation of covered entities. Under the ranking system, companies will be graded on the ladder based on their efficiency in the population of the templates, quality and depth of information and data provided, and quick response to set deadlines among other considerations.

He further explained that the ranking system will be shared with over 51 member countries of the global EITI, multi-lateral organizations to serve as reference points on adherence to business ethics for major investment decisions in Nigeria.

The Executive Secretary stressed that NEITI is not against the companies and their businesses. “NEITI is committed to working closely with the companies under the EITI framework to create good business environment conducive for inflow of more foreign direct investments into the sector. For this to happen we encourage all companies to embrace transparency, accountability and corporate governance in conformity with EITI standard.” He remarked.

Mr. Adio however, warned that NEITI will not hesitate to invoke relevant sanctions under the law on companies and other covered entities that fail to cooperate with NEITI during the exercise.

All major international oil/gas companies operating in Nigeria were represented at the Workshop. Also in attendance were relevant government agencies such as the NNPC, the FIRS, DPR, NDDC, NLGN etc. The event was also attended by a cross section of the media and the civil society.

In their respective contributions while reviewing the templates, the representatives of companies welcomed the objective of the workshop, describing same as fundamental step in building partnership and trust with NEITI in the execution of its mandate. They urged NEITI to note very carefully all the observations and issues raised by the companies at the workshop with a view to ensuring that the reviewed templates suit the peculiar operations of the diverse covered entities slated to participate fully in the process.

NEITI has already commenced distribution of the templates to participating companies and government agencies. All populated templates with required comprehensive information and data are expected to be returned to NEITI on or before the 31<sup>st</sup> of May 2017. NEITI is required to conclude the independent audit and make its findings public by the end of the year.

The independent audit of the oil and gas sector by NEITI for the period 2015 and 2016 will examine fiscal, physical and process issues including revenues and investment flows from, within and among the companies and relevant government agencies.

The audit will also undertake special verification and validation of information and data on payments by companies to government entities as well as government receipts. Other areas of focus of the audit include major financial transactions, quantities and volumes of crude production, report on balances payable or receivable on certain financial transactions, taxes, royalties on project by project basis including social contributions among others.

The overall goal is to ascertain if fiscal, physical and process transactions in the oil and gas sector during the period under review were in line with transparency, accountability and principles of the global extractive industries transparency initiative which NEITI is implementing in Nigeria.

## **RECOVER OVER \$21 BILLION UNREMITTED FUNDS .... NEITI urges FGN**

The Nigeria Extractive Industries Transparency Initiative (NEITI) has urged the Federal Government to put urgent machineries in motion to recover over \$21 Billion unremitted funds disclosed by its independent reports of the extractive industry, to fund the country's economic recovery plan.

In a policy brief which focused on unremitted funds, economic recovery and oil sector reform, NEITI noted that the recovery of these huge unremitted funds is more than enough to jump-start the economy.

*“Findings from a series of audits of the oil and gas sector carried out by the Nigeria Extractive Industries Transparency Initiative (NEITI) shows that NNPC and its upstream arm, NPDC, have failed to remit \$21.778 billion and N316.074 billion to the Federation Account. These are amounts due from three main sources: Federation assets divested to NPDC and NPDC's legacy liabilities; payments for domestic crude allocation to NNPC; and dividends from investment in Nigerian Liquefied Natural Gas Company (NLNG) paid to but withheld by NNPC. Recovery of these funds will significantly enhance government's fiscal position in the short term.”*

A breakdown of the unremitted funds disclosed by NEITI reports of the oil and gas industry over the years include outstanding payments of \$1.7billion arising from the transfer of eight OMLs from Shell Petroleum Development Corporation (SPDC) and the sum of \$2.2million from four OMLs from Nigeria Agip Oil Company to the Nigeria Petroleum Development Company respectively. NEITI reports disclosed that the NPDC is yet to pay for these major national assets that were transferred

for its commercial operations. Also contained in the breakdown of unremitted funds is cash call paid on the transferred OMLs amounting to about \$148.28million. This is in addition to legacy liabilities amounting to the sum of \$1.5Billion and the huge sum of \$15.8billion unremitted to the Federation account from accrued NLNG dividends from 2000 to 2014.

