

REPORT ON THE HIGH-LEVEL CONSULTATIVE ROUNDTABLE DISCUSSIONS ON THE PRESENTATION OF THE FINAL NEITI FINANCIAL, PHYSICAL AND PROCESS AUDIT REPORTS (1999 – 2004).

Introduction

The final set of figures from the on-going Nigeria Extractive Industries Transparency Initiative (NEITI) independent comprehensive audit of the extractive sector was submitted to the NEITI Secretariat on the 8th of April, 2006 by the Hart Group. It was therefore essential to assemble a team of experts and stakeholders to dissect the report with a view to setting up a work plan and timetable for:

- The dissemination of the audit results and the appropriate Advocacy.
- The development of an effective communication plan, through participatory dialogue, to enhance local community understanding of the audit results.

One of the desired outcomes of the NEITI series of roundtable discussions is to ensure that the Audit results are comprehensible, accessible and user friendly to the different publics, particularly the Nigerian public and community groups.

The NEITI invited experts from Government, Civil Society, the Extractive Industries, the Organized Private Sector and the general public to participate at the 3rd in a series of roundtables on the Audit Reports and strategies to communicate the audit findings.

The roundtable discussion on the final audit reports was chaired by Mr. Eamon Cassidy of the Department for International Development and Mallam Nuhu Ribadu, Chairman Economic and Financial Crimes

Commission (EFCC). Discussants included Dr. Bright Okogu Ag. Executive Secretary, NEITI, Dr. Peter Ozo-Eson, Director Research, Nigeria Labour Congress and Prof. Ademola Ariyo, University of Ibadan.

Opening Remarks

The roundtable discussions began with a welcome address and background speech on the NEITI by Obiageli Ezekwesili, Minister of Solid Minerals Development and Chairperson, NEITI. The Minister stated that:

- The road shows and particularly the roundtable discussions serve the purpose of eliciting a measure of views and ideas from different zones of the country on the subject matter.
- Nigeria's wealth as it relates to oil has resulted in deep poverty. The marriage of NEITI with Civil Society Organizations is aimed at fighting a war to eliminate corruption and abject poverty by the present Administration. Civil Society groups must build their own structure of accountability.
- The ultimate aim of the audit is to ensure a transparent mechanism that will make Nigeria the preferred global investment destination.
- The role of parliament is very crucial as they will assist in passing the NEITI bill.
- The role of the press as watchdogs in the transparency process is equally important.

Presentation of Final Audit Reports

The Chairperson NEITI then introduced Mr. Chris Nurse of the Hart Group to present the final audit reports. Issues flagged in the report include:

- Licensing
- Project Approval

- Production
- Gas
- Export Lifting
- Taxation and Royalty
- NNDC
- Gas Marketing
- Crude Marketing
- Refineries
- Product Importation; and
- Financial Overview

Discussions

The final audit reports flagged certain issues that are critical to the industry. These issues generated much discussions and suggested ways of making improvements. Discussing the reports, Dr. Bright Okogu noted that the decision to undertake audit of the oil and gas industry dovetailed the findings of the World Bank commissioned study which identified lapses in the following four broad areas:

- Crude oil output and disposal;
- Funds inflow;
- Funds outflow; and
- Institutional weaknesses.

Importance of the Audit Reports

- The first time a comprehensive audit of the sector was carried out with all stakeholders in the extractive industries involved.
- The report and its outcomes were done in the spirit of transparency and reform which is a milestone in unveiling the “mystery enclave” long associated with the sector.

- It serves as a point of reference for the assessment of the industry in the future and lessons learnt will assist in drawing templates for future programs in the sector.
- Release of the audit reports sets Nigeria apart as the foremost country in the implementation of the international EITI.

Dr. Bright Okogu Ag. Executive Secretary, NEITI

General Observations

- Weak Record Keeping: the discussant argued that given the prevalence of weak record keeping in the sector, unnecessary delays were introduced into the audit process. Associated with this was the reluctance of some of the covered entities to share and provide required data which led to Mr. President to convening a meeting to demand for compliance.
- Classification problems reflected in the mix up items in the reporting of accounts.
- Weak system of accounting control that could possibly lead to abuse.
- Weakness in the oversight/regulatory agencies.
- The assessment of royalty by the Department of Petroleum Resources (DPR) as a memorandum item without the demand that the assessed amounts be paid by companies. Some companies, as the report observed, base their royalty calculations on exports instead of production.

