NEITI
Nigeria Extractive Industries Transparency Initiative

THE PRESIDENCY

Financial Audit: An Independent Report Assessing and Reconciling Financial Flows within Nigeria's Oil and Gas Industry – 2009 to 2011.

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(Chartered Accountants)

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18th December, 2012

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An Independent Report Assessing and Reconciling Financial Flows within Nigeria's Oil and Gas Industry – 2009 to 2011

Sada, Idris & Co., (Chartered Accountants) were appointed, pursuant to the NEITI Act, by the National Stakeholder Working Group of the Nigeria Extractive Industries Transparency Initiative to undertake the EITI Reconciliation for Nigeria for the years 2009, 2010 and 2011 and to prepare a Report on this Reconciliation ("Engagement").

The Engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The procedures performed were those set out in the Terms of Reference appended to this report, except where stated otherwise including its appendices.

We set out our findings in report including its appendices. Because the procedures were not designed to constitute an audit or review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the transactions beyond the explicit statements set out in this report. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose of informing the National Stakeholder Working Group on the matters set out in the terms of reference and is not addressed to any other party or to be used for any other purpose.

This report relates only to the subject matter specifically set out herein and does not extend to any financial statements of any entity taken as a whole.

Yours faithfully
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The report and all appendices relating to the report are intended for the use of the National Stakeholder Working Group (NSWG) of NEITI for the purpose of that initiative and any reliance placed upon them by third parties shall be in accordance with the NEITI Act of 2007.

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Table of exchange rates used

	2009	2010	2011
USD: NGN	150.9659	152.8033	157.4046
GBP: NGN	236.7364	251.1400	256.5891
EUR: NGN	204.3830	218.0632	216.8845
JPY: NGN	1.7309	1.9552	2.1132
NGN: USD	0.0066	0.0065	0.0064
GBP: USD	1.5517	1.6044	1.5601
EUR: USD	1.3397	1.3931	1.3188
JPY: USD	0.0113	0.1249	0.0129

These are the average rates for the years as quoted by Oanda

http://www.oanda.com/currency/historical-sites

Oanda was the first in 1995 to offer a broad range of currency exchange-rate information free of charge over the Web. It possesses one of the world's largest and most accurate databases of currency rates and handles more than a million queries a day.

List of Acronyms

Acronym	Definition
AEPNL	Addax Exploration and Production Nigeria Limited
AENR	Agip Energy and Natural Resources Limited
AFS	Audited Financial Statements
AGO	Automotive Gas Oil
AMNI	Amni International Petroleum Development Company Limited
APDNL	Addax Production Development Nigeria Limited
API	American Petroleum Institute (measurement for 'heaviness' of crude)
BBL	Barrels
BIS	Bank for International Settlement
BOD	Banking Operations Department
BPD	Barrels Per Day
BSW	Basic Sediments and Water (amounts of contaminants in crude)
BTU	British Thermal Unit
CA	Carry Arrangement
CBN	Central Bank of Nigeria
CCC	Carry Capital Cost
CIT	Companies Income Tax
CNL	Chevron Nigeria Limited
COMD	Crude Oil Marketing Division of NNPC
DMO	Debt Management Office
DPK	Dual Purpose Kerosene
DPR	Department of Petroleum Resources
ECOWAS	Economic Community Of West African States
EIA	Environmental Impact Assessment
EIC	Extractive Industry Company
EITI	Extractive Industries Transparency Initiative
ERP	Enterprise Resource Planning
FAAC	Federation Accounts Allocation Committee

Acronym	Definition
FCT	Federal Capital Territory
FGN	Federal Government of Nigeria
FIRR	Financial Internal Rate of Return
FIRS	Federal Inland Revenue Service
FMF	Federal Ministry of Finance
FRB	Federal Reserve Bank
GED F & A	Group Executive Director Finance and Accounts (NNPC)
GGM	Group General Manager (NNPC)
GMD	Group Managing Director (NNPC)
GSA	Gas Sales Agreement
HHK	Household Kerosene
IOC	International Oil Company
IPP	Independent Power Producer
JDA	Joint Development Authority
JDZ	Joint Development Zone
JMC	Joint Ministerial Council of JDZ
JV	Joint Venture
JVCC	Joint Venture Cash Call
KRPC	Kaduna Refinery and Petrochemical Company
LNG	Liquified Natural Gas
LPFO	Low Pour Fuel Oil
MCA	Modified Carry Agreement
MMBTU	Million British Thermal Unit
MMSCFD	Million Standard Cubic Feet per Day
MPNU	Mobil Producing Nigeria Unlimited
NAE	Nigeria Agip Energy Limited
NAOC	Nigeria Agip Oil Company
NAPIMS	National Petroleum Investment Management Service
NCS	Nigerian Customs Service
NDDC	Niger Delta Development Commission

Acronym	Definition
NEITI	Nigeria Extractive Industries Transparency Initiative
NGC	Nigerian Gas Company
NGL	Natural Gas Liquid
NLNG	Nigeria Liquified Natural Gas
NNPC	Nigerian National Petroleum Corporation
NPDC	Nigerian Petroleum Development Company
NSWG	National Stakeholders Working Group
OAGF	Office of Accountant General of the Federation
OML	Oil Mining Lease
OPCO	Operating Company
OPL	Oil Prospecting License
OPTS	Oil Producers Trade Section
OSP	Official Selling Price
PAYE	Pay As You Earn
PEF	Petroleum Equalisation Fund
PHCN	Power Holding Company of Nigeria
PEL	Petroleum Exploration Licence
PHRC	Port-Harcourt Refinery Company
PIB	Petroleum Industry Bill
PLATFORM	Platform Petroleum Limited
PMS	Premium Motor Spirit
POOCN	Pan Ocean Oil Corporation (Nigeria)
PPMC	Petroleum Products Marketing Company
PPPRA	Petroleum Products Pricing Regulatory Agency
PPT	Petroleum Profits Tax
PSC	Production Sharing Contract
PSF	Petroleum Support Fund
PTDF	Petroleum Technology Development Fund
RMAFC	Revenue Mobilization Allocation and Fiscal Commission
RP	Realisable Price

Acronym	Definition
SWIFT	Society for Worldwide Interbank Financial Transactions
SDN	Sovereign Debt Note
SEPCOL	Shebah Exploration and Production Company Limited
SEPLAT	Seplat Petroleum Development Company Limited
STARDEEP	Star Deepwater Petroleum Limited
SPDC	Shell Petroleum Development Company
SPV	Special Purpose Vehicle
SNEPCO	Shell Nigeria Exploration and Production Company Limited
TEPNG	Total Exploration and Production Nigeria Limited
TUPNIL	Total Upstream Nigeria Limited
TOR	Terms of Reference
TMP	Trial Marketing Period
USD	United States Dollar
VAT	Value Added Tax
WAGP	West African Gas Pipeline
WHT	Withholding Tax
WRPC	Warri Refinery and Petrochemicals Company

1. Executive Summary

1.0 Executive Summary

1.1 Introduction

The Nigerian Extractive Industries Transparency Initiative (NEITI), through the National Stakeholders Working Group (NSWG), continued its statutory mandate of ensuring transparency and accountability of the oil and gas industry in Nigeria by the appointment of Sada Idris & Co. (Chartered Accountants) in March 2012, as Auditors for the 2009 – 2011 Oil and Gas Industry audit.

The purpose of the audit is to review and reconcile all revenues collected by Government Agencies on behalf of the Federation and payments made by all the oil and gas companies operating in Nigeria, in line with the international standards and rules of the Extractive Industries Transparency Initiave (EITI).

This Core EITI report, titled '**Financial Audit: An Independent Report Assessing and reconciling Financial Flows within the Nigeria's Oil and Gas Industry – 2009 to 2011**, is in fulfilment of one of the reporting requirements as contained in the Terms of Reference (TOR) of the assignment.

1.2 Scope of Work

The scope of work requires a report on the revenue flows to the Federation from the covered entities as well as investment flows from the Government Agencies and related transactions made by participants in Nigeria's oil and gas industry. The review and reconciliation exercise aimed to capture all payment streams made by all covered entities to the Federation as well as applicable State Governments and other Government Agencies that might have received revenue from oil and gas operators. In addition, the scope of work covered investment flows involving Government payments by way of Joint Venture investments, loans and loan repayment received by the operators as well as dividends from equity investments paid by the operators.

1.3 Methodology

Data collection templates were prepared, reviewed, updated and issued to all the covered entities for population regarding relevant financial transactions in the period covering 2009 - 2011. The populated templates received from the Government Agencies were analysed and compared with populated templates from the companies in order to identify and reconcile differences, where necessary.

The audited financial statements obtained from all the covered entities were reviewed to ensure that the populated templates are linked to the financial statements and prepared in line with International Standards in Auditing (IASs).

Applicable materiality guidelines, stipulated in the TOR, were followed in addressing differences and discrepancies that arose from the reconciliation.

1.4 Highlights of the Financial Flows

The major highlights of the exercise are captured in this executive summary and include but not limited to:

1. A summary of the financial flows into the Federation Account as well as other related flows in the industry during the period of review including:
    - Details of production and liftings and their link to equity crude oil and gas sales and the Federation Account
    - Details of investment flows such as joint venture cash calls and alternative funding arrangements
    - Downstream quota allocations to refineries and the summary of NNPC subsidy deductions
2. The outcome of the financial flows reconciliation exercise including identification of differences on the related financial flows as well as explanations of the unresolved differences on each of the financial flows.
3. A summary of the issues and recommendations arising from the exercise.

1.5 Financial Flows from all sources

The financial flows to the Federation Account are made up of sales of Equity Crude Oil and Gas, as well as specific payments such as Royalty (Oil), Royalty (Gas), Signature Bonus, Concession Rentals and Gas Flaring Penalties. They also include taxes paid to the Federation such as Petroleum Profits Tax (PPT), Companies Income Tax (CIT), Pay As You Earn (PAYE) and Value Added Tax (VAT).

The other summarised flows include dividends and repayment of loan by NLNG as well as payment of taxes to State Governments. In addition, there are other flows to specific Government Agencies of which some are paid directly to the covered entities such as contributions to NDDC. Others, like the Education Tax Fund, though collected by Federal Inland Revenue Services (FIRS) are paid to designated accounts in the office of Accounatant Genegeral of the Federation (OAGF) as specified by their enabling Act.

Flows are primarily received in US Dollars; where flows are received in Naira or other currencies; they are converted at the average exchange rate for the year as contained on page xii. The associated volume flows to the revenues as extracted from the various lifting profiles and being confirmed by the physical audit are stated in the supporting tables and appendixes.

The total financial flows from the extractive oil and gas industry in Nigeria from 2009 to 2011 amounted to **$143.5billion**. These financial flows are summarised in Table 1.1.

Table 1–1-Summary of Financial Flows

	Table Ref.	2009	2010	2011	Grand Total
		US$ '000	**US$ '000**	**US$ '000**	**US$ '000**
Sales of Crude Oil and Gas					
Export Crude	5.1	10,133,931	17,693,065	24,760,831	52,587,827
Domestic Crude	5.1	9,903,033	13,228,942	18,363,100	41,495,075
Gas	5.1	351,357	456,284	610,857	1,418,498
Feed Stock	5.1	415,328	1,320,043	1,825,617	3,560,988
Sales of Crude Oil and Gas		**20,803,649**	**32,698,334**	**45,560,405**	**99,062,388**
Less: PSC In Kind Payments					
Petroleum Profit Tax (PPT)	5.2	2,854,787	4,861,801	8,234,874	15,951,462
Royalty (Oil)	5.2	337,916	201,512	601,413	1,140,841
PSC In Kind Payments		**3,192,703**	**5,063,313**	**8,836,287**	**17,092,303**
Sub-Total- A		**17,610,946**	**27,635,021**	**36,724,118**	**81,970,085**
Other Specific Financial Flows					
Petroleum Profit Tax (PPT)	8.2	5,399,508	8,590,183	18,763,688	32,753,379
Royalty (Oil)	8.3	2,578,360	3,853,835	6,041,396	12,473,591
Royalty Gas	8.5	30,658	75,327	90,076	196,061
Signature Bonus	8.11	5,000	0	216,146	221,146
Gas Flaring Penalties	8.7	19,300	17,873	22,487	59,660
Concession Rentals	8.9	1,446	1,151	2,225	4,822
Total Confirmed Flows		**8,034,272**	**12,538,369**	**25,136,018**	**45,708,659**
Other Flows to Federation Account					
Companies Income Tax (CIT)	8.24	236,347	367,998	273,481	877,826
Value Added Tax	8.24	1,289,346	910,620	1,005,030	3,204,996
Total of Other Flows to Federation Account		**1,525,693**	**1,278,618**	**1,278,511**	**4,082,822**
Sub-Total- B		**9,559,965**	**13,816,987**	**26,414,529**	**49,791,481**
Total Flows to the Federation Account (A+B)		**27,170,911**	**41,452,008**	**63,138,647**	**131,761,566**
Other Flows					
Dividends & Repayment of Loans by NLNG	8.23	879,839	1,427,512	2,537,503	4,844,854
PAYE	8.24	9,111	3,510	13,120	25,741
Witholding Tax	8.24	550,543	604,181	918,685	2,073,409
Total Other Flows		**1,439,493**	**2,035,203**	**3,469,308**	**6,944,004**
Flows to States					
Withholding Taxes	8.25	10,544	12,771	12,045	35,360
PAYE	8.25	471,758	476,516	586,001	1,534,274
Total Flows to States		**482,302**	**489,287**	**598,046**	**1,569,635**
Flows to other Entities					
Contributions to NDDC	8.17	398,416	561,390	703,292	1,663,098
Education Tax	8.25	638,364	407,107	533,035	1,578,506
Total Flows to other Entities		**1,036,780**	**968,497**	**1,236,327**	**3,241,604**
Grand Total		**30,129,486**	**44,944,995**	**68,442,328**	**143,516,809**

Note 1:

In kind payments represent total revenues collected for PPT and Royalty by crude oil lifted by NNPC on PSC arrangements. This is also deducted from total crude oil sales as it is also reported in PPT and Royalties.

Note 2:

The reduction of CIT in 2011 is due to the timing difference in payment of CIT (paid in July 2012) by one of the covered entities.

Table 1–2- Comparison of Financial Flows

	Previous Audit Cycle				Previous Audit Cycle			
	2006	**2007**	**2008**	**Total**	**2009**	**2010**	**2011**	**Total**
	US$ '000	**US$ '000**	**US$ '000**	**US$ '000**	**US$ '000**	**US$ '000**	**US$ '000**	**US$ '000**
Sales of Crude Oil and Gas								
Export Crude	16,367,301	18,432,877	30,924,739	65,724,917	10,133,931	17,693,065	24,760,831	52,587,827
Domestic Crude	10,028,970	11,624,328	15,599,104	37,252,402	9,903,033	13,228,942	18,363,100	41,495,075
Gas	334,584	336,788	478,763	1,150,135	351,357	456,284	610,857	1,418,498
Feed Stock	445,759	480,867	791,756	1,718,382	415,328	1,320,043	1,825,617	3,560,988
Sales of Crude Oil and Gas	**27,176,614**	**30,874,860**	**47,794,362**	**105,845,836**	**20,803,649**	**32,698,334**	**45,560,405**	**99,062,388**
Less: PSC In Kind Payments	**-**	**1,673,900**	**6,577,800**	**8,251,700**	**3,192,703**	**5,063,313**	**8,836,287**	**17,092,303**
Sub-Total- A	**27,176,614**	**29,200,960**	**41,216,562**	**97,594,136**	**17,610,946**	**27,635,021**	**36,724,118**	**81,970,085**
Other Specific Financial Flows								
Petroleum Profit Tax (PPT)	10,626,588	8,084,149	10,957,254	29,667,991	5,399,508	8,590,183	18,763,688	32,753,379
Royalty (Oil)	4,405,134	3,871,898	5,432,960	13,709,992	2,578,360	3,853,835	6,041,396	12,473,591
Royalty Gas	12,984	25,712	30,903	69,599	30,658	75,327	90,076	196,061
Signature Bonus	985,121	510,243	45,254	1,540,618	5,000	0	216,146	221,146
Gas Flaring Penalties				0	19,300	17,873	22,487	59,660
Concession Rentals				0	1,446	1,151	2,225	4,822
Total Confirmed Flows	**16,029,827**	**12,492,002**	**16,466,371**	**44,988,200**	**8,034,272**	**12,538,369**	**25,136,018**	**45,708,659**
Other Flows to Federation Account								
Companies Income Tax (CIT)	137,326	193,879	215,263	546,468	236,347	367,998	273,481	877,826
Value Added Tax	89,596	216,251	398,111	703,958	1,289,346	910,620	1,005,030	3,204,996
Total of Other Flows to Federation Account	**226,922**	**410,130**	**613,374**	**1,250,426**	**1,525,693**	**1,278,618**	**1,278,511**	**4,082,822**
Sub-Total- B	**16,256,749**	**12,902,132**	**17,079,745**	**46,238,626**	**9,559,965**	**13,816,987**	**26,414,529**	**49,791,481**
Total Flows to the Federation Account (A+B)	**43,433,363**	**42,103,092**	**58,296,307**	**143,832,762**	**27,170,911**	**41,452,008**	**63,138,647**	**131,761,566**
Other Flows								
Dividends & Repayment of Loans by NLNG	0	0	0	0	879,839	1,427,512	2,537,503	4,844,854
PAYE	1,700	90	1,836	3,626	9,111	3,510	13,120	25,741
Witholding Tax	450,225	676,372	775,145	1,901,741	550,543	604,181	918,685	2,073,409
Total Other Flows	**451,925**	**676,462**	**776,981**	**1,905,368**	**1,439,493**	**2,035,203**	**3,469,308**	**6,944,004**
Flows to States								
Withholding Taxes	5,193	32,282	62,415	99,889	10,544	12,771	12,045	35,360
PAYE	105,624	150,241	196,558	452,422	471,758	476,516	586,001	1,534,274
Total Flows to States	**110,817**	**182,523**	**258,972**	**552,312**	**482,302**	**489,287**	**598,046**	**1,569,634**
Flows to other Entities								
Contributions to NDDC	260,627	296,948	333,473	891,048	398,416	561,390	703,292	1,663,098
Education Tax	430,092	522,687	698,376	1,651,155	638,364	407,107	533,035	1,578,506
Total Flows to other Entities	**690,719**	**819,635**	**1,031,849**	**2,542,203**	**1,036,780**	**968,497**	**1,236,327**	**3,241,604**
Grand Total	**44,686,824**	**43,781,712**	**60,364,109**	**148,832,644**	**30,129,486**	**44,944,995**	**68,442,328**	**143,516,809**

Source:
2006 – 2008 NEITI reconciliation report and current audit figures from various tables contained in this report.

Note:
Gas Flare Penalties and Concession Rentals: Comparative figures for 2006-2008 could not be obtained as the summary of report and disaggregated flows did not contain their information.

Dividend and Repayment of Loans by NLNG: The previous audit summaries did not include NLNG payment, though it was reported that NNPC recieved dividends from NLNG but did not report that payments were made to the Governments.

1.5.1 Analysis of Financial Flows

The total Financial Flows to the Federation and other government entities during the years 2009 to 2011 under review is $143.5billion, (a decrease of 4% on the 2006-2008 audit total of $148. 8billion). The decrease was largely due to a 50% reduction (from $60 billion to $30 billion) in 2009 arising from a drop in the applicable average oil price (from $100 per barrel in 2008 to $63 in 2009) despite fairly consistent production volumes. The increase in average oil prices in 2010 and 2011 (from $80 to $112 per barrel) led to increased financial flows observed in the subsequent years with a total flow of $68billion in 2011.

Flows to the Federation Account are $131.7billion or 91.8% of total flows compared to $143.8billion 96.6% of 2006-2008 audit. Flows to states are $1.6billion (1.1% of total flows) as compared to $552million (0.4%) of the previous audit. The flows to other Federal Government entities including Niger Delta Development Commission and the Education Tax (TETFund) are $3.2billion as against $2.5billion in 2006-2008. The flows to NDDC are directly made to the agency and outside the purview of the National Assembly through the Appropriation Act whilst that of the TETFUND is paid to a designated account in the Office of the Accountant General of the Federation (OAGF) as stipulated by the enabling act.

Furthermore, financial flows from the sale of crude oil and gas amounted to $81.9billion that constitutes 57% of the total flows against $97.6billion or 66% of the total flows in the previous audit. The proportion of export crude oil and gas sales to total sales of crude oil and gas reduced to 53% ($52.8 billion) in the period 2009-2011, when compared to 62% ($65.7billion) from 2006-2008. On the other hand, the proportion of the domestic crude oil and gas sales increased from 35% ($37.2billion) to 42% ($41.5billion).

The export crude oil and gas sales flows to the Federation Account are affected by the Alternative Funding (AF) arrangements, such as Modified Carry Agreements (MCA), adopted to support production activities in the event of inadequate normal joint venture cash call funding. In these cases, direct entitlements (in kind payments) are made from production to cover production costs as well as for funding repayments.

There are slight increases in the financial flows from gas and feedstock as a result of increased gas processing, reduction of gas flares and the utilisation of feedstock by NLNG.

Confirmed financial flows, which are flows that are directly attributable to activities within the industry (such as PPT, Royalty, Signature Bonus and Concessional Rentals and Statutory Contributions), maintained their relative proportion to total financial flows by staying in the region of 30 to 32%. Individual striking increases can be noted in Royalty on Gas as well as in Gas Flaring Penalties indicating increased attention on gas utilisation.

No bid rounds were conducted during the period under review, hence the flows reported for signature bonuses arose from the payment of arrears of signature bonuses.

Other flows to the Federation Account (such as Companies Income Tax and Value Added Taxes) showed a consistent relationship in the financial flows increasing from 2% to 4%. The drop in CIT receipts between 2010 and 2011 is due to the timing difference in the payment of CIT on gas of $128.7million by MPNU for 2011 in July 2012.

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Financial flows from NLNG include dividends and repayment of loans of which an amount of $4.84 billion was received by NNPC. We have confirmed that these amounts have not been remitted to the CBN/NNPC JP Morgan Account or Federation Account.

We observed that this has been a recurring issue as an amount of $3.996billion was also reported as received but not remitted by NNPC in the previous audit. There is a need to confirm the ownership of the 49% investment in NLNG – Is it for the benefit of the Federation, or the Federal Government, or NNPC itself?. This is an area for further enquiry.

Other Flows involving taxes on income (PAYE) and Withholding taxes show a consistent trend with the previous audit as well as in relation to the activity volume and their location of collection. PAYE flows to the states, where most of the operating companies are domiciled, however shows a significant increase from $452 million in the previous audit to the current $1.53billion.

1.5.2 Revenue from Sales of Equity Crude Oil and Gas

Equity Crude Oil and Gas sales represent the proceeds from the sales of crude oil and gas production in the industry that is shared to the Federation in accordance with the operating and financing agreements.

The summary of Equity Crude Oil and Gas sales during the period under review is as follows:

Table 1–3-Revenue from Sales of Crude Oil and Gas

	Sales of Export Crude Oil	Sales of Domestic Crude Oil	Sales of Gas	Sales of Feedstock	Total	Less: PSC Royalty and PPT (in Kind)	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
2009	10,133,931	9,903,033	351,357	415,328	20,803,649	3,192,703	17,610,946
2010	17,693,065	13,228,942	456,284	1,320,043	32,698,334	5,063,313	27,635,021
2011	24,760,831	18,363,100	610,857	1,825,617	45,560,405	8,836,287	36,724,118
Total	**52,587,827**	**41,495,075**	**1,418,498**	**3,560,988**	**99,062,388**	**17,092,303**	**81,970,085**

Note: The amount of $17 .09 billion, representing total revenues collected for PPT and royalty crude oil lifted on behalf of the Federation by NNPC on PSC arrangement are included in the PPT and royalty (oil) on Table 1-1 in "other specific financial flows". The export crude oil sales is further analysed in Table 1-4.