A breakdown of the outstanding recoverable sum of over \$21.8 billion and N316 billion is shown in the table below:

**Table 1: Summary of Outstanding Remittances to Federation Account**

<b>Transfer of OML to NPDC</b>	<b>\$(Cost in dollar)</b>	<b>N(Cost in Naira)</b>
Transfer of 8 OMLs from SPDC JV	1,700,000,000.00	
Transfer of 4 OMLs from NAOC JV	2,225,000,000.00	
Cash-calls paid for transferred OMLs (not refunded)	148,278,000.00	2,420,507,000.00
Legacy liabilities	1,458,618,285.76	70,014,589,266.45
NLNG Dividends (2000 to 2014)	15,822,713,000.00	
Cash-calls refunded to NAPIMS but not remitted	424,185,000.00	
Unpaid earnings from domestic crude sales		243,639,000,000.00
<b>TOTAL</b>	<b>21,778,794,285.76</b>	<b>316,074,096,266.45</b>

The NEITI policy brief also raised concerns over the status of NPDC operations, issues of transparency and value for money in the transfer of these national assets.

*“The process of transfer of these assets raises serious questions, as there appears to be no clear-cut criteria for transfer of oil mining assets to NPDC. The process for the transfer of federation’s assets to NPDC does not seem to pass the*

*transparency test. One of the upshots of this is the undervaluation of these assets, thereby depriving the federation of optimal value for the assets. It has also created a situation where NPDC continues to be unaccountable to state institutions and the laws of the country. NPDC has consistently declined to give account of its operations and its management of national oil assets in its possession. NPDC failed to cooperate with the forensic audit ordered by the Auditor-General of the Federation in 2015. Similarly, the company failed to cooperate with NEITI for five audit cycles and only partially cooperated during the 2013 and 2014 audits. Consequently, the 2013 and 2014 audits have discovered significant sums of money that the NPDC has withheld from the Federation Account.”*

The NEITI policy brief recommended a comprehensive review of the transactions to conform to EITI accountability principles:

*“NEITI’s review of transfer of the country’s oil assets to NPDC also shows that these decisions were not underpinned by sound economic judgment. Although NPDC was established to foster indigenous participation in the upstream sector, it is not really able to produce at substantial levels on its own. In mid-2006, total output from its wholly owned production was just 10,000 bpd. On the other hand, production from its service contract agreement with Agip was 65,000 bpd<sup>[1]</sup>. Reasons given for NPDC’s disappointing performance include: undue interference by NNPC, inadequate financial structure, inability to source project finances. These bottlenecks in indigenous production seem to have led to the current strategy of the NPDC entering into partnerships with both international and indigenous oil companies who do the actual exploration and production on NPDC assets. Despite*

*NPDC's clear operational and capacity deficiencies, the company continues to be allocated valuable concessions of Nigeria's most productive OMLs."*

The NEITI policy brief urged the government to go beyond recovery of these funds to putting in place adequate measures to ensure:

- *Revaluation of the assets divested to NPDC to determine the actual market prices with a view to recovering the full value of these assets and securing optimal benefits from them;*
- *Review of the relationship between NPDC, NNPC and the Federation to determine and establish effective lines of accountability of NNPC's subsidiaries, and determine optimal mode of operation in line with global best practices;*
- *Review of the process of acquisition of OMLs by NNPC and NPDC to ensure that long-term net positive value is realized given the availability of alternative economic options.*

On the NLNG dividends, the NEITI policy brief noted with concern that while there is evidence of payment of dividends from NLNG to NNPC, there is no similar evidence to show that NNPC remitted the dividends to the Federation account as required by sections 80(1) and 162(1) of the constitution.

