

Agencies Report Progress on Audit Remediation

Significant progress has been recorded in fixing some of the petroleum sector lapses that were identified by the first comprehensive audit of the industry, which was commissioned by the Nigeria Extractive Industries Transparency Initiative (NEITI).

“Major issues raised by the first NEITI Audits are being tackled comprehensively and conclusively,” said Dr. Siyan Malomo, chairman of NEITI. “We are moving beyond just publishing the audit reports to fixing the problems. We can now point to tangible fruits of the post-audit phase.”

It would be recalled that NEITI commissioned the first financial, process and physical audits of the petroleum industry, covering the period 1999 to 2004. The audits were conducted by an international consortium of auditors, led by the Hart Group of United Kingdom.

Two of the main highlights of the landmark audits were: gaps between revenues paid by companies and received by government; and capacity and coordination gaps in the overall management of revenues in the petroleum industry.

Following the release of the audit findings in May 2006, the auditors were further contracted to reconcile the glaring discrepancies in revenues paid and received. Also, all the government agencies involved in the determination and management of oil and gas revenues were mandated to devise and implement a strategy for fixing the identified lapses, under the overall coordination of NEITI.

On the revenue discrepancies, the auditors have worked with the various companies and government agencies to trace the payments previously unaccounted for. After a comprehensive reconciliation exercise, the auditors have reported that the bulk of the payments claimed to have been made by the oil companies could be authenticated.

The difference between revenues paid by oil companies and those received by government agencies between 1999 and 2004 was about \$300 million which was later revised by the auditors to about \$6 million.

Most of the initial discrepancies, the auditors have reported, could be explained by sloppy book-keeping, improper labeling and inadequate communication between companies and various agencies. However, some amounts are still outstanding, as about \$6m could still not be accounted for.

The balance represents about 0.01% of the more than \$90 billion oil and gas revenues for the audited period. Though the outstanding percentage is adjudged to be within the acceptable margin of errors, the unresolved payments have been referred to law-enforcement agencies for further investigations and possible prosecutions.

In response to the structural and operational gaps within the industry, the government constituted an Inter-Ministerial Task Team (IMTT) to devise and implement strategies for rectifying the gaps. The team consists of representatives of core government agencies such as Department of Petroleum Resources (DPR), the Nigerian National Petroleum Company (NNPC), the Federal Inland Revenue Services (FIRS), the Office of the Accountant General of the Federation (OAGF), and the Central Bank of Nigeria (CBN). NEITI was mandated to coordinate the remediation effort.

The team thereafter developed a comprehensive remediation programme, which was also approved for implementation. The remediation plan covers five key areas: developing a revenue-flow interface among government agencies; improving Nigeria's oil and gas metering infrastructure; developing a uniform approach to cost determination; building human and physical capacities of critical government agencies; and improving overall governance of the oil and gas sector.

The IMTT now meets quarterly to appraise and track progress of the remediation plan. At its last meeting, held over the weekend at NEITI Secretariat, the various agencies agreed that much progress has been made in terms of inter-agency communications and coordination.

It would be recalled that the audits identified that revenue discrepancies existed because the government agencies involved in revenue determination and collection were not talking to themselves. Now,

however, some mechanisms have been put in place for enhanced information-sharing and interface among the different agencies.

The CBN, for example, has opened different bank accounts for different tax heads in different currencies, unlike before when all the accounts were lumped. Also, there is greater interface between FIRS, CBN and OAGF to ensure prompt monitoring of revenue flows, ensuring that all are on the same page and clarifications could be sought and offered quickly.

In same manner, all relevant agencies now hold regular reconciliation meetings and are overhauling their information management systems in preparation for virtual interface of their systems. NEITI is facilitating discussion with the German Government and the German Software Company, SAP, for possible support to the Revenue-Flow Interface Project.

Another area where significant progress has been made is in resolving the absence of uniformity in the price at which companies sell different grades of the Nigerian crude. Now, the Commercial and Marketing Department (COMD) of NNPC determines the prices of Nigerian crude and advises FIRS and the companies on this. Companies that do not comply are now prevented from lifting crude.

Discussion is on-going on oil and gas metering infrastructure. NEITI is equally facilitating possible support from the Norwegian Government on this critical aspect of remediation. Study teams of the different agencies are expected to submit reports on how to fix human and infrastructural gaps in the industry.

Also, the IMTT resolved that improving governance of the oil and gas sector will require amendment of some old laws and the passage of new ones, such as the Gas Bill. Position papers are expected on the affected areas. The Next IMTT meeting was fixed for November 8, 2007.

“The Remediation Plan is on course, but there still enormous challenges ahead, most of which are institutionalized opacity, which can lead to corruption” said Dr. Malomo, the NEITI chair. “But we have to continue to keep track to ensure that audit after audit will not be repeating the same problems. The ultimate aim of our work is to fix the problems.”

Meanwhile, the NEITI Audit has become annual as stipulated by the NEITI Act. The 2005 audit is presently in progress. The process of hiring auditors for the 2006 audit, which for the first time will incorporate value-for-money component, has also started.