A graphical representation of the Table 1.3 is as follows:

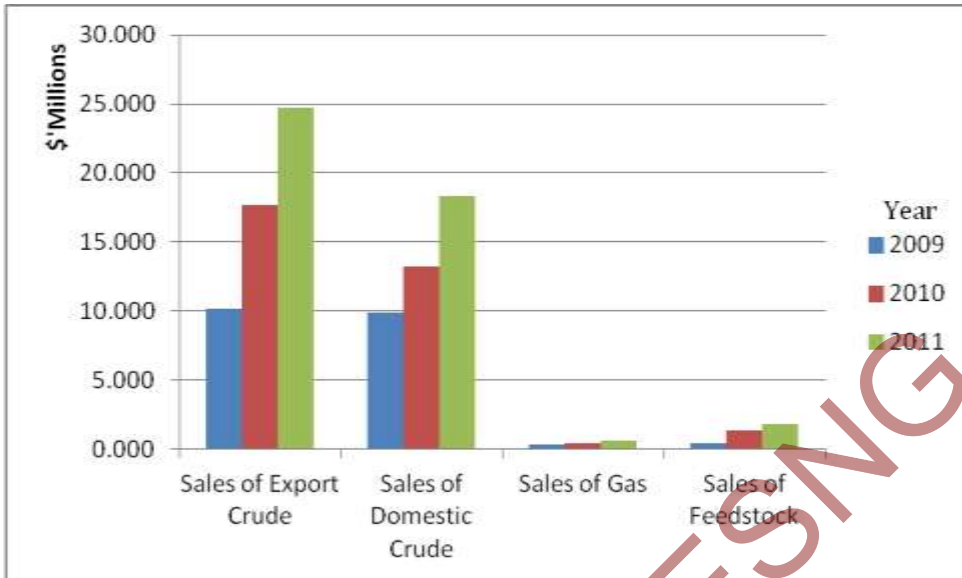

Figure 1-Graphic summary of crude oil and gas sales from all sources

The analysis of the sales of export crude oil by different funding arrangements for the period under review is as follows:

Table 1–4-Export Crude Oil Sales

	2009 US$`000	2010 US$`000	2011 US$`000	Total US$`000
JV Operations	5,334,666	10,109,303	14,304,095	29,748,064
Modified Carry Arrangement (MCA)	1,424,836	2,070,130	1,202,974	4,697,941
Third Party (Satellite Oil Field)	181,725	450,319	417,474	1,049,518
Subtotal	**6,941,228**	**12,629,752**	**15,924,544**	**35,495,524**
Production Sharing Contract (in-kind payment)				
Petroleum Profit Tax Oil	2,854,787	4,861,801	8,234,874	15,951,462
Royalty Oil	337,916	201,512	601,413	1,140,841
Subtotal	**3,192,703**	**5,063,313**	**8,836,287**	**17,092,303**
Grand Total	**10,133,931**	**17,693,065**	**24,760,831**	**52,587,827**

Source: COMD Lifting Profiles of Export Crude Oil

The details of the equity crude oil (volumes and values) in accordance with the commercial arrangement for funding (as described in section1.5.3) is as follows:

Table 1–5-Revenue from Equity Crude Oil and Gas Accruable to the Federation

	JV Operations		JV Alternative Funding			
	Vloume Sold	Proceeds	Volume Sold	Proceeds	Total Volume Sold	Total
	Bbl'000	US$'000	Bbl'000	US$'000	Bbl'000	US$'000
2009	88,551	5,334,666	71,163	4,799,265	159,714	10,133,931
2010	127,753	10,109,303	93,356	7,583,762	221,109	17,693,065
2011	127,810	14,304,095	93,673	10,456,736	221,483	24,760,831
Total	**344,114**	**29,748,064**	**258,192**	**22,839,763**	**602,306**	**52,587,827**

The proceeds from sales for the Federation Account were reconciled with the statement of accounts maintained by the Central Bank of Nigeria (CBN) for export crude oil and gas sales at JP Morgan Chase Bank.

1.5.3 Volume of Equity Crude Oil Sales

The volume of equity crude oil sales for the years under review is summarized into export crude Oil sales and Domestic Crude Oil Sales as shown below. Details of the composition of these flows are contained in Appendix B.

Table 1–6-Summary of Total Volume of Sale of Government Equity Crude Oil

	2009	2010	2011	Total
	BBL'000	BBL'000	BBL'000	BBL'000
Export Crude Sales				
JV Operations	88,551	127,753	127,810	344,114
JV Alternate Funding Arrangement	71,163	93,356	93,673	258,192
Total Export Crude	159,714	221,109	221,483	602,306
Trial Marketing Product (TMP)	14,533	-	-	14,533
Total	**174,247**	**221,109**	**221,483**	**616,839**
Domestic Crude Sales				
Refinery Delivery	19,363	34,701	45,393	99,457
Domestic Crude Export	142,551	97,792	39,340	279,683
Offshore Processing	-	27,337	23,689	51,026
Product Exchange	-	5,743	56,032	61,775
Crude Exchange	-	950	-	950
Total	**161,914**	**166,523**	**164,454**	**492,891**
Total Export and Domestic Volumes	**336,161**	**387,632**	**385,937**	**1,109,730**

Source: COMD Profile Lifting

1.5.4 NNPC Joint Venture Alternative Funding Arrangements

1.5.4.1 Introduction

The Federal Government has increasingly found it difficult to meet its cash call obligations on Joint Venture operations. This has resulted in a funding gap in terms of the Federal Governments share of its cash call contributions. The Federal Government, through NNPC, entered into Alternative Funding/Financing arrangements with its joint venture partners to address these shortcomings.

These alternative funding arrangements are in the following categories:
- Third party financing from the external financial markets (i.e. banks etc.), and
- Modified Carry Arrangement (MCA) which are loans from existing JV Partners (IOCs)

1.5.4.2 Third Party Financing

Third Party Financing involves the creation of a Special Purpose Vehicle (SPV) by the JV Partners who assign the right of future production from the approved selected project to the SPV. The SPV enters into a long-term Sales and Purchase Agreement with off takers (buyers) which is used as security for the loan required for the financing of the selected project. Proceeds from the sale of the crude oil/gas are remitted to a dedicated "proceeds" account domiciled with the lending bank. Payments are made from this account for:
- Debt Service (Principal and Interest) and any other loan requirements.
- Balance in the account is shared in accordance with the JV equity holding.

NNPC's share on this arrangement is paid to CBN/NNPC Crude Oil and Gas Dollar Revenue Account and subsequently swept into the Federation Account. It is pertinent to note that all these transactions are off Balance Sheet items (undisclosed in NNPC Audited Financial Statements). The implication is that there may be significant contingent liabilities to the Federation, not being disclosed.

The current third party financing arrangements are:
- NGL (Nigeria Gas Limited) I and II.
- SOF (Satellite Oil Fields)

1.5.4.3 Modified Carry Arrangement (MCA)

MCA is a modification of existing Carry Arrangements (CA) which is an alternative funding arrangement where NNPC's Joint Venture partners finance its share of agreed project cost and the repayment of the loan and interest paid. Under Modified Carry Arrangement (MCA) NNPC's Joint Venture (JV) partners finance its share of agreed project cost and pay compensation and interest on cash basis.

Under this arrangement NNPC and its JV Partners create a Special Purpose Vehicle (SPV) which acts as the borrower. An escrow account is opened at the lender's bank, into which the buyers (off takers) pay proceeds from the sale of crude oil and gas. Agreed Capital Cost approved by all parties are settled as follows:

- Tax Relief at 85% is paid through transfer of NNPC's tax benefits to the Carrying Party.
- Balance of 15% referred to as Residual Carry Oil is paid from the NNPC's equity portion of the incremental oil and gas production from the relevant projects which are lifted and marketed by NNPC.
- Compensation: In consideration of financing the Carry Capex, the Carrying Party is compensated at an interest rate that would yield a financial internal rate of return (FIRR) of 8%. This payment comes from the NNPC's equity portion of the incremental oil and gas production from the relevant projects which are lifted and marketed by NNPC.

An important feature of MCA is that Carry Capital Cost (CCC) is only recovered in monetary terms (dollars) for both Carry Oil and Share Oil transactions. NNPC sells the crude at a price set by it and the monetary values of the equivalent barrels are paid into the escrow account. The existing MCAs are:

COMPANY	PROJECT
SPDC	Nembe Creek Bundle Cawthorne Channel Gbaran-Ubie
TEPNG	Ofon 2 OML 58
MPN	2007-2009 Drilling Bundle 2010 Drilling Bundle Oso Condensate
CNL	2008 CNL MCA
NAOC	NLNG T4/T5 Gas Supply Ebocha-Beniboye

From our review, sales of crude oil and feedstock worth $22.8billion and $272.1 million respectively (Tables 5.4 and 5.6) are paid into an escrow account under this new alternative funding arrangement. The process flow of a typical MCA is as described in **annexure 1,** a detailed review of all the MCA arrangement is in progress and will be reported in th Non-Core EITI Report.

1.5.5 Domestic Crude Oil Sales

Domestic crude oil sales represent the sales value of the quota of 445,000 barrels per day allocated and sold to NNPC for local refining and production of petroleum products. The Summary of Domestic Crude Oil Sales during the period under review is shown Table 1.7:

Domestic crude oil not used for refining is exported and sold by NNPC for its own account. The sales which is in Dollars is remitted in Naira to the Federation by NNPC.

Table 1–7-Domestic Crude Oil Sales Volumes and Values

Year	Volume	Value	Value	Derived NNPC Average Exchange Rate	CBN Average Exchange Rate	Apparent Conversion Losses Value
	Bbl'000	**$'000**	**₦'000**			**₦'000**
2009	161,914	9,903,033	1,451,586,060	146.579948	148.880000	22,777,490
2010	166,523	13,228,942	1,954,124,959	147.715891	150.343300	34,757,841
2011	164,455	18,363,100	2,776,893,070	151.221366	153.444200	40,818,123
Total	**492,891**	**41,495,075**	**6,182,604,089**			**98,353,455**

Source: COMD lifting profile

The derived average conversion rate by NNPC differs from the annual average CBN rate and therefore results to apparent losses of ₦98.3billion during the years under review. More details will be provided in the non-core report.

The review of the domestic crude oil utilisation by NNPC, as contained in the lifting profile, shows that NNPC utilised below the quota for the year 2009 by 1,000bpd and above the daily quota in the years 2010 and 2011 by 11,000bpd and 6,000bpd respectively. This implies that NNPC does not effectively monitor domestic crude liftings in accordance with expected guidelines.

The summary of these differences are as shown in Table 1.8:

Table 1–8-(Under)/Over Utilisation of NNPC Allocation

Year	2009	2010	2011
	Bbl'000	**Bbl'000**	**Bbl'000**
Total NNPC Actual Utilisation	161,914	166,523	164,455
NNPC Actual Utilisation per day (365 per year)	444	456	451
NNPC Quota Utilisation @ 445,000 bpd	445	445	445
Difference	**(1)**	**11**	**6**

Furthermore, we observed that NNPC has consistently refined below their approved allocation as shown by the Table 1.9

Table 1–9-Utilisation of Domestic Crude Oil Allocation

	Allocated Crude	Refinery Delivery	Export	Offshore Processing	Crude Exchange	Product Exchange
	Bbl'000	Bbl'000	Bbl'000	Bbl'000	Bbl'000	Bbl'000
2009	161,914	19,363	142, 551			
2010	166,523	34,703	97,792	27,336	950	5742
2011	164,455	45,394	39,341	23,688		56,032
Total	492,892	99,458	279,684	51,024	950	61, 774
	Percentage	20.2%	56.7%	10.4%	0.2%	12.5%

Only twenty percent (20%) of the domestic crude oil allocation was delivered to local refineries, the balance was either exported for NNPC accounts or utilised for offshore processing, crude oil exchange and product exchange.

This shows that the Federation depends mainly on exported refined products for local consumption resulting to avoidable high payment of fuel subsidies. This also reduces the revenue accruable to the Federation from crude oil sales on pricing, volume utilisation and exchange rate differentials.

1.5.6 Analysis of NNPC Debt to the Federation

The receivables account of NNPC Purchases from the Federation was analysed and validated. The movements during the period under review are shown by the Table 1.10.

Table 1–10-Analysis of NNPC Debt to the Federation

	2009	2010	2011
	₦'000	₦'000	₦'000
Opening Balance as at 1st January	842,771,372	1,037,410,255	1,169,859,569
Add			
Cost of Crude Supplied to NNPC	1,451,586,060	1,954,124,959	2,776,893,070
A Sub-Total	2,294,357,432	2,991,535,214	3,946,752,639
Less:			
Subsidy Deductions	198,110,212	416,459,361	785,908,668
Payment to Federation Account	860,236,618	1,405,216,284	1,855,818,894
Transfer to Cash Call Account	198,600,347	0	0
B Sub-Total	1,256,947,177	1,821,675,645	2,641,727,562
Balance due to Federation Account as at 31st December (A-B)	**1,037,410,255**	**1,169,859,569**	**1,305,025,077**

The above Control Account shows that NNPC owes N1.305trillion to the Federation as at 31st December 2011.

The opening balance in the debtors accounts have been reconciled to the 2008 NEITI audit report. It should be noted that the above opening and closing balances do not include outstanding payments on subsidies as these are still being verified by the respective agencies of government.

Furthermore, the funding of cash call in 2009 of ₦198.6 billion paid to CBN/NNPC Cash Call Naira Account was a one-off transaction as cash calls are financed from CBN/NNPC JP Morgan Oil and Gas Revenue Account and CBN/NNPC JP Morgan Gas Revenue Account.

1.5.7 Subsidy Claims

The Federal Government makes payment on subsidy to oil marketing companies based on the volume of imported products sold in Nigeria apart from claims by NNPC, in order to guarantee the availability of petroleum products. Subsidies are normally claimed from the Petroleum Support Fund (PSF) through the Petroleum Products Pricing Regulatory Agency (PPPRA) by all qualifying oil marketing companies. In contrast , NNPC draws subsidy payments directly from domestic crude sales proceeds prior to remitting to the Federation Account.

1.5.8 Subsidy Claimed By NNPC for Petroleum Products

The total of ₦1.40 trillion was claimed during the period by NNPC which was deducted directly from domestic crude oil proceeds before remitting the balance to the Federation account. The summary of subsidy claimed by the Corporation for petroleum products during the under years review is shown in Table 1.11:

Table 1–11-Summary of Subsidy Claimed by NNPC from 2006 - 2011

YEARS								
PRODUCT	2006	2007	2008	TOTAL	2009	2010	2011	TOTAL
	₦'000	₦'000	₦'000	₦'000	₦'000	₦'000	₦'000	₦'000
Premium Motor Spirit	219,728,409	236,641,070	360,184,606	816,554,085	198,110,212	416,459,361	785,908,668	1,400,478,241
Per centage change		8	52		45	110	89	

Source:
NNPC'S Domestic Crude Mandate Profile to CBN; 2009- 2011
NEITI'S Audit Report 2006 - 2008

The subsidy payments claimed by NNPC increased by 110 percent from ₦198 billion in 2009 to ₦ 416 billion in 2010 and 89 percent in 2011, (₦ 416 billion to ₦ 786 billion). The increase between 2009 and 2011 alone was 186 percent, from ₦ 198billion in 2009 to ₦ 786billion in 2011.

A comparison of subsidy claims between the previous audit and the present audit indicates that there is a marginal increase by only 8 percent of subsidy claims between 2006 and 2007. However, NNPC claims increase significantly from 2009 through 2011 such that the level in 2011 alone was about the total claims over 2006-2008 .

The Federal Government needs to review prior deduction of subsidy claims from the proceeds of domestic crude by NNPC to synchronise the due process like other marketers who draws their claims from the PSF.

1.5.9 Corroborative Information on Subsidy from Government Agencies

A request for corroborative data on subsidy payments claimed by marketers during the period has been made to the following government agencies:

- the CBN,
- Debt Management Office (DMO),
- OAGF and
- the Budget office.

Further validations are being conducted on subsidy payment transactions during the period under review. The outcome will form part of the non-core EITI report.

1.6 Joint Venture Cash Calls

NNPC/NAPIMS is responsible for Government investment in the JV Operations. The summaries of JV Cash Calls paid by NNPC/NAPIMS to the JV Partners in Dollar and Naira during the period under review is shown as follows:

Table 1–12-Cash Call Paid By NNPC to JV Partners for 2009 – 2011

	2009	2010	2011	Total
Dollar Cash calls paid by NNPC to JV Partners ($'000)	2,960,055	3,296,395	2,537,238	8,793,688
Naira Cash calls paid by NNPC to JV Partners (₦'000)	371,083,291	441,441,783	416,581,924	122,910,6998

These amounts were reconciled with the Cash Call Control Accounts maintained during the period under review from which the cash calls payments were made.

Apart from cash call payments, the following non-cash call items were financed from the CBN/NNPC JP Morgan Chase Cash Call Dollar Account. These include;

Table 1–13-Payments of Non Cash Call Items

Type	Details	Amount $'000
1. Security Payments	These are payments transferred from NAPIMS Joint Venture Cash Call Account to NNPC Corporate headquarters for security operations in the Niger Delta region by the Nigerian Military. All security payments made between 2009 and 2011 were agreed to duly authorized payment mandates issued by NNPC Headquarters authorising the payment. However, no evidence of such as receipts or invoices were provided by the military except for a demand letter.	600,000
2. NAPIMS Management Fees	Management fees are meant to service NAPIMS operational expenses. We were not provided with evidence of approval for this payment. However, the payments were supported by approved mandates and traced to the CBN/NNPC JP Morgan Chase Cash Call Dollar Account Bank Statements	486,604
3. Expansion of ESCRAVOS Lagos Pipeline Project	For years 2010 and 2011 respectively, payments were made out of the CBN/NNPC JP Morgan Chase Cash Call Dollar Account for the "Expansion of ESCRAVOS Lagos Pipeline Project. These payments were duly validated.	282,950 364,000
	Total	**1,733,554**

The non-Cash Call items totalling $1.73billion were financed from the CBN/NNPC JP Morgan Chase Cash Call Dollar Account. No explanations were provided for making these non-cash call related payments from the cash call account. This reduces the amount available for funding JV operations with the attendant implication of NNPC seeking Alternative Funding arrangement to fund Cash Call shortfalls.

1.7 The reconciliation of Financial Flows

This table relates to confirmed flows as detailed in section 8 of this report and listed in Table 4.1. The summary of the reconciliation of financial flows during the period of review is shown in the Table 1.15:

Table 1–14-Summary of Aggregated Confirmed Financial Flows

	Govt	Companies	Initial Difference	Govt	Companies	Unresolved Difference
				Adjusted	Adjusted	
	$'000	$'000	$'000	$'000	$'000	$'000
2009	8,416,151	8,453,960	(37,809)	8,432,687	8,390,848	41,840
2010	13,350,243	13,391,368	(41,125)	13,099,759	13,120,126	(20,367)
2011	24,523,154	26,141,021	(1,617,867)	25,839,310	25,938,268	(98,958)
Total	**46,289,548**	**47,986,349**	**(1,696,802)**	**25,870,366**	**25,662,928**	**(77,484)**

The aggregate unresolved difference are within the permissible margin of error for aggregate value of all revenues and investments flows set at zero point five percent (0.5% of the annual total) and does not require further investigation. Explanations have been provided for the unresolved difference for each individual flow.

Table 1–15-Summary of Disaggregated Unresolved Differences

	2009	2010	2011	Total
	$'000	$'000	$'000	$'000
Petroleum Profit Tax (PPT)	-	-	-	-
Royalty (Oil)	351	(20,262)	(39,885)	(59,796)
Royalty (Gas)	(1,525)	(99)	(155)	(1,779)
Gas Flaring Penalties	3,808	1,470	(66)	5,212
Concession Rentals	(411)	34	(25)	(402)
Signature Bonus	5,000	0	9,050	14,050
Contribution to NDDC	34,617	(1,509)	(67,877)	(34,769)
Total	**41,840**	**(20,366)**	**(98,958)**	**(77,484)**

Also, the unresolved differences within each individual financial flows are lower than the $100million stipulated as the materiality threshhold for the Core EITI report.

Detailed explanations are however provided for the differences and contained in section 8.

1.8 Analysis of unresolved differences

The composition of unresolved differences as set out on Tables 8.20 and Tables 8.21 above can further be analysed thus:

a. Flows received by the CBN but are yet to be confirmed by the paying entities and
b. Differences which arose from payment made by the covered entities but which are yet to be traced to CBN bank statement.

1.8.1 Flows Received by CBN but not traced to Covered Entities

The amounts totalling of $68.4million which relates to flows to the Federation account and which was collected by the CBN were not confirmed to covered entities' records.

Similarly, the contributions made to NDDC amounting to $69.44 million and ₦2. 525billion which were reported by the Commission could not be confirmed to covered entities' records.

1.8.2 Payments Made but Not Confirmed To CBN Bank Statement

Amounts totalling $311.85million representing flows to the Federation account were claimed to have been paid by the covered entities to the relevant accounts but such payments were not confirmed to CBN bank statements. In some cases, the covered entities were issued Treasury Receipts (TR) by the Office of the Accountant General of the Federation (OAGF) on such payments which we could not trace to CBN records during reconciliation.

Similarly, the contributions made to NDDC amounting to $3.75 million and ₦1.20billion which were reported by the covered entities could not be confirmed to the Commissions' records.

1.9 Review of the findings and recommendations in the previous audit

The Status of remedial efforts on the findings and recommendations from the previous audits are summarised below:

Findings	Recommendations	Status of Remedial Actions
1. PPT VALIDATION - PPT under assessments summing up to **$2,645,725,704** arising from the use of subjective pricing by companies. - Analysis of Intangible Drilling Costs (IDC), Gas flare penalty, NDDC, Education tax, CIT returns which revealed an underassessment of **$424,670,000**	FIRS to review and make recoveries as appropriate	Some companies have paid a total sum of $442m but majority objected and have forwarded the matter to their legal teams. FIRS disagreed with some of the calculations done by the auditors. The ETF issue had been cleared. Information would be made available to NEITI
2. ROYALTY VALIDATION Significant Royalty under assessment arising from cost recoveries in Carry Agreements by JV partners need to be reassessed by DPR	Royalty underassessment summing up to **$3,211,256,645** arising from the use of inappropriate price variables for royalty calculations need to be recovered from the companies by DPR.	DPR is working with the companies and FIRS on the issue. DPR has been reconciling royalties due from 1990- date. The two issues of Production and Price are in contention. As at the date of this report the reconciliation has not been provided by DPR.
3. PSC Royalty and PPT Calculations – Legal Basis The legal basis for calculating PSC Royalty and PPT is in dispute between NNPC and the contractors. The matter is before an arbitration panel. Possible contingent liability of up to $8billion if NNPC loses the arbitration	Speedy arbitration and status report awaited	DPR noted that some issues have been resolved but most remain in arbitration. The Ministry of Finance to step in and help fast track the process to resolve the issue.

Findings	Recommendations	Status of Remedial Actions
4. DIVIDENDS FROM NLNG TO NNPC NNPC has reported receipt of **$ 3,996,282,000** as Dividends from NLNG for the years 2006 -2008. However, NNPC did not confirm remittance of the money to the federation account	Confirmation of remittance of **$3,996,282,000** by NNPC to the Federation Account is required	Previous letters from NEITI to NNPC yielded no response. NEITI should interface with the GMD NNPC directly
5. ACCOUNTING FOR SALE OF GOVERNMENT CRUDE The accounting system used by NNPC (COMD) for equity crude is largely not automated which creates difficulties for reconciliation and fund interface.	NNPC to accelerate implementation of SAP	The SAP is being implemented and covers the sale of government crude.
6. MEASUREMENT OF CRUDE OIL FOR ROYALTY PURPOSE The industry has no consistent practice regarding the point at which production is measured for royalty purposes. The law is therefore unclear as DPR has still not provided a standard interpretation.	DPR to undertake a consultation process with a view to defining the basis on which production volumes and API for royalty purposes are determined.	A workshop for all stakeholders to determine the best solution for Nigeria is being considered by DPR

1.10 Observations and Recommendations from the 2009 – 2011 Oil and Gas Financial Flows Reconciliation Report

The following observations and recommendations were made in the course of the conduct of the current audit.

1.10.1 Dividends and Loan payments made by NLNG

Financial flows from NLNG include dividends and repayment of loans of which an amount of $4.84 billion was received by NNPC. This is in addition to the $3.996 billion reported to be received in the previous audit reports. We have confirmed that these amounts have not been remitted to the Federation Account.

The dividends and loan repayments made by NLNG and confirmed to be in receipt by NNPC could not be confirmed to the CBN JP Morgan/Federation account. We observed that this has been a recurring issue.

There is a need to confirm the ownership of the 49% investments in NLNG – Is it for the benefit of the Federation, or the Federal Government, or NNPC itself?. This is an area for further enquiry.

1.10.2 Domestic Crude Oil Utilisation by NNPC

About twenty percent (20%) of the domestic crude oil allocation was delivered to local refineries, the balance was either exported for NNPC accounts or utilised for offshore processing, crude oil exchange and product exchange. This shows that the Federation depends mainly on exported refined products for local consumption resulting in avoidable high payment of fuel subsidies. This also reduces the revenue accruable to the Federation from crude oil sales on pricing, volume utilisation and exchange rate differentials.

The Federal Government should consider a review of the daily allocation of 445,000bpd to the level of available local refining capacity to obviate the gaps in the process.

The derived average conversion rate by NNPC differs from the annual average CBN rate and therefore results to apparent losses of ₦98.3billion during the years under review.

Domestic crude oil sales proceeds should be paid into CBN in the currency of sales, where it should be converted at the appropriate rate by CBN and swept to the Federation Account. This will forestall the exchange rate shortfalls.

1.10.3 Analysis of NNPC Debt to the Federation

The analysis shows that NNPC owes ₦1.305trillion to the Federation as at 31st December, 2011. The receivables account of NNPC purchases from the Federation was analysed and validated.

NNPC should promptly pay its debt to the Federation.

1.10.4 Subsidy Claims

A total sum of N1.40 trillion was deducted directly from domestic crude oil proceeds as subsidy claims by NNPC before remitting the balance to the Federation account.

The Federal Government should review the deduction of subsidy claims from the proceeds of domestic crude by NNPC to align them with due process like other marketers who draw their subsidy claims from the Petroleum Support Fund.