*"NLNG operates as a private company run by its private partners. Despite owning majority shares, the government of Nigeria is not involved in its management but earns revenues from its investment in the enterprise in form of dividends, interests and loan repayments. Since the Federation's shareholding in NLNG is held through NNPC, dividends are paid to NNPC, which should remit same to the Federation. However, NEITI's audits have revealed that until 2015, NNPC has failed to remit the interests and dividends from NLNG to the Federation Account. For the period*

*between 2000 and 2014 NLNG paid a total of \$15.8 billion to NNPC, which NNPC acknowledged receiving but failed to remit to the Federation Account.”*

NEITI therefore recommended urgent measures to recover the funds to support the on-going economic recovery plans.

*“Total unremitted revenues to government’s treasury amount to \$21.778 billion and N316.074 billion. At current exchange rate, this comes to about N7.2 trillion. Achieving a recovery rate of just 20% would significantly offset the projected deficit for the 2017 budget. A third of the computed unremitted revenues would completely eliminate the need to borrow to finance the budget. This has both short and long-term positive implications for the economy.”*

## **EXTRACTIVE HUB LAUNCHED IN NIGERIA**

Extractive Hub to support EITI implementation in Nigeria has been launched in Abuja by Adams Smith International, a renowned development organization.

The Extractive Hub is to provide a resource platform for policy makers, government officials, industry experts, academic institutions and civil society organisations to access information, research materials and data on extractive industry issues.

The Hub, which is an online platform, is a global effort by Adam Smith International to support extractive sector reforms in developing countries through provision of policy instruments in the form of research information and data.

The Executive Secretary Waziri Adio, welcomed the launch as a timely response for bridging the existing knowledge gap arising from non-availability of research publications. From non-availability of global comparative analysis on issues in the sector, he explained that with the Extractive Hub now in place industry experts, covered entities and the general public now have a platform to avail themselves of materials required to deepen reforms in the sector. Adio commended the evolving partnership between Adam Smith International and NEITI on the project.

A representative of DFID, Richard Ough, remarked that the Extractive Hub is being funded by his organization as a result of the strategic importance of the platform in providing reliable information and data through researched publications in various countries.

Representatives of the Ministry of Mines and Steel (MMSD) and Ministry of Petroleum Resources endorsed the Extractive Hub platform to end users.

In his remarks, the Permanent Secretary in the Ministry of Mines & Steel Development, Mr Mohammed Abbas used the opportunity to speak on the ongoing reforms in the mining sector. He explained that the implementation of the Roadmap recently unveiled by the Ministry has commenced and described the launching of the Extractive Hub as a positive coincidence.

The Ministry of Petroleum Resources equally pledged to explore the opportunities provided by the Hub to strengthen the ongoing implementation of the 7 big wins currently driving comprehensive reforms in the oil & gas sector.

Messages of endorsements of the Extractive Hub were received from the NNPC, BPSR, the civil society, development partners and the media.

Taking everyday decisions in the extractive sector means dealing with a dynamic body of information, which can be difficult, expensive and time-consuming to access. The Extractives Hub simplifies the search process for decision makers by providing up-to-date and trustworthy evidence, tools and toolkits for over 40 extractives sector topics from a range of sources. Registration on the site is free and open to all sector stakeholders.

In addition to enabling access to a comprehensive body of knowledge on the extractive sector, the Hub offers technical support from world class experts and academics with practical experience in the sector. Expert consultancy services are free of charge for government officials in approximately 30 focus countries and

may include access to expert advisory support, tailored training courses or research.

## **ACT ON NEITI REPORTS**

In its own words: “In 2003, Nigeria voluntarily signed up to the global Extractive Industries Transparency Initiative (EITI). Besides being an integral part of the global EITI, the Nigeria Extractive Industries Transparency Initiative (NEITI) is a Federal Government of Nigeria agency established by law, monitored, supervised by the Office of the President of Nigeria through the Office of the Secretary to the Government of the Federation. It is an autonomous self-accounting body which by law reports to the President and National Assembly.

