



**NATIONAL STAKEHOLDERS WORKING GROUP (NSWG)
OF THE
NIGERIA EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE (NEITI)
THE PRESIDENCY
ABUJA
+234 803 300 2585
www.neiti.org
infoneiti@gmail.com**

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**NIGERIA RELEASES RESULTS OF THREE HISTORIC AUDITS OF ITS OIL AND
GAS SECTOR, THE MOST COMPREHENSIVE AND INTRUSIVE TO DATE**

*Effort Critical to Challenging Corruption
In Nigeria's Most Significant Economic Sector*

ABUJA, NIGERIA – April 11-12, 2006 – In an historic event, the Nigerian Extractive Industries Transparency Initiative (NEITI) announced the results of Hart Group's financial, physical and process audits of the oil and gas sector for the period 1999-2004. The audits, the most comprehensive and intrusive ever conducted under the principles of the Extractive Industries Transparency Initiative (EITI), sought to reconcile both the revenues and the physical production of oil, and examine the finances and business processes of both private and state-owned companies and regulatory authorities and indigenous and international oil and gas companies operating in Nigeria.

“President Obasanjo directed us to lead a historic effort to promote transparency in Nigeria's oil and gas industry through the creation of a National Stakeholders Working Group”, said Minister of Solid Minerals Development and NEITI Chairperson Obiageli Ezekwesili. “We are proud to have opened the sector to unprecedented scrutiny, empowering Nigerians with a sense of ownership of their natural resources and enabling them to demand accountability. Now we will move forward with reforms to correct the weaknesses we have uncovered.”

The audits were commissioned by the NEITI National Stakeholders Working Group (NSWG) in an international tender. Goldwyn International Strategies, LLC served as lead adviser to the NSWG and NEITI Secretariat for the design and management of the tender. The audits were conducted by the Hart Group in association with SS Afemikhe and Co. and S.S. Afemikhe Consulting Ltd. The audits highlight profound weaknesses in government regulatory practices. The Financial, Physical, and Process Audits were

designed to improve accountability and transparency in the oil and gas sector by exposing systemic weaknesses. The results are available on line at www.neiti.org. “The NEITI audits have set the gold standard for audits under EITI principles” says David Goldwyn, President of Goldwyn International Strategies, LLC and a leading extractive industry transparency expert. “The audits looked deeper into the conduct of government and industry practices in Nigeria than any country has ever attempted. The Nigerian example demonstrates that to create transparency in the energy sector it is essential to look beyond financial flows to how the State manages the energy sector itself. We have been honored to assist the NSWG in this groundbreaking enterprise.”

The Financial Audit report is divided into two parts, Financial Flows (Part I) and Issues in Government Financial Systems (Part II). The financial audits summarize, analyze, and confirm the financial flows between the federal government and the oil and gas industry from 1999 to 2004. Net inflows from the sector to the Federation Account at the Central Bank, taking Nigerian payments to joint-ventures into accounts, amounted to US\$6 billion in 1999, US\$14 billion in 2000, \$15 billion in 2001, \$8 billion in 2002, \$12 billion in 2003, and \$24 billion in 2004. The cash flows include sales of crude oil, petroleum profits taxes (PPT), royalties, gas flare penalties, general non-oil specific flows (VAT, withholding tax etc), and payments to the Niger Delta Development Commission (NDDC). Transactions involve the Nigerian Central Bank (CBN) and two regulatory agencies, the Federal Internal Revenue Service (FIRS) and the Department for Petroleum Services (DPS), and the audit compared the records of the oil and gas companies with records from all three government bodies.

The net discrepancies between the Central Bank’s and the companies’ reported payments were significant, reaching \$230 million in 2002. In other years, discrepancies occurred because the CBN recorded payments that oil companies declared they did not make. The Financial Audit reveals that accounting, timing, and classification differences account for some, but not all of these discrepancies. The audit encountered several difficulties stemming from the inadequacy of systems at government level - predominantly, but not exclusively, in the early years of the period under review: the absence of independent records by the Accountant General of Federation, the failure of the Central Bank to maintain and retain complete records, the failure of the Federal Inland Revenue Service to effectively audit the accounts of state owned or private companies, and the failure for the Department of Petroleum Resources to regulate the calculation and payment of royalties by companies operating in the sector.

To remedy these shortcomings, the Hart Group recommends reforms that place the Accountant General of the Federation (AGF) in a position of management and control over the Federation Account. To accomplish this, the information system for recording and reporting revenues and production levels from the oil and gas sector will require overhaul so that the AGF can directly monitor money received by the Central Bank.