Specific Observations

- The report noted the rendering of information on *Gross Liquids Mass Balance* was not made by all operators thereby leading to impossible assessment of unaccounted losses in the pipeline system

- between flow stations and terminals. The discussant was of the view that the report ought to list the companies that did not comply.
- The report also raised the issue of using the hydrocarbon net balances which does not indicate the quantity and amount of losses arising from theft and unaccounted oil. As an alternative, the report recommended the use of gross oil balance. This approach would involve metering at the wellheads rather than the terminals. The report noted that some of the operators are opposed to this metering method on the ground that the industry is not organized in that manner. However, Dr. Bright Okogu posited that the possible amount of losses through unaccounted oil and theft could be as high as \$3 million per day and over \$1 billion per annum. This, he argued was both necessary and sufficient to warrant urgent remedial action by making crucial investment (by both government and the industry) to curtail the practice. The ultimate effect, he further noted was that the non-curtailement of this practice could be an incentive to an unscrupulous operator to be involved in bunkering and in the end restiveness in the oil producing areas.
 - The report noted that discrepancies exist in terms of barrels recorded by the DPR and the oil companies' terminals to the tune of 10 million barrels. Discrepancies were also highlighted between COMD figures and DPR export figures. The discussant is of the view that these discrepancies should be thoroughly investigated with a view to reconciling the figures.
 - A major observation of the report is that oil companies, in their measurement and report of oil volumes for royalty and PPT calculations, use different approaches. The discussant is of the opinion that the oil companies should adhere to the rules as

provided in the MOU and not to make their own rules because it is convenient for them to do so.

Dr. Peter Ozo-Esan Director Research, Nigeria Labour Congress

- Existing structure shows NNPC to be the dominant importer of refined products. Even where other importers are involved, the process seem not to be transparent enough given that the incentive to import processed products ought to be sufficient to induce others to be involved in a competitive market environment with the benefit of lowering prices of the refined products in the long term
- Money spent to unravel weaknesses in the oil and gas industry in Nigeria was worth the effort as it would curb the problem.
- Worrisome is the issue of environmental audit not included in the audit report. Responding to this aspect of the discussion, the Minister of Solid Minerals Development and Chairperson NEITI, Oby Ezekwesili noted that the audit reports was restricted to financial, physical and process audits.

Professor Ademola Ariyo, University of Ibadan

- Report has indicated that Government agencies saddled with the various responsibilities of monitoring, accounting and regulating the industry (FIRS, DPR, CBN, NNPC and NAPIMS) are weak and as such should be repositioned and their capacities strengthened to enable them play their roles effectively.
- Simultaneous dissemination of information to all the concerned agencies for ease of reconciliation.

- Oil companies and agencies should all be given fair hearing in order to ensure that mistakes of the past are not repeated.

Comments

Mr. Eamon Cassidy, Department for International Development, UK.

- Nigeria is a pioneer in the EITI process. The level of disclosure is quite unprecedented.
- NEITI is only an aspect of the government's reform programme. The reforms are yielding results as Nigeria's image is changing as reflected in the debt relief and the fight against corruption through the EFCC.

Mallam Nasir el-Rufai, Minister Federal Capital Territory

- NEITI is important to the economic team especially as government will be held accountable to the people.

Mallam Nuhu Ribadu, Chairman Economic and Financial Crimes Commission (EFCC)

- EFCC will play its role in ensuring that the aims and objectives of the NEITI are achieved.

Engr, Funsho kupolokun, Group Managing Director, NNPC

- Report did not indicate inefficiency or poor performance on the part of the NNPC.
- Importers of refined products are top world lifters with proven records and their selection is through competitive bidding.
- Loss of crude results from theft.

Central Bank of Nigeria (CBN)

- Discrepancy between NNPC and CBN results from inadequate information reaching the CBN. Time lag can also result in differences in payments recorded.

FIRS

- Audit of oil companies by FIRS is currently in progress.
- Collaboration with relevant agencies has been renewed.
- NNPC has not been faithful in reporting PPT payments by companies.
- Capacity building for FIRS staff is on-going.

Closing

Concluding the discussions, the Chairperson thanked discussants and other participants for their well-thought comments noting that they brought their experiences to bear on the subject matter. The recommendations, she said, would be forwarded to government for the purpose of informed policy decisions.