“The core legal mandate for NEITI [is] to (i) ensure due process and transparency in the payments made by all extractive industries companies to the Federal Government and statutory recipients; (ii) monitor and ensure accountability in the revenue receipts of the Federal Government from extractive industries companies; (iii) eliminate all forms of corrupt practices in the determination, payments, receipts and posting of revenue accruing to the Federal Government from extractive industries companies; (iv) ensure transparency and accountability by Government in the application of resources from payments from extractive industries companies; and (v) ensure conformity with the principles of Extractive Industries Transparency Initiative.”

NEITI each financial year appoints independent auditors for the purpose of auditing the total revenue which accrued to the Federal Government for that year from extractive industries companies in order to determine the accuracy of the payments and receipts.” Based on the completed independent audits, NEITI has calculated that the NNPC and the Nigeria Petroleum Development Company (NPDC) owe the Federation Account oil and gas incomes amounting to

US\$21.8billion and N316 billion, which are made up of NLNG dividends paid between 2000 and 2014, taxes and sales and divestments of oil assets in 2009-2011. The NEITI Act stipulates that (a) the independent audit reports be submitted with comments of the extractive industries company, and (b) “The Auditor-General of the Federation shall not later than three months after the submission of the audit report to the National Assembly, publish any comment made or action taken by Government on the audit reports.” There is no evidence of any objection by NNPC, NPDC and/or the Presidency to NEITI’s reports, which gives credence to the fact that the stated sums (which amount to N7.0 trillion at the 2017 Budget exchange rate) are being withheld from the Federation Account.

Accordingly, the Executive Secretary of NEITI has demanded that the withheld oil and gas receipts be paid into the FA for appropriation to help ease the economy out of recession. It will be vacuous to interpose that the funds continue to be withheld because the annual budgets are predicated on crude oil rather than gas export receipts. In any case, notwithstanding the faulty payment method adopted, the 2015 NLNG dividends were released to the tiers of government last year.

While NEITI regularly reports to the Presidency and the National Assembly, both arms of government have curiously shown little interest in the report. But they found common ground on the eve of the preparation of the 2017 budget when the Senate President proposed that part of the NNPC stake in the NLNG be sold to raise \$20 billion towards financing the budget (an amount that roughly matches the \$21.8 billion being withheld from the FA). Apparently, despite the seeming

unending disagreement between the two arms of government, the leadership of the Presidency and National Assembly had perfected plans to parcel out NLNG shares among themselves for free before pushing in the withheld sum as the make-believe “realised proceed” from the sale of the natural gas assets. Organised labour and civil society groups should wake up and stop the planned daylight stealing of NNPC asset. The NLNG shares should not be sold.

The adoption of the NEITI recommendation will pave the way for a feasible budget financing and exit from the recession. Recall that the Treasury Single Account (TSA) had by last fortnight netted N35.2 trillion. The NNPC does not yet contribute to the TSA. By adding the withheld N7.0 trillion and the TSA takings, there would be at least N12.2 trillion, which is enough to deliver ex-post budget surplus. Provided there is the absorptive capacity, any accessed foreign loans would be extra. Given that state of affairs, the economy could be engineered out of recession.

But suppose the N316 billion and \$21.8 billion already established to be in government coffers by NEITI reports, has developed wings. The EFCC should then be directed to immediately arraign and diligently prosecute those with soiled hands in court. Meanwhile, the NNPC should be part and parcel of the TSA. Also funds in the TSA should be expended on budgeted government commitments as they mature.

Now, in addition to what is being done, NEITI should urgently consult global EITI for the best practice handling of currencies paid to government. Federation

Account beneficiaries are statutory recipients of payments from extractive industries companies. The requisite form of payment due to the statutory recipients should be in the very currencies earned to set the stage for their proper conversion to the domestic currency and so guarantee overall national prosperity. Contrarily, the CBN has over the years been withholding proceeds due to statutory recipients and substituting apex bank deficit financing for foreign currency earnings thereby destroying the Nigerian economy. Surely, extractive industries export earnings should never inflict economic curse, which has been Nigeria's odd experience.