The NEITI Physical Audit is based on hydrocarbon net volume balances provided by companies. The data is questionable, however, as it is based on how much oil reached export terminals, rather than how much was originally pumped from oilfields. A hydrocarbon mass balance could not be calculated because the Department of Petroleum Resources does not require mass volumes to be recorded and reported and the operating companies do not record, and have not reported gross volumes. This is problematic

because it is not possible to calculate the amount of crude oil stolen before it reaches the export terminals. Oil industry estimates of the amount of oil Nigeria loses to crude theft vary widely. The audit recommends that in the short term reconciliation of export liftings between DPR and companies should take place regularly to identify inconsistencies on a timely basis. In the long term, the NSWG, federal government, and companies need to open a dialogue to improve and expand metering infrastructure, ultimately providing more accurate data along the flow stream. The audit also recommends that DPR's create a standard for defining royalties, which have been calculated at various points along the flow stream, to ensure consistent calculations of amounts owing to the Federation. Standardizing definitions of the hydrocarbon mass balance across the industry will ensure that all companies pay royalties and PPT at the same point in the flow stream.

The NEITI Process Audit examined multiple aspects of the processes by which the oil and gas industry operates, including refining and importation, capital and operating expenditure, marketing crude, licensing, and marketing natural gas. The report on refineries cited discrepancies between the crude oil lifted from terminals and the crude received at refineries. While small in percentage terms, discrepancies amounted to 200,000 tonnes. Nigerian refineries were also found to be very inefficient (operating at only 41% capacity in that period) compared to the rest of the world (typically 85% capacity) due to poor management processes. In regard to licensing acreage, the Hart Group cited the need for greater transparency in the bidding process through improvements in the quality and quantity of publicly available data. They recommend that Nigeria tighten its pre-qualification criteria for companies licensed to import oil products to avoid the potential for licensing to unsuitable companies. The Process Audit on the marketing of natural gas cited major impediments to the development of the sector, including the absence of a regulator for the sector, the non-payment of gas bills by parastatals and subsidized pricing. The audit also indicated that there was no clear marketing strategy for gas, and that the approach thus far was largely politicized.

In sum, the NEITI Financial, Physical, and Process audits succeeded in identifying numerous problem areas where sector management is not transparent and where reform is required to deter corruption and mismanagement. The audits represent a significant step towards greater transparency in Nigeria's oil and gas sector, and the relevant stakeholders must now ensure that the information garnered is effectively used to improve the sector. The three audits have been posted on the NEITI website, www.neiti.org. In the coming months, NEITI will communicate these findings to the Nigerian population through road shows and workshops. The next step for the NSWG is to identify a reform agenda to remediate the weaknesses found in the audits.

The work of NEITI will be a permanent fixture of Nigerian Extractive Industries Initiative. During the NEITI second year anniversary in February 2006, President Obasanjo pledged to comprehensively respond to the Audits' findings through initiatives that will repair the relevant systems to avoid future failures and opportunities for corruption and to prosecute any clearly identified case of wrongdoing. Procurement of auditors for 2005 and the first quarter of 2006 time periods will commence within the 3rd quarter of this year. The NEITI Bill passed by the House of Representative and expected to be passed by the Senate will consolidate this program.

The results of the three audits have been posted on the NEITI website:

Financial Audit

Part I- <http://www.neiti.org/FARFinFinancial%20Flows.pdf>

Part II - <http://www.neiti.org/FARFinIssues%20in%20Govt.pdf>

Physical Audit

<http://www.neiti.org/FARPhysical%20Audit.pdf>

Process Audit

Refineries & Product Importation <http://www.neiti.org/FARProcessRef&ProdImp.pdf>

Capital & Operating Expenditure <http://www.neiti.org/FARProcess%20Capex&Opex.pdf>

Marketing Federation Equity Crude <http://www.neiti.org/FARProcessCrudeOilMktD.pdf>

Licensing Process Review <http://www.neiti.org/FARProcessLicensin.pdf>

The Process of Marketing Natural Gas <http://www.neiti.org/FARProcessMktinGas.pdf>

Contacts:

Obiageli Ezekwesili,

Minister and Chairperson, NEITI

Dr. Bright Okogu

Ag. Executive Secretary, NEITI

NEITI Secretariat

40 Jimmy Carter Street

Asokoro,

Abuja, Nigeria

Telephone: 0803 300 2585

Email: info@neiti.org

www.neiti.org

David Goldwyn

Goldwyn International Strategies

1625 K St NW

Suite 1070

Washington, DC 20009

202-223-3520

info@goldwyn.org

www.goldwyn.org