NEITI Nigeria Extractive Industries Transparency Initiative

THE PRESIDENCY

2014 Oil & Gas Industry Audit Report

FULL REPORT

prepared by

SIAO

...promoting transparency, enabling prosperity

23rd December, 2016

The Executive Secretary,
Nigerian Extractive Industries Transparency Initiative,
No 1 Zambezi Crescent,
Maitama,
Abuja, Nigeria.

Financial, Physical and Process Audit: An Independent Report Assessing and Reconciling Physical and Financial Flows within Nigeria's Oil and Gas Industry – 2014

In accordance with the NEITI Act 2007, the National Stakeholders Working Group (NSWG) of the Nigeria Extractive Industries Transparency Initiative appointed SIAO to undertake a review and reconciliation of Financial Physical and Process Flows within Nigeria's Oil and Gas Industry for the year ended 31st December 2014.

We have carried out this assignment in accordance with the International Standards on related services applicable to agreed – upon procedures engagements. The methods & procedures performed in this assignment were informed by the terms of reference (TOR).

It was the responsibility of the management of the covered entities to provide us with the required information / data on the various financial flows to the Federation Account for the periods under review while it is our responsibility to carry out an independent review of the information / data made available to us and to report any observations as well as recommendations to the National Stakeholders Working Group.

In the course of carrying out this assignment, certain observations and findings which came to our notice have been set out in this report together with our appendices.

The purpose of this report is solely to inform the NSWG on matters set out in our terms of reference and is not addressed to any other party nor intended to be used for any other purpose.

We do not express any assurance on the transactions beyond the explicit statements set out in this report because the procedures performed were not designed to constitute an audit or review made in accordance with International Standards on Auditing or International Standards on Review Engagement.

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

Yours faithfully,

For: SIAO

Engagement Partner

Ladi Smith

List of Abbreviations and Acronyms

ACRONYM	DEFINITION
AENR	Agip Energy and Natural Resources Limited
AF	Alternative Funding
AFS	Audited Financial Statements
AGO	Automotive Gas Oil
AIP	Average Interest Percentage
AMNI	Amni International Petroleum Development Company Limited
APDNL	Addax Production Development Nigeria Limited
APENL	Addax Production and Exploration Nigeria Limited
API	American Petroleum Institute (measurement for heaviness crude)
BBL	Barrels
Bbl/d	Barrels Per Day
BIS	Bank for International Settlement
BOD	Banking Operations Department
BO	Beneficial Ownership
BOL	Bill of Lading
Bscf	Billions of Standard Cubic Feet
BSW	Basic Sediments and Water(amount of contaminants in crude)
BTU	British Thermal Unit
CA	Confidentiality Agreement
CAs	Carry Agreements
CAC	Corporate Affairs Commission
CAPEX	Capital Expenditure
CBN	Central Bank of Nigeria
CBN-MPR	Central Bank of Nigeria Monetary Policy Rate
CE	Covered Entity
CCC	Carrying Capital Cost
CGT	Capital Gains Tax
CITA	Company Income Tax Act
CIT	Company Income Tax
CNL	Chevron Nigeria Limited
COMD	Crude Oil Marketing Division of NNPC
COSM	Crude Oil Stock Management of NNPC
CRF	Consolidated Revenue Fund
CSU	Corporate Service Unit
DG	Director General
DMO	Debt Management Office

DPK	Dual Purpose Kerosene
DPR	Department of Petroleum Resources
E&P	Exploration and Production
ECA	Excess Crude Account
ECOWAS	Economic Community of West African States
EDT	Education Tax
EEZA	Exclusive Economic Zone Act
EIA	Environmental Impact Assessment
EIA	Energy Information Administration
EIC	Extractive Industry Company
EI	Extractive Industry
EOI	Expression of Interest
EITI	Extractive Industries Transparency Initiative
ESSO	Esso Exploration and Production Nigeria Limited
ERP	Enterprise Resource Planning
ES	Executive Secretary
FAAC	Federation Accounts Allocation Committee
FCT	Federal Capital Territory
FDE	Fraud and Debt Enforcement
FEC	Federal Executive Council
FES	Frontier Exploration Services
FGN	Federal Government of Nigeria
FHN	First Hydrocarbon Nigeria Limited
FIRR	Financial Internal Rate of Return
FIRS	Federal Inland Revenue Service
FMF	Federal Ministry of Finance
FOB	Free on Board
FRB	Federal Reserve Bank
GDP	Gross Domestic Product
GGM	Group General Manager(NNPC)
GID	Gas Infrastructure Development
GMD	Group Managing Director(NNPC)
GRC	Gas Regulatory Commission
GSA	Gas Sales Agreement
GSV	Gross Standard Volume
HPFO	High Pour Fuel Oil
HSE	Health, Safety & Environment
IASs	International Standards on Auditing

IDSL	Integrated Data Services Limited
IOC	International Oil Company
IPP	Independent Power Producer
ITA	Investment Tax Allowance
ITC	Investment Tax Credit
JDA	Joint Development Authority
JDZ	Joint Development Zone
JMC	Joint Ministerial Council of JDZ
JOA	Joint Operating Agreement
JVAFA	Joint Venture Alternative Funding Arrangement
JVC	Joint Venture Companies
JVCC	Joint Venture Cash Calls
JVF	Joint Venture Funding
JV	Joint Venture
KRPC	Kaduna Refinery and Petrochemical Company
LAN	Local Area Network
LC	Letter of Credit
LCV	Local Content Vehicle
LFN	Law of Federation of Nigeria
LNG	Liquefied Natural Gas
LOC	Local /Indigenous Oil Companies
LOR	London Oil Report
LPG	Liquefied Petroleum Gas
LPFO	Low Pour Fuel Oil
LR	Long Residue
MCA	Modified Carry Agreement
MMBTU	Million British Thermal Unit
MMBO	Million Barrels of Oil
MMC	Materials Movement Coordinator
MMscf	Millions of standard cubic feet
MOR	Miscellaneous Oil Revenue
MOU	Memorandum of Understanding
MPNU	Mobil Producing Nigeria Unlimited
MPR	Ministry of Petroleum Resources
MT	Metric Tons
MV	Merchant Vessel
NAE	Nigerian Agip Exploration Limited
NAOC	Nigerian Agip Oil Company
NAPIMS	National Petroleum Investment Management Service

NBS	National Bureau of Statistics
NCDA	Nigerian Content Development Act
NCDMB	Nigerian Content Development and Monitoring Board
NCS	Nigerian Customs Service
NDDC	Niger Delta Development Commission
NDPR	Niger Delta Petroleum Resources
NEITI	Nigeria Extractive Industries Transparency Initiative
NESS	Nigerian Export Supervision Scheme
NESREA	National Environmental Standards and Regulations Agency
NETCO	National Engineering & Technical Company
NGC	Nigerian Gas Company
NGL	Natural Gas Liquid
NHT	Nigerian Hydro Carbon Tax
NIADBMS	NEITI Industry Audit Data Base Management System
NIMASA	Nigerian Maritime Administration and Safety Agency
NIPEX	Nigerian Petroleum Exchange
NIWA	National Inland Waterways Authority
NLNG	Nigeria Liquefied Natural Gas
NNPC	Nigerian National Petroleum Corporation
NNOC	Nigerian National Oil Corporation
NOC	National Oil Company
NOSDRA	National Oil Spill Detection and Response Agency
NPA	Nigerian Petroleum Act
NPC	National Planning Commission
NPDC	Nigerian Petroleum Development Company
NSE	Nigerian Stock Exchange
NSV	Net Standard Volume
NSWG	National Stakeholders Working Group
NXP	Nigeria Export Proceeds
OAGF	Office of the Accountant General of the Federation
OEL	Oil Exploration License
OGJ	Oil and Gas Journal
OML	Oil Mining Lease
OPCO	Operating Company
OPCOM	Operating Committees
OPEC	Organization of Petroleum Exporting Countries
OPIC	Overseas Private Investment Corporation
OPL	Oil Prospecting License

OPTS	Oil Producers Trade Section
OSP	Official Selling Price
OSP	Offshore Safety Permit
PA	Petroleum Act
PAYE	Pay As You Earn
PD	Positive Development/Displacement
PEFMB	Petroleum Equalization Fund Management Board
PGS	Petroleum Geo-Services
PHCN	Power Holding Company of Nigeria
PEL	Petroleum Exploration License
PHRC	Port Harcourt Refining Company
PIB	Petroleum Industry Bill
PLATFORM	Platform Petroleum Limited
PMS	Premium Motor Spirit
POCNL	Philips Oil Company Nigeria Limited
POOCN	Pan Ocean Oil Corporation (Nigeria) Limited
PPMC	Pipelines and Products Marketing Company
PPPRA	Petroleum Products Pricing Regulatory Agency
PPT	Petroleum Profits Tax
PR&IT	Planning Research, Statistics and Information Technology
PSC	Production Sharing Contract
PSF	Petroleum Support Fund
PTDF	Petroleum Technology Development Fund
PWC	Price Waterhouse Coopers
QIT	Qua Iboe Terminal
RDP	Reserves Development Project
RMAFC	Revenue Mobilization Allocation and Fiscal Commission
RP	Realisable Price
RPP	Returns Payment Processing
SAP	System Application Products (NNPC)
SC	Service Contracts
SCRPPSD	Special Committee on the Review of Petroleum Products
SDN	Sovereign Debt Note
SDS	Sovereign Debt Statement
SEEPCO	Sterling Oil Exploration and Energy Production Company Limited
SEPCOL	Shebah Exploration and Production Company Limited
SEPLAT	Seplat Petroleum Development Company Limited
SFDP	Satellite Field Development project

SNEPCO	Shell Nigeria Exploration and Production Company Limited
SOF	Satellite Oil Fields
SON	Standard Organisation of Nigeria
SPDC	Shell Petroleum Development Company
SPV	Special Purpose Vehicle
SRMF	Sole Risk Marginal Field
STD	Shipping and Terminal Department
STARDEEP	Star Deepwater Petroleum Limited
STP	São Tomé and Príncipe
SURE-P	Subsidy Reinvestment Program
SWIFT	Society for Worldwide Interbank Financial Transactions
TEPNG	Total Exploration and Production Nigeria Limited
TECOM	Technical Committee
TETFUND	Tertiary Education Trust Fund
TMP	Trial Marketing Period
TOR	Terms of Reference
TUPNI	Total Upstream Nigeria Limited
USD	United States Dollar
VAT	Value Added Tax
VGO	Vacuum Gas Oil
WAGP	West African Gas Pipeline
WHT	Withholding Tax
WRPC	Warri Refining and Petrochemicals Company

Average Yearly Exchange Rate Applicable 2012-2014

Year	Average Rate Dollar ($)	Average Rate GBP(£)	Average Rate Euro(€)	Average Rate Yen (¥)	Average Rate Naira
2012	1	0.631	0.77806	79.78738	**157.5369**
2013	1	0.63953	0.75316	97.57812	**157.7097**
2014	1	0.6072	0.75354	105.8346	**163.5911**

Rates obtained from https://www.oanda.com/currency/average

Table of Contents

1. Introduction

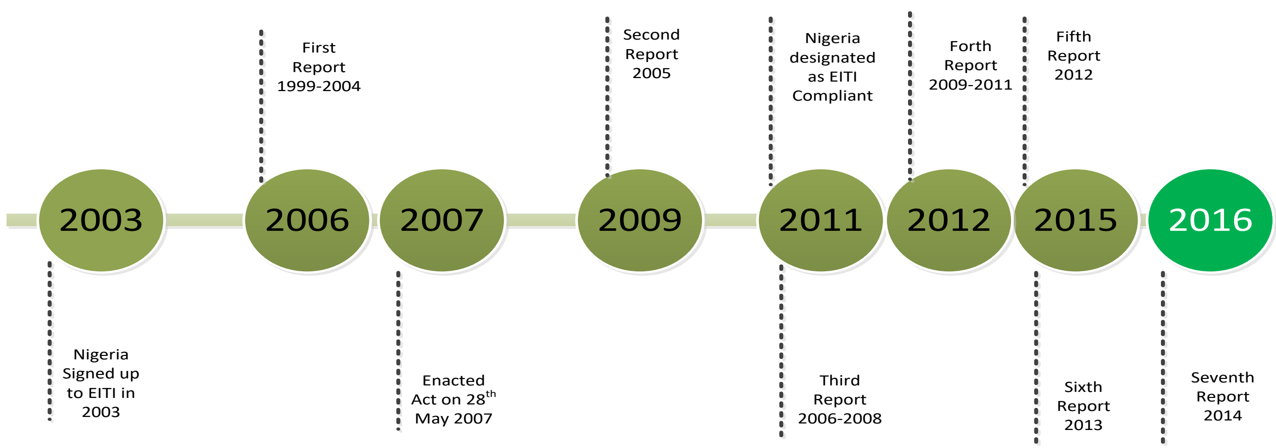
1.1 History of EITI Implementation in Nigeria

NEITI is a Nigerian subset of global initiative aimed at following due process and achieving transparency in payments by Extractive Industry (EI) companies to Governments and Government-linked entities. Former President Olusegun Obasanjo committed to EITI in November 2003 and launched Nigeria Extractive Industries Transparency Initiative (NEITI) in February 2004 as part of his overall economic reform programme.

NEITI implementation of EITI in Nigeria began with legislation of the NEITI Act of 2007. This law was the first pillar in the institutionalization of NEITI and EITI process in Nigeria. It also made Nigeria the first country to back the process with law. The NEITI Act 2007 is today a reference point in all advocacy, public agitation and demand for transparency in the extractive sector in Nigeria.

For details of Nigeria's sign up to the EITI, the functions, methods, processes and benefits of NEITI, please visit our Website www.neiti.org.ng

Figure 1-1 Milestone of Nigeria EITI Implementation



1.2 The Extractive Industries Transparency Initiative

The Extractive Industries Transparency Initiative (EITI) is a global standard that promotes revenue transparency and accountability in the oil, gas and mining sectors. It has a robust yet flexible methodology for disclosing and reconciling companies' payments and Government revenues in implementing countries. The EITI process may be extended and adapted to meet the information needs of stakeholders.

The EITI Standard requires information along the extractive industry value chain from the point of extraction, to how the payment and revenue makes its way through to the Government, to how it benefits the citizens of the country whose natural resources are extracted. This includes how licenses and contracts are allocated and registered, who are the beneficial owners of those operations, what are the fiscal and legal arrangements, how much is produced, how much is paid, where are those revenues allocated, and what is the contribution to the economy, including employment. The driving force for the EITI initiative is a need to address the key governance issues of the oil, gas and mining sectors.

The EITI Global initiative comprises 56 countries of which Nigeria is devotedly represented by NEITI.

NEITI is responsible under the NEITI Act 2007, which established it for the development of a framework for transparency and accountability in the reporting and disclosure by all extractive industry companies of revenue due to or paid to the three tiers of Government through the federation Account. Under section 2(a) of the Act, it is also charged with monitoring and ensuring accountability in the payments made by all extractive industry companies to the Federal Government and Statutory recipients. Furthermore, under section 3(f) NEITI is also to ensure that all payments due to the Federal Government from all extractive industry companies, including taxes, royalties, dividends, bonuses, penalties, levies and such like are duly made. Other responsibilities include:

- To match collections (revenue payments) from extractive industry companies with statutory disbursements from the Federal Government as required by the Constitution of the Federal Republic of Nigeria.
- To report on actual disbursements of funds from the Federation Account to beneficiaries (with emphasis on funds originating from the Oil & Gas sector).

Every year NEITI conducts an audit of the extractive industry through the engagement of consultants with the objective of having a report that independently assesses and discloses Government revenues and companies payment in the industry for the year. The National Stakeholder Working Group (NSWG) made up of representations from Government, companies and civil society oversee the process and communicate the findings of the Report publicly.

NEITI awarded SIAO the 2014 Oil and Gas Industry Audit via a letter of award (see here) dated 6th June 2016. In summary the objectives of the audit are to track the quantities of hydrocarbons produced, exported and utilized/imported; report on revenue and investment flows amongst the Covered Entities; undertake special verification work on certain classes of transactions; report on balances payable/receivable at the end of the audit period for certain financial flows as well as reconcile the physical/financial transactions reported by payers and recipients as appropriate.

1.3 Objectives of the Audit

The objective of the assignment is to produce the Oil and Gas Audit Report for 2014 in accordance with NEITI Act adopting the EITI standard.

More specific objectives of the assignment will include:

- To report on the quantities of hydrocarbons (oil and gas and refined product, including condensate where appropriate) produced, exported and utilized/imported in a manner, which is insightful, and of such integrity as to be reasonably relied upon by NEITI and to also make recommendations on any issues arising in the course of conducting the work.

- To report on the revenue flows and investment flows amongst the Covered Entities, with transactions made by participants (both public and private) in Nigeria's oil and gas industry.
- To undertake special verification work on certain classes of transactions
- To report on balances payable/receivable at the end of the audit period for certain financial flows.
- To reconcile the physical/financial transactions reported by payers and recipients as appropriate.

1.4 Scope of the Audit

The work was carried out in line with the Terms of Reference by NEITI for the year 2014 audit exercise. This work covers the oil and gas industry in Nigeria and its related entities (Government Agencies and extractive companies). It involved the following tasks being executed by the consultants;

1. Develop, as necessary, template reporting structures for utilization by either public or private entities.
2. Assess the volumetric aspects of production, liftings, utilization/exports, imports, unaccounted oil and gas, and other relevant streams.
3. Validate information collected on allocation of licenses including transfers and map showing license and other related information.
4. Review all licensing processes and beneficial ownership and to report on the signature bonuses attributable. This includes Nigeria Sao Tome & Principe from the Joint Development Zone (if any).
5. Validate information on beneficial ownership from SOE – State Owned Enterprise (NNPC), Midstream, JVs – Joint Venture companies and PSCs – Production Sharing Contract companies. For this purpose, the NSWG agreed a minimum of 5-(five) percent consideration for beneficial ownership.
6. Obtain description of Government policy on Contracts disclosure. The information obtained should include MOUs, Side Letters, Contracts, Farm-in Agreements and other relevant documents including marketing contracts for crude oil, and swap agreements
7. Analyse, and reconcile the physical, financial and related information pertaining to the revenue flows, investment flows, and such other transactions which affect such flows amongst and between the Covered Entities; However, activities and entities involved in the petrochemical industry (e.g. refineries, chemicals production), or the processing of crude oil and gas are not within the scope of work but such entities are required to confirm their relevant stocks, receipts from and inputs to the oil and gas sector.
8. Reference national revenue classification systems, and international standards such as IMF Governments Finance Statistic Manual
9. Report on NNPC's share in export sales and domestic crude and circularise NNPC trading partners to independently confirm NNPC's volume and values of export and domestic sales.
10. Report the export of oil and gas in absolute terms and as a percentage of total export from the country.
11. The consultant shall report the employment in the oil and gas sector in absolute term and as a percentage of the total employment in the country.
12. Validate data obtained on revenue flows from the oil and gas industries detailing all payment streams made by all Covered Entities to any Federation (Federal Government, State Government, or Local Government) entity, including to/by NNPC. In addition, this detailing is to encompass certain calculations that underlie the calculation of payments, fees, taxes and royalties owned by private or public sector companies.

13. Validate investment flows involving Government payments by way of Joint Venture investments, loans (including loan repayment), and equity investment transactions including dividends paid or received by Covered Entities, cost and profit oil transactions. Otherwise, the Consultant should report that the figures have not been confirmed.
14. Build upon the analysis, findings and recommendations of the previous audit
15. Confirm data obtained about all information on Social Expenditures as mandated by Law or in Contract.
16. Validate information obtained on all Quasi-Fiscal Expenditure from NNPC such as fuel subsidy, security, SURE-P etc.
17. Corroborate information collected on material arrangements involving provisions of goods and services (including loans and grants and infrastructure works) in exchange for oil or production concessions or physical delivery of such commodities.
18. Report royalties on a Project-by-Project basis. According to the NSWG a project is defined as a licence for each OPL / OML.
19. Provide recommendations leading to standardized reporting methodologies which enhance industry-wide reporting, sector analysis, and transparency.
20. Provide both on and off the job training to the Secretariat Staff involved in the conduct of the assignment with a view to building capacity and enhancing efficiency of future audits.
21. The consultants shall offer, to the extent applicable and/or necessary, recommendations for improvements it finds or believes may improve the efficiency of the sector, or the effectiveness of Government procedures for managing the sector, or any other such matter the Consultant may consider pertinent.

1.5 Limitations to the scope of our study

In the course of carrying out the assignment we documented the various limitations that we encountered and leveraged on our expertise and experience acquired in handling similar assignments for various state Governments and organizations and followed the escalation procedure provided by NEITI.

Nevertheless we encountered the following challenges and were able to resolve them;

- Non release of information by covered entities: Some organisations were not willing to release information. In those situation, we used; moral suasion, third party records, familiarization with the staff and management and showing understanding of the environment. We also followed the protocol for dealing with covered entities who refuse to provide requested data in the present round of audit as provided by NEITI
- Incomplete Records: Some of the covered entities had in-complete records of the information required. In those situations, we used our good knowledge of account and reconciliation; we also made use of third party information at our disposal.
- Political Influence: We couldn’t rule out political influence on this type of assignment and the approach employed was to be apolitical.

1.6 Sources of Data

The primary source of data is the standard reporting Templates completed by Government Agencies and the companies; these were provided electronically for the purpose of the audit. Other primary sources of data are documents generated by the covered entities such as financial statements, accounting records and various transaction registers.

We also made use of publicly available data from various sources to corroborate information provided in the primary data as well as data obtained from past audit reports.

1.7 Basis of Accounting

Work performed was in accordance with the International Auditing Standards applicable Ro related Services (ISRS 4400 Engagements to perform agreed upon procedures regarding Financial Information). The procedures performed were those set out in the terms of reference as established in line with the EITI standards.

The reconciliation procedures carried out do not in any way constitute an audit or review in accordance with International Standards on Auditing or International Standards on Review Engagements and as a result we do not express any assurance on the transactions beyond the explicit direction set out in this report.