## **SOCIAL MEDIA PRACTITIONERS TASK FGN ON MEASUREMENT OF NIGERIAN CRUDE**

A group of Social Media Influencers (SMI) have called on the Federal Government to put in place modern and appropriate metering equipment to measure accurately the quantity of crude oil produced in Nigeria.

This was contained in a communique issued by the group at the end of a capacity building workshop on “The role of New Media in reporting the extractive sector” organized by the Nigeria Extractive Industries Transparency Initiative (NEITI) for the SMIs in Lagos from 3<sup>rd</sup> to 5<sup>th</sup> May 2017.

Lamenting the negative effect of not knowing how much of Nigeria’s crude is produced or lifted due to inadequate metering facilities in the industry, the group noted that the installation of modern metering infrastructure is critical to curbing corruption and wastages in the sector.

The Social Media Practitioners’ call is consistent with recommendations of the various oil and gas industry audit reports by NEITI.

The NEITI Reports have disclosed that some of the meters used at midmonth to measure the crude oil produced by some of the oil and gas companies have not been maintained or calibrated. According to the NEITI reports, the implication is that Nigeria runs the risk of under or over-reporting of crude oil allocation to some of the oil companies and therefore called for regular maintenance and calibration.

The SM influencers also urged the Federal Government to address funding challenges confronting NEITI through improved budgetary allocation to enable the agency effectively deliver on its mandate and reduce revenue leakages in the sector.

Earlier, the Chairman of the Communications Committee of NEITI’s National Stakeholders’ Working Group, (NSWG) and veteran journalist Mr. Gbenga Onayiga

urged social media influencers in the country to lead the advocacy for massive reforms in the management of the country's oil, gas and mining sectors.

Mr. Onayiga identified social media influencers as critical partners in the implementation of NEITI's public education and enlightenment programmes on prudent management of the country's natural resources.

"The social media provides suitable platforms for NEITI to deepen its advocacy and engagements with multi-stakeholders especially the younger generation. The social media platforms will help disseminate basic information and data on the process and benefits of Nigeria's implementation of the Standard of the global Extractive Industries Transparency Initiative. This is to ensure that revenues from the sector support national development, reduce poverty and rescue the country from the syndrome of resource curse", Mr. Onayiga stated.

He identified the roles of the social media to include, dissemination of NEITI audit reports, simplification of issues, citizen's mobilization, campaign and advocacy for implementation of recommendations, monitoring and evaluation of the results and impacts in the lives of the citizens.

Mr. Onayiga further noted that the task of promoting transparency and accountability by the social media is a role that must not be abdicated. He implored them to observe a high degree of responsibility, objectivity, accuracy, truth, balance, professional and self - regulation, quality content and responsibility in fulfilling this important role so as to earn public trust.

At the training, the participants were taken through the theory of resource curse, principles and objectives of the global Extractive industry Transparency Initiative (EITI) including NEITI's process, methods, principles, impacts and benefits to the citizens.

Participants were also exposed to the governance of extractive industries, revenues streams in the industry and its management including the ongoing reforms in the industry by the Federal government, emerging issues and the revised EITI standard, as well as social media tools and platforms for reporting the extractive sector.

The Social Media Practitioners at the workshop established a forum known as Digital Media for Extractive Sector Reforms Advocates (DiMESRA).

The forum is to coordinate and facilitate cordial relationship between the social media practitioners and NEITI as well as other relevant bodies in Nigeria's extractive industry. The body is also expected to regulate the activities of members and enforce sanctions where necessary.

The capacity building workshop for SMIs in Lagos was the second in the series by NEITI having held a similar workshop for practitioners in Abuja in 2016.

The program which is part of NEITI's efforts at broadening its stakeholder's engagement by integrating social media into its dissemination efforts, attracted major social media influencers within Lagos and its environs.