1.10.5 Third Party Financing

NNPC undertakes Third Party Financing arrangements which involve the creation of Special Purpose Vehicle (SPV) by the JV Partners who assign the right of future production from the approved selected project to the SPV. NNPC's share on this arrangement is paid to CBN/NNPC Crude Oil and Gas Dollar Revenue Account and subsequently swept into the Federation Account. It is pertinent to note that all these transactions are off Balance Sheet items (undisclosed in NNPC Audited Financial Statements). The implication is that there may be significant contingent liabilities to the Federation, not being disclosed.

NNPC should fully disclose all contingent liabilities in its financial statement to promote transparency and accountability especially on alternative financing arrangements.

1.10.6 Payments out of Cash Call Accounts

Non-Cash Call items totalling $1.73billion were financed from the CBN/NNPC JP Morgan Chase Cash Call Dollar Account. No explanations were provided for making these non-cash call related payments from the cash call account. This reduces the amount available for funding JV operations with the attendant implication of NNPC seeking Alternative Funding arrangement to fund Cash Call shortfalls.

These payments are:

i. Security Payments – amounts totaling **$600million** were transferred from NAPIMS Joint Venture Cash Call Account to NNPC Corporate headquarters for security operations in the Niger Delta region by the Nigerian Military.

ii. NAPIMS Management Fees – the sum of **$487million** was paid to NNPC-NAPIMS as Management fees. The management fees are to meet NNPC-NAPIMS operational expenses.

iii. Other Exceptional items – In years 2010 and 2011 respectively, payments of **$282.95million** and **$364million** were made out of Cash Call Dollar Account for the "Expansion of ESCRAVOS Lagos Pipeline Project.

This practice should be discouraged. NNPC should apply funds meant for cash calls strictly for JV cash call operations.

1.10.7 Flows to Other Entities

Flows to the Federation Account are $133.8billion or 93.5% of total flows compared to $145.7billion 98% of 2006-2008 audit. Flows to states are $1.6billion (1.1% of total flows) as compared to $552million (0.4%) of the previous audit. The flows to other Federal Government entities including Niger Delta Development Commission and the Education Tax (TETFund) are $3.2billion as against $2.5billion in 2006-2008. The flows to NDDC are made directly to the agency and outside the purview of the National Assembly through the Appropriation Act, whilst that of the Education Tax (TETFund) is paid to the designated accounts in the office of the Accountant General of the Federation (OAGF) as stipulated by the enabling Act.

All revenues accruing to the Federation should be in accordance with Constitution and subject to the provisions of the Appropriation Act.

1.10.8 CBN Unidentified Collections:

We noted that CBN reported a total amount of **$10,605,993,924** on a separate template for PPT collections between 2009 and 2011 from unidentified oil companies. Preliminary validation procedures indicate the payments relate to some PSC companies. Further validation would be carried out on the flows and the outcome included in the non-core report.

CBN, FIRS and OAGF should meet and reconcile these payments. To avoid reoccurence, regular reconciliation exercise should be carried out within the year of transaction.

1.10.9 Challenges in Data Gathering from Covered Entities

The challenges encountered in data gathering from the covered entities which hampered the timely completion of the audit include, amongst other

- Delays in populating and returning templates by covered entities such as DPR, FIRS, NDDC, NPDC, Pillar Oil and Pan Ocean Oil.
- Several of the templates returned were incomplete, wrongly classified and transposed between financial flows.
- Limited participation from critical organisations like CBN.

All covered entities should establish designated desk offices to attend to NEITI audit enquiries.

As the custodian of the Federation's revenue, the Central Bank should commit appropriate resources to facilitate the timely completion of audit templates.

NEITI should expedite the implementation of the information technology portal that would address a systemic data gathering mechanism and information sharing between the covered entities and Government agencies.

1.10.10 Refusal to Cooperate with the Audit Process

NECONDE Energy Limited, SEPTA Energy Limited, Energia Limited and Emerald Energy Resources did not cooperate with the audit process.

NEITI should apply appropriate sanction in accordance with the enabling Act.

1.10.11 Covered Entities response to NEITI Audit Process

We noted the reluctance of some listed upstream companies to respond to audit enquiries on the premise that the NEITI Audit is only concerned with producing companies.

From the financial flows perspective, our opinion is that actual flows to the Federation commences with the payment of application and processing fees as well as the signature bonus at the point of granting a licence. Besides, annual rentals become due and payable regularly, irrespective of the company's production status.

NEITI and DPR should align covered entities' database so as to show the production status, amongst other details.

1.10.12 Flows Received by CBN but not Traced to Covered Entities

The amounts totalling of $68.4million which relates to flows to the Federation account and which was collected by the CBN were not confirmed to covered entities' records.

Similarly, the contributions made to NDDC amounting to $69.44 million and ₦2. 525billion which were reported by the Commission could not be confirmed to covered entities' records.

We recommend that there should be a joint review meeting between NEITI, CBN, OAGF and covered entities concerned to reconcile these discrepancies.

1.10.13 Payments Made but Not Confirmed To CBN Bank Statement

Amounts totalling $311.85million representing flows to the Federation account were claimed to have been paid by the covered entities to the relevant accounts but such payments were not confirmed to CBN bank statements. In some cases, the covered entities were issued Treasury Receipts (TR) by the Office of the Accountant General of the Federation (OAGF) on such payments which we could not trace to CBN records during reconciliation.

Similarly, the contributions made to NDDC amounting to $3.75 million and ₦1.20billion which were reported by the covered entities could not be confirmed to the Commissions' records.

We recommend that there should be a joint review meeting between NEITI, CBN, OAGF and covered entities concerned to reconcile these discrepancies.

2. Background

2.0 Background

2.1 Introduction

The Nigeria Extractive Industries Transparency Initiative (NEITI) is the domestication of the global initiative through the Extractive Industries Transparency Initiative (EITI) of the continuing anti-corruption reforms in the extractive sector aimed at ensuring that revenues from the sector contribute towards sustainable development.

The EITI criteria require that "all material oil, gas and mining payments to government" and "all material revenues received by governments from oil, gas and mining companies" are validated and published by an independent administrator. The Independent evaluation of material oil and gas payments and revenues for the period 2009 - 2011 was undertaken by Messrs Sada, Idris & Co. as commissioned by the National Stakeholders Working Group (NSWG) of NEITI under the Terms of Reference as included in Appendix Q.

The purpose of this report is to present in explicit terms the results of the review of payments and receipts associated with crude oil and gas as well as the reconciliation of payments made by participants in the oil and gas segment and government receipts of such payments.

2.2 Scope of Work

As required by the disclosure requirements of the EITI Rules, this report among others;

- shows the financial flows between Industry Operators and Government Agencies for the years 2009 - 2011;
- compares the initial submissions from both the Industry Operators and the Government Agencies;
- identifies and explains discrepancies; and
- makes recommendations for remedial actions to be taken where necessary.

2.3 Coverage

This reconciliation report specifically covers transactions for the period 2009 to 2011.

The covered entities in the project include various agencies of Government and all participating Industry Operators that for the purpose of this audit are involved in oil and gas sector during the period under review (and as specified in the TOR).

2.4 Revenue flows

The following major revenue flows (Payments and Receipts) from the Oil and Gas sector were reviewed during the period:

a) Petroleum Profits Tax (PPT)
b) Royalty (Oil & Gas)
c) Companies Income Tax (CIT)
d) Withholding Tax (WHT)
e) Pay-As-You-Earn (PAYE)
f) Value Added Tax (VAT)

g) Education Tax
h) Contribution to Niger Delta Development Commission (NDDC)
i) Gas Flaring Penalties
j) Signature Bonus
k) Concession Rentals.

In addition to the above revenue flows, we have also reviewed other financial flows shown below:

- Realization of oil and gas lifting by the Government.
- Cash Calls
- Dividends and Loan Repayment from NLNG
- Subsidy Payments

2.4.1 Exclusions

In our review, we have excluded the following revenue flows;

a) Financing of the budgets of Government entities;
b) Internal flows between entities owned by NNPC;
c) Commercial transactions between non-state companies, except to the extent necessary to validate transactions affecting terminal stock ownership, quantities and values;
d) Commercial transactions between state companies in which the subject or the consideration for such transaction does not involve oil or gas.
e) Revenue flows to the Nigeria Content Development Fund (NCDF).
f) Crude oil theft

2.5 Data Sources

The major instrument of data collection for this assignment are the agreed templates dispatched to the various Covered Entities Government information on PPT, CIT, WHT, royalty, gas flare penalty, concession rentals, and signature bonuses were obtained from templates submitted by CBN, FIRS, and DPR while Government information for NDDC flows were obtained from templates submitted by the NDDC.

Information on Company Data; PAYE; Education Tax; Withholding Tax paid to State Governments and VAT remittances were obtained from templates reviewed by the auditors which were sent to the covered entities to populate on actual cash payments (Cash Basis). Confirmation of the tax streams from State Governments and the FCT was not required as part of this review process.

Additional data from the operating companies were obtained from their Financial Statements, audited in accordance with Nigerian Auditing Standards, which we understand are similar to International Audit Standards. We obtained copies of the Audited Financial Statements for the purposes of this Audit. The Auditor General attested that Government Agencies and State-owned companies were subject to Audits of standards comparable to International Auditing Standards and Accounts were prepared in line with internationally accepted standards.

2.6 Auditing Standards

2.6.1 International Auditing Standards - Companies

In accordance with EITI Criterion No. 2, data is to be taken from accounts that have been audited to international standards.

Copies of audited accounts covering the calendar years 2009 - 2011 were requested from all reporting companies. A listing of the accounts provided is included as Appendix O. All financial statements submitted to us had been audited without qualification. Nigeria Chartered Accountants are required to audit in accordance with Nigeria auditing standards; these are similar to International Auditing Standards.

We have requested confirmation from companies as whether the data provided by them in the templates as consistent with their financial statements which were in accordance with audited international standards. The NSWG determined that the representation from company senior management was sufficient for this purpose.

2.6.2 International Auditing Standards - Government

In accordance with EITI Criterion No. 2, data provided by government is to be taken from accounts that have been audited to international standards.

Following consultations with the NEITI secretariat, and the Auditor General of the Federation, it has been established that government accounts and the financial statements of Government agencies and Government-owned companies are prepared subject to the provisions of Nigerian laws and generally accepted accounting standards.

The NSWG understands that the audit standards applied in government audit are similar to International Auditing Standards.

The data provided on templates by government reporting entities has been attested by the Auditor General of the Federation as being consistent with the government accounts that have been audited.

2.7 Materiality Level

The Terms of Reference for the EITI Reconciliation report states that:

- All discrepancies pertaining to data from completing sources relating to a specific transaction shall be reported.

- Discrepancies within any individual financial flow in excess of US$ 100 million for the Core EITI Report and US$ 5.0 million for the EITI++ Report should be investigated further.

- The permissible margin of error for aggregate value of all revenues and investments flows is set at zero point five percent (0.5% of the annual total).

2.7.1 Reporting all discrepancies

All discrepancies in the underlying data or differing data/and or from various sources pertaining to a specific transaction shall be reported. Any of such transactions shall be specifically identified and the nature of the discrepancy, if determined, shall be summarized in the report.

2.7.2 Resolution of discrepancies in aggregate values within individual flows

In the event that the aggregate value of the **collective** discrepancies, **within any individual financial flow**, is in excess of US$100,000,000 (for core EITI Report and US$5,000,000 for EITI + + Report), further investigation of such discrepancies shall be required, utilizing best efforts to understand and resolve such discrepancies satisfactorily. If the **aggregate value** of such discrepancies **within an individual financial flow**, is less than US$100,000,000 (for core EITI Report and US$5,000,000 for EITI + + Report), further investigation of the discrepancy is not required.

2.7.3 Materiality Standard for Aggregate Reporting

The permissible margin of error (i.e. the materiality level) for aggregate reporting should be less than zero point five percent (0.5% of the annual total) of the aggregate value of all revenues and investment flows encompassed within the scope, of the audit otherwise it should be reported that the data has not been confirmed.

The aggregate value of all material flows is reported in table 4.1 and the calculated materiality level for differences is calculated as follows:

The materiality threshold for the exercise is determined as follows:

Table 2–1-Determination of Materiality threshold

Year	Aggregate flows (US$ million)	0.5% of aggregate flows US$ million
2009	30,000	150
2010	44,000	220
2011	68,000	340

The result of the reconciliation is that flows have been materially reconciled as the unreconciled differences are below the materiality threshold.

2.8 Caveat and Limitations

The audit was based on the review, validation and comparison of information on templates submitted by the covered entities and the government entities. Information omitted by both or any of the parties will therefore not be captured in this report.

In line with the TOR, confirmations were not sought from State Governments, and FCT regarding the financial amounts they received.

The report was adjusted following explanations and validations received up to January 11, 2013.

The report and all the appendices thereto, are intended for the use of the NSWG of the NEITI for the purposes of that Initiative and are not to be relied on by other parties.

2.9 Acknowledgements

We offer our sincere gratitude to the Federal Government of Nigeria and, in particular, National Stakeholders Working Group (NSWG) of NEITI for appointing Sada, Idris & Co. (Chartered Accountants) to conduct the audit.

We appreciate the cooperation and encouragement from NSWG, NEITI Secretariat for their valuable assistance in the reconciliation and validation exercise. We also wish to recognise the efforts and cooperation received from the covered entities and government agencies for providing the relevant information required for the reconciliation and validation of flows.

3. Structure of the Nigerian Oil & Gas Sector

3.0 Structure of the Nigerian Oil and Gas Sector

3.1 Introduction

The Nigerian Oil and Gas sector is split into two broad categories: the upstream and downstream sectors.

The upstream sector involves operations such as exploration, development, production and transportation of crude oil while the downstream sector involves operations such as refining of crude into its various constituents, distribution and marketing.

Participants in the oil and gas sector are split between public sector participants and private sector participants.

3.2 Public Sector Participants

The public sector of Nigeria's oil and gas industry comprises regulatory agencies, custodians of the sector funds and other beneficiaries of the financial flows in the industry.

Public sector participants perform the following specific roles:

- Oversight and regulation of the Nigerian oil and gas sector;
- Assessment and collection of financial flows from the sector;
- Monitoring flows due to government;
- Maintenance and management of government accounts;
- Marketing of government crude oil and gas;
- Monitoring of the oil production activities in terms of technical and commercial viability;
- Monitoring of the oil production activities in which the government participates-which in this period were joint venture arrangements and production sharing contracts.

Below is a brief description of some of the various government agencies that play active roles in the sector:

3.2.1 Nigerian National Petroleum Corporation (NNPC)

The NNPC is Nigeria's government representative in the oil and gas industry. It represents the government in joint venture (JV) and production sharing contract (PSC) agreements and arrangements. It was established by an Act as a corporation and is wholly owned by the Federal Government. It is responsible to the Ministry of Petroleum Resources and participates on behalf of the Federation in the exploration and exploitation of hydrocarbon reserves, processing, import/export and sale of crude oil. The NNPC is a conglomerate with 12 subsidiary companies responsible for providing information for the EITI reconciliation exercise.

Related revenue flows with NNPC include PPT, Royalties, Crude and Gas Sales

3.2.2 Department of Petroleum Resources (DPR)

The DPR is a department under the Ministry of Petroleum Resources, charged with the responsibility of supervision of all petroleum industry operations carried out under licenses and leases in Nigeria such as the OML and OPL. They are responsible for processing all applications for licenses, monitoring the timeliness and adequacy of all rent and royalty payments as well as maintaining records of operations of the petroleum industry. These aspects relate to petroleum reserves, technical viability of production and exports of crude oil, gas and condensates, licenses and leases. DPR also maintains the database of all license holders and is responsible for providing information for the EITI reconciliation concerning holders of licenses to prospect or extract crude oil, bidding processes and signature bonuses.

Related revenue flows include **s**ignature bonus, license fees/concession rentals and royalties.

3.2.3 National Petroleum Investment Management Service (NAPIMS)

NAPIMS is a subsidiary of NNPC and operates in the upstream sector of the oil and gas industry. Established in the Exploration and Production Directorate of the NNPC Group, it is responsible for overseeing and monitoring the Federation's investments and also protecting the Nation's strategic interest in the Joint Venture Companies (JVCs), Production Sharing Contracts (PSCs) and Service Contracts (SCs). It also engages in frontier exploration services in basins where international oil companies are reluctant to venture into.

Related revenue flows are Cash Calls.

3.2.4 Federal Inland Revenue Service (FIRS)

The Federal Inland Revenue Service is responsible for assessing and collecting all revenues accruable to the Federal Government. It was established by Federal Inland Revenue Services Act, 2007.

Related revenue flows include PPT, CIT, PAYE, EDT, WHT, VAT.

3.2.5 The Central Bank of Nigeria (CBN)

The Central Bank of Nigeria (CBN) was established by the Act of parliament of 1958, as amended. CBN serves as the custodian of Federal Government revenues and also advices the Federal Government on financial matters. The bank is responsible for providing information for the EITI reconciliation on crude oil sales proceeds, PPT, Royalties, signature bonuses and WHT.

Related revenue flows include all accruable revenue to the Federal Government

3.2.6 Office of the Accountant General of the Federation (OAGF)

The AGF serves as the chief accounting officer for the receipts and payments of the Government; supervises the accounts of Federal Ministries and Extra-Ministerial Departments; maintains and operates the accounts of the Consolidated Revenue Fund and other public funds; and maintains and operates the Federation accounts. The AGF is responsible for providing information for the EITI reconciliation on domestic crude oil and sales proceeds, PPT, Royalties, signature bonus, WHT, VAT, EDT, CIT and contributions to NDDC. The AGF also reports on aggregate federation income.

Related revenue flows include all revenue flows that accrue to the Federal Government.

3.2.7 Niger Delta Development Commission (NDDC)

The NDDC is a Federal Government of Nigeria (FGN) agency established in 2000 with the sole mandate of developing the oil-rich Niger-Delta region of the country. In September 2008, the Niger Delta Ministry was formed and NDDC became a parastatal under it. All companies operating in the Niger-Delta region are required to contribute three percent (3%) of total annual budget to the NDDC in order to fund its operations.

Related revenue flows include contributions from oil producing companies to NDDC

3.2.8 Joint Development Zone (JDZ)

The Joint Development Zone is an area of overlapping maritime boundary claims between Nigeria and Sao Tome and Principe which is located in the Gulf of Guinea. The joint development of the area was consummated after extensive negotiations by the Heads of States of both nations which resulted in the signing of a treaty and ratified by the Legislature of the two Countries and deposited with the Secretary General of the United Nations.

3.2.8.1 The Joint Development Zone Treaty

The key provisions of the treaty are:

- Definition of the Joint Development Zone by co-ordinates.
- 60% of resources to Nigeria, 40% to Sao Tome and Principe.
- Treaty to last for 45 years with review after 30 years.
- No renunciation of claims to zone by both countries

The affairs of the Joint Development Zone are managed by a Joint Development Authority (JDA) that reports to a Joint Ministerial Council (JMC). The Council has overall responsibility for all matters relating to the exploration for and exploitation of the resources in the JDZ, and such other functions as the States Parties may entrust to it.

The key functions of the Council are:

- to give direction to the JDA on the discharge of its functions under the terms of the Treaty;
- to approve rules, regulations (including staff regulations) and procedures for the effective functioning of the JDA;
- to consider and approve the audited accounts and audit reports of the JDA;
- to consider and approve the Annual Report of the JDA;
- to review the operation of the Treaty and to make recommendations to the States Parties on any matter concerning the functioning or amendment of the Treaty as may be appropriate;
- to approve development contracts which the JDA may propose to enter into with any contractor;

- to approve the termination of development contracts entered into between the JDA and contractors;
- to approve the distribution of revenues or products derived from development contracts in the Zone to the States Parties;
- to consider and approve the annual budget of the JDA;
- to approve the opening of bank accounts by the JDA;
- to vary any time limit imposed upon the JDA under the terms of this Treaty; through consultation, to settle disputes in the JDA;
- to appoint the external auditors for the JDA and approve their remuneration.

There are no flows accruing to Nigeria from the operations of the JDZ between Nigeria and Sao Tome because the petroleum operations in the area are at the exploration stage, the JDA did not return templates issued to them but noted that the Authority is only answerable to the Joint Ministerial Committee (JMC) of the Joint Development Zone (annexure 3).

3.2.9 Tertiary Education Trust Fund (TETFund)

The Tertiary Education Trust Fund (TETFund) is an intervention agency established under the Education Tax Act No. 7 of 1993 as amended to date with its core objective being project management towards improving the quality of Education in Nigeria. To enable the TETFund achieve the above objectives, the Act imposes a 2 percent Education Tax on the assessable profit of all registered companies in Nigeria.

The Federal Inland Revenue Service (FIRS) is empowered by the Act to assess and collect Education Tax. The TETFund administers the tax imposed by the Act, and disburses the amounts to educational institutions at Federal, State Government levels. It also monitors the projects executed with the funds allocated to the beneficiaries.

The related financial flow is Education Tax.

3.2.10 Revenue Mobilization Allocation and Fiscal Commission (RMAFC):

This agency was established in 1989 and derives its powers and constitutional functions from paragraph 32 of Part I of the Third Schedule to the 1999 Constitution of the Federal Republic of Nigeria. It was created out of the demand by Nigerians to have an equitable and stable revenue sharing formula and fiscal policy for the nation.

Accordingly, the Commission is primarily charged with the responsibility to:
- 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;
- Determine the remuneration of political office holders; and
- Discharge such other functions as are conferred on the Commission by the constitution or any Act of the National Assembly.

However, in July 2002, the Federal Executive Council (FEC) expanded the Commission's mandate to include monitoring the activities of the operators in the upstream sub-sector as set out below:

- Determination of the cost of oil production by NNPC and its Joint Venture Cash Call partners;
- Generation of data on oil and gas activities;
- Inspection of production and shipping facilities;
- Monitoring meter devices to verify quantities produced and shipped; and
- Liaise with NNPC and DPR to reconcile production and sales of crude oil, amongst others.

3.2.11 Petroleum Products Pricing Regulatory Agency (PPPRA)

The Petroleum Products Pricing Regulatory Agency (PPPRA) evolved from a 34-member Special Committee on the Review of Petroleum Products Supply and Distribution (SCRPPSD) drawn from various stakeholders and other interest groups set up by the Government to look into the problems of the downstream petroleum sub-sector.

The acceptance, by the Federal Government, of the recommendations of the report of SCRPPSD as contained in the Government white paper necessitated the creation of the Petroleum Products Pricing Regulatory Committee (PPPRC) as an interim measure to carry out the functions of the PPPRA as recommended by the SCRPPSD while waiting for the enactment of the Act of the National Assembly for the setting up of the Petroleum Products Pricing Regulatory Agency (PPPRA) as required in a democratic set up.

The Act establishing the PPPRA was enacted in May 2003.The PPPRA Act. No. 8 of 2003, under section 7, empowers the Agency to carry out its functions as follows:

1) Determine the pricing policy of petroleum products;
2) Regulate the supply and distribution of petroleum products;
3) Establish an information and data bank through liaison with all relevant agencies to facilitate then making of informed and realistic decisions on pricing policies;
4) Moderate volatility in petroleum products prices, while ensuring reasonable returns to operators:
5) Oversee the implementation of the relevant recommendation and programmes of the federal Government as contained in the white paper on the Report of the Special Committee on the Review of Petroleum Products Supply and Distribution specified in the second schedule to this Act as they relate to its functions, taking cognizance of the phasing of special proposals;
6) Establish parameters and codes of conduct for all operators in the downstream petroleum sector;
7) Maintain constant surveillance over all key indices relevant to pricing policy and periodically approve benchmark prices for all petroleum products;
8) Identify macro-economic factors with relationship to prices of petroleum products and advice the federal Government on appropriate strategies for dealing with them;
9) Establish firm linkage with key segments of the Nigerian society, and ensure that its decisions enjoy the widest possible understanding and support;
10) Prevent of collusion and restrictive trade practices harmful in the sector;
11) Exercise mediatory role as necessary for all the stakeholders in the sector;

Related revenue flows include payments for subsidy on petroleum products.

3.3 Private Sector Participants

The private sector operators include all non-government operators in the oil and gas sector. These companies are involved in crude oil and gas operations in Nigeria under various contractual arrangements. These arrangements prescribe the contractual framework within which the government and the oil companies conduct petroleum operations in Nigeria. The existing arrangements are:

- Joint Venture Agreement;
- Production Sharing Agreement;
- Marginal Field Operation or Sole Risk;
- Service Contract Arrangement.

A comprehensive list of companies is provided in Appendix R.

3.3.1 Joint Venture Agreement (JV)

This is a standard basic agreement between the government and the operators for the running of the operations. The agreement is summarized as follows:

- All parties are to share in the cost of operations and in the quantity of crude produced according to their participating interest;
- Each partner can lift and separately dispose its interest share of production subject to the payment of petroleum profits tax (PPT) at 65.75% in first 5 years and at 85% thereafter and royalty at applicable rates depending on water depth;
- The operator is the one to prepare proposals for programs of work and budget of expenditure on an annual basis, which shall be shared based on participatory interest;
- Each party can opt for and carry on sole risk operations;
- The oil company (the assignee) is granted concession right and operates the property for oil and gas. The assignee also referred to as operator to share the development and operating costs as soon as production commences and shares the revenue from the crude at the agreed participatory interest;
- The operator makes cash calls from the other party to the venture agreements and also contributes its own portion of the call towards development and production activities. The JV arrangement may be between two or more parties with one party nominated as the operator; and
- The Joint Operating Agreement (JOA) governs the conduct of operations of all interest partners.