1.8 Assumptions

The following assumptions have been made regarding the development and execution of the assignment implementation plan based on our assessment of the project features and variables. We have assumed that:

- All covered entities have (or would have) been duly briefed of the activities sprouting from the audit project and their corresponding roles and responsibilities
- All documents and support required from NEITI and the covered entities would be facilitated within the allotted period in the agreed project contract
- The data and/or information to be received from the covered entities are genuine and consistent

1.9 List of Financial Flows

The following major revenue payments made by Covered Entities and receipts by the relevant Government Agencies from the Oil and Gas sector were reviewed during the period:

a. Sale of Government Crude Oil and Gas
b. Petroleum Profits Tax (PPT)
c. Royalty
d. Companies Income Tax (CIT)
e. Concession Rentals

f. NDDC Levy
g. NCDMB payments
h. Withholding Tax (WHT)
i. Pay-As-You-Earn (PAYE)
j. Value Added Tax (VAT)
k. Education Tax (EDT)
l. NESS fees
m. NIMASA payments
n. NIWA payments
o. Gas Flared Penalties

In addition to these, other significant financial flows shown below were reviewed accordingly:

- Cash Calls;
- Dividends and Loan Repayment from NLNG; and
- Subsidy Payments.

Non-financial flows relating to "in-kind" transactions and the settlement of liabilities of royalties and taxes and other items by means of crude oil allocations rather than financial payments were also reviewed.

1.10 List of Physical Flows

The physical and process flow considered the following:

- Production and Terminal balances
- Process for Pricing of Federation Equity Crude Oil
- Product importation and distribution
- Production and Utilization of gas
- Hydrocarbon metering system
- Review of Systems and Procedures
- Production arrangements and licensing
- Recommendations on the review process

2. Contextual Information on the Oil & Gas Industry

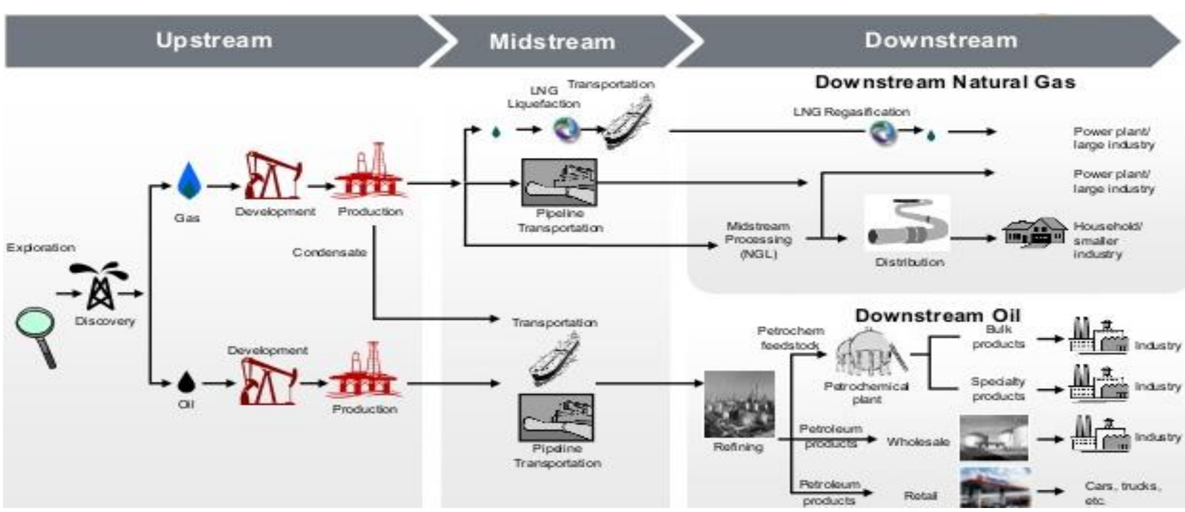
2.1 Oil and Gas Industry – Nigeria

After nearly 50 years of oil exploration, Shell D'Arcy, the first shell company in Nigeria, which later changed its name to Shell-BP Petroleum to reflect British petroleum interest in the partnership, discovered oil in commercial quantities at Oloibiri Village in the present day Bayelsa State of Nigeria. The first oil field began production in 1958 with 5,100 bpd and hence Nigeria joined the ranks of oil producing countries that same year. This marked the change in the mainstay of the Nigerian economy from Agriculture to Oil. However, the Nigerian Government's interest was limited to the collection of taxes, lease rentals and royalties. In order to satisfy the developing countries that were clamouring for greater control over their natural resources, the Resolution on the Permanent Sovereignty over Natural Resources was adopted by the National Assembly in 1962 with the aim of asserting the right of people to freely use and exploit their natural wealth and resources. To this end, the Petroleum Act was enacted in 1969 as the main legislation governing the exploration and production matters in Nigeria. The Act vested the entire ownership and control of all petroleum in, under or upon all land or Nigerian territorial waters in the Nigerian Government.

2.2 Structure of the Industry

The Nigerian Oil and Gas Industry is mainly divided into the Upstream sector, the Midstream sector and the Downstream sector. In some cases, the sectors intersect and it is almost difficult to differentiate between the sectors.

Figure 2-1 Classification of the Oil and Gas Industry



a) The Upstream Sector

This is covers all the activities of Exploration and Production of oil and gas. It covers all activities related to searching for, recovering & producing crude oil & /or natural gas from underground or underwater fields. It also covers drilling of exploratory wells & subsequently drilling & operating the wells that recover & bring the crude oil/or raw gas to the surface. As evidenced above, the sector is highly complex and thus risky but when successful, the rewards are worth the risk. It is highly regulated by Government and environmental entities. This sector is currently the important sector in the Nigerian Economy as it accounts for 90% of the country's exports and about 70%-80% of Federal Government Revenue. The major forms of oil and gas arrangements in the Upstream Sector include; Joint Venture (JV); Production Sharing Contracts (PSC); Service Contracts (SC) and Marginal Field Concession (MFC).

i. Joint Venture (JV)

This is a business agreement in which two or more parties agree to pool their resources for the purpose of accomplishing a specific task. This type of arrangement is the standard agreement between multinational oil companies and the Federal Government through the State oil Corporation (Nigerian National Petroleum Company). Both parties are contractually obligated to contribute to funding oil operations in proportion to their JV equity holding and in turn, receive crude oil produced in the same ratio. However, this contract model is gradually being phased out due to the inability of the NNPC to meet its funding obligations.

ii. Production Sharing Contracts (PSC)

Under this arrangement, the oil company will develop the oil and gas fields with the Government or its entity as the Concessionaire. In Nigeria, the NNPC holds the concession and the oil company is the Contractor. The oil company will recoup their capital and operating expenditure before sharing the profits with the NNPC.

iii. Service Contracts (SC)

The service contract is an agreement where a private company agrees to perform certain specified services for the Government in return for fixed payment. This means that an oil company is contracted to undertake exploration, development and production activities for and on behalf of the NNPC (Government Representative). The Contractor holds the majority risk under this arrangement as it holds no title to the oil produced and its expenditure is reimbursed from the proceeds from the oil sold and other possible benefits such as buy back option, periodical remuneration are outlined in the contract.

iv. Marginal Field Concession (MFC)

A marginal field is a field that has reserves booked and reported annually to the Department of Petroleum Resources and has remained unproduced for over 10 years. The MFC arrangement encourages the Oil Companies to surrender their marginal fields for assignment to indigenous concession holders. This move is to further grow the Local Content Agenda of the Government and aid local companies. The Government has provided special incentives in the Petroleum Act and the Marginal Field Operations (Fiscal Regime) Regulations 2005.

b) Midstream Sector

The Midstream sector involves the transportation, storage and wholesale marketing of crude or refined petroleum products. There are variances in the methods used in delivering oil and gas. Crude oil is delivered via pipelines, barge, oil tanker or trucks while natural gas is delivered via natural gas pipeline networks. As the name indicates, this sector is the bridge between the upstream and downstream sectors and imbibes some of their elements. For this reason, some industry experts consider the midstream operations to be a part of the downstream sector.

c) Downstream Sector

After the production phase described in (a) above and the storage phase described in (b) above, comes the refining and distribution phases. The downstream sector produces the end products to the users in the form of petrol, kerosene, aviation fuel, diesel, natural gas, lubricants etc. The sector is divided into:

i. Refining

There are four refineries in Nigeria, 2 of which are in Port Harcourt (Rivers State); the Kaduna Refining & Petrochemical Company Limited (KRPC) and the Warri Refining & Petrochemical Company Limited (WRPC). The four refineries have a combined installed capacity of 445,000bpd. Unfortunately, these refineries are working lower than 40% of their installed capacity thereby necessitating the importation of refined products to meet growing local demand. The Federal Ministry Petroleum Resources has announced its plans to resuscitate the refineries in order to boost the level of their production. There are also plans to increase the number of refineries in the country with the approval of new licenses to non-Governmental agencies.

ii. Distribution and Marketing

A comprehensive network of pipelines and depots are strategically located throughout Nigeria to aid in the effective distribution of refined petroleum products. The Map below shows the refineries and distribution depots.

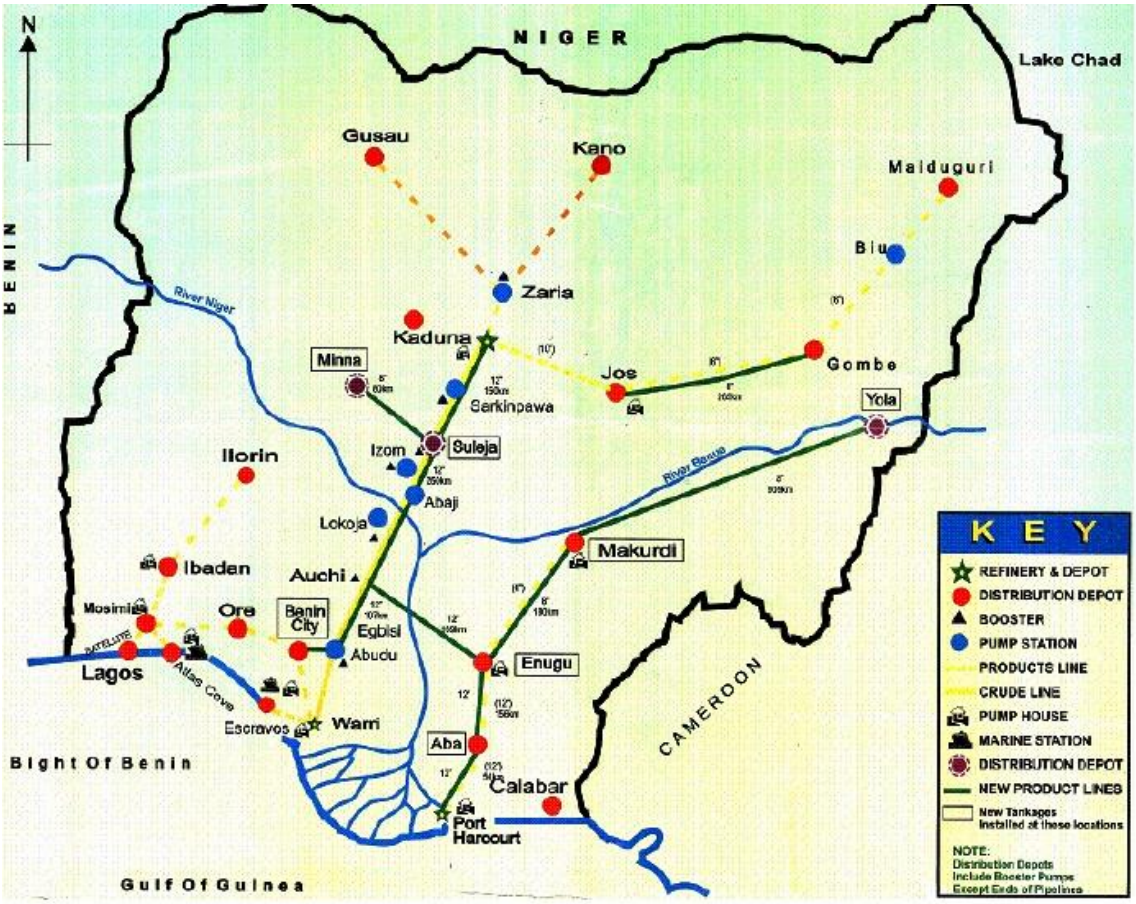


Figure 2-2 Refineries and Distribution Depots

The Pipelines and Products Marketing Company (PPMC) is the arm of the Nigerian National Petroleum Corporation (NNPC) responsible for transporting crude oil to the refineries and moving white petroleum products to the existing and future markets efficiently and at low cost through a safe and well maintained network of pipelines and depots. The Department of Petroleum Resources (DPR) on the other hand issues the guidelines that ensure that substandard products are not imported into the country while the Petroleum Product Pricing Regulatory Commission (PPPRC) is the body mandated to fix the prices of the products.

iii. Natural Gas

Nigeria has the seventh largest gas reserve in the world and the largest in Africa with about 188 trillion standard cubic feet of gas resources. Unfortunately the country's gross natural gas production is flared due to inadequate infrastructure that is required to capture the natural gas with the oil. Additionally, the economy has suffered from the activities of vandals making it difficult to benefit optimally from export of gas through the West African Gas Pipeline (WAGP). The Nigeria Liquefied Natural Gas (NLNG) was incorporated on May 17, 1989 as a limited liability company. Its core mandate is to harness natural gas resources for export. It is backed by the NLNG Act and has its facility on Bonny Island with a total annual capacity of 31 bcm.

d) Others

The oil and gas sector in Nigeria also has a service sector and the services are: Exploration support services, Drilling services, Production support services, Downstream services, Financial services and Communication services

2.3 Legal Frameworks and Fiscal Regimes in the Nigerian Oil & Gas Industry

In order to attract investment to the oil and gas sector and sustainable development, it is important to have a clear, complete, transparent accessible, flexible and practical legal framework. The key legislation applicable to in the oil and gas sector include:

I. The Petroleum Act

This is the main legislation governing matters relating to petroleum exploration and production in Nigeria. The highlights of the Act include:

- Provides for the vesting of the entire ownership and control of all petroleum in the State. This includes all land (including land covered by water) in Nigeria, under the territorial waters of Nigeria, etc.
- Provides for issuance of oil exploration licenses, oil prospecting license and the oil mining license.
- Provides for the office of the Minister
- Provides for the payment of royalties to the Federal Government as soon as production begins. The 1969 Act provides the applicable royalty rates on-shore production, offshore production (depending on the metres water depth) and areas according to the metres water depth.

II. The Petroleum Profits Tax Act (PPTA)

This is the second priority regulation as the companies engaged in petroleum operations are taxed based on it. The Act describes the tax liability in relation to their method of operation in the industry.

III. The Deep Offshore and Inland Basin Production Sharing Contracts Act (DOIBPSCA)

This applies to all oil and gas companies operating under production sharing contracts in Nigeria. The Act describes Deep Offshore as any water depth beyond 200 metres while Inland Basin is any of the following basins, Anambra, Benin, Benue, Chad, Gongola, Sokoto and any other basin as may be determined by the Minister. Under the Act, the Petroleum Profits Tax applicable to the contract area shall be 50% flat and the royalty is calculated based on the metres water depth.

IV. The Companies Income Tax Act (CITA)

This describes the Companies Income Tax that companies operating in the oil and gas sector.

V. The Tertiary Education Trust Fund Act (TETFA)

This Act mandates every company registered in Nigeria to pay 2% of its assessable profit as Tertiary Education Tax (TET). The Act goes on to describe entitlements for petroleum companies and the treatment of non-Nigerian companies.

VI. Value Added Tax Act (VAT Act)

This Act regulates Value Added tax in Nigeria. Under the Act, VAT is charged at a flat rate of 5% and it is payable on the supply of taxable goods and services. Though it is worthy of note that some goods and services are exempted from VAT such as certain medical services, educational materials and basic food items. The Act (as amended 2007) requires companies in the oil and gas sector to deduct VAT at source from their vendors/suppliers' invoices and remit directly to the FIRS (the regulatory agent).

VII. Withholding Tax (WHT)

The WHT rate applied in Nigeria is either 5% or 10% depending on the nature of the transaction and the beneficiary of the payment. In the case where WHT applies, the company making the payment is required to deduct tax at the applicable rate and remit to the relevant authority.

VIII. The Capital Gains Act (CGTA)

This Act regulates the payment of CGT in Nigeria and the 2004 Act specifies a rate of 10% on capital gains accruing on disposal of chargeable assets and this applies whether the asset is situated in Nigeria or not.

IX. The Niger Delta Development Commission Act (NDDC Act)

This requires that all oil producing companies in Nigeria pay an annual contribution of 3% of their total annual budget to the Niger Delta Development Commission. This contribution will qualify as allowable deduction for Petroleum Profit Tax (PPT).

X. The Cabotage Act

This regulates cabotage vessels operating within Nigerian inland waters, coastal waters, Exclusive Economic Zone and Islands within Nigeria. The company is to pay 2% of the contract sum performed by any vessels engaged in coastal trade in the Fund that the Act requires be set up.

XI. The Nigeria Maritime Administration Safety Agency Act

The Act applies to ships and crafts registered in Nigeria and mandate the payment of a 3% levy on inbound freights and a 2% levy on outbound freights.

2.4 The Petroleum Industry Bill (PIB)

The Petroleum Industry Bill (PIB) was a result of several years of efforts at improving the Oil and Gas Sector in Nigeria. The reform was long overdue as the industry is the single most significant contributor to the Nigerian economy.

Past President Olusegun Obasanjo on 24 April 2000, inaugurated the Oil and Gas Sector Reform Implementation Committee (OGIC) under the Chairmanship of Dr. Rilwanu Lukman to review and make recommendations for restructuring the oil and gas sector. The OGIC came out with a report and a policy document; which recommended regulatory and institutional frameworks that, when implemented, would guarantee greater transparency and accountability. The Report was approved by the Yaradua Government and formed the basis for the Petroleum Industry Bill 2008. The Bill sought to achieve:

- A conducive business environment for petroleum operations
- Enhanced exploitation and exploration of petroleum resources in Nigeria for the benefit of Nigerians

- Optimize domestic gas supplies, especially for power generation and industrial development
- Encourages investment in Nigerian petroleum industry
- Optimizing Government revenue
- Establish profit-driven oil entities
- Deregulate and liberalize the downstream petroleum sector
- Create efficient and effective regulatory agencies
- Promote the development of Nigerian content in the oil industry
- Protect health, safety and the environment in petroleum operations

The PIB 2008 went through several redrafts including a wholesome amendment by the Executive Arm of Government but it failed to pass during the 6th National Assembly. Following the crisis in the oil sector in January 2012, the then Minister for Petroleum, Mrs. Diezani Alison-Madueke established a Technical Committee headed by Mr. Osten Olorunsola to harmonize the various versions of the Draft Bill.

The result of this process was the Petroleum Industry Bill 2012 which looked at critical areas such as the Inspectorate, the Regulatory Agencies for the Oil and Gas Sector and ensuring that they are independent and can actually regulate.

Under the current Administration of President Muhammadu Buhari, an Executive sponsored Bill titled the "Petroleum Industry Governance and Institutional Framework Bill 2015" (the "Bill"), which we understand is yet to be formally presented to the National Assembly. From the long title of the Bill, it would appear that same makes provision for the governance and institutional framework for the petroleum industry and other related matters.

The PIB was then broken into five parts to allow for an in-depth analysis of the Bill. On the reasoning behind the breakdown, the NNPC Managing Director stated that:

As long as we continue to want to pass a holistic PIB, it's going to be a major challenge. Once you begin to break it up into critical aspects, you begin to make a faster run to passing the PIB."

In November 2016, the PIB scaled the second reading but not the whole Bill rather, the document which scaled second reading on Wednesday provides for the governance and institutional framework for the Oil and Gas Industry.

The PIB and the NEITI Audit

The passing of the PIB will indeed have an impact on the results that will be attained in the NEITI Oil and Gas Industry Audits. This is because; there will be structural changes and the hope that the disclosure process will be heightened. The PIB is also in line with the EITI Standard that the Oil and Gas Industry is held to. Also, in passing the PIB, some of the following laws that are discussed in the overview of the Industry in other pages of this report will require to be repealed. These include:

- **Associated Gas Re-injection Act, CAP A25 Laws of the Federation of Nigeria, 2004;**
- **Motor Spirits (Returns) Act, CAP M20 Laws of the Federation of Nigeria, 2004;**
- **Petroleum Act, CAP P 10, Laws of the Federation of Nigeria, 2004;**

- **Petroleum Products Pricing Regulatory Agency (Establishment) Act, 2003;**
- **Petroleum Equalisation Fund (Management Board, etc.) Act, CAP P11 Laws of the Federation of Nigeria, 2004;**
- **Petroleum (Special) Trust Fund Act, CAP P14 Laws of the Federation of Nigerian, 2004;**
- **Petroleum Technology Development Fund Act, CAP P15 Laws of the Federation of Nigeria, 2004**
- **Deep Offshore and Inland Basin Production Sharing Act, CAP D3 Laws of the Federation of Nigeria, 2004, *(except for sections 16 subsection (1) and (2) which deals with periodic review of the Act to ensure that the FGN's take in the PSC arrangements are economically beneficial);***
- **Petroleum Profits Tax Act, CAP P13 Laws of the Federation of Nigeria, 2004.**
- **The NNPC Act, NNPC (Projects) Act and NNPC Amendment Act shall also be deemed repealed on the date that the Minister signifies by legal notice in the Gazette that the assets and liabilities of NNPC are fully vested in successor entities.**

2.5 Regulatory Agencies

The Nigerian oil and gas sector is a large and complex sector that requires the expertise of various bodies to ensure proper governance. The key regulatory agencies are:

1. The Ministry of Petroleum Resources
   This Ministry has the mandate to initiate policies for the oil and gas sector and supervise the implementation of approved policies. Its mission is an effective implementation of Nigeria's polices on oil and gas exploration, exploitation and utilization in accordance with best international practice. It has supervises various agencies and parastatals that also ensure the execution of the approved policies for the sector.
2. Nigeria National Petroleum Corporation (NNPC)
   This is the State Oil Corporation and it is the organ the Federal Government uses to participate in the oil and gas industry. The Corporation has a mission to engage in adding value to the nation's hydrocarbon resources for the benefit of all Nigerians and other stakeholders. It has various subsidiaries through which it covers the entire spectrum of oil industry operations and they include:
   - Nigerian Petroleum Development Company (NPDC)
   - The Nigerian Gas Company (NGC)
   - The Products and Pipelines Marketing Company (PPMC)
   - Integrated Data Services Limited (IDSL)
   - National Engineering and Technical Company Limited (NETCO)
   - Hydrocarbon Services Nigeria Limited (HYSON)
   - Warri Refinery and Petrochemical Co. Limited (WRPC)
   - Kaduna Refinery and Petrochemical Co. Limited (KRPC)

- Port Harcourt Refining Co. Limited (PHRC)
- NNPC Retail
- Duke Oil

3. The Department of Petroleum Resources (DPR)

The DPR is the body charged with the statutory responsibility of ensuring compliance to petroleum laws, regulations and guidelines in the Oil and Gas Industry. It ensures compliance with the terms governing the award of oil licences that the oil and gas companies are awarded. Its key functions include:

- Monitoring the Petroleum Industry operations to ensure consistency with national goals and international standards and practice.
- Processing industry applications for leases, licences and permits.
- Ensure timely and accurate payments of Rents, Royalties and other revenues due to Government.