## **NEITI SEEKS CIVIL SOCIETY PARTNERSHIP ON REMEDIATION, SAYS NIGERIA EARNED OVER \$590 BILLION FROM OIL AND GAS IN 15 YEARS!**

The Nigeria Extractive Industries Transparency Initiative (NEITI) has called for closer partnership with the civil society to enable it implement remedial issues contained in its reports of the oil and gas industry.

The Executive Secretary of NEITI, Waziri Adio made the call in Abuja at a special workshop by Publish What You Pay, a leading Civil Society organisation working in the extractive sector in Nigeria.

The Executive Secretary explained that while it is the responsibility of NEITI to provide the information and data, it is the duty of the civil society to use the same information and data to hold government and companies accountable.

NEITI's presentation at the workshop disclosed that Nigeria earned a total of \$592.34 billion from the oil and gas sector from 1999 to 2014.

The Executive Secretary, who was represented by NEITI's Director of Communications, Dr. Orji Ogbonnaya Orji provided the breakdown of the country earnings as follows:

<b>YEARS</b>	<b>OIL AND GAS SECTOR (\$)</b>
1999	\$ 8.07 billion
2000	\$ 15.80 billion
2001	\$ 15.90 billion
2002	\$ 11.86 billion
2003	\$ 17.08 billion
2004	\$ 26.62 billion
2005	\$ 28.06 billion
2006	\$ 44.68 billion
2007	\$43.78 billion
2008	\$ 60. 36 billion
2009	\$ 30.12 billion

2010	\$ 44.94 billion
2011	\$ 68.44 billion
2012	\$ 62.99 billion
2013	\$ 58.07 billion
2014	\$55.5 billion
<b>TOTAL</b>	<b>\$592.27 Billion</b>

On the Solid Minerals Sector, NEITI also disclosed that about N143.5 billion was earned from the sector between 2007 and 2014. The presentation gave the break as follows;

2007	N8.19billion
2008	N9.58billion
2009	N19.42billion
2010	N17.38billion
2011	N23.67billion
2012	N31.44billion
2013	N33.86billion
2014	N55.82billion
<b>TOTAL</b>	<b>N143.52Billion</b>

Mr. Adio expressed concerns that despite the huge revenues earned by government over the years, there is little change in the living standards of majority of Nigerians and in the development of infrastructure.

He urged civil society groups to be more vigilant and ensure that future earnings from the sector translate to national development and support poverty reduction.

He identified the slow pace of implementing NEITI's industry audit findings and recommendations as one of the weakest links in EITI implementation in Nigeria and tasked Publish What You Pay to lead a robust civil society activism and engagements with relevant government agencies to implement NEITI reports.

Mr. Adio described Publish What You Pay as an important global civil society organization in a vantage position to lead advocacy for translating NEITI reports

into results which is capable of bringing about the desired reforms in Nigeria's oil, gas and mining sectors.

In her presentation, Faith Nwadishi, a member of the international EITI Board, underlined the importance of the civil society protocol in advancing civil society freedom and engagement to ensure that EITI process leads to reforms that will bring about the required impact.

Ms Nwadishi welcomed the improved enabling environment and space for civil society activism in Nigeria and urged civil society organizations to take up the space by utilizing information and data in NEITI reports for stronger advocacy.

Ms Asmara Klein from PWYP international presented the 2016 EITI Standard and the key areas that Nigeria needs to pay attention in order to meet the global EITI standard. These include, contracts and beneficial ownership disclosure; sub-national transfers; data quality and timelines; mandatory social expenditures etc.

The National Coordinator of Publish What You Pay in Nigeria, Emeka Ononamadu gave assurance that the exposure gained from the workshop will help CSOs to push the boundaries of transparency and accountability in the management of revenue from extractive industries in Nigeria.

He commended NEITI for the quality of its work and relationship with the civil society.

During the workshop, an Action Plan developed by the Civil Society to deepen its involvement in EITI implementation in Nigeria was ratified.