During the years 2009-2011, the following JVC operators carried out exploration and production in Nigeria:

Table 3–1-List of Joint Venture Operators during the Years 2009 – 2011

JVs	Equity Holding	
NNPC/SPDC/TEPNG/NAOC	NNPC SPDC TEPNG NAOC	55% 30% 10% 5%
NNPC/CNL	NNPC CNL	60% 40%
NNPC/TEPNG	NNPC TEPNG	60% 40%
NNPC/MPNU	NNPC MPNU	60% 40%
NNPC/NAOC/POCN	NNPC NAOC POCN	60% 20% 20%
NNPC/POCN	NNPC POCN	60% 40%
NPDC/SPDC	NNPC SPDC	60% 40%
NPDC/CNL	NNPC CNL	60% 40%

3.4 Production Sharing Contract (PSC)

This is governed by the Deep Offshore and Inland Basin Production Sharing Contracts Act No 9 of 1999 which came about after persistent pressure by affected operators, demanding a formal law to give legislative backing to fiscal incentives as guaranteed by the government under the PSC. It was enacted in response to the funding problems and risk in other arrangements as well as the desire of the government to open up the sector for more foreign direct participation. The PSC governs the understanding between the NNPC and all participants in the Inland Basin, Deep and Ultra Deep-water range.

The PSC law prevails in the event of any inconsistency between the provision of the PSC Act and any other pre-existing law. The Act amended both the general Petroleum Act and the PPTA. In general terms, the pre-existing petroleum laws are to be read in conformity with the PSC Act.

Under the PSC, the Government is no longer required to meet periodic cash call obligations to JV programmes. The operators however, embrace the varying degree of fiscal incentives and work programmes offered by the PSC. However, ownership of the resources remains with the government and the Oil and Gas Company is only contracted to extract and develop the resources. The government retains the right to petroleum resources in the ground but appoints the investors as contractors to assist the government in developing the resources.

The contractual terms in PSCs include that**:**

- The contractor bears all costs of exploration and production without such costs being reimbursed if no oil is found in the acreage;

- Cost as Cost Oil is recoverable from the crude oil in event of commercial find after provision is made for Royalty Oil and Tax Oil to offset actual tax. The balance is Profit oil, which is shared in an agreed ratio between the NNPC and the contractor after royalty oil, cost oil and tax oil;
- The duration of Oil prospecting license relating to PSC in the deep offshore and inland basin is for a minimum period of 5 years and aggregated period of 10 years;
- The applicable tax rate to the contract area is 50% flat on the chargeable profit for the duration of the PSC;
- In some PSCs, there is an explicit royalty payment that is paid to government before the remaining production is shared between cost and profit oil. Other PSCs are varied with limits on the cost oil. The sharing of profit oil is often fixed in agreed percentage;
- The contractor engages in the oil exploration and production but has no title to the oil produced;
- Contractor is allowed to market the portion of the production allocated to cost oil and its share of profit oil but at the price fixed by NNPC;
- The concession under the arrangement is normally located in the deep offshore (water depth of over 200m) or inland basin.

The Table 3.2 presents the list of all PSC operators in the country between the periods 2009-2011.

Table 3–2-List of Production Sharing Contract Operators

S/N	Production Sharing Contract Operators
1	Addax Petroleum Development Nigeria Limited (APDNL)
2	Addax Petroleum Exploration Nigeria Limited (APENL)
3	Esso Exploration and Production Limited (EEPL)
4	Nigerian Agip Exploration (NAE)
5	Shell Nigeria Exploration and Production Company Limited (SNEPCO)
6	Star Deepwater Petroleum Limited
7	Sterling Oil Exploration & Energy Production Co. Ltd (SEEPCOL)
8	Statoil Nigeria Limited
9	Total Upstream Nigeria Limited (TUPNIL)

3.5 Marginal Field/Sole Risk

Due to pressure on the FG to increase indigenous participation in Oil and Gas industry, the FG reallocates marginal fields belonging to multinational companies to indigenous concession holders. Consequently, all oil companies are mandated to report to the DPR their portfolio of fields that have reserves booked and remained unproduced for a period of over 10 years.

These fields are referred to as “marginal field” and allocated to indigenous operators (marginal field operators). This category of operators are taxed at 85% or at 65.75% just like the JV companies for the period they are still recouping their pre-production expenses. Such fields are farmed out to the small operators by the big oil companies.

Table 3–3-List of Sole Risk/Marginal Field Operators

S/N	Sole Risk/Marginal Fields Operators
1	Allied Energy Plc
2	AMNI International Petroleum Development Company Ltd.
3	Atlas Petroleum International Limited
4	Brittania U-Nigeria Limited
5	Camac International Nigeria Limited
6	Cavendish Petroleum Nigeria Limited
7	Conoil Producing Limited
8	Continental Oil & Gas Limited
9	Dubri Oil Company Limited
10	Express Petroleum & Gas Company Limited
11	Midwestern Oil and Gas Company Plc
12	Moni Pulo Limited
13	Newcross Petroleum Limited
14	Niger Delta Petroleum Resources Limited
15	Nigeria Petroleum Development Company Limited
16	Oando Exploration and Production Ltd
17	Optimum Petroleum Development Limited
18	Platform Petroleum Limited
19	Pillar Oil Limited
20	Shebah E&P Company Limited
21	Seplat Petroleum Development Company Limited
22	Summit Oil & Gas Worldwide Limited
23	Walter Smith Petroman Oil Limited

3.6 Service Contracts

The fundamental aspects of Services Contracts include:

- The Operating License here is held by government. The operators are designated as the service contractors and provide all funds required for the exploration and production works;
- The oil companies undertake to carry out the exploration and development activities on behalf of the government;
- The contractor is paid a fee for performing the service of producing the oil and gas;
- All production belongs to the government while the contractor provides the capital and the skills;
- The contractor recovers its cost through the sales of oil and gas;
- The risk element lies in the success or failure of the exploratory activities to find oil;
- The signature bonus paid is non-refundable or recoverable as exploration cost; and
- The contractor's operations are taxable under CITA at 30%.

Table 3–4- ***List of Service Contract Operators***

S/N	List of Services Contract Operators
1	Agip Energy & Natural Resources Ltd

3.7 Covered Entities

As contained in the TOR, we requested for NEITI's assistance in obtaining, for the purpose of this audit, a listing of all entities that were potentially involved in the oil and gas sector in the period under review. Corroborative listings were also obtained from DPR, FIRS, NNPC and OAGF.

We further sent an inquisition template to DPR to acquire information on all license holders during the period of the audit. Notwithstanding, we assumed that all the companies involved in the previous audits, particularly the 2006 – 2008 audit would be covered entities for the 2009 -2011 audit.

All of the international oil companies responded and made comments on the templates and the focal points for the audit. Many of the independent companies also responded, although a number could not be contacted through their email addresses. We also sought to contact some entities through their physical addresses to a limited success.

3.7.1 Covered Entities involved in producing activities

The relevant companies for the audit are those involved in operations that are producing hydrocarbons as segmented according to their commercial arrangements. They are fully listed in Tables 3.1 to 3.4 above.

The Petroleum Act – National Data Repository Regulations 2007 charges the Department of Petroleum Resources with the responsibility for maintaining a detailed database on companies in the sector. The database in operation does not guarantee seamless retrieval of information. This is an issue that was identified for attention in the previous audit. This database would assist in clarifying the distinction between the entities and their activities.

4. Summary of the Financial Flows

4.0 General Overview of Financial Flows

4.1 Introduction

The financial flows from the oil and gas sector to the federation are mainly flows from sales of equity crude (domestic and export crude sales), gas sales, other sales, PPT and other taxes to the federation, royalties, rentals, dividends from gas sector investments, amongst others. These flows arose from the extractive activities of operators (oil companies) under various types of arrangements identified in section 3.2, and are monitored by government agencies identified in section 3.1 .

This section captures in summary, the various financial flows accruing to the Government from the Oil and Gas Companies, which have been reconciled by matching covered entities data collection templates against government agencies data collection templates.

The financial flows accruing to the State Governments and the other agencies (such as Contributions to the Niger Delta Development Commission and the Education Tax) have also been recognised. Some of these financial flows aggregated in other currencies have been converted to the Dollar at average exchange rates for the respective years.

The summary of the core (oil and gas) financial flows received by the Federation for the years 2009 – 2011 are summarised in the figure below.

Table 4–1- Summary of Financial Flows

	Table Ref.	2009	2010	2011	Grand Total
		US$ '000	**US$ '000**	**US$ '000**	**US$ '000**
Sales of Crude Oil and Gas					
Export Crude	5.1	10,133,931	17,693,065	24,760,831	52,587,827
Domestic Crude	5.1	9,903,033	13,228,942	18,363,100	41,495,075
Gas	5.1	351,357	456,284	610,857	1,418,498
Feed Stock	5.1	415,328	1,320,043	1,825,617	3,560,988
Sales of Crude Oil and Gas		**20,803,649**	**32,698,334**	**45,560,405**	**99,062,388**
Less: PSC In Kind Payments					
Petroleum Profit Tax (PPT)	5.2	2,854,787	4,861,801	8,234,874	15,951,462
Royalty (Oil)	5.2	337,916	201,512	601,413	1,140,841
PSC In Kind Payments		**3,192,703**	**5,063,313**	**8,836,287**	**17,092,303**
Sub-Total- A		**17,610,946**	**27,635,021**	**36,724,118**	**81,970,085**
Other Specific Financial Flows					
Petroleum Profit Tax (PPT)	8.2	5,399,508	8,590,183	18,763,688	32,753,379
Royalty (Oil)	8.3	2,578,360	3,853,835	6,041,396	12,473,591
Royalty Gas	8.5	30,658	75,327	90,076	196,061
Signature Bonus	8.11	5,000	0	216,146	221,146
Gas Flaring Penalties	8.7	19,300	17,873	22,487	59,660
Concession Rentals	8.9	1,446	1,151	2,225	4,822
Total Confirmed Flows		**8,034,272**	**12,538,369**	**25,136,018**	**45,708,659**
Other Flows to Federation Account					
Companies Income Tax (CIT)	8.24	236,347	367,998	273,481	877,826
Value Added Tax	8.24	1,289,346	910,620	1,005,030	3,204,996
Total of Other Flows to Federation Account		**1,525,693**	**1,278,618**	**1,278,511**	**4,082,822**
Sub-Total- B		**9,559,965**	**13,816,987**	**26,414,529**	**49,791,481**
Total Flows to the Federation Account (A+B)		**27,170,911**	**41,452,008**	**63,138,647**	**131,761,566**
Other Flows					
Dividends & Repayment of Loans by NLNG	8.23	879,839	1,427,512	2,537,503	4,844,854
PAYE	8.24	9,111	3,510	13,120	25,741
Witholding Tax	8.24	550,543	604,181	918,685	2,073,409
Total Other Flows		**1,439,493**	**2,035,203**	**3,469,308**	**6,944,004**
Flows to States					
Withholding Taxes	8.25	10,544	12,771	12,045	35,360
PAYE	8.25	471,758	476,516	586,001	1,534,274
Total Flows to States		**482,302**	**489,287**	**598,046**	**1,569,635**
Flows to other Entities					
Contributions to NDDC	8.17	398,416	561,390	703,292	1,663,098
Education Tax	8.25	638,364	407,107	533,035	1,578,506
Total Flows to other Entities		**1,036,780**	**968,497**	**1,236,327**	**3,241,604**
Grand Total		**30,129,486**	**44,944,995**	**68,442,328**	**143,516,809**

Note: Table 5-2, included in PPT and Royalty Oil is the amount of $15.95 billion and $1.14 billion being revenues collected for PPT Oil and Royalty oil on PSC arrangements based on crude oil lifted by NNPC and cash paid into FIRS and DPR accounts on behalf of the Federal Government. The implication is that Export Crude Oil Sales would be enhanced by the amount above.

Contribution to NNDC includes the naira contribution which has been converted to dollar using the relevant exchange rate.

The reduction of CIT in 2011 is due to the timing difference in payment of CIT (paid in July 2012) by one of the covered entities.

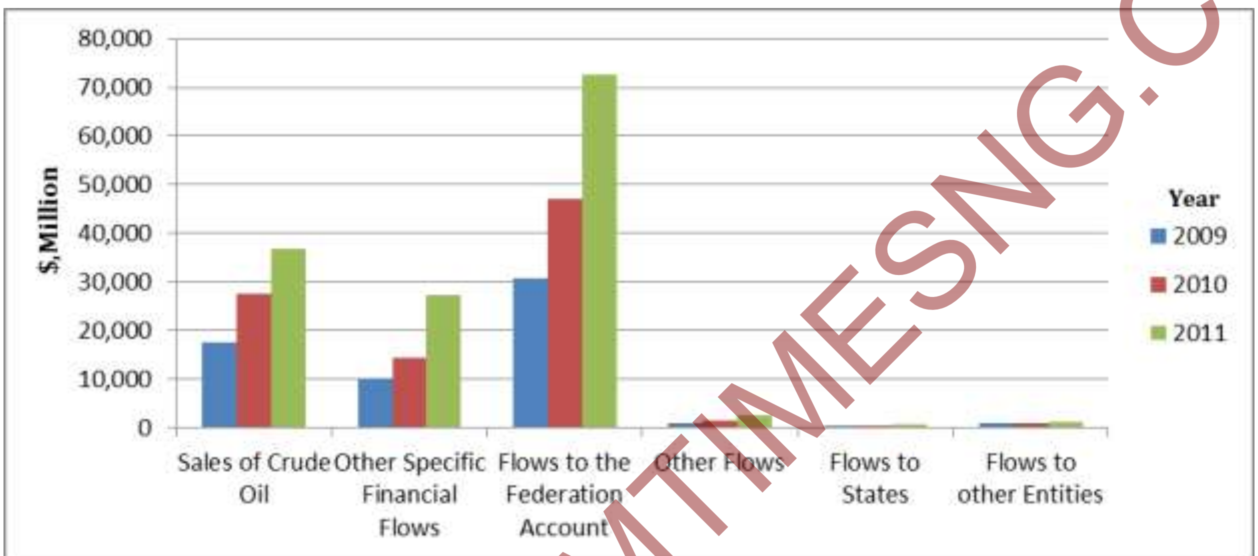

Figure 2-Chart Summary of the major financial flows

Table 4–2-Comparison of Financial Flows

	Previous Audit Cycle				Previous Audit Cycle			
	2006	**2007**	**2008**	**Total**	**2009**	**2010**	**2011**	**Total**
	US$ '000	**US$ '000**	**US$ '000**	**US$ '000**	**US$ '000**	**US$ '000**	**US$ '000**	**US$ '000**
Sales of Crude Oil and Gas								
Export Crude	16,367,301	18,432,877	30,924,739	65,724,917	10,133,931	17,693,065	24,760,831	52,587,827
Domestic Crude	10,028,970	11,624,328	15,599,104	37,252,402	9,903,033	13,228,942	18,363,100	41,495,075
Gas	334,584	336,788	478,763	1,150,135	351,357	456,284	610,857	1,418,498
Feed Stock	445,759	480,867	791,756	1,718,382	415,328	1,320,043	1,825,617	3,560,988
Sales of Crude Oil and Gas	**27,176,614**	**30,874,860**	**47,794,362**	**105,845,836**	**20,803,649**	**32,698,334**	**45,560,405**	**99,062,388**
Less: PSC In Kind Payments	**-**	**1,673,900**	**6,577,800**	**8,251,700**	**3,192,703**	**5,063,313**	**8,836,287**	**17,092,303**
Sub-Total- A	**27,176,614**	**29,200,960**	**41,216,562**	**97,594,136**	**17,610,946**	**27,635,021**	**36,724,118**	**81,970,085**
Other Specific Financial Flows								
Petroleum Profit Tax (PPT)	10,626,588	8,084,149	10,957,254	29,667,991	5,399,508	8,590,183	18,763,688	32,753,379
Royalty (Oil)	4,405,134	3,871,898	5,432,960	13,709,992	2,578,360	3,853,835	6,041,396	12,473,591
Royalty Gas	12,984	25,712	30,903	69,599	30,658	75,327	90,076	196,061
Signature Bonus	985,121	510,243	45,254	1,540,618	5,000	0	216,146	221,146
Gas Flaring Penalties				0	19,300	17,873	22,487	59,660
Concession Rentals				0	1,446	1,151	2,225	4,822
Total Confirmed Flows	**16,029,827**	**12,492,002**	**16,466,371**	**44,988,200**	**8,034,272**	**12,538,369**	**25,136,018**	**45,708,659**
Other Flows to Federation Account								
Companies Income Tax (CIT)	137,326	193,879	215,263	546,468	236,347	367,998	273,481	877,826
Value Added Tax	89,596	216,251	398,111	703,958	1,289,346	910,620	1,005,030	3,204,996
Total of Other Flows to Federation Account	**226,922**	**410,130**	**613,374**	**1,250,426**	**1,525,693**	**1,278,618**	**1,278,511**	**4,082,822**
Sub-Total- B	**16,256,749**	**12,902,132**	**17,079,745**	**46,238,626**	**9,559,965**	**13,816,987**	**26,414,529**	**49,791,481**
Total Flows to the Federation Account (A+B)	**43,433,363**	**42,103,092**	**58,296,307**	**143,832,762**	**27,170,911**	**41,452,008**	**63,138,647**	**131,761,566**
Other Flows								
Dividends & Repayment of Loans by NLNG	0	0	0	0	879,839	1,427,512	2,537,503	4,844,854
PAYE	1,700	90	1,836	3,626	9,111	3,510	13,120	25,741
Witholding Tax	450,225	676,372	775,145	1,901,741	550,543	604,181	918,685	2,073,409
Total Other Flows	**451,925**	**676,462**	**776,981**	**1,905,368**	**1,439,493**	**2,035,203**	**3,469,308**	**6,944,004**
Flows to States								
Withholding Taxes	5,193	32,282	62,415	99,889	10,544	12,771	12,045	35,360
PAYE	105,624	150,241	196,558	452,422	471,758	476,516	586,001	1,534,274
Total Flows to States	**110,817**	**182,523**	**258,972**	**552,312**	**482,302**	**489,287**	**598,046**	**1,569,634**
Flows to other Entities								
Contributions to NDDC	260,627	296,948	333,473	891,048	398,416	561,390	703,292	1,663,098
Education Tax	430,092	522,687	698,376	1,651,155	638,364	407,107	533,035	1,578,506
Total Flows to other Entities	**690,719**	**819,635**	**1,031,849**	**2,542,203**	**1,036,780**	**968,497**	**1,236,327**	**3,241,604**
Grand Total	**44,686,824**	**43,781,712**	**60,364,109**	**148,832,644**	**30,129,486**	**44,944,995**	**68,442,328**	**143,516,809**

Source:
2006 – 2008 NEITI reconciliation report and current audit figures from various tables contained in this report.

Note:
Gas Flare Penalties and Concession Rentals: Comperative figures for 2006-2008 could not be obtained as the summary of report and disaggregated flows did not contain their information.

Dividend and Repayment of Loan by NLNG: The previous audit indicated that NLNG has not reported, NNPC reported only dividends recieved from NLNG but did not report whether any payments were made to the Governmet.

4.2 Analysis of Financial Flows

The total Financial Flows to the Federation and other government entities during the years 2009 to 2011 under review is $143.5billion, (a decrease of 4% on the 2006-2008 audit total of $148. 8billion). The decrease was largely due to a 50% reduction (from $60 billion to $30 billion) in 2009 arising from a drop in the applicable average oil price (from $100 per barrel in 2008 to $63 in 2009) despite fairly consistent production volumes. The increase in average oil prices in 2010 and 2011 (from $80 to $112 per barrel) led to increased financial flows observed in the subsequent years with a total flow of $68billion in 2011.

Flows to the Federation Account are $131.7billion or 91.8% of total flows compared to $143.8billion 96.6% of 2006-2008 audit. Flows to states are $1.6billion (1.1% of total flows) as compared to $552million (0.4%) of the previous audit. The flows to other Federal Government entities including Niger Delta Development Commission and the Education Tax (TETFund) are $3.2billion as against $2.5billion in 2006-2008. The flows to NDDC are directly made to the agency and outside the purview of the National Assembly through the Appropriation Act whilst that of the TETFUND is paid to a designated account in the Office of the Accountant General of the Federation (OAGF) as stipulated by the enabling act.

Furthermore, financial flows from the sale of crude oil and gas amounted to $81.9billion that constitutes 57% of the total flows against $97.6billion or 66% of the total flows in the previous audit. The proportion of export crude oil and gas sales to total sales of crude oil and gas reduced to 53% ($52.8 billion) in the period 2009-2011, when compared to 62% ($65.7billion) from 2006-2008. On the other hand, the proportion of the domestic crude oil and gas sales increased from 35% ($37.2billion) to 42% ($41.5billion).

The export crude oil and gas sales flows to the Federation Account are affected by the Alternative Funding (AF) arrangements, such as Modified Carry Agreements (MCA), adopted to support production activities in the event of inadequate normal joint venture cash call funding. In these cases, direct entitlements (in kind payments) are made from production to cover production costs as well as for funding repayments.

There are slight increases in the financial flows from gas and feedstock as a result of increased gas processing, reduction of gas flares and the utilisation of feedstock by NLNG.

Confirmed financial flows, which are flows that are directly attributable to activities within the industry (such as PPT, Royalty, Signature Bonus and Concessional Rentals and Statutory Contributions), maintained their relative proportion to total financial flows by staying in the region of 30 to 32%. Individual striking increases can be noted in Royalty on Gas as well as in Gas Flaring Penalties indicating increased attention on gas utilisation.

No bid rounds were conducted during the period under review, hence the flows reported for signature bonuses arose from the payment of arrears of signature bonuses.

Other flows to the Federation Account (such as Companies Income Tax and Value Added Taxes) showed a consistent relationship in the financial flows increasing from 2% to 4%. The drop in CIT receipts between 2010 and 2011 is due to the timing difference in the payment of CIT on gas of $128.7million by MPNU for 2011 in July 2012.

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Financial flows from NLNG include dividends and repayment of loans of which an amount of $4.84 billion was received by NNPC. We have confirmed that these amounts have not been remitted to the CBN/NNPC JP Morgan Account or Federation Account.

We observed that this has been a recurring issue as an amount of $3.996billion was also reported as received but not remitted by NNPC in the previous audit. There is a need to confirm the ownership of the 49% investment in NLNG – Is it for the benefit of the Federation, or the Federal Government, or NNPC itself?. This is an area for further enquiry.

Other Flows involving taxes on income (PAYE) and Withholding taxes show a consistent trend with the previous audit as well as in relation to the activity volume and their location of collection. PAYE flows to the states, where most of the operating companies are domiciled, however shows a significant increase from $452 million in the previous audit to the current $1.53billion.