4. The National Petroleum Investment Management Service (NAPIMS)

This is under the NNPC and it is charged with the responsibility of managing Nigeria Government's investment in the upstream sector of the Oil and Gas industry. Its mission is "to enhance the benefits accruing to the Federation from its investments in the Upstream Petroleum Industry, through effective cost control and supervision of the Joint Venture Contract (JV), Production Sharing Contract (PSC) and Service Contract (SC) Operations".

NAPIMS is a partner in the Joint Venture (JV) assets and the Concessionaire in the Production Sharing Contract (PSC) arrangements and it is neither an operator nor a regulatory body of the industry, but included because it manages the Federal Government of Nigeria (FGN) interests in the oil and gas industry.

5. The National Maritime Administration and Safety Agency (NIMASA)

This Agency was formed by combining former parastatals of the Ministry of Transportation. The NIMASA Act 2007, Merchant Shipping Act 2007 and the Coastal and Inland Shipping (Cabotage) Act 2003 confers on the Agency the responsibility of regulating the Nigerian Maritime industry. It oversees shipping and regulatory matters as well as the administration and regulation of shipping licenses.

6. The Nigerian Content Development & Monitoring Board (NCDMB)

The Board came into being with the passing into law of the Nigerian Content Act in 2010. It is charged with the supervising, coordinating, administering, monitoring and managing the development of local content in the oil and gas industry. It has a mission to open the oil and gas industry to the Nigerian people.

7. The Niger Delta Development Commission (NDDC)

The Commission was set up with a mission of facilitating the rapid, even and sustainable development of the Niger Delta into a region that is economically prosperous, socially stable, ecologically regenerative and politically peaceful.

The NDDC Act sets out the functions of the Commission and it includes:

- Formulation of policies and guidelines for the development of the Niger Delta area.
- Conception, planning and implementation, in accordance with set rules and regulations, of projects and programs for sustainable development of the Niger Delta area in the field of transportation including roads, jetties and waterways, health, employment, industrialization, agriculture and fisheries, housing and urban development, water supply, electricity and telecommunications

2.6 Contracts Disclosure in the Nigerian Oil and Gas Industry

In order to ascertain the required documents and give an unbiased view, the NEITI Oil and Gas Industry 2014 Audit sought for the completion of contract data templates and the provision of the requisite contract documents in order to satisfy the EITI requirement for the disclosure of Contracts and Licenses that provide the terms attached to the exploitation of Oil and Gas in Nigeria.

To this end, NEITI circulated a Field Legal Contract Data Template to the Covered Entities and most of them completed the templates which contained information such as:

- Legal entity holding license
- License number
- Name of Operator
- Concession owner
- Contractor (Technical Partner)
- Rate of Royalty
- Who pays the Royalty
- Date of first production entitlement
- Date of last production entitlement
- Has the field produced?
- Is the Technical Partner paid in kind

The operating contracts in the Nigeria Oil and Gas Industry are classified into:

- Joint Venture Agreements (JV)
- Production Sharing Contracts (PSC)
- Service Contracts (SC)
- Farm-out Agreements and
- Modified Carry Agreements (MCA)

For the issuance and regulation of licenses, the Department of Petroleum Resources (DPR) is the Agency of the Federal Government responsible. It is also responsible for the standard formats of the contracts with the Federal Government (this includes the contracts that Companies enter into with the NNPC who signs on behalf of the Federal Government – mostly JVs). The DPR is also in possession of the complete listings and the types of contract arrangements.

The implementation team established that there is no publically available source of contract aside that which were provided by entities to the implementation team.

The status of licenses provided by the DPR in the course of this Audit are contained in **Error! Reference source not found.** and DPR Annual Report https://dpr.gov.ng/index/wp-content/uploads/2016/01/2014-Oil-Gas-Industry-Annual-Report-1.pdf

2.7 Beneficial Ownership

The Nigerian Extractive Industries Transparency Initiative (NEITI) has adopted the EITI Standards definition of Beneficial Ownership as provided in Requirement 2.5 (f) (i) as:

> *"The beneficial owner in respect of a company means the natural person(s) who directly or indirectly ultimately own(s) or control(s) the corporate entity"*

This definition makes the concept of Beneficial Ownership seem like a clear cut case but companies, especially those in the developing countries such as Nigeria, tend to cloak or shield the real owners of companies. This practice, if not checked will continue to pose financial risks to the revenue generation of such countries. Shell companies are mostly set up as a means to enrich individuals and defraud nations by participating in tax avoidance.

In the extractive industry, both local and international oil companies operating in developing countries make it difficult to identify the real individuals behind the companies or their connection to the companies by using a complex structure of ownership. The most widely accepted answer for such behaviour is the need for concealing illicit wealth and conflict of interest as it pertains to Politically Exposed Persons. These are individuals that are either Government officials or politically connected individuals who are likely using their position to enrich themselves from the country's mineral assets. In order to protect themselves, the shell companies they use do not provide sufficient information to ascertain the true identities of the natural persons behind the title.

In Nigeria, in order to protect the interest of the real owners, Companies are likely to provide information as to the legal owners (the names used in the registration of the company) than the beneficial owners and it is one of the major reasons that Nigeria in 2013, volunteered alongside 11 other EITI implementing countries to pilot the reporting of Beneficial Ownership in the oil, gas and mining sector.

Beneficial Ownership and the Nigerian Law

In order to achieve its aim of publishing a beneficial Ownership Roadmap by January 2017 and start full implementation by January 2020, Nigeria has to begin to position itself to protect its revenue sources especially in light of the dwindling oil prices which until proper diversification of the economy is achieved, accounts for the bulk of the Government revenues.

The Companies would not be expected to fully cooperate with the disclosure requirements of the Beneficial Ownership principle without Statutory or Regulatory provisions. Unfortunately, the Nigerian Laws do not expressly define Beneficial Ownership but it infers the principle that if properly cited, can be used in the unmasking of the real owners of extractive companies in Nigeria. This belies the need for clear policies and legislations that will enforce the Beneficiary Ownership Principle and ensure public disclosure and publication of the real owners of companies.

Until the situation described above is rectified, there are some Nigerian Laws and Processes that complement the EITI definition of Beneficial Ownership as adopted by the EITI:

- The Companies and Allied Matters Act 1990. This is the Act that regulates Companies in Nigeria. And requires the shareholding structure of all companies registered in Nigeria and also mandates that the Company maintain a share register that can be accessed by the public at the Corporate Affairs Commission.
- Freedom of information Act (FOI) – Request for information from the public sector
  Section 1 of the FOI Act empowers a person to request information from a Government institution whether he has a reason for requesting such information or not provided such information is not one excluded under the Act for national interest. This right is enforceable in court if the requested information is not provided within 7 days of making the request.
- Public Complaints Commission
  The PCC has wide powers to inquire into complaints before it by members of the Public pertaining to any administrative action taken by the Federal, state, local, Governments, Public Institutions and companies whether in the Public or Private sector and any official of any of the aforementioned bodies
- Nigerian Code of Conduct and Tribunal Act 1990 requires senior Government officials including politically exposed persons to disclose their assets and interests in companies

Beneficial Ownership in the 2014 Templates

The templates sent to the Covered Entities to populate was designed by NEITI and distributed to all the Entities that were involved in the Extractive Industry in the Year 2014.

There was a Beneficial Ownership that necessitated the Entities providing information such General Information on the Entities, Beneficial Ownership disclosure, Community and Social Obligation, Developer's Financial Obligation and Summary of Terms. The tables below depict the information Entities provided depending on the type of Company and Field Contract.

Table 2-1 MFO&SR

S/N	BASIC INFORMATION	BENEFICIAL OWNERSHIP DISCLOSURE	GENERAL INFORMATION, SUMMARY OF TERMS, COMMUNITY & SOCIAL OBLIGATION, DEVELOPER'S FINANCIAL OBLIGATION
1.	19 Entities provided information such as Company number, address, shareholders and percentage interest	8 Entities filled this section but only 4 completed it totally	Most of the Companies provided only some of the information but 4 Companies filled it completely
There were 25 Companies in this segment 5 Companies did not fill the Beneficiary Ownership Templates			

Table 2-2 Joint Venture

S/N	BASIC INFORMATION	BENEFICIAL OWNERSHIP DISCLOSURE	GENERAL INFORMATION, SUMMARY OF TERMS, COMMUNITY & SOCIAL OBLIGATION, DEVELOPER'S FINANCIAL OBLIGATION
1.	3 Entities provided information such as Company number, address, shareholders and percentage interest	3 Entities filled this section but none completed it totally	Most of the Companies provided only some of the information
There were 6 Companies in this segment 2 Companies did not fill the Beneficiary Ownership Templates			

Table 2-3 PSC

S/N	BASIC INFORMATION	BENEFICIAL OWNERSHIP DISCLOSURE	GENERAL INFORMATION, SUMMARY OF TERMS, COMMUNITY & SOCIAL OBLIGATION, DEVELOPER'S FINANCIAL OBLIGATION
1.	10 Entities provided information such as Company number, address, shareholders and percentage interest	9 Entities filled this section	Most of the Companies provided only some of the information
There were 14 Arrangements in this segment 4 Arrangements did not fill the Beneficiary Ownership Templates			

Table 2-4 SC

S/N	BASIC INFORMATION	BENEFICIAL OWNERSHIP DISCLOSURE	GENERAL INFORMATION, SUMMARY OF TERMS, COMMUNITY & SOCIAL OBLIGATION, DEVELOPER'S FINANCIAL OBLIGATION
1.	1 Entity provided information such as Company number, address, shareholders and percentage interest	No Entity filled this section	The Company provided only some of the information
There was 1 Company in this segment 1 Company did not fill the Beneficiary Ownership Templates			

From the information gleaned from the populated templates, it is evident that Companies are still unwilling to share information regarding the Ownership of the Company rather than the Legal Ownership.

2.8 Oil and Gas Industry Contribution in the Economy

Nigeria's GDP for 2014 was ₦89.04 Trillion which is a 10.05% increase from the 2013 GDP. The Oil and Gas sector contributed ₦9.61 Trillion which is 10.79% of the total GDP for 2014. The GDP for Oil and Gas sector was reduced by 7.07% in 2014. Oil & Gas Revenue and Allocation for the year 2014 of Nigeria's total revenue for 2014 was ₦10 Trillion out of which Oil revenue contributed ₦6.8 Trillion. The Table below represents distribution of oil revenue after all deductions.

Table 2-5 Oil & Gas Contribution to the Economy

		N'Billion
Total Oil Revenue Distributable		**2,398.88**
Derivation	13%	(311.85)
Amount Distributed to:		**2,087.02**
Federal Government	52.68%	1,099.44
State Government	26.72%	557.65
Local Government	20.60%	429.93

Source: CBN Quarterly Economic Report

The Oil and Gas Sector in Nigeria, employed the least number of employees in the Country in 2014. According to the National Bureau of Statistics Labour Productivity Summary Report for 2010-2014, out of the 55.20 Million fully employed in 2014, the Oil and Gas Sector accounted for 6,830 employments (247 out of the 6830 employment were expatriate), representing 0.012% of the Total number employed in 2014.[1]

[1] Source: NBS Labour Productivity Summary Report and Templates filled by covered entities.

2.9 Exploration Activities

The Nigerian Oil and Gas Industry is mainly divided into the Upstream sector, the Midstream sector and the Downstream sector. The major forms of oil and gas arrangements in the Upstream Sector include Joint Venture (JV); Production Sharing Contracts (PSC); Service Contracts (SC) and Marginal Field Concession (MFC).

For the fiscal year 2014 a total of 4,209.00 Sq. kms of 3D seismic data was acquired While 9,082.32 Sq. Kms was processes or reprocesses respectively. A total of One Hundred and Forty two (142) wells were drilled with 22 going to JVCs , 69 to PSCs, 36 to SR and 15 going to the marginal fields. Significant part of the exploration activity was in the North (Chad Basin) and the East (Anambra Basin).

DPR Annual Report https://dpr.gov.ng/index/wp-content/uploads/2016/01/2014-Oil-Gas-Industry-Annual-Report-1.pdf contains information on exploration activities for the year 2014.

The total production of Crude oil for 2014 is 798,542,000 bbls, this is a drop of 0.75% from 800,488,000 bbls recorded in 2013. The breakdown of the production lifting is as shown in table 2-6.

Table 2-6 Production Liftings

DESCRIPTION	2014	2013	Diff	%
	Bbl'000	**Bbl'000**	**Bbl'000**	**Bbl'000**
Total Opening Inventory	**16,288**	**12,489**	**3,799**	**30.4%**
Production	**798,542**	**800,488**	**(1,946)**	**-0.2%**
Zafiro Crude	4,063	4,030	**33**	**0.8%**
Total Inventory for Lifting	**818,893**	**817,007**	**1,886**	**0.2%**
Terminal adjustment/shrinkage		(381)	**381**	**-100.0%**
Available Total Terminal Inventory	**818,893**	**816,626**	**2,267**	**0.3%**
LIFTING:				
Federation Export:				
Joint Venture Operators (JV)	172,990	79,929	93,061	**116.4%**
Production Sharing contractors (PSCs)	103,793	99,375	4,418	**4.4%**
Service Contractors (SCs)	1,991	2,649	(658)	**-24.8%**
Sub –Total Federation Export	**278,774**	**181,953**	96,821	**53.2%**
PPMC Domestic Crude Supply (Refining / Sales):				
Joint Venture Operator (JVs)	66,984	153,965	(86,981)	**-56.5%**
Production Sharing Contractors	3,864	4,849	(985)	**-20.3%**

Service Contractors (SCs)				
Sub –Total Domestic Crude Supply (Refining / Sales)	**70,848**	**158,814**	**(87,966)**	**-55.4%**
Sub-Total: Federation +PPMC Lifting	**349,622**	**340,767**	**8,855**	**2.6%**
Other Operators:				
JV Operators	112,211	167,466	(55,255)	**-33.0%**
Production Sharing Contractors PSCs	211,939	207,385	4,554	**2.2%**
Service Contractors (SCs)	830	999	(169)	**-16.9%**
Sole Risk	59,203	65,667	(6,464)	**-9.8%**
Marginal Fields	16,901	18,054	(1,153)	**-6.4%**
Other Operators	45,849	-	45,849	**100.0%**
Sub-Total: Other Operators	**446,933**	**459,571**	**(12,638)**	**-2.8%**
Total Lifting	**796,555**	**800,338**	**(3,783)**	**-0.5%**
Balance Closing Inventory	**22,338**	**16,288**	**6,050**	**37.1%**

[1] Ekanga/Zafiro crude represents the production from the unitized zone operated by Nigeria and Mobil Equatorial Guinea which is not included in the Operating Companies' production in Nigeria, but has been included in the total lifting by the Operators and NNPC.

[2]Shrinkages or Terminal adjustments represent losses due to evaporation and drainage of the crude in the terminals during the process of removing water and sediments in the period that the crude stayed in the tanks before export.

Comparison of Production and Lifting Volume as per NNPC Record and DPR

From the review of NNPC-COMD Record of total Crude Oil production and lifting by all Stakeholders and DPR record of Terminal Receipts and Export Reconciliation Data, find below comparison of production and lifting data as per NNPC-COMD and DPR records:

Table 2-7 Crude Oil Production Level per Each Contractual Arrangement

PRODUCING	Actual	Production	*PERCENTAGE*
			OF TOTAL
CONTRACTS	**2014**	***PER DAY***	***PRODUCTION***
	BBLS'000	**BBLS'000**	**%**
JV	256,364	702	32.1%
AF/MCA	140,491	385	17.6%
PSC	320,200	877	40.1%
NPDC	46,313	127	5.8%
INDEPENDENT	12,486	34	1.6%
MARGINAL FIELD	19,682	54	2.5%
SERVICE CONTRACTS	3,005	8	0.4%

Sub-Total	**798,542**		**99.5%**
EKANGA/ZAFIRO	4,063	11	0.5%
TOTAL as per NNPC-COMD (A)	**802,605**	**2,199**	**100.0%**
Total Production per DPR Records (B)	828,961	*2271*	
Variance (A)-(B)	(26,356)	*(72)*	

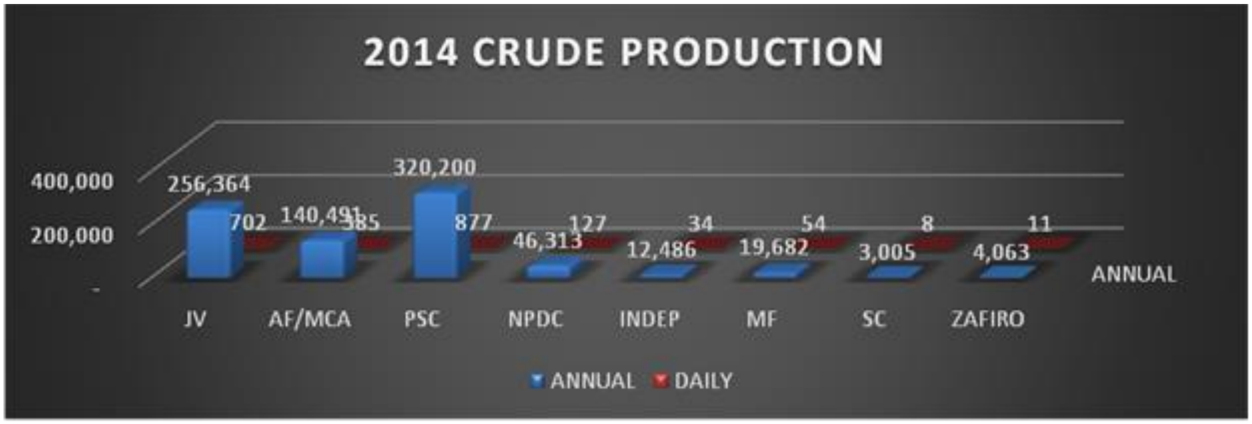


Figure 2-3 production level by each Contractual arrangement

Table 2-8 Production by Contracts

	Actual	Production	TOTAL LIFTINGS		% OF
PRODUCING	**NNPC**	**COMPANIES**			**TOTAL**
CONTRACTS	**CRUDE**	***CRUDE***	**TOTAL LIFTINGS**	**DAILY**	**LIFTINGS**
	BBLS'000	**BBLS'000**	**BBLS'000**	**BBLS'000**	**%**
JV	170,724	*111,259*	281,983	*773*	*35.5%*
AF/MCA	66,984	*45,849*	112,833	*309*	*14.2%*
PSC	107,657	*211,939*	319,596	*876*	*40.3%*
NPDC	99	*47,214*	47,313	*130*	*6.0%*
INDEPENDENT	-	*12,350*	12,350	*34*	*1.6%*
MARGINAL FIELD	361	*16,540*	16,901	*46*	*2.1%*
SERVICE CONTRACTS	1,991	*830*	2,821	*8*	*0.4%*
EKANGA/ZAFIRO	1,904	*951*	2,856	***8***	*0.4%*
TOTAL	**349,721**	**446,933**	**796,654**	***2,183***	***100.0%***

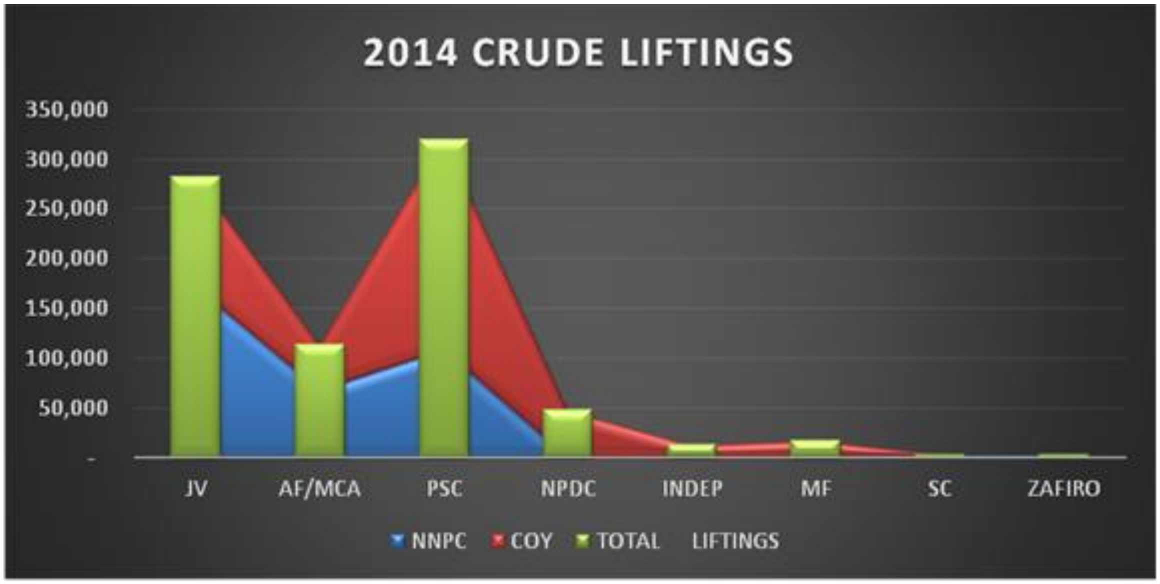


Figure 2-4 Crude Liftings

2.10 Analysis of Production and Export

According to information provided by NNPC and DPR, the main two sources of petroleum statistics in Nigeria, for 2014 - total crude oil and condensate production was 798,541,589 barrels, this gives a daily average of 2.19 mmb/pd (Million barrels per day). This is slightly lower than the previous year's by 0.24%. In the gas sector, a total of 2,524.27 Billion Standard Cubic Feet (BSCF) of Natural Gas production was reported by Twenty-Eight (28) Companies. This shows an increase of 8.56% when compared with 2013 production, of the quantity produced, 2,233.49 BSCF (88.53%) was utilized, while 289.60 BSCF (11.47%) was flared for the year.