5. Review of proceeds of Sales of Crude Oil and Gas

5.0 Review of Equity Crude Oil Sales

5.1 Introduction

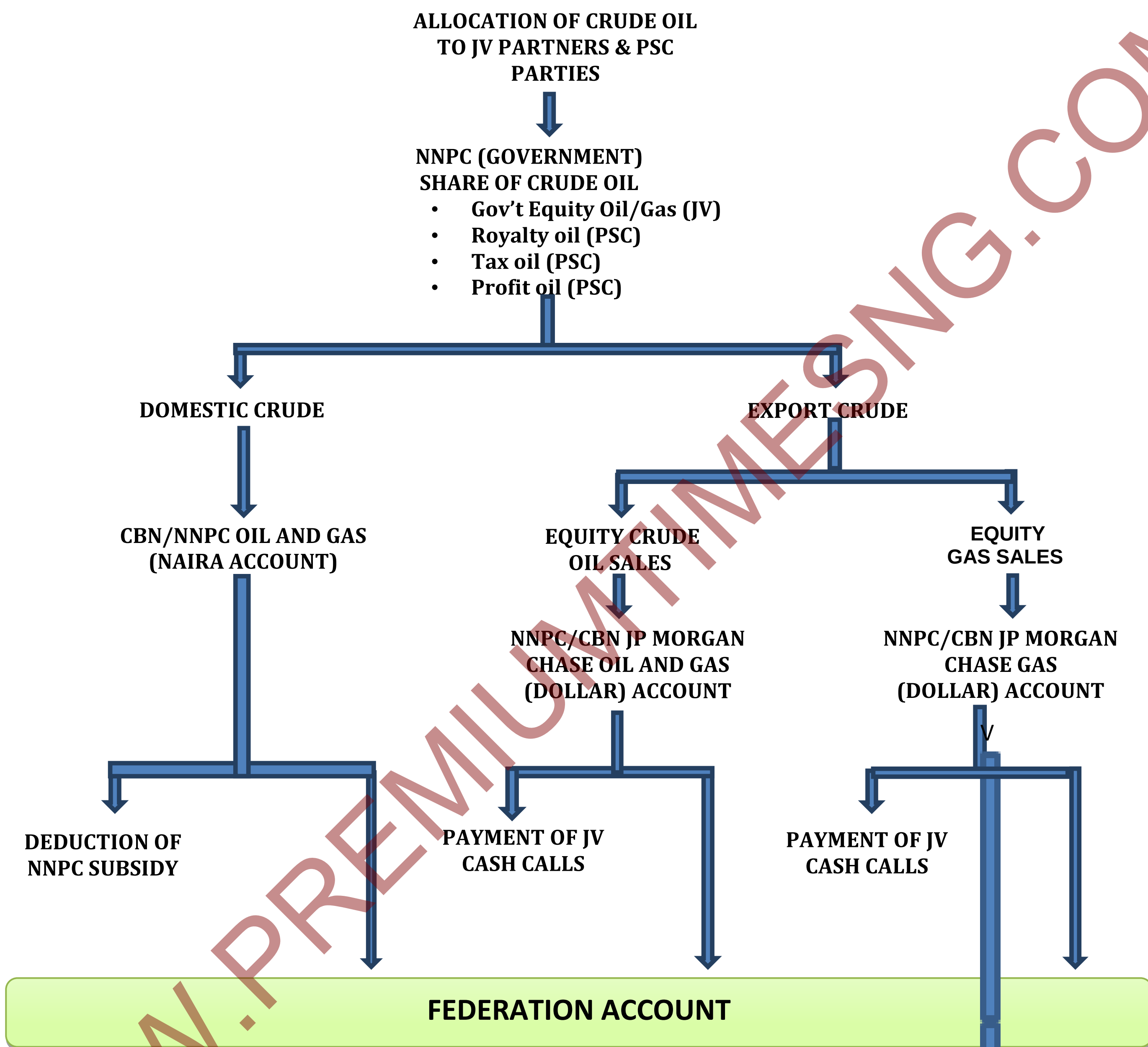
Equity Crude Oil represents Government interest in Upstream Joint Venture (JV) Operations and Payment in kind for Royalty (Royalty Oil), Petroleum Profit Tax (Tax Oil)and profit arising from Production Sharing Contracts (PSC). Government equity crude is devided into; Export Crude (crude sold internationally) and Domestic Crude (crude allocated for domestic use).

Other Income shared along with crude oil includes gas income, ullage fees, feedstock (hydrocarbon gas used as raw materials by NLNG) and junk sales proceeds (sale of unserviceable equipments, left over project material, obsolete equipment, etc) and income from Alternative Funding Arrangement (Joint Venture funding arrangements used in place of Cash Call).

Government also earns equity crude from Alternative Funding/Financing Mechanisms which refer to any financing arrangement designed to eliminate shortfall funding of approved budget with cash calls.

Proceeds from sales of Government Equity Crude Oil Sales are paid into CBN/NNPC Crude Oil and Gas Revenue Account. A separate bank account (CBN/NNPC JP Morgan Chase Gas Revenue Account) was opened for the remittance of Gas and Feed Stock sales proceeds in June 2009. It is from this account that Cash Calls are paid and the balance transfered to Federation Account.The overview of Federation Equity Crude Oil Sales is as shown in Table 5.1:

Table 5–1-Overview of Sales of Government Equity Crude



Government Equity Crude Oil Sales is marketed by Crude Oil Marketing Department (COMD), a division of Nigeria National Petroleum Corporation (NNPC), on behalf of the Federation. NNPC also acts on its own account in purchasing from the Equity Crude Oil allocated to the Federation for domestic use.

Crude oil export is based on irrevocable and confirmed letter of credit and payment is within 30 days from the Bill of Lading date.

5.2 Revenue from Sale of Government Equity Crude Oil and Gas

During the period under review, about $99 billion was realised from Sale of Equity Crude oil and gas. This amount is made up of $81.91b for direct revenue and $17.09b for in kind revenues from PSC contracts. A summary is shown below with a more detailed breakdown in Appendix B.

Table 5–2-Revenue from Sales of Crude Oil and Gas

	Sales of Export Crude Oil	Sales of Domestic Crude Oil	Sales of Gas	Sales of Feedstock	Total	Less: PSC Royalty and PPT (in Kind)	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
2009	10,133,931	9,903,033	351,357	415,328	20,803,649	3,192,703	17,610,946
2010	17,693,065	13,228,942	456,284	1,320,043	32,698,334	5,063,313	27,635,021
2011	24,760,831	18,363,100	610,857	1,825,617	45,560,405	8,836,287	36,724,118
Total	**52,587,827**	**41,495,075**	**1,418,498**	**3,560,988**	**99,062,388**	**17,092,303**	**81,970,085**

Source: From COMD Lifting Profiles

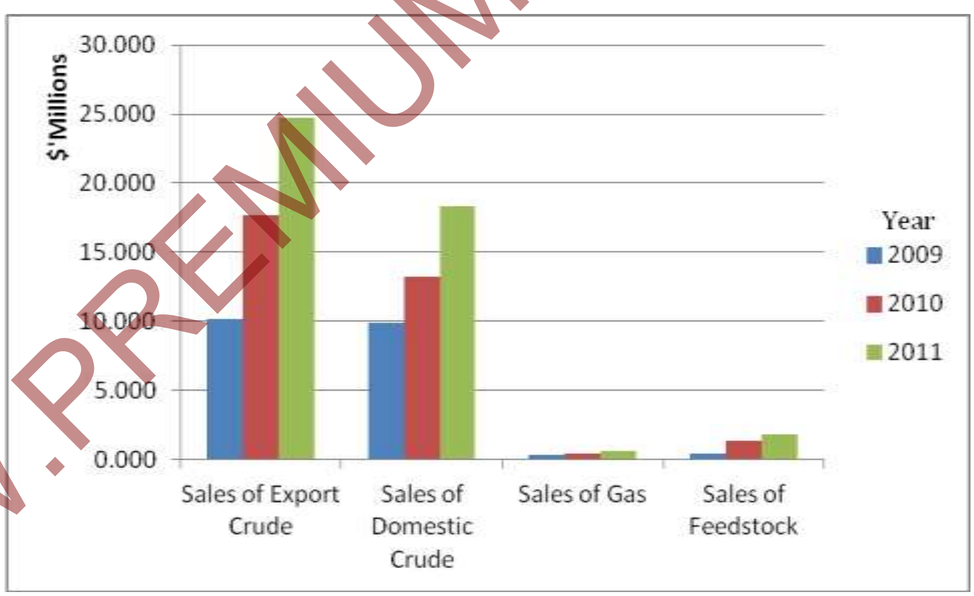


Figure- 3-Graphic Summary of Crude Oil and Gas Sales

Sales of Export Crude Oil: The Export Crude Oil Sales sold during the period under review is further analysed as shown in Table 5-3:

Table 5–3-Components of Export Crude Oil Sales Value

	2009	2010	2011	Total
	US$`000	US$`000	US$`000	US$`000
JV Operation	5,334,666	10,109,303	14,304,095	29,748,065
Modified Carry Arrangement (MCA)	1,424,836	2,070,130	1,202,974	4,697,941
Third Party Financing Satellite Oil Field	181,725	450,319	417,474	1,049,518
Subtotal	**6,941,228**	**12,629,752**	**15,924,544**	**35,495,524**
Production Sharing Contract (In-Kind-Payments)				
Petroleum Profit Tax Oil	2,854,787	4,861,801	8,234,874	15,951,462
Royalty Oil	337,916	201,512	601,413	1,140,841
Subtotal	**3,192,703**	**5,063,313**	**8,836,287**	**17,092,303**
Grand Total	**10,133,931**	**17,693,065**	**24,760,831**	**52,587,827**

Source: From COMD Lifting Profiles of Export Crude Oil

Note: Included in PPT and Royalty (Oil) is the amount of $15.95 billion and $1.14 billion in the table above being revenues collected for PPT Oil and Royalty oil on PSC arrangements based on crude oil lifted by NNPC as in-kind payments.

5.3 Sale of Feedstock

Sale of Feedstock includes sales from Alternative Funding Arrangement where payment for Feedstock sold is paid through an Escrow Account residing in the respective lenders bank as shown in the table below:

Table 5–4-Feed Stock Revenue

	Sales transferred to JP Morgan	Alternative Funding (MCA)	Total
	US$'000	US$'000	US$'000
2009	415,328	-	415,328
2010	1,208,103	111,940	1,320,043
2011	1,665,477	160,140	1,825,617
Total	**3,288,908**	**272,080**	**3,560,988**

Source: COMD Sales Lifting Profiles

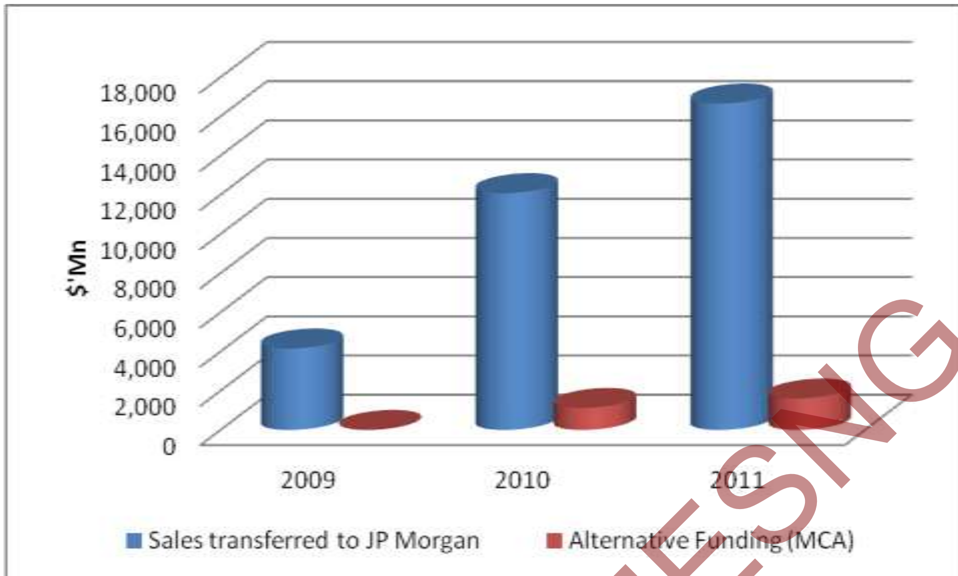


Figure 4-Feed Stock Revenue

5.4 Volume of Equity Crude Oil Sales

The volume of Equity Crude Oil sales for the years under review is summarized into Export Crude Oil sales and Domestic Crude Oil Sales as shown below. Details of the composition of these flows are contained in Appendix B.

Table 5–5-Summary of Total Volume of Sale of Government Equity Crude Oil

	BBL'000	BBL'000	BBL'000	BBL'000
Export Crude Sales				
JV Operations	88,551	127,753	127,810	344,114
JV Alternate Funding Arrangement	71,163	93,356	93,673	258,192
Total Export Crude	159,714	221,109	221,483	602,306
Trial Marketing Product (TMP)	14,533	-	-	14,533
Total	**174,247**	**221,109**	**221,483**	**616,839**
Domestic Crude Sales				
Refinery Delivery	19,363	34,701	45,393	99,457
Domestic Crude Export	142,551	97,792	39,340	279,683
Offshore Processing	-	27,337	23,689	51,026
Product Exchange	-	5,743	56,032	61,775
Crude Exchange	-	950	-	950
Total	**161,914**	**166,523**	**164,454**	**492,891**
Total Export and Domestic Volumes	**336,161**	**387,632**	**385,937**	**1,109,730**

Source: COMD Profile Lifting

5.5 Joint Venture Funding

Joint Venture arrangements were funded from two main sources during the period under review as follows:

- Cash Call Funding, and
- Alternative Funding Arrangements.

Joint Venture operations have been funded by the Federal Government with cash call payments untill recent years when it became obvious that cash calls cannot be financed in full. The NNPC representing the Federal Government in the existing Joint Venture companies sought for presidential approval in 2004 to engage other JV partners in the alternatve funding arrangement. Consequently, NNPC devised the Alternative Funding Arrangement which refers to any financing arrangement designed to eliminate shortfalls in Cash Call funding. The ratio of sales derived from Cash Call funding to sales derived from Alternative Funding Arrangements is as shown inTable 5.6:

Table 5–6-Export Crude Oil Revenue

	Revenue from Cash Call Funding	Revenue from Alternative Funding Arrangement	Total
	US$'000	US$'000	US$'000
2009	5,334,666	4,799,265	10,133,931
2010	10,109,303	7,583,762	17,693,065
2011	14,304,095	10,456,736	24,760,831
Total	**29,748,064**	**22,839,763**	**52,587,827**
Ratio	**56.6%**	**43.4%**	**100%**

Source: COMD Sales Lifting Profiles

Export Crude Oil Sales Revenue received from Alternative Funding Arrangement constitutes 43.4% of the total revenue for the years under review.

Under the MCA, PPT and Royalties are paid to Federal Inland Revenue Service (FIRS) and Department of Petroleum Resources (DPR) and the remaining funds are expected to be used to service MCA loans. Thereafter a percentage is retained on the Escrow Account and the balance swept to Federation Account.

The auditors have requested for details of Escrow Bank Accounts but are yet to be provided by NNPC. Details of the Alternative Funding Arrangement will be provided in the non-core Report.

5.6 Payments Received by CBN and Swept to the Federation Account

The total export crude oil sales receipts are lodged into two accounts; the **CBN/NNPC JP Morgan Oil and Gas Account** and **CBN/NNPC JP Morgan Gas Account.** In addition, other receipts such as bank interest, ullage fees and share of junk proceedsare also lodged into this account. The total receipts are swept into the Federation Account after funding of Cash Calls.

We have summarised the total funds received and swept into the Federation Account during the period under review as shown below. Detailed reconciliation of CBN/NNPC JP Morgan Oil and Gas Account and CBN/NNPC JP Morgan Gas Account are in Appendix B.

Table 5–7-Payments Received by CBN and Swept to the Federation Account

	Receipt					Swept to		
	Export Crude	Gas Sales/ Feedstock	Sub-Total	Other Income	Total	Federation Account	Cash Call Account	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
	A	B	C = (a+b)	D	e = (c+d)	f	G	h = (f+g)
2009	5,464,360	496,459	5,960,819	136,935	6,097,754	1,278,000	4,951,200	6,229,200
2010	9,765,332	1,927,908	11,693,240	34,592	11,727,831	5,157,574	6,522,378	11,679,952
2011	14,202,313	1,712,393	15,914,706	203,567	16,118,273	8,867,696	6,693,999	15,561,696
Total	**29,432,005**	**4,136,760**	**33,568,765**	**375,094**	**33,943,858**	**15,303,270**	**18,167,577**	**33,470,848**

Source: CBN/NNPC JP Morgan Chase Oil and Gas Revenue Account and CBN/NNPC JP Morgan Chase Gas Revenue Account.

Of the $33.94b total revenue from the sales of Crude Oil and Gas, the sum of $18.16b representing 53.5% was used for settlement of cash calls, while $15.3b representing 46.5% was swept to Federation Account.

Other Receipts from Modified Carry Arrangements subsequently paid into the Federation Account through FIRS and DPR is as shown below:

Table 5–8-Payments into Federation Account from MCA

Year	Royalty	PPT/CITA	EDU Tax	Total
	$`000	$`000	$`000	$`000
2009	263,600	987,050	-	1,250,650
2010	391,030	1,465,440	-	1,856,470
2011	255,930	961,050	2,080	1,219,060
Total	**910,560**	**3,413,540**	**2,080**	**4,326,180**

Source: NNPC Corporate Modified Carry Arrangement Payment to Federation Account Schedule.

These figures are confirmed to the MCA crude oil lifting profiles showing volumes and values attributable to FIRS (for PPT and Education Tax) and to DPR (for Royalty) with respect to various MCAs during the period under review. See Appendix B section 5-5 for details.

5.7 NNPC Joint Venture Alternative Funding Arrangements

5.7.1 Introduction

The Federal Government has increasingly found it difficult to meet its cash call obligations on Joint Venture operations. This has resulted in a funding gap in terms of the Federal Governments share of its cash call contributions. The Federal Government, through NNPC, entered into Alternative Funding/Financing arrangements with its joint venture partners to address these shortcomings.

These alternative funding arrangements are in the following categories:
- Third party financing from the external financial markets (i.e. banks etc.), and
- Modified Carry Arrangement (MCA) which are loans from existing JV Partners (IOCs)

5.7.2 Third Party Financing

Third Party Financing involves the creation of a Special Purpose Vehicle (SPV) by the JV Partners who assign the right of future production from the approved selected project to the SPV. The SPV enters into a long-term Sales and Purchase Agreement with off takers (buyers) which is used as security for the loan required for the financing of the selected project. Proceeds from the sale of the crude oil/gas are remitted to a dedicated "proceeds" account domiciled with the lending bank. Payments are made from this account for:
- Debt Service (Principal and Interest) and any other loan requirements.
- Balance in the account is shared in accordance with the JV equity holding.

NNPC's share on this arrangement is paid to CBN/NNPC Crude Oil and Gas Dollar Revenue Account and subsequently swept into the Federation Account. It is pertinent to note that all these transactions are off Balance Sheet items. The current third party financing arrangements are:
- NGL (Nigeria Gas Limited) I and II.
- SOF (Satellite Oil Fields)

5.7.3 Modified Carry Arrangement (MCA)

MCA is a modification of existing Carry Arrangements (CA) which is an alternative funding arrangement where NNPC's Joint Venture partners finance its share of agreed project cost and the repayment of the loan and interest paid with oil. Under Modified Carry Arrangement (MCA) NNPC's Joint Venture (JV) partners finance its share of agreed project cost and pay compensation and interest on cash basis instead of payment with oil.

Under this arrangement NNPC and its JV Partners create a Special Purpose Vehicle (SPV) which acts as the borrower. An escrow "dedicated" account is opened at the lender bank, to which the buyers "off takers" pay proceeds from the sale of crude oil and gas. Allotted Carry Oil/Gas is sold by NNPC on behalf the partners and the proceeds are paid into an escrow account. Agreed Capital Cost approved by all parties are settled as follows:
- Tax Relief at 85% is paid through transfer of NNPC's tax benefits to the Carrying Party.
- Balance of 15% referred to as Residual Carry Oil is paid from the NNPC's equity portion of the incremental oil and gas production from the relevant projects which are lifted and marketed by NNPC.

- Compensation (Interest): In consideration of financing the Carry Capex, the Carrying Party is compensated at an interest rate that would yield a financial internal rate of return (FIRR) of 8%. This payment comes from the NNPC's equity portion of the incremental oil and gas production from the relevant projects which are lifted and marketed by NNPC.

An important feature of MCA is that Carry Capital Cost (CCC) is only recovered in monetary terms (dollars) for both Carry Oil and Share Oil transactions. NNPC sells the crude at a price set by it and the monetary values of the equivalent barrels are paid into the escrow account. The existing MCAs are:

COMPANY	PROJECT
SPDC	Nembe Creek Bundle Cawthorne Channel Gbaran-Ubie
TEPNG	Ofon 2 OML 58
MPN	2007-2009 Drilling Bundle 2010 Drilling Bundle Oso Condensate
CNL	2008 CNL MCA
NAOC	NLNG T4/T5 Gas Supply Ebocha-Beniboye

From our review, sales of crude oil and feedstock worth $22.8billion and $272.1 million respectively (Tables 5.4 and 5.6) are paid into an escrow account under this new alternative funding arrangement. The process flow of a typical MCA is as described in **annexure 1)**. A detailed review of all the MCA arrangement is in progress and will be reported in th Non-Core EITI Report.

5.8 Domestic Crude Oil Sales Analysis

Domestic Crude Oil purchased and sold by NNPC for the three years under review are stated below at the Naira conversion rate applied by NNPC.

Table 5-9-Domestic Crude Oil Sales Volumes and Values

Year	Volume	Value	Value	Derived NNPC Average Exchange Rate	CBN Average Exchange Rate	Apparent Conversion Losses Value
	Bbl'000	**$'000**	**₦'000**			**₦'000**
2009	161,914	9,903,033	1,451,586,060	146.579948	148.880000	22,777,490
2010	166,523	13,228,942	1,954,124,959	147.715891	150.343300	34,757,841
2011	164,455	18,363,100	2,776,893,070	151.221366	153.444200	40,818,123
Total	**492,891**	**41,495,075**	**6,182,604,089**			**98,353,455**

Source: COMD lifting profile

The derived average conversion rate by NNPC differs from the annual average CBN rate and therefore results to apparent losses of ₦98.3billion during the years under review.

The review of the domestic crude oil utilisation by NNPC, as contained in the lifting profile, shows that NNPC utilised below the quota for the year 2009 by 1,000bpd and above the daily quota in the years 2010 and 2011 by 11,000bpd and 6,000bpd respectively. This implies that NNPC does not effectively monitor domestic crude liftings in accordance with expected guidelines.

5.8.1 Analysis of Actual Domestic Crude Oil Utilisation by NNPC

We reviewed the domestic crude oil lifting by NNPC as contained in the lifting profile. The detail set out below shows the difference between the expected utilisation and actual utilisation by NNPC for the year under review.

Table 5–10-Differences in crude oil utilisation

Year	2009	2010	2011
	Bbl'000	**Bbl'000**	**Bbl'000**
Total NNPC Actual Utilisation	161,914	166,523	164,455
NNPC Actual Utilisation per day (365 dpy)	444	456	451
NNPC Quota Utilisation @ 445,000 bpd	445	445	445
Difference	**(1)**	**11**	**6**

Source: COMD Lifting Profiles

Furthermore, we observed that NNPC has consistently refined below their approved allocation as shown in Table 5.11

Table 5–11-Utilisation of Domestic Crude Oil Allocation

	Allocated Crude	Refinery Delivery	Export	Offshore Processing	Crude Exchange	Product Exchange
	Bbl'000	Bbl'000	Bbl'000	Bbl'000	Bbl'000	Bbl'000
2009	161,914	19,363	142, 551			
2010	166,523	34,703	97,792	27,336	950	5742
2011	164,455	45,394	39,341	23,688		56,032
Total	492,892	99,458	279,684	51,024	950	61, 774
	Percentage	20.2%	56.7%	10.4%	0.2%	12.5%

Only twenty percent (20%) of the domestic crude oil allocation was delivered to local refineries, the balance was either exported for NNPC accounts or utilised for offshore processing, crude oil exchange and product exchange.

This shows that the Federation depends mainly on exported refined products for local consumption resulting to avoidable high payment of fuel subsidies. This also reduces the revenue accruable to the Federation from crude oil sales on pricing, volume utilisation and exchange rate differentials.

5.8.2 Reconciliation of CBN/NNPC Debtors account

NNPC purchases crude from the FG. The analysis of the debtor account is as follows:

Table 5–12- Analysis of NNPC Debt to the Federation

	2009	2010	2011
	₦'000	₦'000	₦'000
Opening Balance as at 1st January	842,771,372	1,037,410,255	1,169,859,569
Add			
Cost of Crude Supplied to NNPC	1,451,586,060	1,954,124,959	2,776,893,070
A Sub-Total	2,294,357,432	2,991,535,214	3,946,752,639
Less:			
Subsidy Deductions	198,110,212	416,459,361	785,908,668
Payment to Federation Account	860,236,618	1,405,216,284	1,855,818,894
Transfer to Cash Call Account	198,600,347	0	0
B Sub-Total	1,256,947,177	1,821,675,645	2,641,727,562
Balance due to Federation Account as at 31st December (A-B)	**1,037,410,255**	**1,169,859,569**	**1,305,025,077**

See appendix B for monthly analysis

The opening balance in the debtors accounts have been traced and reconciled to the 2008 NEITI audit report. It should be noted that the above opening and closing balances do not include outstanding payments on subsidies as these are still being verified by the respective agencies of government. Furthermore, the funding of cash call in 2009 was one off transaction as cash calls are financed from CBN/NNPC JP Morgan Oil and Gas Revenue Account and CBN/NNPC JP Morgan Gas Revenue Account. The amount of ₦ 198,600,347 was paid to CBN/NNPC Cash Call Naira Account.

5.8.2 Reconciliation of CBN/NNPC Oil and Gas Revenue (Naira) Account

NNPC maintains a CBN/NNPC Oil and Gas Revenue (Naira) Account where Crude Oil lifting proceeds and other Miscellaneous Income are lodged. From this account NNPC sweeps the amounts into the Federation Account. We reviewed and validated this account and present a summary of the reconciliations as shown in Table 5.13:

Table 5–13-CBN/NNPC Oil and Gas Revenue (Naira) Control Account

	2009	2010	2011
	₦'000	₦'000	₦'000
Opening Balance as at 1st January 2009	1,134,822	867,129	1,026,838
Add Lodgments:			
Crude Oil Liftings Proceeds	1,048,233,661	1,390,972,378	1,837,037,434
Other Miscellaneous Lodgments	10,335,611	120,204,410	7,957,999
Less Payments:			
Transfer to Federation Account	860,236,618	1,511,017,079	1,844,960,382
Transfer to JV Cash Call Accouunt	198,600,347	-	-
Balance as at 31st December	867,129	1,026,838	1,061,889
Balance as per Bank Statement	**867,129**	**1,026,838**	**1,061,889**

See appendix B for monthly Control Account.

6. Joint Venture Cash Calls

6.0 Joint Venture Cash Calls

6.1 Introduction

The Joint Operation Agreement (JOA), defines Cash Call as "the amount in all currencies which Operator estimates a Party must pay into the Joint Account in any given month to meet such Party's Participating Interest Share of the cost and expenditures to be paid for the Joint Account in such month, after adjusting for balances or deficits in such bank account as well as any credit receipts anticipated during such month."

6.2 Funding of Joint Venture Cash Calls

The cash call account is mainly funded through the CBN/NNPC Crude Oil and Gas Account and CBN/NNPC JP Morgan Revenue Account (from June 2009). NNPC/NAPIMS is directly responsible for government investment in the Joint Venture Operations.

Based on NNPC request, funds required by JV Operators as approved by Federal Government Budget office are transferred from the JP Morgan Chase CBN/NNPC Crude Oil and Gas Revenue Account and JP Morgan CBN/NNPC Gas Revenue Account to JP Morgan Chase CBN/NNPC JV Cash Call Account.

Cash Calls are funded in US Dollars and Nigeria Naira. Based on Cash Call demanded by JV Operators, NAPIMS issues Cash Call payment Mandate to CBN requesting for payment of the Cash Call due for the month on the JV. On receipts of mandates issue by NAPIMS, Dollar Cash Calls are paid directly to Joint Venture Operators from NNPC/CBN JP Morgan JVCC Account.

NNPC maintains a Naira Cash Call pool account with CBN. On a monthly basis, when Naira Cash Calls are approved for payments by NNPC Corporate Headquarters, NAPIMS would request CBN to transfer the equivalent amount of US Dollar to fund the Naira Account. The Naira available in that account is used to pay the Naira Cash Calls.

It is from the JP Morgan Chase CBN/NNPC JV Cash Call payment Account that NAPIMS finances the Federation share of the JV Operations.

Table 6–1-Summary of Cash Call Paid By NNPC to JV Partners in Dollars for 2009 – 2011

JV/YEAR	2009	2010	2011	Total
	US$'000	US$'000	US$'000	US$'000
NNPC/SPDC/TEPNG/NAOC	705,064	811,685	685,288	2,202,037
NNPC/EXXONMOBIL	601,255	638,694	321,131	1,561,080
NNPC/CHEVRON	770,408	728,075	780,692	2,279,175
NNPC/TEPNG	356,623	651,238	421,320	1,429,181
NNPC/NAOC/PHILIPS	392,595	274,751	234,401	901,747
NNPC/POOC	130,577	190,889	90,487	411,953
NPDC/CNL	3,235	883	2,024	6,142
NPDC/SPDC	298	180	1,895	2,373
	2,960,055	**3,296,395**	**2,537,238**	**8,793,688**

Source: NAPIMS Cash Call Mandates and CBN/NNPC Cash Call Dollar Account

Table 6–2-Summary of Cash Call Paid By NNPC to JV Partners in Naira for 2009 – 2011

JV/YEAR	2009	2010	2011	Total
	₦'000	₦'000	₦'000	₦'000
NNPC/SPDC/TEPNG/NAOC	114,714,788	143,823,346	144,053,085	402,591,219
NNPC/EXXONMOBIL	83,312,705	81,103,423	69,155,453	233,571,581
NNPC/CHEVRON	58,873,884	74,241,804	75,871,795	208,987,483
NNPC/TEPNG	38,913,916	60,414,517	57,645,890	156,974,323
NNPC/NAOC/PHILIPS	62,154,627	64,115,935	52,128,343	178,398,905
NNPC/POOC	12,119,294	16,922,053	16,334,595	45,375,942
NPDC/CNL	529,874	489,278	676,337	1,695,489
NPDC/SPDC	464,203	331,427	716,426	1,512,056
	371,083,291	**441,441,783**	**416,581,924**	**1,229,106,998**

Source: NAPIMS Cash Call Mandates and CBN/NNPC JV Cash Call Naira Account

The above details give the total cash call payments for the three years under review. The marginal increase of dollar cash calls paid in 2010 over that of 2009 and the fall in 2011 is due to the Alternative Funding Arrangements entered into by NNPC on behalf of the Federation.

6.2 Review of CBN/NNPC Joint Venture Cash Call Dollar Account

The CBN/NNPC Joint Venture Cash Call Dollar Account is the main bank account into which approved cash call funding is paid before payments are made to the respective Joint Venture Operators. The summary of funds transferred from various Accounts into CBN/NNPC Joint Venture Dollar Cash Call Account for the payment of cash calls are summarized as shown in Table 6.3:

Table 6–3-CBN/NNPC Joint Venture Cash Call Dollar Control Account for 2009 – 2011

		2009	2010	2011
		US$'000	**US$'000**	**US$'000**
Opening Balance as at 1st January		762,691	456,483	951,908
Funding:				
JP Morgan JVCC Accounts		4,951,200	6,552,065	6,747,718
Interest Earned		1,344	1,449	1,347
A Total Receipts		**5,715,235**	**7,009,997**	**7,700,973**
Less: Payment to JV Operators				
Current Year Cash Call Paid		2,189,223	2,810,997	2,471,982
Prior Year Cash Call Paid		579,012	485,398	65,256
Post Year Cash Call Paid		191,820	-	-
Monetisation – Naira Cash Call Paid		1,958,197	2,159,744	2,518,391
B Total Cash Call Payments		**4,918,252**	**5,456,139**	**5,055,629**
Non Cash Call Payments:				
NNPC/NAPIMS Mgt. Fees		140,500	119,000	227,104
Payment for Security Operation		200,000	200,000	200,000
Expansion of ESCRAVOS Lagos Pipeline		-	282,950	364,000
Fees on Reversal		-	-	-
C Total Non Cash Call Payments		**340,500**	**601,950**	**791,104**
Closing Balance as at 31st December = A-B-C		**456,483**	**951,908**	**1,854,240**

Source: CBN/NNPC JP Morgan Chase Cash Call Dollar Account

6.2.1 Sources of Cash Call Funding

The Joint Venture Cash Call payments for the period under review was funded from the following bank accounts as shown in Table 6.4:

Table 6–4-Cash Call funding into the CBN/NNPC JP Morgan Cash Call Account

Account/ Year	2009 US$'000	2010 US$'000	2011 US$'000
Fund Transfer from CBN/NNPC JP Morgan Joint Venture Cash Call Account	4,793,499	6,467,887	6,747,718
Fund Transfer from CBN NNPC JP Morgan Crude Oil and Gas Account	157,701	84,178	0
TOTAL	**4,951,200**	**6,552,065**	**6,747,718**

Source: CBN/NNPC JP Morgan Chase Cash Call Dollar Account

The above figures were checked against the dollar inflows of CBN/NNPC JP Morgan Chase Cash Call Dollar Account and reconciled to the outflows from CBN/NNPC JP Morgan Crude Oil and Gas Revenue Account and CBN/NNPC JP Morgan Gas Revenue Account.

6.2.2 Interest earned on JP Morgan Joint Venture Cash Call Account

In addition to Funds transferred from CBN/NNPC JP Morgan Crude Oil and Gas Account; Interest earned from the CBN/NNPC JP Morgan Chase JV Cash Call Dollar Account was also added to the funding received and paid out as part of Cash Calls.

Table 6–5-Summary of interest received

Year	US$'000
2009	1,344
2010	1,449
2011	1,347
Total	**4,140**

- ***Source: CBN/NNPC JP Morgan Chase Cash Call Dollar Account***

6.2.3 Non- Cash Call items Paid from JVCC Account

Apart from Cash Call payments, we observed that the following non-Cash Call items were financed from the CBN/NNPC JP Morgan Chase Cash Call Dollar Account. These include;

- Security payments
- Management Overheads
- Expansion of ESCRAVOS Lagos Pipeline

6.2.4 Review of Security payments

These are payments transferred from NAPIMS Joint Venture Cash Call Account to NNPC Corporate headquarters for security operations in the Niger Delta region by the Nigerian Military.

Table 6–6-The summary of the security payments for 2009 to 2011

Year	US$ '000
2009	200,000
2010	200,000
2011	200,000
Total	**600,000**

Source: CBN/NNPC JP Morgan Chase Cash Call Dollar Account

All security payments made between 2009 and 2011 were agreed to duly authorized payment mandates issued by NNPC Headquarters authorising the payment. We validated the payments to the underlying bank statements and no exceptions were noted. However, no evidence such as receipts or invoices were provided by the military except for a demand letter.

6.2.5 Review of NAPIMS Management Fee

Management fee is meant to service NAPIMS operational expenses. The total fees paid out of the JP Morgan Chase Joint Venture Cash Call Account as Management Fees is summarised as shown in Table 6.7:

Table 6–7-The summary of the management overhead payments

Year	US$ '000
2009	140,500
2010	119,000
2011	227,104
Total	**486,604**

Source: CBN/NNPC JP Morgan Chase Cash Call Dollar Account

We were not provided with evidence of approval for these payments. However, the payments were supported by approved mandates and traced to the CBN/NNPC JP Morgan Chase Cash Call (Dollar) Account Bank Statements.

6.2.6 Expansion of ESCRAVOS Lagos Pipeline

We observed that $282.95million and $364million for years 2010 and 2011 respectively, were paid out of the CBN/NNPC JP Morgan Chase Cash Call (Dollar) Account for the "Expansion of ESCRAVOS Lagos Pipeline Project. These payments were duly validated. This project should have been budgeted for under the JV Funding and subseqently executed by JV Operators. The Cash Call funds could have been used to reduce borrowing for production through Alternate Funding Arrangements.

6.3 CBN/NNPC Joint Venture Cash Call (Naira) Control Account

The CBN/NNPC Joint Venture Cash Call (Naira) Account is the main account from which Naira Cash Calls are paid. In accordance with mandates sent to CBN by NNPC/NAPIMS, CBN transfer's the dollar equivalent of Naira required for payment of Naira Cash Calls from the CBN/NNPC JP Morgan Chase Cash Call (Dollar) Account and paid into the CBN/NNPC Joint Venture Cash Call (Naira) Control Account.

The amounts received and paid out of the CBN/NNPC Joint Venture Cash Call (Naira) Account to Joint Venture partners for the years, 2009, 2010 and 2011 are summarized in the Control Account as shown in Table 6.8.

Table 6–8-CBN/NNPC Joint Venture Cash Call (Naira) Control Account for 2009 – 2011

	2009	2010	2011
	N'000	N'000	N'000
Opening Balance as at 1st January	12,812,979	110,780,973	3,362,343
Funding:			
Monetisation of Cash Call:			
JP Morgan JVCC Account	270,450,938	335,675,715	451,990,688
CBN/NNPC Crude Oil and Gas Naira Account	198,600,348	-	-
Funding from other source	-	-	-
A Total Receipts	**481,864,264**	**446,456,688**	**455,353,031**
Less: Payment to JV Operators			
Current Year Cash Call Paid	*253,359,051*	*328,824,090*	*357,216,475*
Current Year Cash Call Paid (NIPP Dom Gas)	*28,558,931*	*50,149,938*	*59,365,449*
Prior Year Cash Call Paid	*52,524,413*	*62,467,755*	-
Prior Year Cash Call Paid (NIPP Dom Gas)	*3,147,309*	-	-
Post Year Cash Call Paid	*29,114,740*	-	-
Post Year Cash Call Paid (NIPP Dom Gas)	*4,378,847*	-	-
B Total Cash Call Payments	**371,083,291**	**441,441,783**	**416,581,924**
Non Cash Call Payments:			
2003 - 2007 Outsanding BTIP Customs	-	1,185,062	-
Payment for Crude Oil Export Inst. Monitoring Services	-	-	4,696,705
0.1% Crude Oil Export Inspection and Monitoring Services	-	467,000	-
Fees on Reversal	-	500	-
C Total Non Cash Call Payments	**-**	**1,652,562**	**4,696,705**
Closing Balance as at 31st December = A-B-C	**110,780,973**	**3,362,343**	**34,074,412**

Source: CBN/NNPC Joint Venture Cash Call (Naira) Control Account

6.3.1 Dollar Cash Call Monetization to Naira from 2009 to 2011

From our review, the total (Dollar) Cash Call monetized into Naira was $6.6 billion. This gave a Naira equivalent of ₦1trillion cumulative from 2009 to 2011. The transfers on a monthly basis were duly agreed to the JP Morgan Chase CBN/NNPC JV Cash Call (Dollar) Account and CBN/NNPC JV Cash Call (Naira) Account respectively.

Table 6–9-Cash Call Monetisation

Year	₦'000	US$'000
2009	270,450,938	1,958,197
2010	335,675,715	2,159,744
2011	394,452,265	2,518,391
Total	**1,000,578,918**	**6,636,332**

Source: Cash Call Monetisation Mandates.

The details of Cash Call monetised on monthly basis from 2009 to 2011 with the exchange rates applied were reviewed and traced to respective banks.

6.3.2 Non Cash Call items paid from CBN/NNPC Cash Call Naira Account

In the course of our audit of the Cash Call (Naira) payments for 2009 to 2011, we observed that the following non-cash call items were paid from the CBN/NNPC JV Cash Call (Naira) Account.

Table 6–10-Summary of Non Cash Call Payments

Description	**2009**	**2010**	**2011**
	₦,000	**₦,000**	**₦,000**
2003 - 2007 Outsanding BTIP Customs	-	1,185,062	-
Payment for Crude Oil Export Inst. Monitoring Services	-	-	4,696,705
0.1% Crude Oil Export Inspection and Monitoring Services	-	467,000	-
Fees on Reversal		500	
Total Exceptional Payments	**-**	**1,652,562**	**4,696,705**

Source: CBN/NNPC Joint Venture Cash Call Naira Control Account

All Non Cash Call payments were validated with underlying source documents and the respective bank statements. Reversals were traced to the original booking entries and the approvals for their reversals.

7. Review of Subsidy Claims

7.0 Review of Subsidy Claims:

7.1 Introduction

To the extend that NNPC draws subsidy from the proceeds of domestic crude oil sales before the net proceeds are swept into the Federation account necessitated the review of subsidy claims as a separate section in this report.

The Federal Government also makes payment on subsidy to oil marketing companies based on the volume of imported products sold in Nigeria, in order to guarantee the availability of petroleum products. Subsidies are normally claimed from the Petroleum Support Fund (PSF) through the Petroleum Products Pricing Regulatory Agency (PPPRA) by all qualifying oil marketing companies. In contrast NNPC draws subsidy payments directly from domestic crude sales proceeds prior to remitting to the Federation Account.

PPPRA processes subsidy payment application from marketers by issuing them approved letters, while Debt Management Office (DMO) issues Sovereign Debt Note (SDN) to back approved letter for payment within specific period. The Office of the Accountant General for the Federation, through the CBN, makes payments to oil marketers for subsidy claims based on the SDN issued by DMO.

There are about 128 oil marketers, including NNPC, under the PSF scheme from records made available to us by PPRA. The details of the listing is enclosed in annexture 2.

7.2 Determination of Subsidy Due

PPPRA uses a standard template to determine the applicable subsidy per litre for the product on daily basis. The subsidy for the qualifying petroleum product is obtained by multiplying the quantity of product by the under-recovery rate.

In any year, if the ex-depot price is higher than the landing cost, then there is over-recovery and the oil marketing companies would be required to pay back the computed difference between to the Federal Government.

7.3 Subsidy Claimed By NNPC for Petroleum Products

The total of ₦1.40 trillion was claimed during the period by NNPC which was deducted directly from domestic crude oil proceeds before remitting the balance to the Federation account. The summary of subsidy claimed by the Corporation for petroleum products during the under years under review is shown in Table 7.1:

Table 7–1-Summary of Subsidy Claimed by NNPC from 2006 - 2011

	YEARS							
PRODUCT	2006	2007	2008	TOTAL	2009	2010	2011	TOTAL
	₦'000	₦'000	₦'000	-	₦'000	₦'000	₦'000	₦'000
Premium Motor Spirit	219,728,409	236,641,070	360,184,606	816,554,085	198,110,212	416,459,361	785,908,668	1,400,478,241
Per centage change		8	52		45	110	89	

Source:
NNPC'S Domestic Crude Mandate Profile to CBN; – 2009 - 2011
NEITI's Audit Report 2006 - 2008

The subsidy payments claimed by NNPC increased by 110 percent from ₦198 billion in 2009 to ₦416 billion in 2010 and 89 percent in 2011, (₦416 billion to ₦786 billion). The increase between 2009 and 2011 alone was 186 per cent, from ₦98billion in 2009 to ₦786billion in 2011.

The reasons for the increase will be highlighted in the non-core report when the various reports on the subject are reviewed during the validation exercise in the next phase of the audit.

Figure 5 shows comparison of current claims with the previous audit claim's report which indicate that there was a marginal increase by only 8 percent of subsidy paymenys between 2006 and 2007.

However, NNPC subsidy claims rose by 52 percent in 2008, and it decreased by 45 percent in 2009. From 2009 -2010, the Subsidy claimed by NNPC has been on the increase and the increase doubled in 2010 and 2011. The trend would be investigated in the next phase of the audit.

Figure 5 Graph of Composite Trend of Subsidy Claimed by NNPC

The Federal Government should review the deduction of subsidy claims from the proceeds of domestic crude by NNPC to allign them with due process like other marketers who draws their claims from the Petroleum Support Fund.

7.5 Corroborative Information on Subsidy from Government Agencies

Request for corroborative data on subsidy payments claimed by marketers during the period has been made to the following government agencies:

- the CBN,
- Debt Management Office (DMO),
- OAGF and
- the Budget office.

Because of the public expectations regarding the issue of subsidy, more validation procedures are being conducted on subsidy payment transactions during the period under review. The outcome will form part of the non-core EITI report.

8. Reconciliation of Financial Flows

8.0 Reconciliation of Financial Flows

8.1 Disaggregated financial flows

The reconciliation of Financial Flows was conducted, in accordance with the requirement of EITI rules, by comparing the initial submission, through templates, from the oil companies with that of government agencies. The oil companies operators indicate payments in respect of the financial flows in their templates, whilst the government agencies indicate the receipts from the operators.

These are validated with the underlying records, receipt documents and other corroborative evidence, Further interaction through formal and informal reconciliation meetings took place with a view to resolving significantly the observed differences and to obtain explanations where necessary.

A breakdown of disagregated financial flows and the reasons for the unresolved differences are indicated in the following tables. These contain the summary of the templates, adjusted figures and the unresolved difference for each of the identified financial flows as at the reporting date. The explanations available for the unresolved differences are indicated immediately after the summary schedule for each financial flow.

Table 8–1-Summary of financial flows reconciliation and Adjustments made for review period

		Initial Templates			Adjustments		Adjusted Figures		
	Table Ref.	Govt.	Company	Difference	Govt.	Company	Govt.	Company	Unresolved Difference
2009		US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000
Petroleum Profit Tax (PPT)	8.2	5,485,238	5,344,623	140,615	(85,730)	54,885	5,399,508	5,399,508	-
Royalty (Oil)	8.3	2,503,529	2,739,831	(236,302)	74,830	(161,822)	2,578,359	2,578,009	351
Royalty Gas	8.5	28,037	18,385	9,652	2,621	13,798	30,658	32,183	(1,525)
Gas Flaring Penalties	8.7	21,580	14,772	6,808	(2,280)	720	19,300	15,492	3,808
Concession Rentals	8.9	1,582	1,858	(276)	(136)	(1)	1,446	1,857	(411)
Signature Bonus	8.11	5,000	-	5,000	-	-	5,000	-	5,000
Contribution to NDDC	8.17	371,185	334,491	36,694	27,232	29,309	398,416	363,800	34,617
2009 Total		**8,416,151**	**8,453,960**	**(37,809)**	**16,537**	**(63,111)**	**8,432,687**	**8,390,848**	**41,840**
2010									
Petroleum Profit Tax (PPT)	8.2	8,835,950	8,485,935	350,015	(245,767)	104,248	8,590,183	8,590,183	-
Royalty (Oil)	8.3	3,957,961	4,187,665	(229,704)	(104,126)	(313,568)	3,853,835	3,874,097	(20,262)
Royalty Gas	8.5	58,240	74,731	(16,491)	17,087	695	75,327	75,426	(99)
Gas Flaring Penalties	8.7	18,630	16,237	2,393	(757)	166	17,873	16,403	1,470
Concession Rentals	8.9	1,119	1,117	2	32	-	1,151	1,117	34
Signature Bonus	8.11	0	0	-	0	0	-	-	-
Contribution to NDDC	8.17	478,343	625,683	(147,339)	83,047	(62,783)	561,390	562,900	(1,509)
2010 Total		**13,350,243**	**13,391,368**	**(41,125)**	**(250,484)**	**(271,242)**	**13,099,759**	**13,120,126**	**(20,367)**
2011									
Petroleum Profit Tax (PPT)	8.2	17,620,994	18,955,010	(1,334,016)	1,142,694	(191,322)	18,763,688	18,763,688	-
Royalty (Oil)	8.3	5,866,847	6,437,572	(570,725)	174,549	(356,291)	6,041,396	6,081,281	(39,885)
Royalty Gas	8.5	89,593	89,693	(100)	483	538	90,076	90,231	(155)
Gas Flaring Penalties	8.7	22,533	22,572	(39)	(46)	(19)	22,487	22,553	(66)
Concession Rentals	8.9	1,789	1,963	(174)	436	287	2,225	2,250	(25)
Signature Bonus	8.11	216,146	-	216,146		207,096	216,146	207,096	9,050
Contribution to NDDC	8.17	705,253	634,211	71,041	(1,961)	136,958	703,292	771,169	(67,877)
2011 Total		**24,523,154**	**26,141,021**	**(1,617,867)**	**1,316,155**	**(202,753)**	**25,839,310**	**25,938,268**	**(98,959)**
Grand Total		**46,289,548**	**47,986,349**	**(1,696,801)**	**1,082,208**	**(537,106)**	**47,371,756**	**47,449,242**	**(77,484)**

Contribution to NDDC includes the naira contribution which has been converted to dollar using the relevant exchange rate.

8.1.1 Petroleum Profits Tax (PPT)

The PPT is a taxation of petroleum profit levied on petroleum operations on the difference between the taxpayer taxable income and expense (deductions) allowed in the Petroleum Profit Tax Act in Nigeria. The tax is assessed and collected by the Federal Inland Revenue Service (FIRS).

The initial PPT reconciliation carried out between CBN's data and company's data, together with adjustments made as a result of the reconciliation and all unresolved differences are set out in Table 8.2:

Table 8–2-Summary of PPT Reconciliation

Petroleum Profit Tax	Initial Templates			Adjustments		Adjusted Figures		
	Govt	Company	Difference	Govt	Company	Govt	Company	Unresolved Difference
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
2009	5,485,238	5,344,623	140,615	(85,730)	54,885	5,399,508	5,399,508	-
2010	8,835,950	8,485,935	350,015	(245,767)	104,248	8,590,183	8,590,183	-
2011	17,620,994	18,955,010	(1,334,016)	1,142,694	(191,322)	18,763,688	18,763,688	-
Total	**31,942,182**	**32,785,568**	**(843,386)**	**811,197**	**(32,189)**	**32,753,379**	**32,753,379**	-

8.1.2 Royalty (Oil)

Royalty (Oil) refers to payments that may be due to governments, mineral owners, or land owners, in return for the producer having access to the petroleum resources. Royalty (Oil) is calculated based on oil production and payable to the Department of Petroleum Resources.

The initial Royalty (Oil) reconciliation carried out between CBN's data and company's data, together with adjustments made as a result of the reconciliation and all unresolved differences are set out in Table 8.3.