Table 2-9 Crude Oil and Gas Production in 2014

Crude Oil and Gas Production in 2014			
	2013	2014	Change
	Barrels	**Barrels**	
Crude Oil	800,488,102	798,541,589	-0.24%
	MSCF	**MSCF**	
Gas	2,325,137,449	2,524,268,444	8.6%

Source NNPC Annual Statistical Bulletin

Table 2-10 Crude Oil and Gas Export in 2014

Crude Oil and Gas Export in 2014			
	2013	**2014**	**Change**
	Barrels	Barrels	
Crude Oil	762,045,201	773,833,126	1.5%
	MSCF	**MSCF**	
Gas	964,809,782	1,123,511,431	16%

Source NNPC, DPR

The local refineries received a total of 25,839,373.09 barrels (3,491,903 mt) of (dry) crude oil, condensate and slops and processed 23,360,372.27 barrels (3,156,914 mt) into various petroleum products. The total production output by the refineries was 2,665,289.09 metric tons of various petroleum products. The combined average refining capacity utilization for year 2014 was 14.4% as against 22% in the previous year.

A total of 23,883.83 million litres of petroleum products was distributed nationally giving an average daily consumption 65.4 million litres of which PMS makes up 47.67 million litres, AGO 8.82 million litres, HHK 7.90million litres and ATK 1.04 million litres.

Out of the total volume distributed, NNPC Retail outlets handled 1,672.43 million litres which is about 7.00% of total volume.

PPMC evacuated 3,208,461 mt of petroleum products from the refineries and it also imported 7,038,264.33 mt of PMS and HHK for distribution valued at N6.76 billion on Offshore Processing Agreement (OPA) and Crude oil for product SWAP arrangements.

PPMC sold a total of 10.59 billion litres of various grades of petroleum products through depots and coastal lifting. During the year, 634.89 million litres of Low Pour Fuel Oil (LPFO) and Naphtha worth about N66.13 billion was exported.[2]

2.11 Government Participation in the Oil and Gas Industry

At the onset of commercial production of crude oil in Nigeria the Government interest in the oil industry was limited to the collection of royalties, lease rentals and taxes, this however changed with the United Nations Resolution on Permanent Sovereignty over Natural Resources which gives states the means to regain their sovereignty and control over their assets to enable their economic and political development. A step the Government took towards this was to enact the Petroleum Act in 1969 which vested control and ownership over the oil & gas industry to itself. To further

[2] Source NNPC Annual Statistical Bulletin

solidify this Nigeria also joined Organization of Petroleum Exporting Countries (OPEC) in 1971. Now, OPEC greatly encouraged member countries to acquire controlling interest in concessions held by international companies.

Through a decree in 1971 the Government was able to establish Nigerian National Oil Corporation (NNOC) take up controlling interest in the IOCs operating in the country. This same entity went on to metamorphosed into the present day NNPC in 1977.

The NNPC is the face of the Government in the Nigerian Oil and Gas industry, through it the Government is well represented in the various contracts and production agreements of the industry.

As a statutory corporation the NNPC aside playing regulatory roles also engage in activities that span through the whole spectrum of the oil and gas value chain, from exploration, to production, refining, transportation, distribution and supply of petroleum products. These is achieved through subsidiaries and SBUs which are specifically positioned to cover the entire Oil and Gas industry.

In addition to the SBUs, the Department of Petroleum Resources (DPR), a department of the Ministry of Petroleum Resources, ensures compliance with the industry regulations, process applications for licenses, leases, and permits, establishes and enforces environmental regulations. The DPR and NNPC SBU companies, which include Exploration and Production (E&P), Gas Development, Refining, Distribution, Petrochemicals, Engineering, and Commercial Investment, are the following:

Table 2-11 Representations of State Operating Entities

S/N	Representation of State Operating Entities	
1	DPR	Department of Petroleum Resources
2	NAPIMS	National Petroleum Investment Management Services
3	NGC	Nigerian Gas Company Limited
4	NPDC	Nigerian Petroleum Development Company Limited
5	NETCO	National Engineering and Technical Company Limited
6	IDSL	Integrated Data Services Limited
7	PPMC	Pipeline and Product Marketing Company
8	KRPC	Kaduna Refining and Petrochemical Company Limited
9	PHRC	PortHarcourt Refining Company Limited
10	WRPC	Warri Refining and Petrochemical Company Limited
11	Duke Oil	Duke Oil
12	Hyson	Hydrocarbon Services (Nigeria) Limited
13	NLNG	Nigerian Liquified Natural Gas Limited

2.12 The Joint Development Zone (JDZ)

The Joint Development Zone was as a result of the diplomatic face-off between Nigeria and Sao Tome over maritime boundaries in the Gulf of Guinea. The cause of the dispute was boundary region between Nigeria and Sao Tome & Principe which is speculated to be rich in oil and gas reserves. A solution was required as neither country could explore the resources in the Zone without interfering with the maritime territory of the other country. To this end, the countries agreed to create a Joint Development Authority (JDA) that would assist both countries in benefitting from the economic potential of the zone.

In order to broker peace, the Government of the aforementioned countries on February 21, 2001 signed a 45-year Treaty on the Joint Development of Petroleum and other Resources, in respect of Areas of the Exclusive Economic Zone of the Two States. The JDZ is an area of overlapping maritime boundary claims, which is defined by coordinates. It covers an area of 34,450 sq. km. in the oil rich Gulf of Guinea.

The Treaty has proven to be an exemplary display of intra-African cooperation that spectators thought would be near impossible to achieve. It is a document that defines the JDZ and also coordinates its activities. The sharing formula as agreed in the signed document is as thus:

- Nigeria - 60%
- Sao Tome and Principe - 40%

The Treaty pre-dates the more cherished regional strategic development initiatives in Africa called the New Partnership for Africa's Development (NEPAD) and it was formed in consonance with the provisions of the United Nations Convention on the Laws of the Sea (UNCLOS), which in Article 74 (3) encourages states with opposite coast, in the spirit of understanding and cooperation, pending agreement on delimitation, to enter into provisional arrangement of a particular nature. Done in order not to jeopardize or hamper the reaching of a final agreement on the delimitation of their Exclusive Economic Zones, the JDZ brought a welcome relief to the neighbouring nations. By its provisions, an efficient development of the resources in the zone jointly and to the mutual benefit of the two countries became feasible.

The benefit derived so far, from these exploration activities, is enormous and has impacted positively on both parties. The beneficiary companies have demonstrated commitment on corporate social responsibility projects, leading to the award of scholarships to Sao Tomeans and Nigerians for studies in various institutions overseas.

The current Nigerian President, Muhammadu Buhari has called for Nigeria and Sao Tome & Principe to sit down shortly to review the activities of their Joint Development Authority with a view to making it more efficient and productive. This is because of the challenges that have been revealed such as cooperation, security, stability and economic integration of African peoples and resources. He further stated that:

- Both countries need to intensify their collaborative efforts with others to curtail piracy and insecurity in the Gulf of Guinea.
- With their shared strategic interest in the security of the Gulf of Guinea, Nigeria and Sao Tome & Principe must work harder with other stakeholders to keep it safe.

- Pirates who take advantage of the present low level of security in the gulf were causing incalculable damage to the economies of countries in the region.

The reason for the inclusion of the JDZ in NEITI Audits is explained in the statement below as culled from the 2013 EITI Report on Nigeria and Sao Tome & Principe. The report was produced by PwC who were appointed Independent Reconciler of the JDZ for the period covering January 1, 2003 to December 31, 2013.

> *"EITI Implementation in the Joint Development Zone in taking into consideration the need to address issues relating to overlapping maritime boundaries of Nigeria and Sao Tome and Principe, the Governments of both countries signed a 45-year Treaty on the February 21, 2001 establishing the Joint Development Zone (JDZ). The key provisions of the Treaty are a definition of the JDZ by 32 coordinates and a 60% and 40% of the resources sharing formula to Nigeria and STP respectively. A Joint Development Authority (JDA) manages the affairs of the JDZ with headquarters in Abuja, Nigeria. The JDA reports to the Joint Ministerial Council (JMC) that has full responsibility for all matters relating to the exploration for and exploitation of resources in the JDZ."*

The JDA by invitation of the World Bank scheduled a meeting of representatives of the National EITI multi stakeholders committees, representatives of the operators, and the JDA, on March 23, 2009, in Lagos, Nigeria to prepare a proposal to implement the EITI in the JDZ. Further to the agreements reached at the meeting, the Joint Ministerial Council (JMC), in December 2009, approved the creation of a Sub-Committee to implement EITI in the JDZ, comprising of representatives from the each Government nominated by the respective national multi-stakeholders committees; each country civil society organization, nominated by the respective national multi stakeholders committees; a representative nominated by the JDA; and a representative from the oil industry operators of the JDZ, nominated by the operators forum.

It should be noted that in 2010 Sao Tome & Principe applied for suspension from EITI based on need to address pending barriers to implementation, however that has been resolved and the country is back and has commenced disclosure of payments from its extractives sector to EITI.

2.13 Revenue Management

Crude oil and gas are allocated to the Federation from Joint Venture operations through the NNPC in accordance with the Federation's equity share or participatory interests. The table below shows the various sources of revenue going to the federation account.

Crude oil exports signify revenue coming from Federation crude sales from production arrangements.

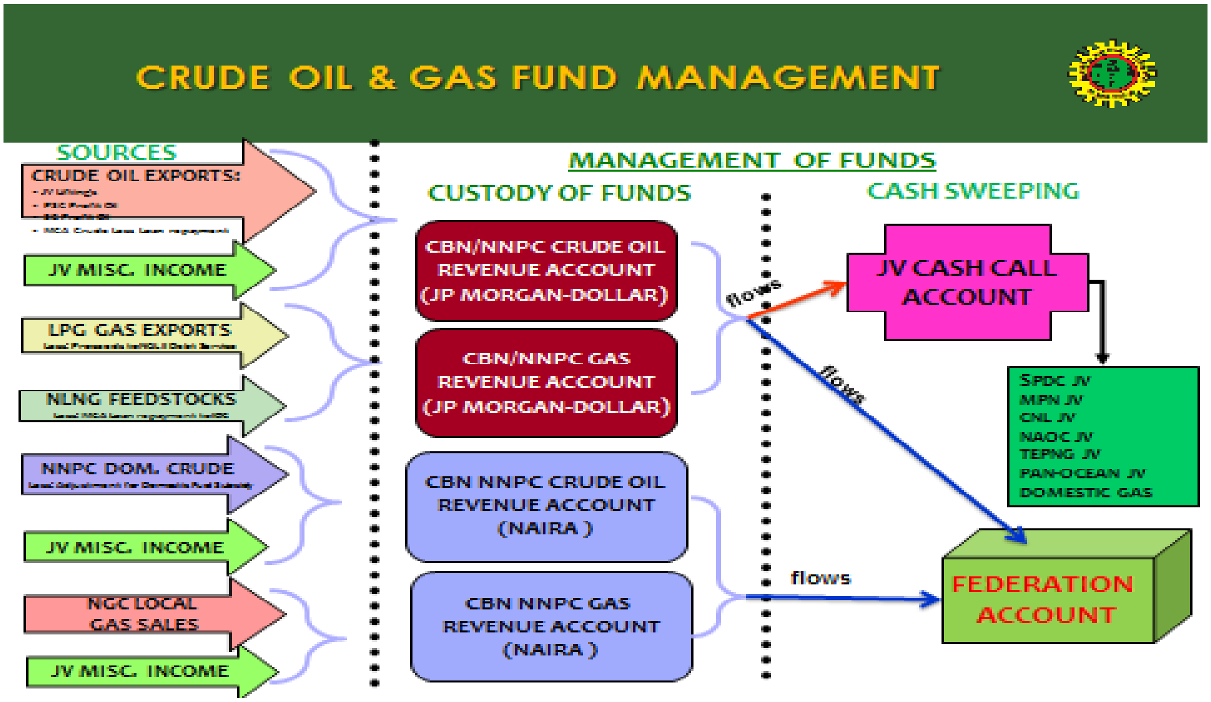


Figure 2-5 Crude Oil & Gas Management

JV miscellaneous income is from the sales of old assets, insurance claims etc . The flow from LPG gas exports is what comes in after part payment of NGL2 debt service.

The NLNG feedstock represents revenue from equity share of gas produced from operators (SPDC, NAOC and Total) LNG the sales is handles by NLNG.

Domestic crude is the 445 barrels less adjustment for domestic fuel subsidy in 2014 provision was made for subsidy while Domestic Gas is revenue received from NNPC Joint Ventures for gas sales in domestic market e.g. Gas sales to Indorama, IPPs and NGC.

The flows are obtained in both local and foreign currencies and are documented for presentation at the end of the month to FAAC.

Office of Accountant General & Revenue Allocation

The OAGF's mandate of collating receipts and reporting on revenues of the Federal Government is derived from Sec. 80 (1) of the Constitution, "All revenues or other moneys raised or received By the Federation (not being revenues or other moneys payable under this Constitution or any Act of the National Assembly into any other public fund of the federation established for a specific purpose) shall be paid into and form one Consolidated Revenue Fund of the federation".

The Office of the Accountant-General of the Federation (OAGF) is the Chief Accounting Officer and he is charged with the Constitutional role of preparing the nation's financial statements arising from collection and receipt of income, fees, rentals and taxes and payment out of the federation account.

The Revenue and Investments department is responsible for ensuring that the revenues from Oil and Gas, Custom Tariffs and Excise duties and VAT and will and other incomes from other Governments investments interest are collected and promptly remitted to the appropriate Federal Government pool account, it is also charged with the custody of all the Federation Revenue Accounts with the CBN.

The revenue accruing from the Oil and Gas sector are:

- Revenue from sales of Export Crude Oil
- Revenue from sales of Domestic Crude Oil
- Petroleum Profit lax
- Royalties
- Gas flared
- Rentals
- Fees and Miscellaneous Oil Receipts
- Receipts from sales of Oil Blocks (Signature Bonus)

Divisions within Revenue and Investments Department

The Revenue and Investment Department is further sub-divided into three (3) divisions namely:

a) Revenue: This is concerned with the monitoring and accounting for all the revenues collected from Oil and Non-Oil sources and other Federal Government Independent revenue.
b) Investments: This is concerned with monitoring and accounting for all income from the investments interest of the Federal Government.
c) Sub-Treasury: This is concerned with the custody and management of the Federal Government Accounts with CBN. The Sub-Treasury keeps records and accounts for transactions in the Consolidated Revenue Fund (Independent Revenue of Federal Government share of statutory allocation, including Federal Government expenditure).

NNPC Monthly Returns to OAGF

The Office of the Accountant-General of the Federation (OAGF) and other federation revenue reconciliation committee receives Monthly Revenue Reports from NNPC which highlight the sales volume, sales value and actual receipts (from Export and Domestic sales of crude oil) for the previous month's lifting (as in the case of the Export crude oil) and receipts from sales of Domestic crude sold in the past three months. NNPC equally send letters of advice on a monthly basis to inform the OAGF on the funds to be transferred to the Federation Account and Joint Venture Cash call.

Recording Process of Crude Proceeds

The letters of advice from NNPC is stamped "received" in the AGF's office and passed to the Director (Revenue and Investments), who in turn passes it subsequently through other levels until it gets to the desk officers responsible for updating the electronic "database in respect of revenue generated from sales of crude oil for the month.

a) Transfers are authorized by NNPC for Oil and Gas receipts for crude export sales for the month to the Federation Account with JP Morgan Chase, New York.
b) Transfers are equally authorized by NNPC for Oil and Gas receipts for Domestic Crude Oil receipts (less subsidy for the period) to the Federation Account from the CBN/NNPC CRUDL OIL AND GAS Naira Account
c) J.P. Morgan Chase transfers total Crude proceeds (including the amount due for Cash Calls) to the Federation Account with the CBN.
d) CBN advices the OAGF on receipt of crude sales proceeds.

Internal Reconciliation of NNPC/DPR/FIRS and CBN Returns

The figure for the actual receipts from sales of crude oil (Export and Domestic) is obtained from the report submitted by NNPC at the monthly OAGF Crude Oil and other Federation revenues reconciliation committee meeting held at the OAGF.

Also the figures for the revenue transferred to Federal Government Account with CBN in respect of the crude sales for the month is also submitted by CBN to the OAGF Crude Oil and other Federation revenues reconciliation committee at the monthly meetings. The CBN report is known as the Federation Account Component Statement.

This is also done for other non-oil revenues.

At the end of the month, the figures as reported by NNPC,DPR, FIRS and CBN are compared and differences are highlighted as ‘nil, positive or negative Variances’.

- A NEGATIVE Variance indicates that CBN has submitted figures which are yet to be confirmed from the reports from NNPC/DPR/FIRS while a POSITIVE variance
- A NIL Variance indicate that both NNPC/DPR/FIRS and CBN figures are the same in respect of revenues from sales of crude oil (Export and Domestic) and other oil and non-oil revenues for the month.
- A POSITIVE Variance indicates that NNPC/DPR/FIRS have submitted figures which are yet to be confirmed from CBN report.

Internal Reconciliation of Operators/CBN Monthly Returns

The figures for the taxes paid by the Oil companies are matched against the figures reported by CBN in the Collection Analysis Record in the current month for all the upstream companies that submitted Returns and the difference arising is described as ‘Variance’.

A NIL Variance indicates that the figures of taxes collected for the month for both the upstream companies and CBN (as per their returns) is the same.

- A POSITIVE Variance indicates that upstream companies have submitted returns but CBN is yet to submit. This means that the upstream companies are in arrears as the CBN is yet to confirm payment through its monthly returns.
- A Negative Variance indicates that Oil companies have paid as stated in their returns but the upstream companies are yet to submit their monthly returns.
- The OAGF issues official receipts to upstream companies for payments for royalties, rentals and gas flared penalty only. The official receipts are issued when the CBN credit advices, the CBN monthly returns (confirming the receipts of payments) and the upstream companies' returns (advising of payment of revenues).

The OAGF does not maintain accounting records (such as cash books, ledgers etc) for the upstream companies. Returns from the upstream companies are captured in the COLLECTION ANALYSIS RECORD in respect of only to those upstream companies that submit returns. A general register is maintained to record the returns received from the upstream companies.

Federation Account Allocation Committee (FAAC) Procedures

The Revenue Allocation is handled by a committee known as the Federation Account Allocation Committee (FAAC) which was established by Revenue and Distribution Act of 1981 as amended in 1992. The committee is charged with the responsibility of sharing the revenue accruing into the Federation Account among the three tiers of Governments namely:

- The Federal
- The State and
- The Local Government

The sharing to the various levels of Government is done in accordance with the extant rules (sec. 162) of the Constitution.

Distributable Federation Account

On the receipt of the COMPONENT STATEMENT from the CBN and after the adoption of all reports by the technical committee and the FAAC, the funds department of the OAGF processes the data using the sharing formula and indices as provided by Revenue Mobilization Allocation and Fiscal Commission (RMAFAC) to distribute the available revenue.

The following deductions are made before arriving at the distributable amount in the Federation account.

A 7% (Seven) Cost of collection to Nigerian Customs Service, 4% cost of collection to Federal Inland Revenue Service and transfers to/from domestic crude to subsidy.

13% derivation is also deducted from the total Oil Mineral Revenue and distributed to all the Oil Producing States. Thereafter the 77% remaining is added to other Non-Oil Mineral revenue and shared to the Federal Government, State Government and the Local Government Councils.

Sharing Formula of Federation Account

The current revenue sharing formula is as follows:

FGN -	52.68%
States -	26.72%
Local Government	20.60%
	100.00%

Distribution of FGN's Share

The Federal Government's share of 52.68% is further distributed as follows:

FGN	48.50%
FCT	1.00%
Derivation and Ecology	1.00%
Development of Natural Resource	1.68%
Stabilization	0.50%
	52.68%

Parameters for Sharing to States and LGCs

In distributing the funds to the States and LGCs, the RMAFC used certain indices/indictors which include:-

- Population
- Landmass
- Terrain
- Internally Generated revenue Effort
- Primary School enrolment
- Hospital beds
- Water Supply
- Rainfall Proportion and
- Derivation

Funding from Consolidated Revenue Account

The FGN portion (48.50%) of the distributable fund is pooled into the Consolidated Revenue Fund.

OAGF Interface with Other Revenue Agencies

OAGF/CBN/FIRS:

The monthly returns on taxes received from FIRS are checked against Monthly returns from CBN. There is no formal structure in place for tripartite meeting to reconcile the returns except at the Federation Revenues Reconciliation Committee meeting.

OAGF/CBN/DPR:

The monthly returns received from DPR are checked against Monthly returns from CBN. There is no formal structure in place for tripartite meeting to reconcile the returns except at the Federation Revenues Reconciliation Committee meeting. The OAGF relies on the list/advises given to it by the DPR and the returns submitted to it by the CBN to know the numbers of upstream companies and amount paid by each of these upstream companies for a period.

OAGF/CBN/NNPC:

The monthly returns on Crude Oil sales received from NNPC are checked against Monthly returns from CBN. There is no formal structure in place for tripartite meeting to reconcile the returns except at the federation revenues reconciliation committee meeting. NNPC advises the OAGF on volume and type of crude, the buyers of the crude and periodic payments made. The advice made by the NNPC directing CBN to transfer payments of crude bought /sold/ processed for both domestic and export crude sales by it is also sent to the OAGF along with its returns It is important to note that the primary reference document during the Federation Revenues Reconciliation Committee meeting is the CBN monthly returns/collection reports.