Table 8–3- Summary of Royalty (Oil) Reconciliation

Royalty (Oil)	Initial Templates			Adjustments		Adjusted Figures		
	Govt	Company	Difference	Govt	Company	Govt	Company	Unresolved Difference
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
2009	2,503,528	2,739,831	(236,302)	74,831	(161,822)	2,578,359	2,578,009	351
2010	3,957,961	4,187,665	(229,704)	(104,126)	(313,568)	3,853,835	3,874,097	(20,262)
2011	5,866,847	6,437,572	(570,725)	174,549	(356,291)	6,041,396	6,081,281	(39,885)
Total	**12,328,336**	**13,365,068**	**(1,036,732)**	**145,254**	**(831,681)**	**12,473,590**	**12,533,387**	**(59,796)**

The explanation for the unresolved differences on Royalty (Oil) are as follows:

Table 8–4-Unresolved differences on Royalty (Oil)

Company	Entity's Records	CBN's Records	Comments
	USD'000	USD'000	
2009 – Royalty (Oil)			
Platform	**1,231**		Payments by Platform in 2009 not in CBN Statement.
Amni		**9,338**	This amount was stated as receipt from Amni in DPR's record but Amni could not provide the receipt to back up this payment.
Moni Pulo Limited	**83**		Error in CBN template- $3,548,407 entered as $3,458,407 in Sept. 2009. Error in CBN template- $3,580,167 entered as $3,587,167 in Dec. 2009.
Continental Oil and Gas Limited	**7,500**		Payment not traced to CBN statement.
Pillar Oil	**173**		Pillar Oil provided copies of swift advices and bank statement made by CP Oil - its Technical partner but payment was not traced to CBN.
Total Unresolved Difference		**351**	
2010 – Royalty (Oil)			
TEPNG		2,180	From the $60,627,765 credited by DPR; $58,273,590 relates to timing difference, while $2,179,607 is yet to be traced to company records.
NAOC		9,506	$9,399,162 found in CBN statement but not in NAOC records.
PHILLIPS OIL	21,398		Payments not received by CBN, Receipts not provided by company.
AMNI		12,333	Amount confirmed to CBN statement but not traced to Amni records.
CAMAC	24,819		Payment not received by CBN, CAMAC did not provide receipt to support payment.
Moni Pulo	2,790		Payment not received by CBN, Company did not provide receipt to support payment.
Platform	254		Payment not received by CBN, company did not provide receipt to support payment.
Conoil		4,988	Unidentified Payment received by CBN
Express Petroleum	7		Company provided swift advice for $2,709 but CBN claimed it received $2,702.
Total Unresolved Difference		**(20,262)**	
2011 – Royalty Oil			
SEPCOL		500	Payment not traced to company records.
SEPLAT		22	The amount of $8,916,740 was stated in the swift payment but the amount of $8,894,408 was reported.
CAMAC	22,920		Amount not traced to CBN.
MONI PULO	16,482		Payments by Moni Pulo not in CBN template
PLATFORM	506		Payment made by Platform not in CBN template
Total Unresolved Difference		**(39,885)**	

8.1.3 Royalty (Gas)

The initial Royalty (Gas) reconciliation carried out between CBN's data and company's data, together with adjustments made as a result of the reconciliation and all unresolved differences are set out Table 8.6:

Table 8–5-Summary of Royalty (Gas) Reconciliation

Royalty (Gas)	Initial Templates			Adjustments		Adjusted Figures		
	Govt	Company	Difference	Govt	Company	Govt	Company	Unresolved Difference
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
2009	28,037	18,385	9,652	2,621	13,798	30,658	32,183	(1,525)
2010	58,240	74,731	(16,491)	17,087	695	75,327	75,426	(99)
2011	89,593	89,693	(100)	483	538	90,076	90,231	(155)
Total	**175,870**	**182,809**	**(6,939)**	**20,191**	**15,031**	**196,061**	**197,840**	**(1,779)**

The explanation for the unresolved differences on Royalty (Gas) are as follows:

Table 8–6-Unresolved differences on Royalty (Gas)

Company	Entity's Records	CBN's Records	Comments
	USD'000	USD'000	
2009 – Royalty (Gas)			
CNL	1,032		Payment by CNL not in CBN statement
		32	Amount in CBN template not in CNL template
NAOC	34		$34,000 found in NAOC but not traced to CBN statement.
Phillips Oil (Gas)		389	Payment confirmed only to CBN bank statement but Phillips Oil yet to confirm the purpose of payment
SPDC (Royalty Gas)	879		Company reported payment and provided copies of Treasury receipts and swift advices but payment not confirmed to CBN bank statement.
Total Unresolved difference		**1,525**	
2010 – Royalty (Gas)			
TEPNG		302	$209,617 & $93,289 confirmed only to CBN statement but not traced to company.
NAOC		352	$352,345 found in CBN statement but not in NAOC.
		62	$59,208 & $2,454 found in CBN statement but not in NAOC.
		276	$104,808 & $171,703 found in CBN statement but not

Company	Entity's Records	CBN's Records	Comments
	USD'000	USD'000	
			in NAOC.
CNL	1,191		Payment reported by company but not traced to CBN statement.
SPDC		457	SPDC wrongly populated $113,419 instead of $570,148 paid for gas royalty
		113	Unidentified receipt by CBN as SPDC cannot confirm payment
		955	This includes payment of $628,850.82 for MCA though SPDC swift advice classified payment as royalty. The other payments of $279,868.32 & $46,644.72 cannot be traced to SPDC records.
Phillips Oil	1,425		Company reported payment of $687,000 and $737,000 by in Sept and Dec but not confirmed to CBN bank statement.
Total Unresolved Difference		**99**	
2011 – Royalty (Gas)			
CNL	361		Payment by CNL but not in CBN bank statement
		212	Amount confirmed to CBN statement but not in CNL template
SPDC	41		The company reported payment of $2,291,000 but CBN confirmed receipt of $2,250,000
TEPNG		35	Amount confirmed to CBN statement but not in TEPNG records.
Total Unresolved Difference		**155**	

8.1.4 Gas Flaring Penalties

The initial reconciliation carried out between CBN's data and companies' data, together with adjustments made as a result of the reconciliation and all unresolved differences on Gas Flaring Penalties are set out in Table 8.7.

Table 8–7-Summary of Reconciliations of Gas Flaring Penalties

Gas Flare Penalty	Initial Templates			Adjustments		Adjusted Figures		
	Govt.	Company	Difference	Govt.	Company	Govt.	Company	Unresolved Difference
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
2009	21,580	14,772	6,808	(2,280)	720	19,300	15,492	3,808
2010	18,630	16,237	2,393	(757)	166	17,873	16,403	1,470
2011	22,533	22,572	327	(46)	(19)	22,487	22,553	(66)
Total	**62,743**	**53,581**	**9,528**	**(3,083)**	**867**	**59,660**	**54,448**	**5,212**

The explanation for the unresolved differences on Gas Flare Penalties are as follows:

Table 8–8-Unresolved differences on Gas Flaring Penalties

Company	Entity's Records	CBN's Records	Comments
	USD'000	USD'000	
2009 – Gas Flaring Penalties			
TEPNG		300	Amounts US$118,489 and US$140,896 included in CBN statements but not reconciled with TEPNG. And figures in TEPNG, US$82,748 and US$98,579 not traced to CBN statement.
NAOC		100	Amount in CBN statement but not in the company's template.
AENR		1052	Payments in CBN statement not traced to AENR records.
APDNL		288	$287,763 included in $580,351 recorded by CBN not traced to APDNL's record.
CNL		86	$62,000 and $24,000 in CBN template but not in CNL template.
Moni Pulo		300	$300,000 in CBN but not in Moni Pulo template.
Star Deep		520	$520,000 in CBN statement not in Star Deep, Star Deep actually paid but is contesting the payment of gas flare penalty.
SPDC		1,362	Payment confirmed only to CBN bank statement but not reported by SPDC.
Total Unresolved Difference		**3,808**	
2010 – Gas Flaring Penalties			
TEPNG		244	Amount confirmed to CBN statement but not in TEPNG's records.
SEPLAT		40	Amount confirmed to CBN statement but not in SEPLAT records.
APDNL	157		Amount reported by company but not traced to CBN statement.
AEPNL		50	Amount confirmed to CBN statement but not in AEPNL records.
AENR		663	Amount confirmed to CBN statement but not in AENR records.
Phillips Oil	178		Payment reported by company not confirmed to CBN bank statement.
Dubri Oil		264	Payment confirmed only to CBN bank statement but not reported by Dubri Oil.
Newcross Petroleum		114	Amount confirmed only to CBN statement but Company claimed that payments were made by their technical partners and that they do not have evidence of payment
SPDC		167	SPDC wrongly populated $113million on their template instead of $280million paid for gas royalty.

Company	Entity's Records	CBN's Records	Comments
	USD'000	USD'000	
	91		Payment reported by company and confirmed to CBN bank statement. DPR however, claimed payment was made for Rentals though Treasury receipt issued showed that it was for gas flare.
		220	Payment confirmed only to CBN bank statement but not reported by SPDC. Company paid $143,000 but CBN reported $363.000
Total Unreconciled difference		**1,470**	
2011 – Gas Flaring Penalties			
SEPLAT	326		Company reported payment but not traced to CBN statements
AENR		171	Amount confirmed to CBN statement but not in AENR records.
APDNL		28	Amount confirmed to CBN statement but not in APDNL records.
APENL	254		Company reported payment but not traced to CBN statement.
CNL		150	Amount confirmed to CBN statement but not in CNL template.
SPDC		111	Payment confirmed only to CBN bank statement but not reported by SPDC
Phillips Oil		54	Payment confirmed only to CBN bank statement but not reported by Phillips oil.
Total Unresolved difference		**66**	

8.1.5 Concession Rentals

The initial Concession Rentals reconciliation carried out between CBN's data and companies' data, together with adjustments made as a result of the reconciliation and all unresolved differences are set out in Table 8.9.

Table 8–9-Summary of Reconciliations of Concession Rentals

Rentals	Initial Templates			Adjustments		Adjusted Figures		
	Govt.	Company	Difference	Govt.	Company	Govt.	Company	Unresolved Difference
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
2009	1,582	1,858	(276)	(136)	(1)	1,446	1,857	(411)
2010	1,119	1,117	2	32	0	1,151	1,117	34
2011	1,789	1,963	(174)	436	287	2,225	2,250	(25)
Total	**4,490**	**4,938**	**(448)**	**332**	**286**	**4,822**	**5,224**	**(402)**

The explanation for the unresolved differences on Concession Rentals are as follows:

Table 8–10-Unresolved differences on Concession Rentals

Company	Entity's Records	CBN's Records	Comments
	USD'000	USD'000	
2009 – Concession Rentals			
SPDC	411		The company reported payment of $425,000 but CBN confirmed receipt of $14,000
2010 – Concession Rentals			
SPDC	327		The company reported payment of $425,000 but CBN confirmed receipt of $98,000 i.e. $327, 000
NAOC		362	The company reported a payment of $95,000 whilst CBN recorded a receipt of $457,000 . i.e. $362,000
Total Unresolved Difference		34	
2011 – Concession Rentals			
CNL	13		$13,000 paid by CNL but not in CBN template.
SPDC	11		The company reported payment of $384,000 but CBN confirmed receipt of $373,000
Total Unresolved Difference		**25**	

8.1.6 Signature Bonus

The government of the Federation did not conduct bid rounds for the sale of oil blocks during the period under review. Depending on the agreement with the Government, payment for Signature Bonus may be spread over a period of time. Therefore, some companies that did not remit their signature bonus in full during the last bid rounds in 2005 and 2006 made payments on existing Oil Prospecting License during the period covered by this audit. The information collected were obtained from DPR records , validated through CBN Monthly Reports and Bank Statements as the four companies involved did not populate the Signature Bonus Templates issued to them.

Table 8–11-Summary of Reconciliations of Signature Bonus

	Initial Templates			Adjustments		Adjusted Figures		
	Govt.	Company	Difference	Govt.	Company	Govt.	Company	Unreconciled Difference
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
2009	5,000	0	5,000	0	0	5,000	0	5,000
2010	0	0	0	0	0	0	0	0
2011	216,146	0	216,146		207,096	216,146	207,096	9,050
Total	**221,146**	**0**	**221,146**	**0**	**0**	**221,146**	**207,096**	**14,050**

The explanation for the unresolved differences on Signature Bonus are as follows:

Table 8–12-Unresolved differences on Signature Bonus

Company	Entity's Records	CBN's Records	Comments
	USD'000	USD'000	
2009 – Signature Bonus			
Star Deep		5,000	Payment on OPL 249 of 1999 (Signature Bonus $164 Million), confirmed to CBN/DPR May 2009 Records. Template on Signature Bonus not populated by Star Deep
2011 – Signature Bonus			
All Grace Energy		150	Payment on OPL 17 confirmed to CBN April 2011 bank statement and DPR Records. No Template was received from All Grace Energy. #
Green Energy		150	Payment on OPL 11 confirmed to CBN April 2011 bank statement and DPR Records. No Template was received from Green Energy.
Transcorp SAC Oil		8,750	Payment on OPL 281 confirmed only to CBN April 2011 bank statement and DPR Records. $21.25 Million was earlier paid in 2006 on the OPL.
Total unresolved differences		**9,050**	

8.1.7 NDDC Contributions

The NDDC Act mandates all upstream companies to contribute 3% of their annual budgets to the Niger Delta Development Commission (NDDC). The amount payable is both in Naira and US Dollars. The initial contribution reconciliation carried out between NDDC's data and companies' data, together with adjustments made as a result of the reconciliation and all unresolved differences are set out in Table 8.13.

Table 8–13-Summary of Reconciliations of NDDC Contributions (Dollar)

NDDC Dollar	Initial Templates			Adjustments		Adjusted Figures		
	Govt	Company	Difference	Govt	Company	Govt	Company	Unresolved Difference
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
2009	238,860	219,305	19,555	39,574	31,453	278,434	250,758	27,676
2010	315,950	427,726	(111,775)	80,464	(60,682)	396,414	367,044	29,371
2011	507,868	429,580	78,288	(1,171)	68,479	506,698	498,059	8,639
Total	**1,062,679**	**1,076,611**	**(13,932)**	**118,868**	**39,250**	**1,181,546**	**1,115,861**	**65,685**

The explanation for the unresolved differences on Dollar Contributions to NDDC are as follows:

Table 8–14-Unresolved differences on Contributions to NDDC (Dollar)

Company	Entity's Records	NDDC's Records	Comments
	USD'000	USD'000	
2009 – NDDC Dollar			
StarDeep	1,136		Star Deep balance of US$1,136,00 in US$3,409,000 not traced to NDDC template.
TEPNG		31,431	Amount confirmed to NDDC template but not in TEPNG records.
TUPNIL (PSC)	2,618		Amount reported by company but not in NDDC template.
Total Unresolved Difference		**27,676**	
2010 – NDDC Dollar			
SPDC		1,707	Amount confirmed only to NDDC template but not in SPDC template
CNL		9170	Amount confirmed only to NDDC template but not in CNL template
TEPNG		11,253	Amount captured in NDDC template but not in TEPNG.
TUPNIL (PSC)		968	Amount confirmed only to NDDC template but not in TUPNIL's records.
AENR		3,316	Amount confirmed only to NDDC template but not in AENR template.
TUPNIL (PSA)		2,957	Amount confirmed only to NDDC template but not in TUPNIL's template.
Total Unresolved difference		**29,371**	
2011 – NDDC Dollar			
SPDC		525	Amount recorded in NDDC template not in SPDC template.
TEPNG		8,114	Amount recorded in NDDC template not in TEPNG template.
Total Unresolved difference		**8,639**	

Table 8–15-Summary of Reconciliation of NDDC Contributions (Naira)

NDDC Naira	Initial Templates			Adjustments		Adjusted Figures		
	Govt	Company	Difference	Govt	Company	Govt	Company	Unresolved Difference
	₦'000	₦'000	₦'000	₦'000	₦'000	₦'000	₦'000	₦'000
2009	19,976,562	17,389,157	2,587,405	(1,863,284)	(323,734)	18,113,278	17,065,423	1,047,855
2010	24,814,156	30,248,487	(5,434,331)	394,729	(321,036)	25,208,885	29,927,451	(4,718,566)
2011	31,069,155	32,209,878	(1,140,723)	(124,407)	(1,145,457)	30,944,748	31,064,421	(119,673)
Total	**75,859,873**	**79,847,522**	**(3,987,649)**	**(1,592,962)**	**(1,790,227)**	**74,266,911**	**78,057,295**	**(3,790,384)**

In order to report the unresolved difference of the Naira contribution to NDDC in (table 8-1), in the reporting currency which is the dollar, the amount has been converted to the dollar using the applicable average exchange rates for all the years.

Table 8–16- Contribution to NDDC Naira Converted to Dollar

NDDC Naira	Initial Templates			Adjustments		Adjusted Figures		
	Govt	Company	Difference	Govt	Company	Govt	Company	Unresolved Difference
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
2009	132,325	115,186	17,139	(12,342)	(2,144)	119,983	113,042	6,941
2010	162,393	197,957	(35,564)	2,583	(2,101)	164,976	195,856	(30,880)
2011	197,384	204,631	(7,247)	(790)	(7,277)	196,594	197,354	(760)
Total	**492,102**	**517,774**	**(25,672)**	**(10,550)**	**(11,523)**	**481,552**	**506,252**	**(24,699)**

The converted equivalent amount has been added to the dollar unresolved difference on table 8-14 to produce a combined unresolved difference in dollars as indicated on table 8-17.

The explanation for the Naira unresolved difference is, however, reported in currency (Naira) in which the transaction occurred.

Table 8–17-Contribution to NDDC Combined Unresolved Difference – Dollar and Naira Converted

NDDC Dollar	Initial Templates			Adjustments		Adjusted Figures		
	Govt	Company	Difference	Govt	Company	Govt	Company	Unresolved Difference
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
2009	371,185	334,491	36,694	27,232	29,309	398,416	363,800	34,617
2010	478,343	625,683	(147,339)	83,047	(62,783)	561,390	562,900	(1,509)
2011	705,253	634,211	71,041	(1,961)	136,958	703,292	771,169	(67,877)
Total	**1,554,780**	**1,594,385**	**(39,605)**	**108,318**	**103,484**	**1,663,098**	**1,697,869**	**(34,770)**

The explanation for the unresolved differences on Naira Contributions to NDDC are as follows:

Table 8–18-Unresolved differences on NDDC Contributions (Naira)

Company	Entity's Records	NDDC's Records	Comments
	₦'000	₦'000	
2009 – NDDC Naira			
CNL		708,767	Amount recorded in NDDC template but not in CNL template.
TEPNG	224,940		Amount recorded by TEPNG but not confirmed to NDDC template.

Company	Entity's Records ₦'000	NDDC's Records ₦'000	Comments
MPNU		564,028	Amount captured by NDDC but not in MPNU template.
Total Unreconciled Difference		**1,047,855**	
2010 – NDDC Naira			
SPDC	4,199,270		Amount reported by company but NDDC were unable to confirm to their records.
SNEPCO	155,321		Amount reported by company but not confirmed to NDDC's template.
CNL	201,553		Amount reported by company but not confirmed to NDDC's template.
StarDeep	90,291		Amount reported by company but not confirmed to NDDC's template.
TEPNG		230,124	Amount captured by NDDC in Jan 2010 not in TEPNG
NAOC	350,887		No evidence was produced to support NAOC's claim payment
	280,303		Payment not traced to NDDC's Statement
AENR	74,170		Amount reported by company but not confirmed to NDDC's template.
Total Unresolved difference		**4,718,566**	
2011 – NDDC Naira			
StarDeep	94,619		Payment of ₦94,619,000 not confirmed in NDDC's Statement.
TUPNIL	30,151		₦30,150,842 included in ₦60,302,000 by NDDC was not traced to TUPNIL statement.
NAOC	921,248		Amount reported by company but not confirmed to NDDC's template.
NAE		146,010	Amount captured by NDDC template not in NAE template
AENR	156,349		₦156,349 recorded by AENR but not indicated in NDDC template.
MPNU		876,381	Amount captured by NDDC template not in MPNU template
Total Unresolved difference		**119,673**	

8.1.8 Summary of unresolved financial flows

The summary of the reconciliation of financial flows during the period of review is shown in Table 8.19.

Table 8–19-Summary of the reconciliation of financial flows

	Govt	Companies	Initial Difference	Govt	Companies	Unresolved Difference
	Initial			Adjusted		
	$'000	$'000	$'000	$'000	$'000	$'000
2009	8,416,151	8,453,960	(37,809)	8,432,687	8,390,848	41,840
2010	13,350,243	13,391,368	(41,125)	13,099,759	13,120,126	(20,367)
2011	24,523,154	26,141,021	(1,617,867)	25,839,310	25,938,268	(98,958)
Total	**46,289,548**	**47,986,349**	**(1,696,802)**	**25,870,366**	**25,662,928**	**(77,484)**

The aggregate unresolved difference is considered within the materiality threshold of the reconciliation exercise. The aggregate value of the collective discrepancies from the above individual financial flow, as described in Section 2.3.2 of the TOR, is not in excess of US$100,000,000 in any year and would therefore not require further investigation. Explanations have been provided for the unresolved difference for each individual financial flow.

The summary of the difference by the confirmed financial flows is shown in Table 8.20:

Table 8–20-Summary of the difference by the confirmed financial flows

	2009	2010	2011	Total
	$'000	$'000	$'000	$'000
Petroleum Profit Tax (PPT)	0	0	0	0
Royalty (Oil)	351	(20,262)	(39,885)	(59,796)
Royalty (Gas)	(1,525)	(99)	(155)	(1,779)
Gas Flaring Penalties	3,808	1,470	(66)	5,212
Concession Rentals	(411)	34	(25)	(402)
Signature Bonus	5,000	0	9,050	14,050
Contribution to NDDC	34,617	(1,509)	(67,877)	(34,769)
Total	**41,840**	**(20,366)**	**(98,958)**	**(77,484)**

No material differences in relation to the materiality threshold were observed with respect to all the flows. The explanations for the differences are provided in the tables above.

8.1.9 Analysis of unresolved differences

The composition of unresolved differences as set out on tables 8.19 and tables 8.20 above can further be analysed thus:

a. Flows received by the CBN but are yet to be confirmed by the paying entities and
b. Differences which arose from payment made by the covered entities but which are yet to be traced to CBN bank statement.

8.1.9.1 Flows Received by CBN but not traced to Covered Entities

As shown in the table 8-22 below, the amounts totalling of $68.4million which relates to flows to the Federation account and which was collected by the CBN were not confirmed to covered entities' records.

Similarly, the contributions made to NDDC amounting to $69.44 million and ₦2. 525billion which were reported by the Commission could not be confirmed to covered entities' records as presented in Table 8.21.

Table 8–21-Flows received by CBN but not traced to entity's records

	2009	2010	2011	Total
Flows to Federation Account	**$`000**	**$`000**	**$`000**	**$`000**
PPT	0	0	0	0
Royalty (Oil)	9,338	29,007	522	38,867
Royalty (Gas)	421	2,517	247	3,185
Gas Flaring Penalty	4,008	1,431	514	5,953
Concession Rental	-	362	-	362
Signature Bonus	5,000	-	9,050	14,050
Total	18,767	33,317	10,333	62,417
Other Flows:				
Contribution to NDDC (Dollar)	31,431	29,371	8,639	69,441
Contribution to NDDC (Naira)	1,272,795	230,124	1,022,391	2,525,310

The companies claimed that those payments were not made by them but they will, nevertheless, check their records to identify the purpose for which payments were made.

We recommend that there should be a joint review meeting between NEITI, CBN and the covered entities concerned to reconcile these discrepancies.

8.1.9.2 Payments Made but Not Confirmed To CBN Bank Statement

As shown in Table 8-23 below, amounts totalling $311.85million representing flows to the Federation account were claimed to have been paid by the covered entities to the relevant accounts but such payments were not confirmed to CBN bank statements. In some cases, the covered entities were issued Treasury Receipts (TR) by the Office of the Accountant General of the Federation (OAGF) on such payments which we could not trace to CBN records during reconciliation.

Similarly, the contributions made to NDDC amounting to $3.75 million and ₦1.20billion which were reported by the covered entities could not be confirmed to the Commissions' records as presented in Table 8.22.

Table 8–22-Payments made by entities but not traced to CBN records

Flows to Federation Account	2009 $`000	2010 $`000	2011 $`000	Total $`000
PPT	-	-	-	-
Royalty (Oil)	8,987	49,268	39,908	98,163
Royalty (Gas)	1,945	2,616	402	4,963
Gas Flaring Penalty	-	593	580	1,173
Concession Rental	411	327	24	762
Signature Bonus	-	-	-	-
	11,343	52,804	40,914	105,061
Other Flows:				
Contribution to NDDC (Dollar)	3,754	-	-	3,754
Contribution to NDDC (Naira)	-	-	1,202,367	1,202,367

We recommend that there should be a joint review meeting between NEITI, CBN and the covered entities concerned to reconcile these discrepancies.

8.1.10 Dividends and Loan Repayment from NLNG

Nigeria Liquefied Natural Gas Limited (NLNG) was incorporated as a Limited Liability Company in 1989 to produce LNG and Natural Gas Liquids (NGLs) for export. The company is owned by the underlisted shareholders in the following percentages:

1) NNPC(on behalf of the Federation) - 49%
2) Shell Gas B.V. - 25.6%
3) Total LNG Nigeria Ltd - 15%
4) Eni International - 10.4%

The various developmental projects are usually financed by NLNG's shareholders, then re-invested revenues, and third party loans. The benefit flows for the Federation are dividends and loan interest paid by NLNG to the government through NNPC.

8.1.10.1 Payments during the Period

The payments and receipts reported by NLNG and NNPC (on behalf of the Federation) during the period covered are stated below:

Table 8–23-Dividends and Loan Repayments between NLNG and NNPC

	Initial Templates		Adjustments		Adjusted Figures		
	Govt US $'000	Company US $'000	Govt US $'000	Company US $'000	Govt US $'000	Company US $'000	Unresolved Difference US $'000
2009	48,680	879,839	31,159		879,839	879,839	-
2010	1,401,400	1,427,512	26,112		1,427,512	1,427,512	-
2011	2,509,780	2,537,503	27,723		2,537,503	2,537,503	-
Grand Total	**4,759,860**	**4,844,854**	**84,994**		**4,844,854**	**4,844,854**	**-**

8.1.11 Non-Reconciled Financial Flows

In addition to the core flows identified above, companies in the oil and gas sector also make other payments to the Federal and State Governments. The terms of reference for this engagement provide that these flows should be presented as provided by the various covered entities for reporting purposes. The flows are basically tax deductions from employees' emoluments, payments to contractors, among others. There is also the 2% education tax required by law, as well as CIT for gas operators.