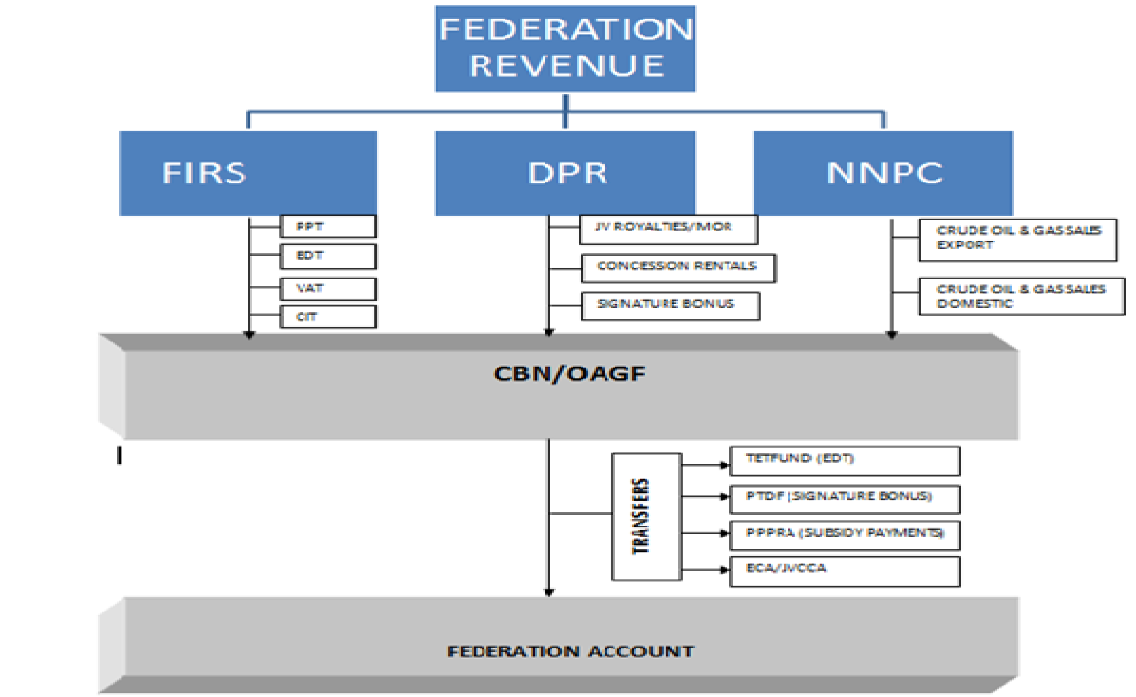


Figure 2-6 OAGF Interface in the Oil & Gas Revenue Flows

2.14 Licensing and License Allocations

The department of petroleum resources is responsible for processing industry applications for leases, licences and permits. There are 3 categories of licences available in the upstream sector. The Oil Exploration License OEL (Not Common) , Oil Prospecting License (OPL), and Oil Mining License (OML). The OML is available after holder of OPL has discovered oil in commercial quantities at above 10,000 barrels per day.

DPR process for transfer of license as captured requires the seller of License who wishes to transfer right notify DPR and obtains approval for commencement of said transaction. The Holder is to provide details of how the transaction will take place, including what method will be used for selecting buyer i.e. Selective Tendering or Negotiated Transfer. DPR reviews the submission and carries out due diligence on buyers as well as the sales pricing to ensure the revenue to the federation is not affected in line with guideline and petroleum act.

If transaction is successful it will lead to production of a Sales Purchase Agreement (SPA) between the buyer and the seller. Pending approval of Ministers consent an Escrow account will be opened where proceeds of the asset will be paid into.

To obtain Ministers consent the following documents must be submitted by the applicant:

- Deed of Assignment,
- Copy of existing Joint Operating Agreement (JOA) or Production

- Sharing Contract (PSC) where applicable,
- Farm–in Agreement between the Assignor and Assignee,
- Catalog of Applicant's Exploration and Production activities carried out in the asset to date,
- Assignee technical and financial track records in Exploration & Production operations,
- The Assignee's incorporation documents,
- Technical Service Agreement,
- Sales Purchase Agreement (SPA),
- In case of an assignment by way of private or public listing in a Stock Exchange, the approvals, documents and rules governing such listing in any of the stock exchanges involved

In 2013, Nigeria's Department of Petroleum Resources (DPR) announced the 2013 Marginal Fields Licensing Round. It also released a set of guidelines that provide details on the process of the new licensing round for marginal fields blocks in previously explored and frontier regions of the country, the stages and application requirements for companies interested in taking part in the 2013 Marginal Fields Licensing Round (the Guidelines). The diagram below provides a representation of the licensing requirements.

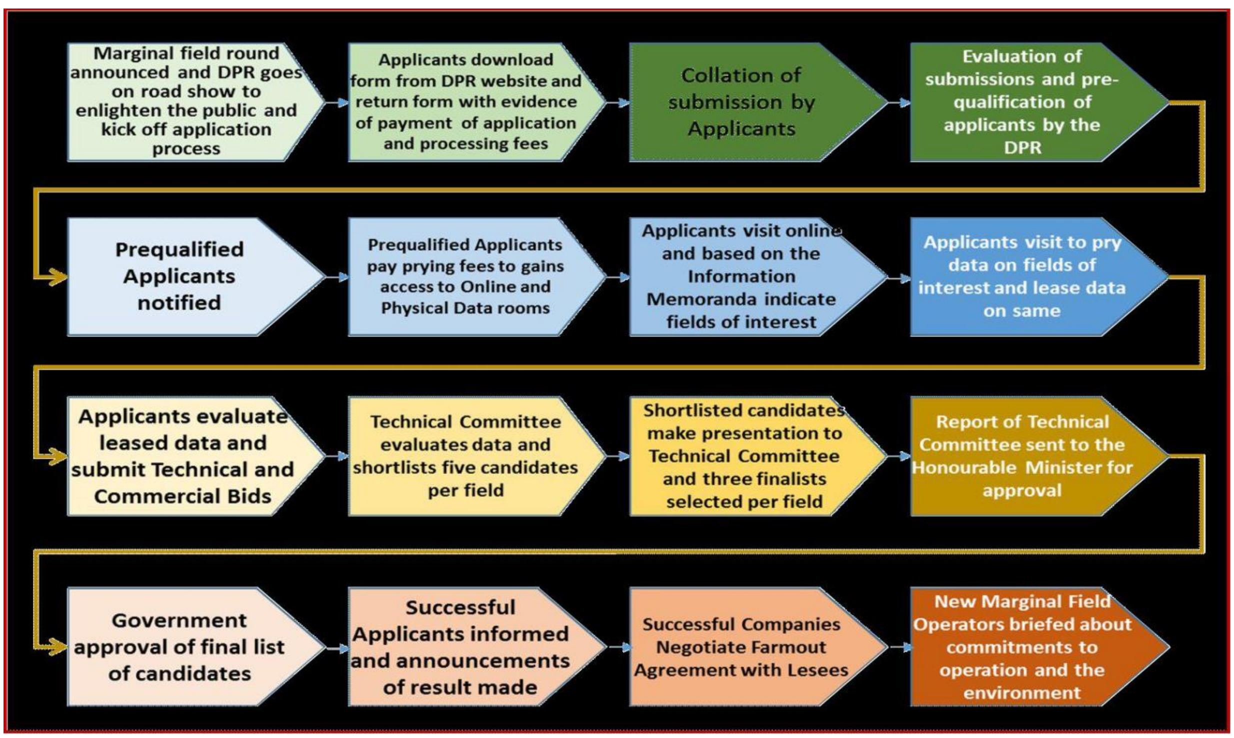


Figure 2-7 Proces Flow Marginal Field

Extracted from Grey Matter

It was established from DPR that there was no bidding rounds conducted in 2014

The list of existing OMLs and OPLs, equity holding companies, and type of commercial arrangements (JVs, PSCs, and Sole Risks etc.), effective date of subsisting ownership and other field data though not available publicly is provided in Appendix 16-2.

More information on DPR Licensing can be obtained from the following link. **https://dpr.gov.ng/index/wp-content/uploads/2014/12/Giudeline-on-Asset-divestment-16-10-14.pdf**

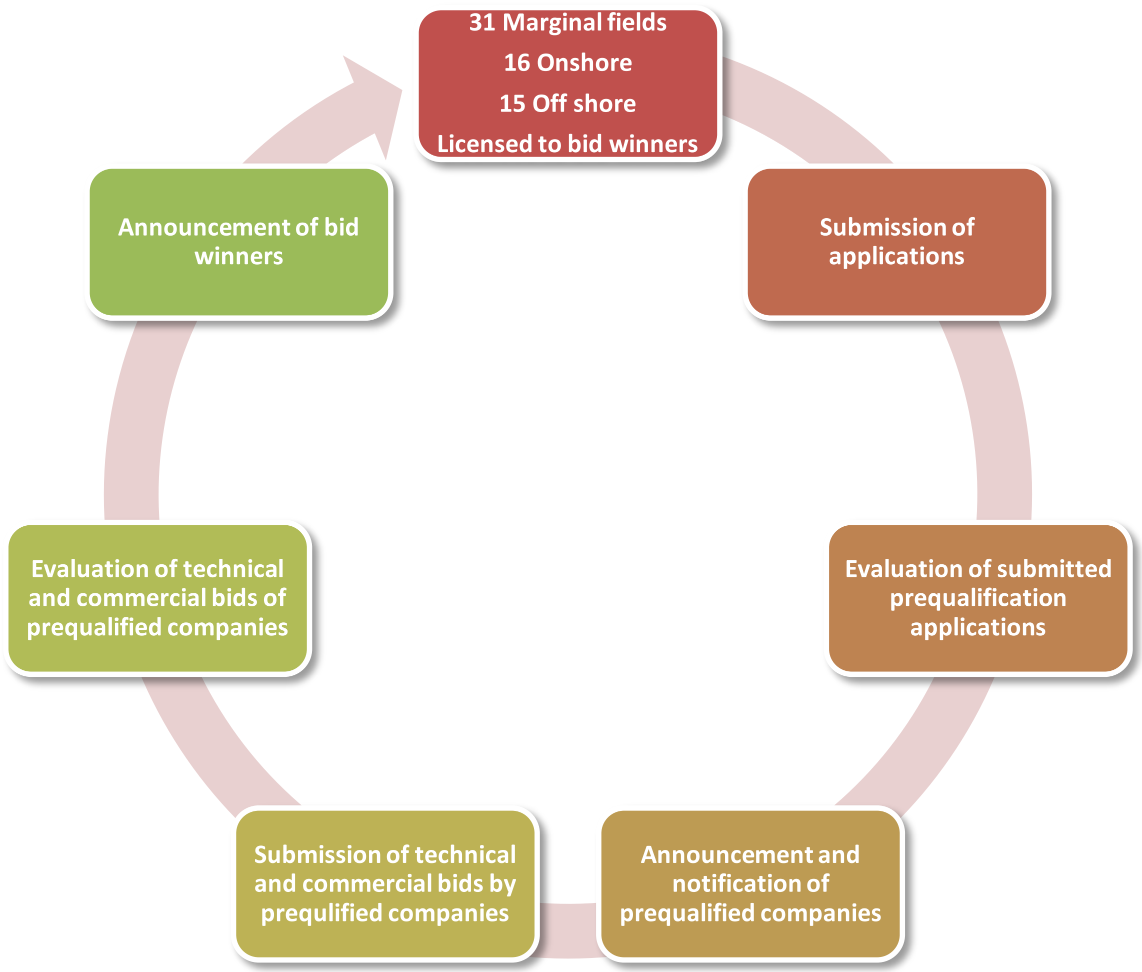


Figure 2-8 Review of Issues of the Bidding process

.

Review of Issues of the Bidding process

The bidding process which was slated initially for 2012, commenced on December 12, 2013, and is being conducted in six key stages: The overall process was anticipated to be completed in less than six months.

Eligibility

To be eligible, a company must be a registered Nigerian company. In addition:

- At least 51% of the beneficial interest of the company must be owned by Nigerian citizens;
- Noo single shareholder may own more than 25% of the shares in the company;
- The company must have upstream oil and gas experience; and
- The company's memorandum and articles of incorporation must authorize the company to conduct oil and gas exploration and production activities.

Foreign companies may participate in the process by either incorporating a Nigerian branch with the Corporate Affairs Commission of Nigeria in line with the above eligibility requirements, or by entering into joint venture arrangements with one or more local Nigerian companies. According to the DPR, the Nigerian Government will be favourably disposed to joint applications.

The Issues

Nigeria has the largest oil and gas reserve base in Sub-Saharan Africa with an estimated 37 billion barrels of oil and 188 Tcf of gas. Currently, over 1,000 oil fields have been discovered with only 35% producing. To maximize the production capacity, diversify oil production sources, increase oil and gas reserves, and prevent waste, the Nigerian Government has since 2001 promoted the licensing of marginal fields.

. The legislation empowers

. Under the Petroleum (Amendment) Act No. 23 of 1996, the President to declare certain fields lying and being within contract or leased areas as marginal fields. Such field shall be construed as a marginal field, if it falls within the following parameters;

(i) A discovery has been made,

(ii) The field remains unattended to for a period of up to ten (10) years from the date of discovery thereof, and

(iii) The field is subsequently declared as a "marginal field" by the President. The holder of an oil mining lease, may, with the consent of, and on terms and conditions approved by the President, farm-out any marginal field within its lease area.

In 2001, the Federal Government awarded twenty four (24) marginal fields to 31 indigenous companies via a competitive bidding process. On November 28, 2013, the Federal Government announced a second marginal field bid round, inviting prospective Nigerian indigenous companies to bid for thirty one (31) marginal fields (comprising 16 onshore fields and 15 offshore fields).

Marginal fields are generally fields discovered by large international oil companies or the state-owned NNPC and which, due to other pressing investment options, were either not developed or relinquished. These fields represent promising investment potential for local and foreign companies with streamlined operations willing to abide by the guidelines provided by the DPR.

Past upstream licensing processes in Nigeria have fallen well short of best practices and failed to secure maximum value for the country's assets. Discretionary decision-making and lack of openness drove down competition and returns to Nigeria, including over $2 billion in unpaid signature bonuses. This led to public controversy, including lawsuits, indictments, sackings, cancelled or revoked awards, and legislative probes. Many deals fell through, and barely half of the fields auctioned between 2000 and 2007 have seen serious drilling. The stated goal of increasing indigenous participation was not well served. Most of the marginal fields awarded during the 2000s have not produced.

Past licensing rounds in Nigeria were not tied to any comprehensive asset development strategy or broader economic development plans. Objectives shifted from round to round, and some rounds had few longer-term goals at all. Nigeria needs to develop a strategy for managing its natural resource base for current and future generations, and tie each licensing round to that strategy.

Nigeria however offers a very attractive risk/reward for its numerous proven/undeveloped field opportunities, high quality of crude oil produced, established infrastructure for transportation and export of oil, and incentive-based fiscal regime (including lower sliding-scale royalties and substantially reduced petroleum profit taxes).

The current guideline indicates a commitment to achieve optimal success through a provision of a clear and simple process that sets out a clear process that will ensure success.

Signature bonuses must match the size and value of the asset, and be used as a tool for prequalification.

Pre-qualified bidders shall be required to submit field-specific technical and commercial bids in respect of each marginal field for which the bidder is interested. In evaluating prospective bidders, the DPR shall take into consideration local content issues, financial, technical and managerial capabilities, host community integration plans, product evacuation arrangements/plans, and ability to effectively operate fields within contract areas operated by multinationals.

Upon selection, the successful bidders shall enter into negotiations with the lease holder(s) regarding the terms of a marginal field farm-out agreement ("MFFA"). The awardee and the leaseholder shall negotiate and agree the consideration for the farm-out of the marginal field. The awardee shall also negotiate and agree overriding royalties to be paid to the leaseholder, as well as relevant crude handling and transportation arrangements with the lease holder.

3. Approach and Methodology

3.1 NEITI Reporting Process and Deliverables

As contained in the NEITI TOR, the EITI process is broken into 5 phases as such our work will be executed over the phases with specific timeline deliverables expected.

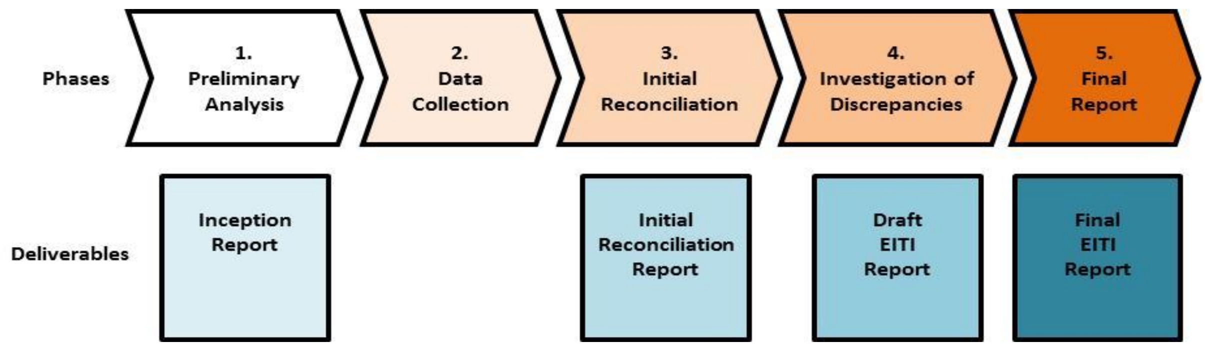


Figure 3-1 Overview of the EITI Reporting process and deliverables

3.2 Implementation

The project implementation outlines SIAO's approach to executing the assignment. The plan reflects a careful assessment of the audit project with a keen focus on the objectives and other potential benefits to NEITI and the federation at large. SIAO project planning committee, after an initial review of the scope of work, deliverables of the audit project and the general principles of EITI have set out the steps, controls, constraints and milestones required to effectively and efficiently execute the project within the period of 7 months. The schematics below show a breakdown of the project implementation structure:

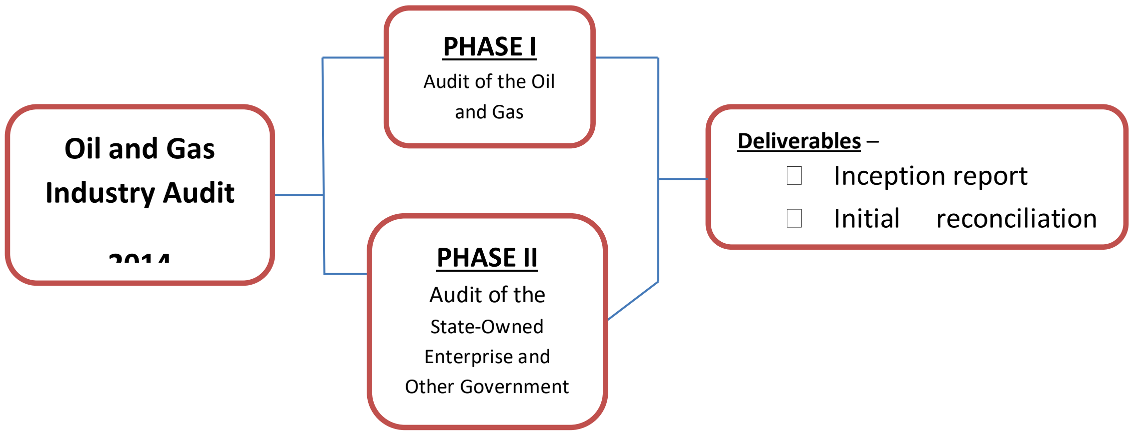


Figure 3-2 Project Schematics

3.3 Covered Entities

Covered entities for the oil and Gas industry audit are classified into 2 groups: The international and indigenous Oil and Gas Companies and the Government entities.

The oil and gas companies were those involve directly or indirectly involved in oil production by way of being a producer or operator of a production/s activities or being a party to one or more of such arrangements.

The companies were visited first and were covered under phase one for validation while the Government entities were visited during phase 2 of the exercise.

PHASE I
▪ International/Indigenous Oil and Gas Companies

A comprehensive list of the above is included as Error! Reference source not found..

Government Entities

Based on the proposed list of extractive companies and payment streams, the Government Entities which were included in the 2014 Audit are listed as follows:

PHASE II
▪ Central Bank of Nigeria ▪ Crude Oil Marketing Division ▪ Department of Petroleum Resources

- Federal Inland Revenue Service
- National Petroleum Investment Management Service
- Nigeria Content Development & Monitoring Board
- Niger Delta Development Company
- Nigeria Gas Company Limited
- Nigeria Maritime Administration & Safety Agency
- Nigeria liquefied Natural Gas Limited
- Nigeria National Petroleum Corporation
- Nigeria Petroleum Development Company
- Office of the Accountant General of the Federation
- Bureau of Public Enterprise
- Petroleum Product Marketing Company
- Petroleum Products Pricing Regulatory Agency

3.4 Audit Flow

The audit flow captures in a simplified manner the series of activities that occurred in carrying out the audit and arriving at the report. See in **Error! Reference source not found.**.

Figure 3-3 Audit Flow

3.5 Materiality Standard for Aggregate Reporting and Reconciliation

The NSWG analyzed the royalty and Petroleum Profit Tax payments for 2013 Oil and Gas report and considered the followings in approving the Materiality and Threshold:

- That on the basis of $5million payment, 99.99% (25 companies) of the flows will need to be reconciled on the basis of PPT payments while 99.89% (31 companies $6.175billion) of flows will need to be reconciled on the basis of royalty payments with all other companies below the threshold to make unilateral disclosure;
- To that effect all upstream Oil and Gas companies that produced in 2014 (as provided by DPR), should be covered by the audit;

- All individual financial flow of $5 million dollars and above to be reconciled subject to net reconciliation difference of 0.05% for the total value of financial and physical flows;
- All other payments below the $5 million threshold be unilaterally disclosed; and
- All individual financial and production flows of $5 m and above be reported and reconciled subject to a net difference of 0.05% for the total value financial and physical flows.

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

The Audit was conducted using the following materiality considerations in line with the EITI standard:

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

b. The permissible margin of error for aggregate value of all revenues and investments flows is set at zero point zero five percent (0.05% of the annual total).

Our review of CBN Template revealed that 49 companies paid Petroleum Profit Tax (PPT) totalling $22.683 billion with 8 companies each paying less than $5 million. The total paid by the 8 companies is $8.581 million representing 0.40% of total PPT payment.

Also, 47 companies paid royalty totalling **$5.695 billion** with 10 companies each paying less than **$5 million**. The total paid by the 10 companies is **$22.404 million** representing **0.40%** of total Royalty paid.

That means on the basis of $5million payment, 99.96% (48 companies with inflows of $22.673 billion for PPT and 46 Companies with inflow of $5.693 for Royalty) of the flows will need to be reconciled on the basis of PPT and Royalty payments with all other companies below the threshold to make unilateral disclosure.

To that effect all upstream Oil and Gas companies that produced in 2014 (as provided by DPR), will be covered by the audit and all individual financial flow of $5 million dollars and above will be reconciled subject to net reconciliation difference of 0.05% for the total value of financial and physical flows.

3.6 Quality Assurance

Standard data collection templates were prepared by NEITI and issued to Covered Entities. Companies' data provided in the completed templates were comprehensively reviewed to ensure the filled templates are linked to the financial statements and company records. The templates were also vouched (for consistency) to accounts that have been audited to Financial Statements and explanations obtained from the companies where discrepancies occur.

The policies and procedures for the preparation of Financial Statements and the procedures for payments were also documented and reviewed to ensure compliance with the International Standards in Auditing (IASs) and the relevant Oil and Gas regulatory laws on payments.

Copies of audited accounts were requested and obtained from reporting companies while some companies were not willing to make them available to the consultants for review.

The consultant validated and updated the filled templates for all relevant financial transactions and Oil and Gas volumetric for the year 2014. The filled templates received from the Government Agencies were also reviewed, updated and analysed in comparison with filled templates from the companies in order to identify and reconcile material discrepancies.

Also, the data provided on templates by Government reporting entities were kept in accordance with the provisions of Nigerian laws, Government Financial Regulations and Generally Accepted Accounting Standards.

In our review, we have also excluded the following revenue flows:

a) Financing of the budgets of Government entities.
b) Internal flows between entities owned by NNPC as far as it does not cover the scope of our assignment, and does not involve financial or other activities of oil and gas.
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 non-state companies and state agencies for which the consideration for such transactions does not involve Oil and Gas.
e) Commercial transactions between state companies in which the subject or the consideration for such transaction does not involve oil or gas.
f) Crude Oil theft is reported as presented by companies but not considered in the summary of financial flows.

It is in the opinion of the audit, that reconciled data reported by Government Entities and Companies are reliable and consistent with the underline records made available at the respective Entities. Appropriate confidentiality agreements were also signed in order to safeguard information provided by the companies.

4. Summary of Aggregated Financial Flows

4.1 Introduction

The aggregate Financial Flows from all sources in the Oil and Gas sector of the Extractive Industries in Nigeria in 2014 amounted to **$55.455 billion** as summarized in Table 4-1 below.

The aggregate flows from all sources were the expected revenue from Oil and Gas industry to the Federation and other sub-national entities in 2014. However, the actual collections into the Federation account may be less than amount reported in the table below due to the differences between the physical values in Crude Oil and Gas flows and actual cash payments received into the various accounts. Standard data collection templates filled by the required covered entities were validated and reconciled for all relevant financial transactions in order to establish the total financial flows and identify and reconcile material discrepancies.

These Financial flows and other Non-financial flows relating to "in-kind" transactions and the settlement of liabilities of Royalties and PPT as well as Carried Party Carry Cost and other items by means of crude oil allocations rather than financial transfers were also reviewed and discussed in this report.

Comparison of 2014 Financial Flows with the Flows from 2013 Audit Cycle

Presented in Table 4-2 below is a comparison of the 2014 Financial Flows from the Oil and Gas Industry Audit against the Flows from 2013 audit cycle in order to show the trends of flows in these periods.

Table 4-1 Comparison of Financial Flows

	2014 US$'000	2013 US$'000	PERCENT %
Sales of Crude Oil and Gas			
Federation Equity & Profit Oil	18,196,369	19,050,886	-4%
Domestic Crude	15,674,817	17,435,818	-10%
Gas	597,025	616,006	-3%
Feed Stock	1,682,650	1,357,525	24%
Sales of Crude Oil and Gas (Total)	**36,150,861**	**38,460,235**	-6%
*Less: PSCs / MCAs in Kind Payments			
Petroleum Profit Tax (PPT) - PSCs/MCAs	7,094,219	10,273,854	-31%
Royalty (Oil) - PSCs/MCAs	2,328,222	993,167	134%
MCA Gas CIT/EDT	22,437	83,954	-73%

	2014 US$'000	2013 US$'000	PERCENT %
MCA Royalty (Gas)	68,952	18,343	276%
PSCs/MCAs in Kind Payments (Total)	**9,513,830**	**11,369,318**	**-16%**
Sub-Total (A)	**26,637,031**	**27,090,917**	**-2%**
Other Specific Financial Flows			
Petroleum Profit Tax (PPT)	15,697,977	17,798,428	-12%
Royalty (Oil)	6,311,102	6,182,319	2%
Royalty (Gas)	135,030	119,093	13%
****Signature Bonus**	142,249	12,500	1038%
Gas Flared Penalties	18,693	18,475	1%
Rental	2,628	133,750	-98%
Total Confirmed Flows	**22,307,679**	**24,264,565**	**-8%**
Other Flows to Federation Account			
Companies Income Tax (CIT)	521,827	556,050	-6%
Value Added Tax (VAT)	619,779	965,521	-36%
Total Other Flows to Federation Account	**1,141,606**	**1,521,571**	**-25%**
Sub-Total (B)	**23,449,285**	**25,786,136**	**-9%**
Total Flows to the Federation Account (A+B)	**50,086,316**	**52,877,053**	**-5%**
Other Flows			
Dividends & Repayment of Loans by NLNG	1,420,406	1,289,592	10%
PAYE	24,170	168,524	-86%
Withholding Tax	697,095	991,693	-30%
Total other Flows	**2,141,671**	**2,449,809**	**-13%**
Flows to States and Local Govt.			
Withholding Tax	857	25,687	-97%
PAYE	366,425	556,030	-34%
NLNG Tax Payments to Local Govt.	0	1,089	-100%
Total Flows to States	**367,282**	**582,806**	**-37%**
Flows to other Entities			
Contributions to NDDC	846,081	562,921	50%
Education Tax	605,597	1,383,452	-56%

	2014 US$'000	2013 US$'000	PERCENT %
NCDMB 1% Levy	153,924	115,925	33%
NESS Fee	38,875	63,100	-38%
NIWA Levy		221	-100%
Cabotage levy	926,766	164,945	462%
NIMASA Levy - Gross Frieght	262,082		100%
Transportation – Pipeline	27,050		100%
Total Flows to other Entities	**2,860,375**	**2,290,564**	**25%**
Grand Total	**55,455,644**	**58,200,232**	-5%

These are Non-Financial Flows relating to in-kind transactions and the settlement of PPT and Royalty by means of Crude Oil and Gas allocations rather than direct financial payments and they are already captured along with the figures reported for Petroleum Related Taxes, Levies and Fees and are thus reported for memorandum purposes only.

***None of the covered entities reported the signature bonus during the year under review. However, we confirmed the payments of $142.249 million for signature bonus from Central Bank of Nigeria component statements.*

Trend Analysis of Financial Flows

Based on the above table, 2014 oil and gas financial flows fell by 5% from $58.200 billion to $55.456 billion. This was as a result of deferred production and crude losses due to destruction of production facilities and pipeline breakages and crude theft. There were slumps in payments recorded from sale of crude oil and gas, other specific financial flows, flows to state and local Government and other entities during the year under review as detailed in the above table. The sub - component of financial flows that witnessed positive increases are feed stock, NCDMB, Dividends and Repayment of loans by NLNG, Royalty gas and signature bonus in comparison to 2013 performances.

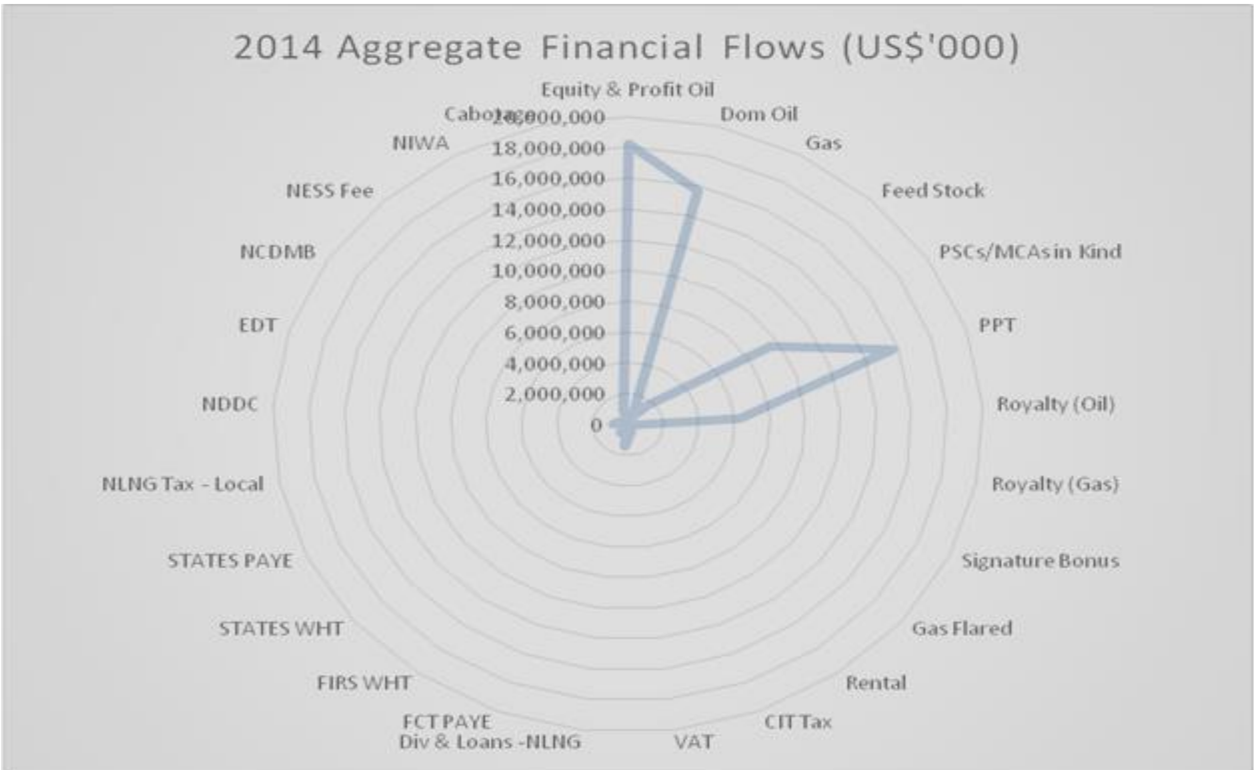


Figure 4-1 2014 Aggregated Financial Flows from all Sources

4.2 Highlight of Financial Flow of Federation Crude Oil & Gas Revenue

Federation Crude Oil and Gas lifting are broadly classified into Equity Export Crude and Domestic Crude. Both categories are lifted and marketed by NNPC through the COMD and the proceeds remitted to the Federation Account.

Table 4-2 Analysis of Crude Oil Lifting by COMD during the year 2014

SUMMARY OF CRUDE OIL SALES (LIFTINGS) IN 2014		
	Volume	**Value**
	bbls'000	**US $'000**
Domestic Crude	160,200.56	15,674,817.41
Export Crude Oil	76,987.99	7,128,176.49
FIRS Crude Oil	75,690.03	7,444,816.77
DPR Crude Oil	14,737.91	1,457,042.01
MCA Crude	5,389.78	509,254.43
RDP Lifting	9,421.53	927,745.11
PAN OCEAN Lifting	110.78	11,327.48
GRAND TOTAL	**342,539.36**	**33,871,186.27**

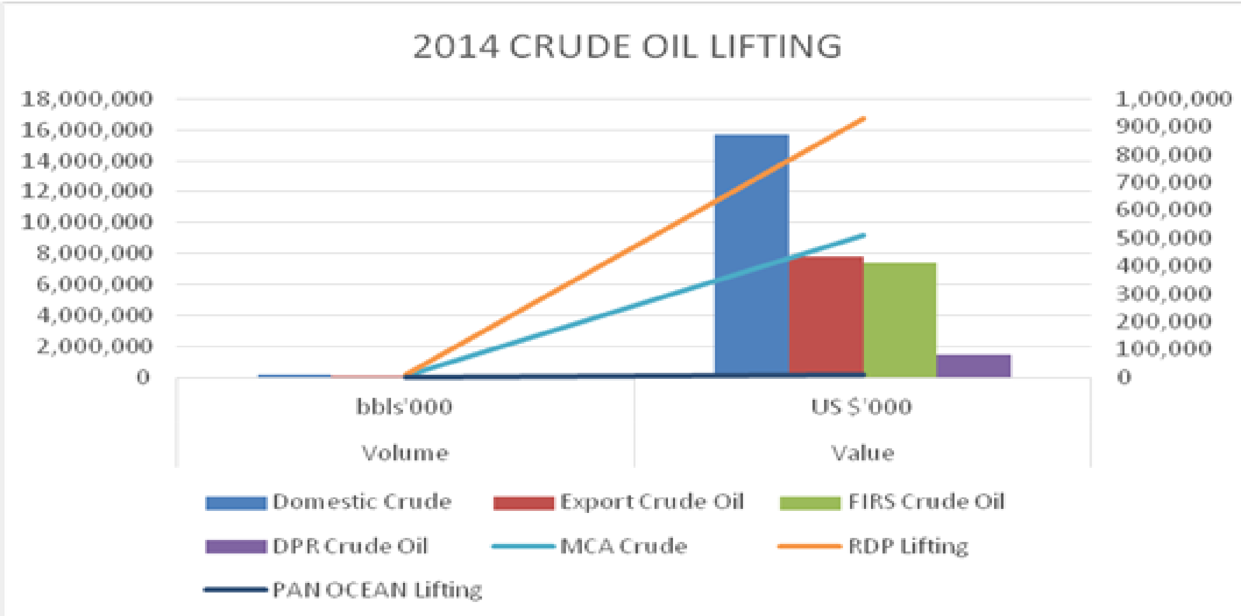


Figure 4-2 2014 Crude Oil Lifting

Table 4-3 Analysis of Gas Sales by COMD during the year 2014

	mt'000	US $'000	%
LPG/NGL	890	559,187	93.7%
Domestic Gas Sales LPG/NGL	56	35,204	5.9%
EGTL Product	4	2,634	0.4%
SUB TOTAL (a)	**950**	**597,025**	**24.6%**
	Volume	**Value**	**%**
	mbtu'000	**US $'000**	
NLNG Feedstock	707,876	1,682,650	100%
SUB TOTAL (b)	**707,876**	**1,682,650**	**69%**
SUB TOTAL (a+b)	**708,825**	**2,279,675**	**94%**
FIRS(MCA Gas Lifting) Sales	28,698	68,952	45%
FIRS(MCA Gas-Education Tax)		5,137	3%
DPR(MCA Gas Lifting) Sales	7,200	17,300	11%
(MCA Gas Lifting) Carry Oil & Shared Oil	644	60,313	40%
SUB TOTAL ('c)	**36,543**	**151,703**	**6%**
GRAND TOTAL (a+b+c)	**745,368**	**2,431,377**	**100%**

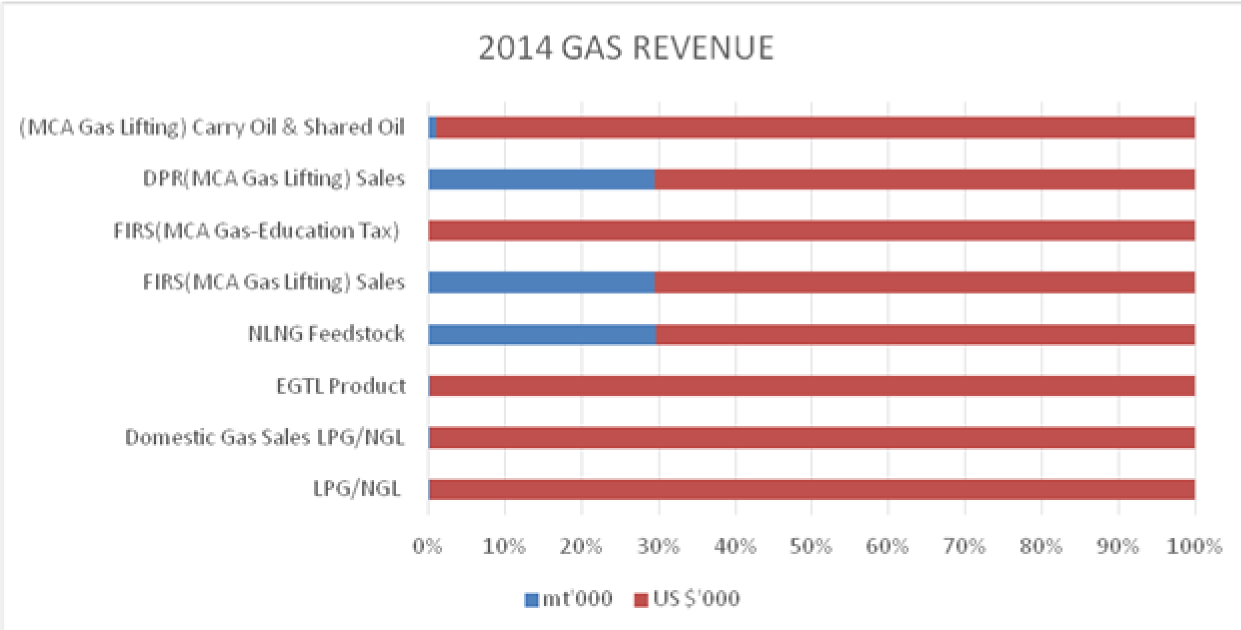


Figure 4-3 2014 Gas Revenue

Observations:

1. During the course of validation, we observed a few discrepancies in the PPMC template and they are;

Table 4-4 Discrepancies PPMC Template

Customer	B/L DATE	QTY LIFTED	UNIT PRICE AS PER TEMPLATE	UNIT PRICE AS PER INVOICE	CRUDE VALUE	L/C NUMBER	REMARK
A-Z Petroleum	10/10/2014	912,820	86.057	91.234	78,554,550.74	SBO11999140063	Difference in unit price
NORTHWEST PETROLEUM	03/10/2014	949,967	86.557	91.269	82,226,293.62	ZU14ILC00949	Difference in unit price of

The unit price in the template differed from that which was recorded in the supporting document (L/C number reference provided)

Apart from a few other transactions that had similar issue, specifically under PPMC Template, all other sampling were quite in order.

2.

Table 4-5 Unit Price Schedule

S/N	Date	Vessel	Crude type	Producer	Invoice number	Quantity in BBLS	Unit price	Sales Value US$
1.	7/11/14	Front Symphony	QIL	A-Z Petroleum	COS/11/PPMC/058/2014	949,852	78.851	74,896,780.05

In the above table, unit price was recorded as $78.851 in the template as against $84.5500 found in the supporting document (invoice). This gave rise to a difference of $5.699 for A-Z petroleum. Furthermore, sales value in the template was recorded as $74,896,780.05 while in the supporting document (invoice), it was recorded as $80,309,986.60

3. The total crude oil liftings in 2014 was 796,554,693 barrels (bbls) as per Crude Oil Stock Marketing (COSM) Unit's record while the Finance & Accounts (F & A) Unit's records showed the quantity of Crude Oil liftings during the year as 789,471,245 bbls. This resulted in a difference of 7,083,448 bbls. This difference is made up of 6,678,966 bbls liftings on behalf of NPDC during the year and an outstanding volume of 404,482 bbls unaccounted for.

4. The observed difference of 6,678,966 barrels representing COMD's liftings of Crude Oil on behalf of NPDC in 2014 could not be traced to the Federation Account. Though, this was included in the schedule of liftings on Federation crude as supplied by Crude Oil Sales Marketing (COSM) Unit, the actual volume of Crude Oil liftings for the Federation Account in 2014 does not Include the NPDC liftings. This translates in a loss of $680,682,812.51

Implications:

1. The discrepancies noticed in the use of different pricing options in the marketing of crude could result in loss of revenue to the Federation.
2. The total quantity of Crude Oil liftings carried out by NNPC on behalf of the Federation and other Agencies such as DPR, FIRS, PPMC (NPMC), Joint Venture projects, Third Party Financing (MCAs), NPDC and Pan Ocean may be understated during the year under review.

Recommendations:

1. The adoption of different pricing regimes/options by NNPC in the discharge of its statutory mandate of selling the Federation Crude through COMD should be discontinued. Appropriate regulatory and statutory controls should be provided to limit the negative impact of arbitrary or discretionary decisions and applications of processes.

2. NNPC is advised to reconcile its records/data on Crude Oil lifting maintained by different departments/units at COMD.

3. The difference of 6,678,966 barrels of Crude Oil purported to have been erroneously included as part of Federation Account lifting by COMD should be investigated to determine actual loss to Federation Account. The Sum of $680,682,812.51 stated in this report was derived using the average yearly price of $101.9144 per barrel.

4. The COMD should provide NEITI and/or SIAO with information regarding the closing balance of inventory as at December 31, 2014 as contained in their year-end physicalization report sheet.

Summary of Oil and Gas Revenue Received for the period

In the year 2014, the total crude lifted for marketing on behalf of the federation, and for the account of Nigerian Petroleum Development Company (NPDC), Department for Petroleum Resources (DRP), the Federal Inland Revenue Services (FIRS), Pipelines and Products Marketing Company (PPMC), and certain joint venture projects by the crude oil marketing department of NNPC was **796,554,693 Bbls**. Out of this, the Federation Account lifting in 2014 was **342,539,363 Bbls.**

The total amount of revenue generated by sale of Federation Crude Oil and Gas was **$36.302 billion**

The tables below show the summary of Crude Oil and Gas lifting carried out in 2014 for both domestic and Export sales.