Table 8.21 below is the summary of the non-reconciled flows reported by the companies within the period 2009-2011:

Table 8–24-Yearly summary of Non Reconciled Flows to the Federation

	Flows to Federation				Plus Conversion
2009	**US$'000**	**£'000**	**€'000**	**N'000**	**US$'000**
WHT	418,193	748	552	19,765,124	550,543
EDT	638,364	-	-	-	638,364
PAYE	3,504	-	-	849,488	9,111
VAT	411,934	477,816	241	20,557,714	1,289,346
CIT	236,347	-	-	-	236,347
Total	**1,708,342**	**478,564**	**793**	**41,172,326**	**2,723,710**

	Flows to Federation				Plus Conversion
2010	**US$'000**	**£'000**	**€'000**	**N'000**	**US$'000**
WHT	440,989	1,031	2,736	24,265,604	604,181
EDT	407,107	-	-	-	407,107
PAYE	243	-	-	502,631	3,510
VAT	403,614	225,648	118	24,109,564	910,620
CIT	367,998	-	-	-	367,998
Total	**1,619,951**	**226,679**	**2,854**	**48,877,799**	**2,293,416**

	Flows to Federation				Plus Conversion
2011	**US$'000**	**£'000**	**€'000**	**N'000**	**US$'000**
WHT	469,717	121	100	70,101,165	918,685
EDT	533,035	-	-	-	533,035
PAYE	3,266	-	-	1,515,996	13,120
VAT	492,714	106,613	101	54,039,266	1,005,030
CIT	273,481	-	-	-	273,481
Total	**1,772,213**	**106,734**	**201**	**125,656,427**	**2,743,351**

Table 8–25-Yearly summary of Non Reconciled Flows to States

Flows to State				Plus Conversion
2009	**US$'000**	**£'000**	**N'000**	**US$'000**
WHT	3,092	4	1,128,156	10,544.04
PAYE	97,731	0	56,670,731	471,757.82
				-
				-
				-
Total	**100,823**	**4**	**57,798,887**	**482,302**

Flows to State				Plus Conversion
2010	**US$'000**	**£'000**	**N'000**	**US$'000**
WHT	3,406	5	1,439,504	12,770.80
PAYE	108,156	0	56,670,731	476,515.75
				-
				-
				-
Total	**111,562**	**5**	**58,110,235**	**489,287**

Flows to State				Plus Conversion
2011	**US$'000**	**£'000**	**N'000**	**US$'000**
WHT	3,444	0	1,343,963	12,045.36
PAYE	142,326	0	69,324,159	586,000.62
				-
				-
				-
Total	**145,770**	**-**	**70,668,122**	**598,046**

9. Observations and Recommendations

9.0 Observations and Recommendations

9.1 Review of the findings and recommendations in the previous audit

The Status of remedial efforts on the findings and recommendations from the previous audits are summarised below:

Findings	Recommendations	Status of Remedial Actions
1. PPT VALIDATION - PPT under assessments summing up to **$2,645,725,704** arising from the use of subjective pricing by companies. - Analysis of Intangible Drilling Costs (IDC), Gas flare penalty, NDDC, Education tax, CIT returns which revealed an underassessment of **$424,670,000**	FIRS to review and make recoveries as appropriate	Some companies have paid a total sum of $442m but majority objected and have forwarded the matter to their legal teams. FIRS disagreed with some of the calculations done by the auditors. The ETF issue had been cleared. Information would be made available to NEITI
2. ROYALTY VALIDATION Significant Royalty under assessment arising from cost recoveries in Carry Agreements by JV partners need to be reassessed by DPR	Royalty underassessment summing up to **$3,211,256,645** arising from the use of inappropriate price variables for royalty calculations need to be recovered from the companies by DPR.	DPR is working with the companies and FIRS on the issue. DPR has been reconciling royalties due from 1990- date. The two issues of Production and Price are in contention. As at the date of this report the reconciliation has not been provided by DPR.
3. PSC Royalty and PPT Calculations – Legal Basis The legal basis for calculating PSC Royalty and PPT is in dispute between NNPC and the contractors. The matter is before an arbitration panel. Possible contingent liability of up to $8billion if NNPC loses the arbitration	Speedy arbitration and status report awaited	DPR noted that some issues have been resolved but most remain in arbitration. The Ministry of Finance to step in and help fast track the process to resolve the issue.
4. DIVIDENDS FROM NLNG TO NNPC NNPC has reported receipt of **$ 3,996,282,000** as Dividends from NLNG for the years 2006 -2008. However, NNPC did not confirm remittance of the money to the federation account	Confirmation of remittance of **$3,996,282,000** by NNPC to the Federation Account is required	Previous letters from NEITI to NNPC yielded no response. NEITI should interface with the GMD NNPC directly
5. ACCOUNTING FOR SALE OF GOVERNMENT CRUDE The accounting system used by NNPC (COMD) for equity crude is largely not automated which creates difficulties for reconciliation and fund interface.	NNPC to accelerate implementation of SAP	The SAP is being implemented and covers the sale of government crude.
6. MEASUREMENT OF CRUDE OIL FOR ROYALTY PURPOSE The industry has no consistent practice regarding the point at which production is measured for royalty purposes. The law is therefore unclear as DPR has still not provided a standard interpretation.	DPR to undertake a consultation process with a view to defining the basis on which production volumes and API for royalty purposes are determined.	A workshop for all stakeholders to determine the best solution for Nigeria is being considered by DPR

9.2 Observations and Recommendations from the 2009 – 2011 Oil and Gas Financial Flows Reconciliation Report

The following observations and recommendations were made in the course of the conduct of the current audit.

9.2.1 Dividends and Loan payments made by NLNG

Financial flows from NLNG include dividends and repayment of loans of which an amount of $4.84 billion was received by NNPC. This is in addition to the $3.996 billion reported to be received in the previous audit reports. We have confirmed that these amounts have not been remitted to the Federation Account.

The dividends and loan repayments made by NLNG and confirmed to be in receipt by NNPC could not be confirmed to the CBN JP Morgan/Federation account. We observed that this has been a recurring issue.

There is a need to confirm the ownership of the 49% investments in NLNG – Is it for the benefit of the Federation, or the Federal Government, or NNPC itself?. This is an area for further enquiry.

9.2.2 Domestic Crude Oil Utilisation by NNPC

About twenty percent (20%) of the domestic crude oil allocation was delivered to local refineries, the balance was either exported for NNPC accounts or utilised for offshore processing, crude oil exchange and product exchange. This shows that the Federation depends mainly on exported refined products for local consumption resulting in avoidable high payment of fuel subsidies. This also reduces the revenue accruable to the Federation from crude oil sales on pricing, volume utilisation and exchange rate differentials.

The Federal Government should consider a review of the daily allocation of 445,000bpd to the level of available local refining capacity to obviate the gaps in the process.

The derived average conversion rate by NNPC differs from the annual average CBN rate and therefore results to apparent losses of ₦98.3billion during the years under review.

Domestic crude oil sales proceeds should be paid into CBN in the currency of sales, where it should be converted at the appropriate rate by CBN and swept to the Federation Account. This will forestall the exchange rate shortfalls.

9.2.3 Analysis of NNPC Debt to the Federation

The analysis shows that NNPC owes ₦1.305trillion to the Federation as at 31st December, 2011. The receivables account of NNPC purchases from the Federation was analysed and validated.

NNPC should promptly pay its debt to the Federation.

9.2.4 Subsidy Claims

A total sum of N1.40 trillion was deducted directly from domestic crude oil proceeds as subsidy claims by NNPC before remitting the balance to the Federation account.

The Federal Government should review the deduction of subsidy claims from the proceeds of domestic crude by NNPC to align them with due process like other marketers who draw their subsidy claims from the Petroleum Support Fund.

9.2.5 Third Party Financing

NNPC undertakes Third Party Financing arrangements which involve the creation of Special Purpose Vehicle (SPV) by the JV Partners who assign the right of future production from the approved selected project to the SPV. NNPC's share on this arrangement is paid to CBN/NNPC Crude Oil and Gas Dollar Revenue Account and subsequently swept into the Federation Account. It is pertinent to note that all these transactions are off Balance Sheet items (undisclosed in NNPC Audited Financial Statements). The implication is that there may be significant contingent liabilities to the Federation, not being disclosed.

NNPC should fully disclose all contingent liabilities in its financial statement to promote transparency and accountability especially on alternative financing arrangements.

9.2.6 Payments out of Cash Call Accounts

Non-Cash Call items totalling $1.73billion were financed from the CBN/NNPC JP Morgan Chase Cash Call Dollar Account. No explanations were provided for making these non-cash call related payments from the cash call account. This reduces the amount available for funding JV operations with the attendant implication of NNPC seeking Alternative Funding arrangement to fund Cash Call shortfalls.

These payments are:

iv. Security Payments – amounts totaling **$600million** were transferred from NAPIMS Joint Venture Cash Call Account to NNPC Corporate headquarters for security operations in the Niger Delta region by the Nigerian Military.

v. NAPIMS Management Fees – the sum of **$487million** was paid to NNPC-NAPIMS as Management fees. The management fees are to meet NNPC-NAPIMS operational expenses.

vi. Other Exceptional items – In years 2010 and 2011 respectively, payments of **$282.95million** and **$364million** were made out of Cash Call Dollar Account for the "Expansion of ESCRAVOS Lagos Pipeline Project.

This practice should be discouraged. NNPC should apply funds meant for cash calls strictly for JV cash call operations.

9.2.7 Flows to Other Entities

Flows to the Federation Account are $133.8billion or 93.5% of total flows compared to $145.7billion 98% of 2006-2008 audit. Flows to states are $1.6billion (1.1% of total flows) as compared to $552million (0.4%) of the previous audit. The flows to other Federal Government entities including Niger Delta Development Commission and the Education Tax (TETFund) are $3.2billion as against $2.5billion in 2006-2008. The flows to NDDC are made directly to the agency and outside the purview of the National Assembly through the Appropriation Act, whilst that of the Education Tax (TETFund) is paid to the designated accounts in the office of the Accountant General of the Federation (OAGF) as stipulated by the enabling Act.

All revenues accruing to the Federation should be in accordance with Constitution and subject to the provisions of the Appropriation Act.

9.2.8 CBN Unidentified Collections:

We noted that CBN reported a total amount of **$10,605,993,924** on a separate template for PPT collections between 2009 and 2011 from unidentified oil companies. Preliminary validation procedures indicate the payments relate to some PSC companies. Further validation would be carried out on the flows and the outcome included in the non-core report.

CBN, FIRS and OAGF should meet and reconcile these payments. To avoid reoccurence, regular reconciliation exercise should be carried out within the year of transaction.

9.2.9 Challenges in Data Gathering from Covered Entities

The challenges encountered in data gathering from the covered entities which hampered the timely completion of the audit include, amongst other

- Delays in populating and returning templates by covered entities such as DPR, FIRS, NDDC, NPDC, Pillar Oil and Pan Ocean Oil.
- Several of the templates returned were incomplete, wrongly classified and transposed between financial flows.
- Limited participation from critical organisations like CBN.

All covered entities should establish designated desk offices to attend to NEITI audit enquiries.

As the custodian of the Federation's revenue, the Central Bank should commit appropriate resources to facilitate the timely completion of audit templates.

NEITI should expedite the implementation of the information technology portal that would address a systemic data gathering mechanism and information sharing between the covered entities and Government agencies.

9.2.10 Refusal to Cooperate with the Audit Process

NECONDE Energy Limited, SEPTA Energy Limited, Energia Limited and Emerald Energy Resources did not cooperate with the audit process.

NEITI should apply appropriate sanction in accordance with the enabling Act.

9.2.11 Covered Entities response to NEITI Audit Process

We noted the reluctance of some listed upstream companies to respond to audit enquiries on the premise that the NEITI Audit is only concerned with producing companies.

From the financial flows perspective, our opinion is that actual flows to the Federation commences with the payment of application and processing fees as well as the signature bonus at the point of granting a licence. Besides, annual rentals become due and payable regularly, irrespective of the company's production status.

NEITI and DPR should align covered entities' database so as to show the production status, amongst other details.

9.2.12 Flows Received by CBN but not Traced to Covered Entities

The amounts totalling of $68.4million which relates to flows to the Federation account and which was collected by the CBN were not confirmed to covered entities' records.

Similarly, the contributions made to NDDC amounting to $69.44 million and ₦2. 525billion which were reported by the Commission could not be confirmed to covered entities' records.

We recommend that there should be a joint review meeting between NEITI, CBN, OAGF and covered entities concerned to reconcile these discrepancies.

9.2.13 Payments Made but Not Confirmed To CBN Bank Statement

Amounts totalling $311.85million representing flows to the Federation account were claimed to have been paid by the covered entities to the relevant accounts but such payments were not confirmed to CBN bank statements. In some cases, the covered entities were issued Treasury Receipts (TR) by the Office of the Accountant General of the Federation (OAGF) on such payments which we could not trace to CBN records during reconciliation.

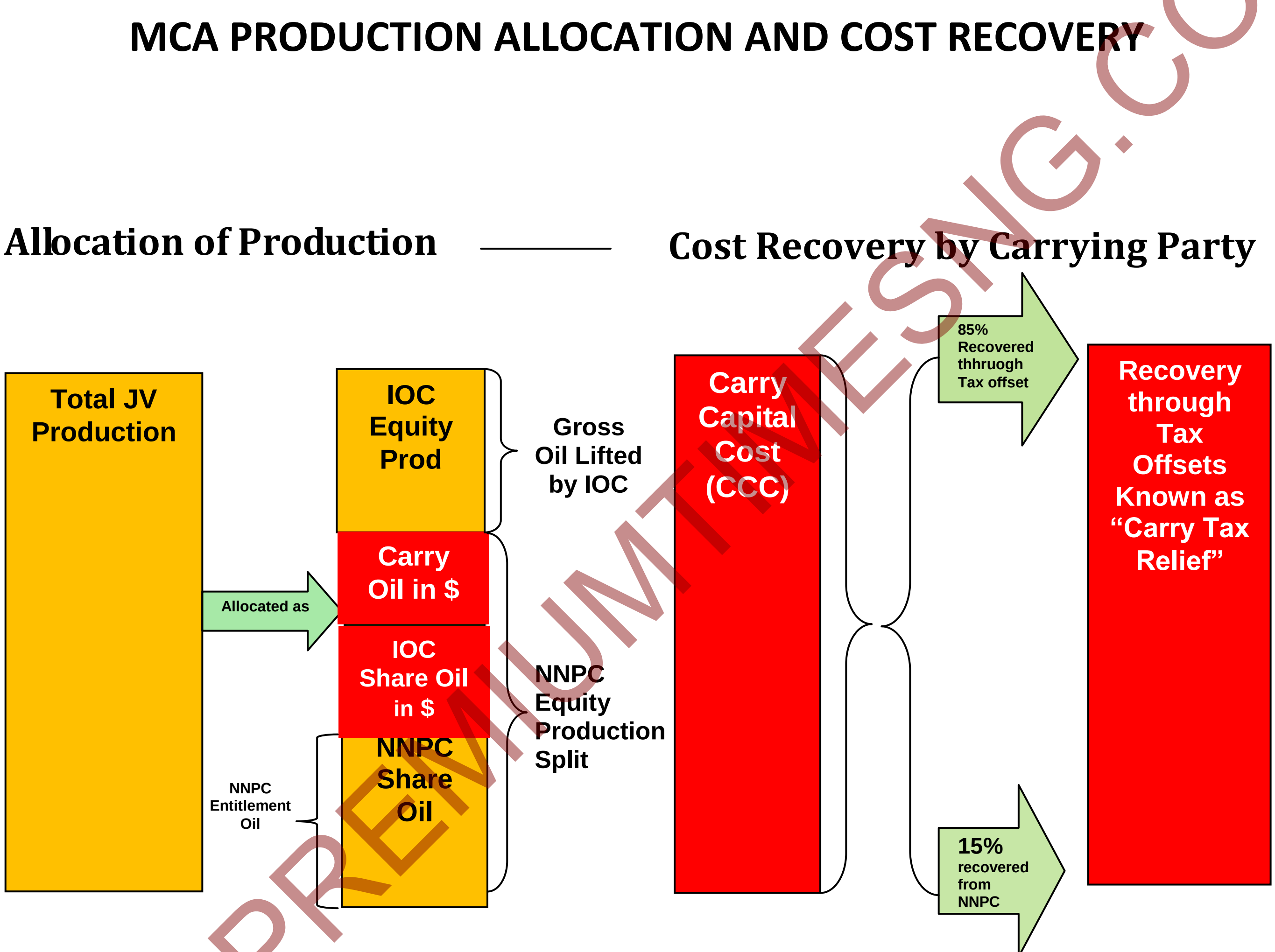
Similarly, the contributions made to NDDC amounting to $3.75 million and ₦1.20billion which were reported by the covered entities could not be confirmed to the Commissions' records.

We recommend that there should be a joint review meeting between NEITI, CBN, OAGF and covered entities concerned to reconcile these discrepancies.

10.0 Appendices

Bound Separately

11.0 Annexure



An important feature of MCA is that CCC is only recovered in dollars making both Carry oil and Share oil dollar transactions.

NNPC sells the crude at a price set by it and the monetary value of the equivalent barrels is paid into escrow.

Source: NNPC Corporate Headquarters.

Annexure 2

	PETROLEUM PRODUCTS PRICING REGULATORY AGENCY		
S/N	**DIRECTORY OF MARKETERS UNDER THE PSF SCHEME**		
1	NNPC	65	MECURIA GLOBAL ENERGY
2	A.S.B INVESTMENT COMPANY	66	MEGLAMS OIL & GAS LTD
3	ACORN PETROLEUM PLC	67	MENOL OIL & GAS LTD
4	AITEO ENERGY RESOURCES LTD	68	MEZCOR SA
5	ALMINNUR RESOURCES LTD	69	MIDAS OIL & GAS LTD
6	AMG PETRO-ENERGY LTD	70	MOB INTEGRATED SERVICES LTD
7	ANOSYKE GROUP OF COMPANIES LTD	71	MOBIL OIL NIGERIA PLC
8	AQUITANE OIL&GAS LTD	72	MOMATS OIL & GAS LTD
9	ASCON OIL COMPANY LTD	73	MRS OIL & GAS COMPANY LTD
10	AVIDOR OIL & GAS COMPANY	74	MRS OIL NIG. PLC
11	AX ENERGY LTD	75	NADABO ENERGY LTD
12	A–Z PETROLEUM PRODUCTS LTD	76	NASAMAN OIL SERVICES LTD
13	BAYWOOD CONTINENTAL LTD	77	NATICEL PETROLEUM LTD
14	BODEJ INVESTMENT	78	NEPAL OIL AND GAS SERV. LTD
15	BOVAS & COMPANY LTD	79	NIPCO PLC
16	BRITTANIA – U NIGERIA LTD	80	NORTHWEST PETROLEUM & GAS LTD
17	CAADES OIL & GAS LTD	81	NUPENG VENTURES LTD
18	CAH RESOURCES ASSOCIATION LTD	82	OAKFIELD SYNERGY NETWORK LTD
19	CAPITAL OIL & GAS INDUSTRY LTD	83	OANDO PLC
20	CARNIVAL ENERGY OIL & GAS LTD	84	OBAT OIL & PETROLEUM LTD
21	CEOTI LTD	85	OILBATH NIGERIA LTD
22	CHANNEL OIL AND PETROLEUM LTD	86	OILFORCE NIG. LTD
23	COLBERT NIG LTD	87	ONTARIO OIL & GAS NIG. LTD
24	CONOIL PLC	88	ORIGIN OIL AND GAS LTD
25	CRUST ENERGY LTD	89	PHOENIX OIL COMPANY LTD
26	CRUSTSTREAM NIG. LTD	90	PINNACLE CONTRACTORS LTD
27	DEE JONES PETROLEUM & GAS LTD	91	PINNACLE OIL AND GAS LTD
28	DOWNSTREAM ENERGY SOURCE LTD	92	PRACTOIL LTD
29	DOZZY OIL AND GAS LTD	93	PRUDENT ENERGY & SERVICES LTD
30	DUPORT MARINE LTD	94	PVN LTD
31	ECO-REGEN LTD	95	RAHAMANIYYA OIL AND GAS LTD
32	ETERNA PLC	96	RAINOIL LTD
33	EURAFIC OIL AND COASTAL SERVICES LTD	97	RYDEN OIL LTD
34	FARGO PETROLEUM & GAS LTD	98	SAHARA ENERGY RESOURCE LTD
35	FATGBEM PETROLEUM CO. LTD	99	SEA PETROLEUM & GAS CO.LTD
36	FIRST DEEP WATER DISCOVERY LTD	100	SETANA ENERGY LTD
37	FIRST INDEPENDET NIG. LTD	101	SHIELD PETROLEUM COMPANY NIGERIA LTD
38	FOLAWIYO ENERGY LTD	102	SHORELINK OIL AND GAS SERVICES LTD
39	FORTE OIL PLC (FORMERLY AP PLC)	103	SIFAX OIL AND GAS COMPANY TD
40	FRADRO INTERNATIONAL LTD	104	SIRIUS ENERGY RESOURCES LTD
41	FRESH SYNERGY LTD	105	SIRIUS TAGLIENT LTD
42	GEACAN ENERGY LTD	106	SOMERSET ENERGY SERVICES LTD
43	GRAND PETROLEUM	107	SPOG PETROCHEMICAL LTD
44	HEYDEN PETROLEUM	108	SULPHUR STREAMS LTD
45	HONEYWELL OIL & GAS LTD	109	SUPREME & MICHELLES OILS LTD
46	IBAFON OIL LTD	110	SWIFT OIL LTD
47	ICE ENERGY LTD	111	TAHIL &TAHIL NIG LTD
48	IMAD OIL & GAS LTD	112	TAURUS OIL & GAS LTD
49	INDEX PETROLEUM	113	TECHNO OIL LTD
50	INTEGRATED OIL & GAS	114	TEMPO ENERGY NIG LTD
51	INTEGRATED RESOURCES LTD	115	TONIQUE OIL SERVICES LTD
52	IPMAN INVESTMENT LTD	116	TOP OIL AND GAS DEVELOPMENT COMPANY LTD
53	JULY SEVENTH OIL LTD	117	TOTAL NIGERIA PLC
54	KMCL LTD	118	TRIDAX LTD
55	KNIGHTSBRIDGE	119	TRIQUEST ENERGY LTD
56	LINETRALE OIL SUPPLY AND TRADING	120	VALCORE ENERGY LTD
57	LINGO OIL & GAS COMPANY LTD	121	VENRO ENERGY LTD
58	LLOYDS ENERGY LTD	122	VITACAM SERVICES
59	LOTTOJ OIL & GAS LTD	123	VIVA ENERGY LTD
60	LUBCON LTD	124	XALON PETROLEUM LTD
61	MAIZUBE PETROLEUM LTD	125	XAVIER ENERGY LTD
62	MAJOPE INVESTMENT LTD	126	YANATY PETROCHEMICALS NIGERIA LTD
63	MASTERS ENERGY OIL & GAS LTD	127	ZALEX ENERGY RESOURCES LTD
64	MATRIX ENERGY LTD	128	ZAMSON GLOBAL RESOURCES LTD

Annexure 3

NIGERIA-SAO TOME & PRINCIPE
JOINT DEVELOPMENT AUTHORITY
COMMERCIAL AND INVESTMENT DEPARTMENT

Ref: 6/C&I/JDA.240/S.1/4 18th December, 2012

The Executive Secretary
NEITI Secretariat
4th Floor, 1 Zambezi Crescent
Off Aguiyi Ironsi Street
Maitama, Abuja

Dear Madam,

Re – Request for Information on Revenue Accruing to Nigeria from the Operations of the Joint Development Zone (JDZ) between Nigeria and Sao Tome

Your letter referenced NEITI/ES/10/2012/235 on the above subject matter refers, please.

2. We have examined the attached template from Messrs Sada Idris & Co. and note that the information requested pertains to oil and gas production as well as signature bonus in respect of the period 2009 – 2011. Accordingly, please note that petroleum operations in the entire JDZ are still at the exploration stage; hence there is no production revenue yet. Similarly, the JDA has not collected any signature bonuses within the period under consideration.

3. Furthermore, kindly note that pursuant to Article 10 of the JDZ Treaty the JDA is answerable to the Joint Ministerial Council (JMC) of the JDZ, which has set up a sub-committee made up of persons from the Federal Republic of Nigeria and the Democratic Republic of Sao Tome & Principe (DRSTP), respectively. Thus, all issues pertaining to EITI in the JDZ have to be considered by the sub-committee and reported to the JMC for directives.

4. Please accept the assurances of our highest regards.

COLLINS KALABARE
Acting Chairman of the Board and
Executive Director (M&I)

JORGE DOS SANTOS
Executive Director (C&I)

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