Table 4-6 Summary of Domestic and Export Crude Oil Lifting in 2014

SUMMARY OF CRUDE OIL SALES (LIFTINGS) IN 2014		
	Volume	**Value**
	bbls'000	**US $'000**
Domestic Crude	160,200.56	15,674,817.41
Export Crude Oil	76,987.99	7,846,183.06
FIRS Crude Oil	75,690.03	7,444,816.77
DPR Crude Oil	14,737.91	1,457,042.01
MCA Crude	5,389.78	509,254.43
RDP Lifting	9,421.53	927,745.11
PAN OCEAN Lifting	110.78	11,327.48
GRAND TOTAL	**342,539.363**	**33,871,186.27**

Table 4-7 Summary of Domestic Crude Oil Lifting

SUMMARY OF DOMESTIC CRUDE SALES		
	Volume	**Value**
	bbls'000	**US $'000**
PPMC Lifting	56,181.33	5,231,701.61
Offshore Processing	21,110.60	2,115,775.93
Product Exchange	56,434.67	5,494,709.80
Refinery Deliveries	26,473.96	2,831,798.84
Revaluation- Audit Adjustment	-	831.22
GRAND TOTAL	**160,200.56**	**15,674,817.41**

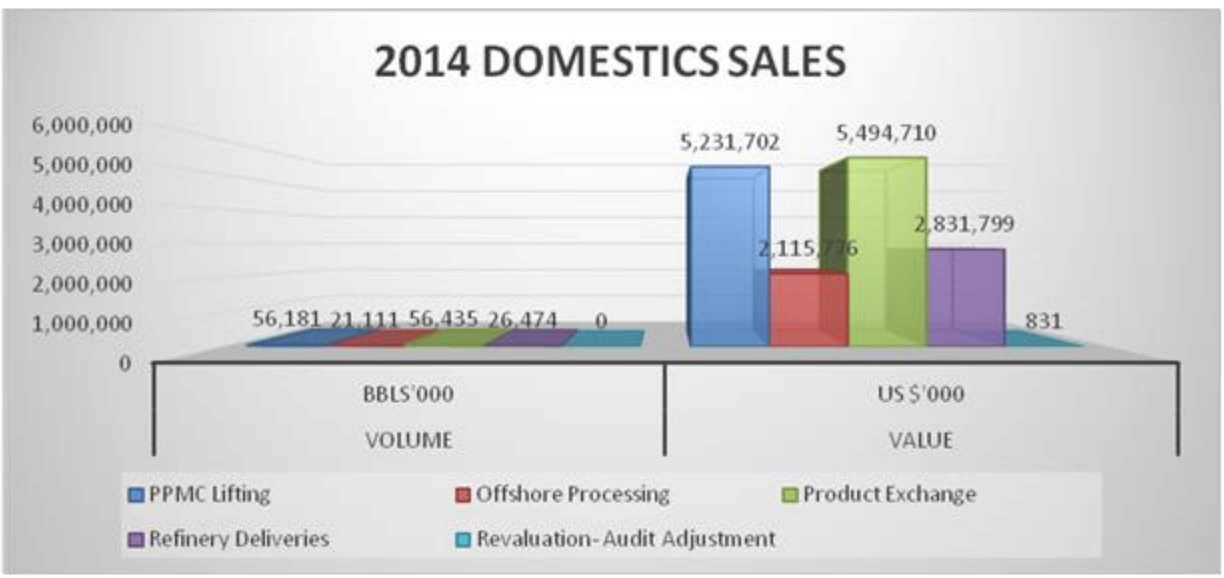


Figure 4-4 2014 Domestic Sales

Table 4-8 Monthly Analysis of Domestic Crude Oil Sales Volumes in 2014

Monthly Analysis of Domestic Crude Oil Sales Volumes in 2014						
	PPMC Lifting	**Offshore Processing**	**Product Exchange**	**Refinery Deliveries**	**Rev-Audit Adjust**	**Total Sales Value**
Month	**Volume**	**Volume**	**Volume**	**Volume**	**Volume**	**Volume**
	bbls'000	**bbls'000**	**bbls'000**	**bbls'000**	**bbls'000**	**bbls'000**
Jan	4,616.73	1,946.42	3,659.56	1,127.11	-	11,349.82
Feb	4,201.72	1,949.81	5,743.99	2,730.13	-	14,625.65
Mar	2,654.90	1,925.06	4,821.37	2,064.54	-	11,465.87
Apr	1,062.85	947.51	3,717.30	4,713.42	-	10,441.08
May	2,809.60	1,899.91	5,694.77	4,720.65	-	15,124.93
Jun	2,884.43	1,947.77	4,704.46	2,308.92	-	11,845.58
Jul	3,314.79	1,899.65	2,802.05	823.94	-	8,840.43
Aug	7,508.87	2,850.17	5,642.48	-	-	16,001.52
Sep	7,470.72	1,899.69	4,660.87	5,386.58	-	19,417.86
Oct	6,424.37	1,947.29	4,629.25	1,647.47	-	14,648.38
Nov	5,654.23	-	5,653.21	951.2	-	12,258.64
Dec	7,578.14	1,897.33	4,705.36	-	-	14,180.83
Total	**56,181.35**	**21,110.61**	**56,434.67**	**26,473.96**	**0.00**	**160,200.59**

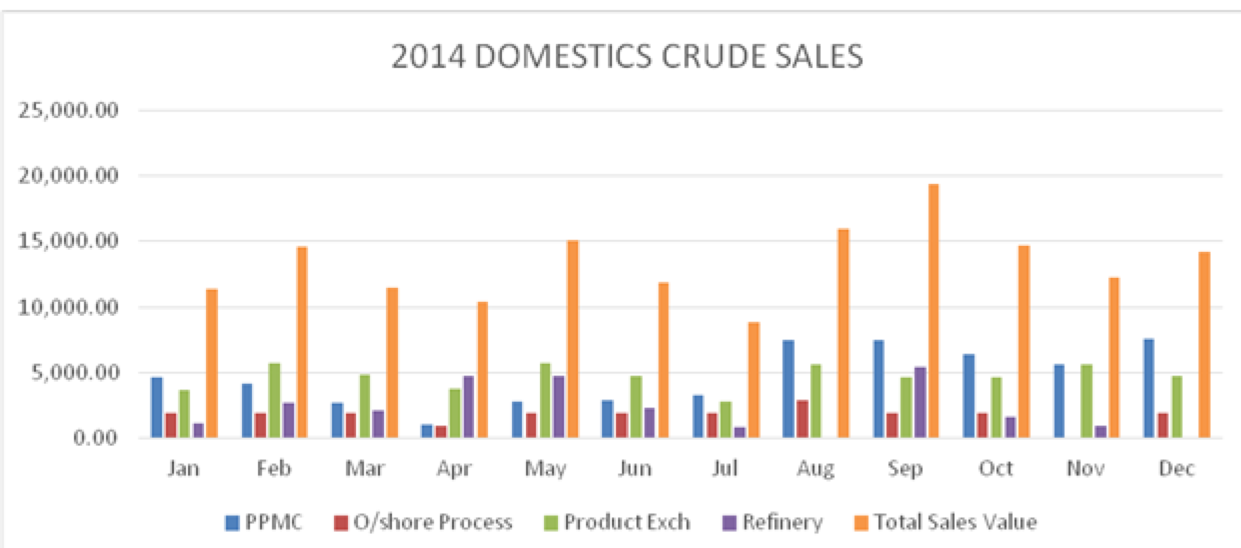


Figure 4-5 Domestic Crude Sales

Table 4-9 Analysis of Export Crude Oil Sales in 2014

Export Crude Oil Sales			
	Volume	**Value**	**Percent**
	bbls'000	**US $'000**	**%**
January	8,476.75	933,797.27	12%
February	6,548.79	727,925.50	9%
**March	9,369.09	1,011,946.54	13%
April	7,997.81	885,490.84	11%
May	7,423.80	831,885.34	11%
June	5,074.98	578,327.80	7%
July	6,923.64	753,042.80	10%
August	4,624.39	470,943.16	6%
September	6,202.54	600,487.69	8%
October	4,150.55	364,341.96	5%
November	6,128.96	475,155.33	6%
December	4,066.67	212,838.84	3%
Total	**76,987.97**	**7,846,183.07**	**100%**

*** The sales figure for the month of March 2014 represents the net sales value after deducting the sum of $9,191,001.46 in respect of Zafiro Ekanga technical cost incurred on the Joint Development Zone (JDZ).*

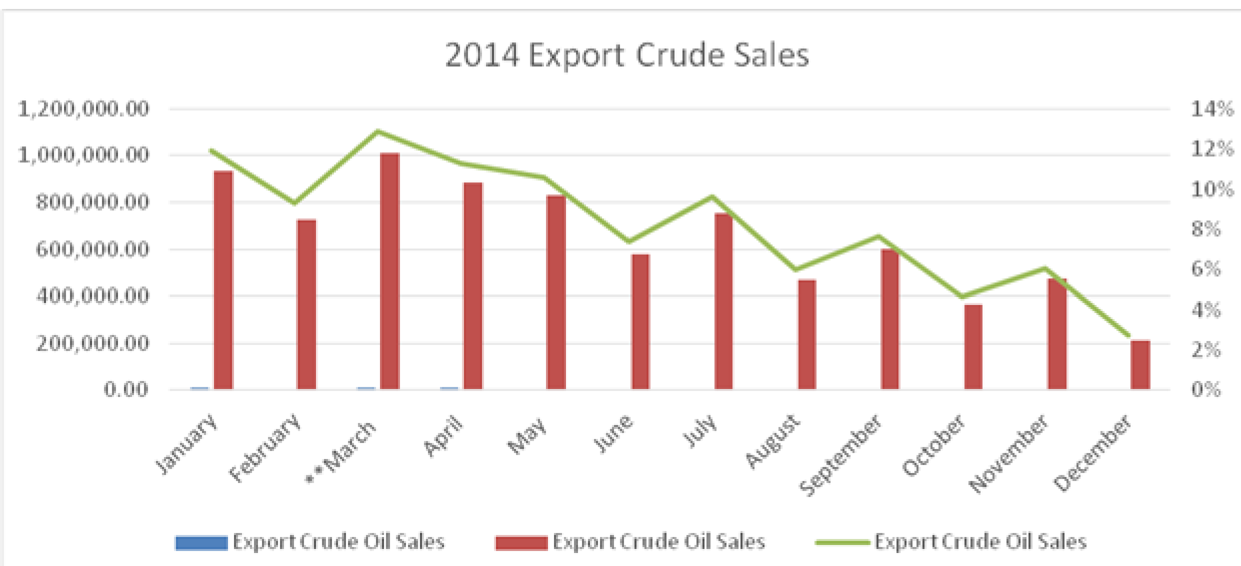


Figure 4-6 Export Crude Sales

Table 4-10 Analysis of Export Gas Sales

ANALYSIS OF EXPORT GAS SALES		
	Volume	**Value**
	mmbtu'000	**US $'000**
LPG/NGL	889.77	559,186.88
NLNG Feedstock	707,875.67	1,682,649.92
Domestic Gas Sales	56.31	35,203.69
EGTL Product	3.68	2,634.06
GRAND TOTAL	**708,825.42**	**2,279,674.55**

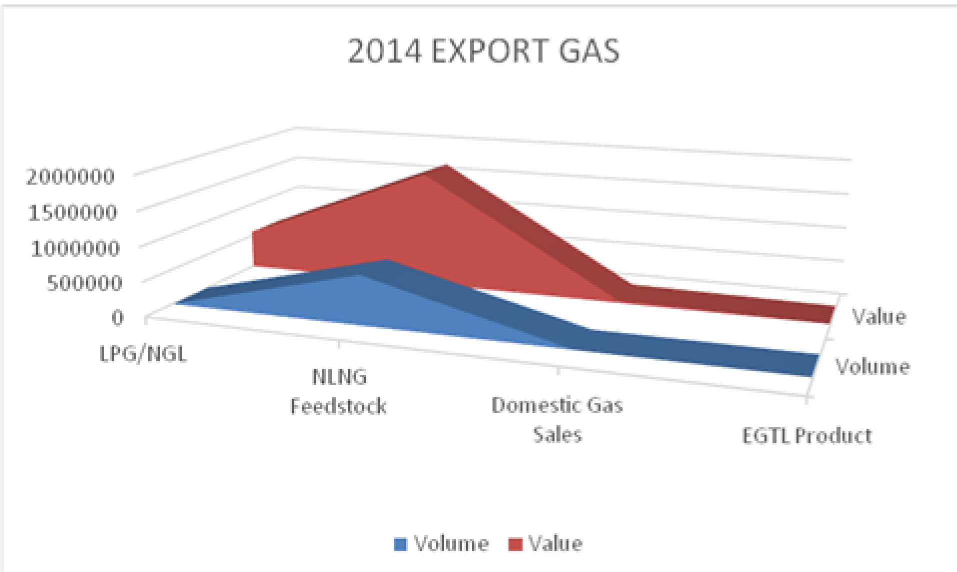


Figure 4-7 Export Gas

Table 4-11 Summary of DPR Crude Oil Lifting

SUMMARY OF DPR CRUDE LIFTING			
	Volume	**Value**	**Percent**
	bbls'000	**US $'000**	**%**
PSC Crude Oil Lifting	13,714	1,360,256	93%
MCA Oil lifting	1,024	96,786	7%
GRAND TOTAL	**14,738**	**1,457,042**	**100%**

Table 4-12 Summary of FIRS Crude Oil Lifting

SUMMARY OF FIRS CRUDE			
	Volume	Value	Percent
	bbls'000	US $'000	%
PPT CRUDE	71,957	7,094,219	95%
MCA OIL LIFTING	3,733	350,598	5%
GRAND TOTAL	**75,690**	**7,444,817**	**100%**

Table 4-13 Summary of MCA Crude Oil Lifting/sales

SUMMARY OF MCA CRUDE		
	Volume	Value
	bbls'000	US $'000
MCA Crude Oil Lifting	5,389.78	509,254.43
GRAND TOTAL	**5,389.78**	**509,254.43**

Table 4-14 Summary of Reserve Development Projects Crude Oil Lifting

SUMMARY OF RDP LIFTING		
	Volume	Value
	bbls'000	US $'000
Reserve Development Project	9,421.53	927,745.11
GRAND TOTAL	**9,421.53**	**927,745.11**

Table 4-15 Summary of Pan Ocean Crude Oil Lifting

SUMMARY OF PAN OCEAN LIFTING		
	Volume	**Value**
	bbls'000	**US $'000**
Pan Ocean Lifting	110.78	11,327.48
GRAND TOTAL	**110.78**	**11,327.48**

Table 4-16 Summary of DPR Gas lifting

SUMMARY OF DPR GAS LIFTING		
	Volume	**Value**
	mmbtu'000	**US $'000**
MCA Gas lifting	7,200.24	17,299.85
GRAND TOTAL	**7,200.24**	**17,299.85**

Table 4-17 Summary of FIRS Gas Liftings

SUMMARY OF FIRS GAS		
	Volume	**Value**
	mbtu'000	**US $'000**
MCA GAS LIFTING	28,698.12	68,952.25
GRAND TOTAL	**28,698.12**	**68,952.25**

Table 4-18 Summary of MCA Gas Lifting

SUMMARY OF MCA GAS		
	Volume	**Value**
	mmbtu'000	**US $'000**
MCA Gas Lifting	644.19	60,313.37
GRAND TOTAL	**644.19**	**60,313.37**

4.3 Reconciliation and Validation of Production Volume Delivered to Terminals

Validation and Reconciliation of Production Volume delivered to Terminals was carried out with the following objectives:

a. Confirmation of the Production Volume Delivered to Terminals as per Record during the Period under Review.
b. Confirming the basis of establishing NNPC entitlement in any peculiar arrangement.
c. Comparison of the Expected Production Volume and the Actual Production as per Records of NNPC and DPR.

The Documents requested and reviewed during this process among others included populated Terminal Balance Templates from entities, DPR 2013-2014 Export Reconciliation Data as well as Terminal Receipts Reconciliation Data and the NNPC-COMD records of monthly production by the producers and lifting by all the parties.

Key Findings in the reconciliation of Production data in the records of NNPC to that of DPR

During the course of our audit, we discovered that several reconciliations have been carried out by DPR and the reporting entities. Hence an agreed production level had been reached.

It was however discovered that the reconciliation of most of these volumes were carried out in the year 2016.

Implication

Had the Audit been carried out in 2014, harmonized volume balances would not have been used. This has resulted to a lot of unreconciled differences in the book of the regulator and the IOCs.

Recommendation

Reconciliation should be carried out on or before 2nd quarter proceeding the year that has ended so as to enhance smooth flow of the audit and for disclosure purposes

4.4 Review of Oil and Gas Receipt into the Federation Accounts

Remittances into Federation Account

The Central Bank of Nigeria (CBN) being the banker to the Federation of Nigeria is the custodian of all revenues accruing to the nation from various sources. In 2014 the CBN received the following streams of revenue on behalf of the federation from oil and gas sector:

- Accounts operated by NNPC and JP Morgan Chase Bank maintained in US Dollars
- Nigerian National Petroleum Corporation (NNPC) Domestic Crude oil and Gas sales maintained in Naira
- Department for Petroleum Resources (DPR) revenues operated by JP Morgan Chase Bank New York maintained in US Dollars
- FIRS revenues operated by JP Morgan Chase Bank New York Maintained in US Dollars.

The various accounts relating to oil and gas revenue maintained by the CBN in 2014 are as follow:

- Company Income Tax (CIT)
- Petroleum Profit Tax (PPT)
- Education Tax
- Value Added Tax Received
- Withholding Tax Received
- Domestic Crude Oil sales proceeds in Naira
- Domestic Gas Sales proceeds in Naira
- NESS Fee Paid in Naira
- Petroleum Subsidy Payment in Naira
- Export Crude Oil sales proceeds
- Export Gas Revenue Received
- FGN funding of Cash Calls to NNPC NAPIMS
- Cash Calls Monetization
- JV Royalties on Oil
- Royalty Received on Gas
- PSC Royalty Received
- Gas Flare Penalty Received
- Acreage/Concession Rentals Received
- Miscellaneous Oil Revenue
- Signature Bonus Received

The components of the revenue receipts into the Federation Account are classified by the OAGF into Mineral and Non-mineral. The mineral revenue are the oil and specific flows which include Royalty, PPT and crude Sales etc. while non-minerals are non-sector specific flows which include VAT, WHT and Custom/Excise Duties etc.

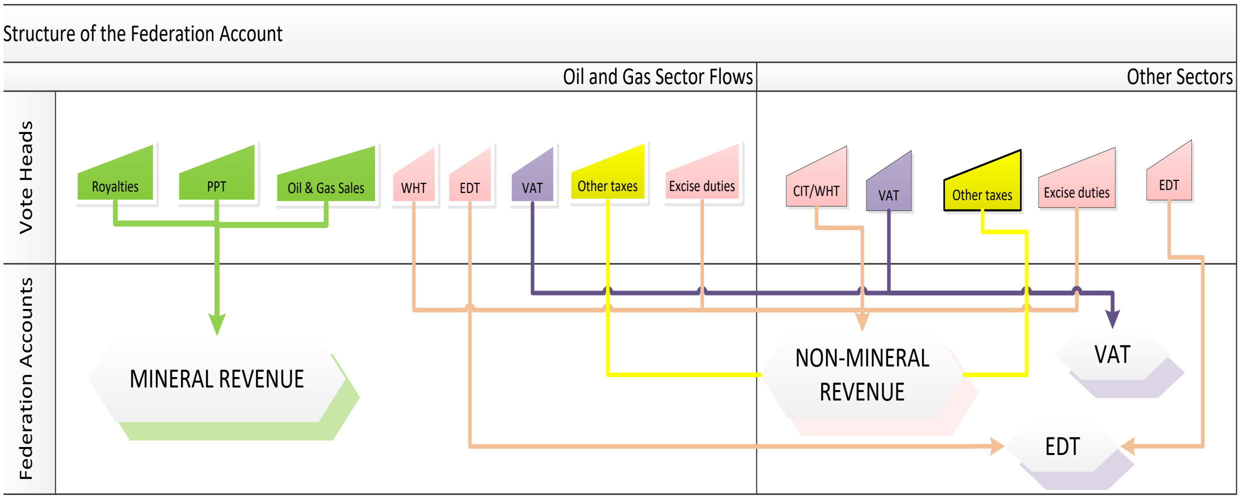


Figure 4-8 Structure of the Federation Account

Source FASD Audit

Concurrently, as shown in the diagram above, tangible mineral components exist in the Non-mineral components of the Federation revenue. The revenue inflows with both mineral and non-mineral components are accounted for as "Non-Minerals" revenue as there are no provisions for their separation both in CBN and OAGF. This report therefore, emphasizes only on Oil and Gas specific revenues which includes: Royalties, PPT and Oil/Gas sales etc.

The **2%** EDT from oil companies and companies from other sectors flow into CBN/FIRS/EDT Account while WHT and custom/excise duties all flow into the Non-mineral Revenue Account. By virtue of VAT's Disbursement, payments by all companies flow into the CBN/FIRS/VAT Accounts (both foreign and local). Other miscellaneous taxes from both Oil and Non-Oil sectors flow into the Non-mineral revenue Account

With the exception of Domestic Crude Oil and Gas Sales, The Federation Revenue is remitted from the accounts of the individual revenue heads to the CBN/FA in dollars. NNPC raises transfer mandates to CBN for the transfer of Export Crude Oil and Gas Sales from their various accounts to FA while OAGF sends equivalent transfer mandates to CBN for the transfers of PPT, Royalties, Rentals, MOR and Penalties etc. to FA.

The NNPC makes transfers such as the JV cash call from the proceeds of sale of Export Crude Oil and Gas through a mandate to the CBN and the balance is swept to the Federation Account. NNPC subsidy claim is also deducted from domestic crude sales before remitting to the Federation Account. It should be noted that Domestic Crude Oil and Gas Sales is made in dollars, monetized by NNPC and remitted to the CBN/Domestic Crude Oil and Gas Account in Naira.

4.5 Validation and Reconciliation Requirement

In order to achieve Objectives of the Validation and Reconciliation of Sales of Export Crude Oil, the following documents and information were obtained:

1. Export Crude Oil, Gas and Feedstock Lifting Profile indicating Volume and Value, Receipts and Outstanding – among other details.
2. CBN NNPC JP Morgan Chase Crude Oil and Gas Revenue (Dollar) Account Statement and CBN NNPC JP Morgan Chase Gas Revenue (Dollar) Account Statement.
3. Mandates from NNPC to CBN to sweep funds from JP Morgan Chase Crude Oil and Gas Revenue (Dollar) Account and JP Morgan Chase Gas Revenue (Dollar) Account into the Cash Call Account and the Federation Accounts respectively.
4. Schedule of Gas/Feedstock MCAs Projects.
5. Export Crude Oil, Gas and NLNG Feedstock Sales Invoices together with Bill of Lading, Letters of Credit, and other Related Shipping Documents.
6. DPR Export Reconciliation Data as well as Terminal Receipts Reconciliation Data.
7. NNPC-Company Reconciliation Data.

Reconciliation of Export Crude Oil, Gas and NLNG Feedstock Sale Volume and Value to CBN

The Revenue statements from JP Morgan Chase Bank account with CBN was provided to support the amount filled in the templates. Where there are omissions in the amount reported in the templates, we have included them in our analysis of revenues received by CBN in 2014 in relation to oil and gas.

Table 4-19 Oil and Gas revenues received and other Statutory fees paid during the year

Oil and Gas revenues received and other Statutory fees paid during the year					
Description	**$**	**₦**	**Naira to US$**	**Total US$**	**%**
ACREAGE RENTALS	2,150,788		-	2,150,788	0.004%
EDUCATION TAX	916,408,086		-	916,408,086	1.613%
EXPORT CRUDE OIL SALES	9,340,192,147		-	9,340,192,147	16.440%
GAS REVENUE	2,091,346,676		-	2,091,346,676	3.681%
NESS		3,376,933,792	20,642,528	20,642,528	0.036%
PSC ROYALTY	1,304,176,727		-	1,304,176,727	2.295%
CIT	1,977,538,884		-	1,977,538,884	3.481%
FGN CASH CALLS TO NAPIMS	2,548,473,419		-	2,548,473,419	4.486%
GAS FLARE PENALTY	17,398,113		-	17,398,113	0.031%

Oil and Gas revenues received and other Statutory fees paid during the year					
Description	**$**	**₦**	**Naira to US$**	**Total US$**	**%**
CASH CALL MONETISATION		520,235,358,996	3,180,095,733	3,180,095,733	5.597%
JV OIL ROYALTIES	4,911,533,279		-	4,911,533,279	8.645%
MISCELLENOUS OIL	506,873,383		-	506,873,383	0.892%
PETROLEUM SUBSIDY		481,578,208,569	2,943,792,227	2,943,792,227	5.181%
WHT	606,879,088		-	606,879,088	1.068%
VAT	517,412,492		-	517,412,492	0.911%
PPT	16,799,252,843		-	16,799,252,843	29.568%
DOMESTIC CRUDE OIL SALES		1,448,432,901,402	8,853,983,508	8,853,983,508	15.584%
SIGNATURE BONUS	142,249,972		-	142,249,972	0.250%
GAS ROYALTY	135,026,733		-	135,026,733	0.238%
TOTAL	**41,816,912,631**	**2,453,623,402,758**	**14,998,513,995**	**56,815,426,626**	**100%**

Table 4-20 Export Crude Sales received in CBN

Export Crude Sales received in CBN		
MONTH	**US$**	**%**
January	662,879,192	7%
February	941,120,466	10%
March	1,166,764,396	12%
April	1,038,569,444	11%
May	1,107,217,716	12%
June	701,233,122	8%
July	571,726,098	6%
August	1,062,470,381	11%
September	727,410,273	8%
October	572,753,137	6%
November	341,156,600	4%
December	446,891,322	5%
TOTAL	**9,340,192,147**	**99.99%**
Interest	589,243	0.01%
TOTAL	**9,340,781,390**	**100.00%**

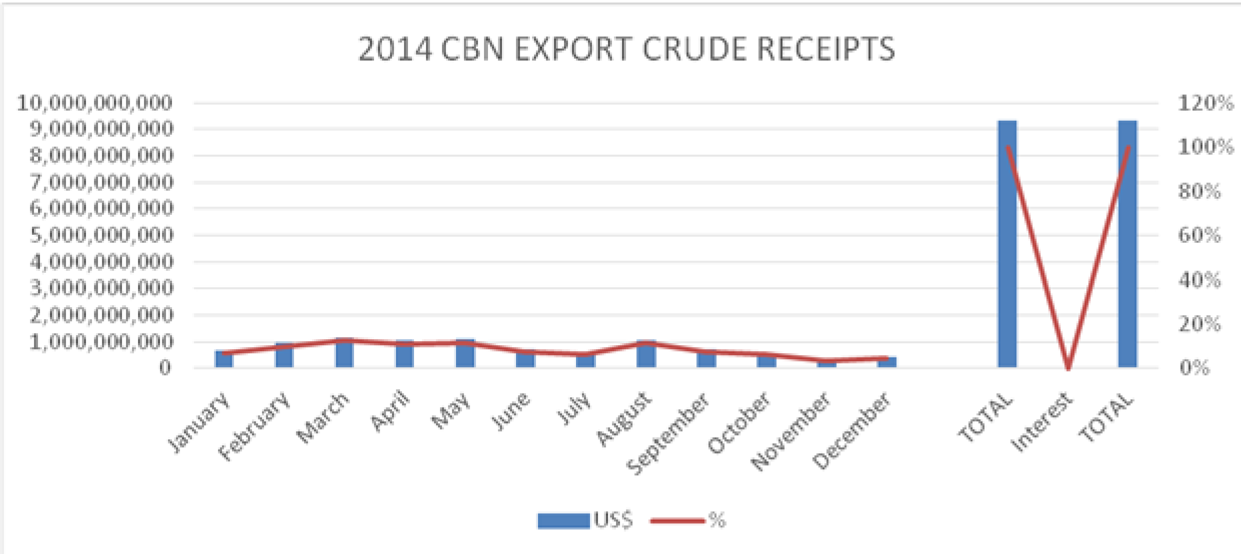


Figure 4-9 CBN Export Crude Receipt

Table 4-21 Gas Revenue Received by CBN in 2014

Gas Revenue Received by CBN in 2014		
Month	**Amount received $**	**%**
January	61,485,610	3%
February	177,623,488	8%
March	138,549,498	7%
April	284,448,348	14%
May	51,445,775	2%
June	214,263,552	10%
July	264,410,170	13%
August	64,534,023	3%
September	143,236,845	7%
October	297,345,058	14%
November	150,435,728	7%
December	243,568,580	12%
TOTAL	**2,091,346,676**	**100%**

Table 4-22 PSC ROYALTY

PSC ROYALTY			
S/No.	**PAYEE**	**AMOUNT $**	**%**
1	AETEO ENERGY RESOURCES LIMITED	4,375,440.00	0.3%
2	AMG PETROENERGY LTD	22,502,725.50	1.7%
3	DELANEY PETROLEUM CORPORATION	22,028,280.00	1.7%
4	ETERNA PLC	47,618,100.00	3.7%
5	HYDE ENERGY LIMITED	5,491.50	0.0%
6	SAHARA ENERGY RESOURCE LIMITED	130,158,400.00	10.0%
7	SPRING FIELD ASHBURTON LTD	63,415,200.00	4.9%
8	STERLING OIL EXPLORATION	42,743,432.63	3.3%
9	TELEVERAS GROUP OF COMPANIES	32,840,100.00	2.5%
10	TRANSWORLD OIL LIMITED	4,220,313.24	0.3%
11	UNIDENTIFIED PAYMENTS	875,006,744.03	67.1%
12	VOYAGE OIL AND GAS	59,262,500.00	4.5%
	TOTAL	**1,304,176,726.90**	**100%**

Table 4-23 Royalty on Gas Received by CBN in 2014

Royalty on Gas Received by CBN in 2014			
S/N	**ENTITY**	**AMOUNT US$**	**%**
1	Chevron Nigeria Limited	28,502,536.58	21%
2	NAOC	18,441,401.84	14%
3	NNPC	1,719,581.54	1%
4	NNPC/NAOC	813,199.99	1%
5	NNPC/SPDC/TEPN/NAOC	4,045,439.16	3%
6	NNPC/TEPNG	4,187,589.30	3%
7	Oando	3,814,044.77	3%
8	Philips Oil Company	7,763,770.76	6%
9	Seplat Petroleum Development Company Limited	1,053,050.45	1%
10	Shell Petroleum Company	34,694,452.00	26%
11	Total EP	29,991,666.40	22%
	TOTAL	**135,026,732.79**	**100%**

Table 4-24 Acreage/Concession Rentals Received By CBN

Analysis of Acreage Rentals Received by CBN		
Express Petroleum and Gas	599,960	27.9%
Seplat Petr. Dev. Co ltd	110,970	5.2%
Conoil Producing Ltd	55,423	2.6%
Sheba Exploration Production	422,854	19.7%
Amni Pet.Dev.co.Ltd	9,751	0.5%
Mobil Producing Nig. Unlimited	52,072	2.4%
NAE OPL 245	22,840	1.1%
Star Deep Water Petroleum	25,558	1.2%
Amalgamated Oil Co. Nigeria	14,047	0.7%
Orient Pet. Resources	74,964	3.5%
NNPC/Chevron Joint Venture	132,873	6.2%
South Atlantic Petroleum ltd	38,850	1.8%
Peak pet. Industries Nig.	5,218	0.2%
Newcross Petroleum Ltd	9,879	0.5%
Energia Ltd	10,000	0.5%

Cavendish Petroleum (Nig.) Ltd	19,325	0.9%
Emerald Energy Resources Ltd	20,280	0.9%
Total Epn	40,288	1.9%
Sterling oil expl. and Prod.	27,752	1.3%
Moni Pulo Ltd	30,885	1.4%
Summit Oil International	105,099	4.9%
Shell Petroleum Dev. Co Ltd	321,900	15.0%
	2,150,788.25	100%

Table 4-25 Signature Bonus Received by CBN in 2014

Signature Bonus Received by CBN in 2014				
Month of Transaction	**Value Date**	**Name of Payer**	**Amount received $**	**Amount received $**
Jan-14				0%
Feb-14	13/02/2014	NNPC/NPDC	100,000,000.00	70%
Jul-14		Unidentified	41,250,000.00	29%
Jan – Dec		Interest & Others	999,972.00	1%
				0%
Total			**142,249,972.00**	**100%**

Observations:

1. Payment of $1,375,411.93 by NAOC on the 29th of August 2014 in respect of royalty on gas was erroneously recorded under Shell Petroleum Company in the template.

2. In filling the templates for PSC Royalty revenue, error of complete omission of entries were noticed during the validation. For instance, the sum of USD 3,983,220 received from Sterling Oil Exploration Limited on the 4th of November 2014 was not captured in the template. Same is applicable to the sum of USD 98,193,401.90 received from an unidentified Company on the 2nd of May 2014 in respect of PSC royalty revenue was not reflected in the template.

3. We observed that the interest earned on these revenue accounts were not included in the populated templates by CBN as part of revenues accruing to the Federation. In 2014, the Company Income Tax revenue account operated by JP Morgan Chase Bank and Federal Inland Revenue Service (FIRS) in CBN's custody earned interest to the tune of USD 108,356.29

Implications:

1. The amounts filled in the templates may have been distorted as a result of incomplete declaration of revenues received during the period under review.
2. The information in the template may be understated as there were cases of omission of material entries/transactions.

Recommendations:

1. NEITI should request that CBN introduce a dedicated desk within the Banking and Payment Systems Department of the bank, which is saddled with the responsibility to liaise with NEITI and all other covered entities in the fulfillment of the EITI requirement of annual audit.
2. CBN should be asked to release copies of these revenue accounts to Consultants in order to serve as reliable and sufficient audit evidence to support the position arrived at by the Consultant in the discharge of his assignment in line with international best practice as well as the requirements of the International Auditing Standard.

Export Crude Oil, Gas and Feedstock Receivables Control Account

We have reviewed the NNPC-COMD Populated Template with available corroborating documents and have prepared the following control accounts for Export Crude Oil, Gas and Feedstock Receivables summarising the entire Transactions and Payments received for the year under review.

Table 4-26 Export Crude Oil, Gas and Feedstock Receivables Control Account as at 31st December

	2013			2014		
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Balance as at 1st January (A)			1,499,914			1,602,107
Add: Sales						
(Ai) - Crude Oil Sales	8,098,883			7,846,183		
Crude oil lifting Development Project	628,117					
Satellite Field Development Project	842,921					
Reserve Development Project				927,745		
TMP - NNPC Share of Profit						
Net Debit Notes						
Less: First Lifting Deposit	(17,500)			(84,646)		
Less: Credit Notes	(11,425)	9,540,996		(16,671)	8,672,611	
(Aii) - Gas Sales	616,006			597,025		
(Aii) - Feedstock Sales	1,523,440			1,682,650		
	2,139,446			2,279,675		
Less: Spiking Cost	(1,259)					
Exchange Loss	(1,167)			(2,595)		
Credit Notes	(772)	2,136,248			2,277,080	

Total Sales for the year (B)			11,677,244			10,949,691
Total Receivables (C= A+B)			13,177,158			12,551,798
Less: Receipts						
Receipts into:						
JP Morgan Crude Oil and Gas Revenue (Dollar)		8,094,476			9,448,250	
Classified Other Income - SFDP		100,925				
RDP		300,000				
JP Morgan Gas Revenue (Dollar) Account						
Gas & Feedstock Prior Year Outstanding Receipt	161,200			-		
Gas Sales Receipt	271,316			353,025		
NGL 2 Revenue Account price balance Receipt	109,780			140,188		
Feedstock and other Gas Receipts	1,095,658	1,637,954		1,598,148	2,091,361	
NGL 2 Revenue Receipt	251,506					
Less: Price balance paid into JP Morgan Gas Revenue Account	(109,780)	141,726				
Feedstock Escrow Account (MCA) Receipt		225,515				
Feedstock Escrow Account (NDPR) Receipt		4,342				
SFDP proceeds account		527,192				
RDP proceeds account		542,921				
Total Receipts (D)			11,575,051			11,539,611
Outstanding balance as at 31st December (E= C-D)			1,602,107			1,012,187
Balance as at 31st December (As Per NNPC Record)			(1,162,391)			(426,175)
Un-explained Difference			439,716			586,012

Balance as per Audit validation is **$1,012,187,000** as 31st December 2014 while the NNPC record revealed **$426,175,000, which** gives a difference of **$586,012,000**. The details of this difference is analyzed below.

Table 4-27 Detailed Analysis and Reconciliation of the Balance as of 31st December

		2013	2014
		$'000	$'000
Balance as at 1st January		1,499,914	1,602,107
Add: Total Lifting after deducting credit Notes & First Lifting Deposit		11,677,244	10,949,691
		13,177,158	12,551,798
Less: Receipts during the year		11,575,051	11,539,611
Outstanding Balance as at 31st December		1,602,107	1,012,187
Less: NNPC Outstanding Balance as at 31 December		(1,162,391)	(426,175)

Difference		439,716	586,012

The outstanding sales receivable from Crude Oil and gas as at 31st December 2012 was $1.499914 Billion and this includes the sum of $940.083 Million not due in 2012 and made up of the following:

a) $771.772 Million Crude Oil sales
b) $146,719 Million Gas and Feedstock sales
c) $21.592 Million Feedstock sales invoiced in November

However, only the sum $930.472 Million from the amount not due in 2012 (consisting of $769.272 Million and $161.200 Million in the table above could be traced to JP Morgan Chase Crude Oil and Gas Revenue Accounts and JP Morgan Chase Gas Revenue Accounts in 2013.

In addition to above, Audit validation revealed that the total outstanding amount receivable as at December 2013 stood at $1.602 Billion, whereas $1.162 Billion was recorded by NNPC as sales receivable, which results to an un-reconciled difference of $439.715Million.

Key findings on Export Crude Oil, Gas and Feedstock Receivables Control Account

a) NNPC records of revenue receivable are not consistent with the underlying records of sales transactions and NEITI audit reports.
b) Some of the Crude Oil and Gas Traders did not comply with the 30 days credit rule for remittance to the designated revenue accounts.
c) Loss of time value of money as a result of late remittance.

Implication

There is under reporting of revenue receivable, which may result in revenue losses to the tune of **$439.715Million.**

Recommendation

a) NEITI to ensure reconciliation with NNPC to arrest the yearly build-up of un-reconciled balances and consequent loss of revenue due to the Federation.
b) NNPC to ensure strict compliance with the 30 days credit rule for revenue remittance.

Summary of Payments Received into JP Morgan Crude Oil and Gas Revenue Accounts

A review and validation of NNPC-COMD Federation Crude Oil Sales record template along with the CBN -NNPC JP Morgan Chase Crude Oil and Gas Revenue (Dollar) Account Statement was carried out and Table 4-28 CBN-NNPC JP Morgan Chase Crude Oil and Gas Revenue (Dollar) Accountprovides the summary of the payments made into the JP Morgan account for the year under review.

Table 4-28 CBN-NNPC JP Morgan Chase Crude Oil and Gas Revenue (Dollar) Account

		2013	2014
		$'000	$'000
Balance as at 1st January	**(A)**	923,816	**583,398**
Lodgement:			
Export Crude Proceeds - Prior Year		769,272	632,341
Export Crude Proceeds - Current Year		7,325,204	7,598,854
Interest and Other Classified Lodgements		622,733	1,109,587
Total Lodgements during the year	**(B)**	**8,717,209**	**9,340,782**
Total Inflow	**(A+B) = C**	**9,641,025**	**9,924,180**
Payments:			
Payment to Federation Account		2,045,347	2,535,037
Transfer to JV Cash call Account		7,012,280	6,932,221
Total Outflow	**(D)**	**9,057,627**	**9,467,258**
Balance as at 31st December		**583,398**	**456,922**

The table above shows the reconciliation of Crude Oil Sales Proceeds with the Sales Invoices as well as the prior year's balances. The sum $1.109 Billion represents Interests and other classified lodgements, which were grouped as Other Miscellaneous Receipts in the populated template, received from NNPC-COMD

Key findings on payments received into JP Morgan Crude Oil and Gas revenue Account

The sum of $622.733 Million was classified as Miscellaneous lodgments, out of which $373.687 Million relates to transactions described by NNPC as Insurance Claims, Receipt from P. Exploration Nigeria Limited, MPN JV, SPDC JV, CNL JV, Sterling Oil, Azenith Energy Resources, FBN, TEPNG Usan, Trial Marketing. NNPC was to provide further explanations on the transactions in view of the huge amounts involved and the corporation has not provided this.

Implication

In the course of the Audit, the consultants were unable to obtain details nor ascertain the basis for the transactions relating to $373.687 Million as specified above.

Recommendation

NNPC is to provide further details and relevant source documents with respect to the transactions classified as Miscellaneous Lodgments to enable further reconciliations and validations

Analysis of variance between Export Crude Oil and Actual Sales Receipts

An analysis of actual crude oil sales in comparison with lodgements into JP Morgan Chase Crude Oil & Gas Revenue (Dollar) Account reveals variances contained in the table below.

Table 4-29 Monthly Analysis of Export Crude Oil Sales Volume and Value and amount received into the JP Morgan Crude Oil and Gas Revenue (Dollar) Account

Month of Sales	Volume	NNPC/COMD Sales Value	CBN RECEIPTS	VARIANCES	CREDIT NOTES	FIRST LIFTING DEPOSIT	UNDUE & UNPAID	TOTAL
	BBL'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
January	8,477	933,797	739,810	193,987				-
February	6,549	727,925	932,572	(204,647)	861		364	1,225
March	9,369	1,011,947	735,226	276,721			(364)	(364)
April	7,998	885,491	1,010,219	(124,728)	1,728			1,728
May	7,424	831,885	990,137	(158,252)	831			831
June	5,075	578,328	726,515	(148,187)	19			19
July	6,924	753,043	553,421	199,622	2,434	22,500	27	24,960
August	4,624	470,943	843,520	(372,577)	72	15,000	(198)	14,874
September	6,203	600,488	460,558	139,930	385	10,000	-	10,385
October	4,151	364,342	558,446	(194,104)	10,385	22,500	9,831	42,715
November	6,129	475,155	341,003	134,152	-	15,000		15,000
December	4,067	212,839	446,431	(233,592)	33		(603,081)	(603,048)
Total	**76,988**	**7,846,183**	**8,337,858**	**(491,675)**	**16,746**	**85,000**	**(593,421)**	**(491,675)**

The table above shows the total sum of **$7.846 Billion** as the amount invoiced by NNPC-COMD for export crude oil and the actual receipts of the sum of **$8.337 Billion** was traced to JP Morgan Chase Crude Oil & Gas Revenue Account. The variance of **$491.675 Million** was reconciled and accounted for as follows:

I. $16.746 Million was Credit Notes (That is, Customers claim for demurrage or cargo loss as the case may be) to reduce invoice payable by the Customers
II. $85 Million was as offset for First Lifting Deposit
III. $603.081 Million as Invoices that was not yet due for payment in 2014.

Summary of Payments Received into JP Morgan Gas Revenue Accounts

A review and validation of NNPC-COMD Federation Gas/Feedstock Sales record template along with the CBN -NNPC JP Morgan Chase Gas Revenue (Dollar) Account Statement was carried out and Table 4-30 below provides the summary of the payments made into the JP Morgan account for the year under review.

Table 4-30 CBN-NNPC JP Morgan Chase Gas Revenue (Dollar) Account

		2013	2014
		$'000	$'000
Balance as at 1st January	**(A)**	207,994	**311,277**
Lodgement:			
Gas & Feedstock Proceeds - Prior Year		161,201	-
Gas & Feedstock Proceeds - Current Year		1,366,974	1,838,552
Interest and Other Classified Lodgements		307,833	252,809
Total Lodgements during the year	**(B)**	**1,836,008**	**2,091,361**
Total Inflow	**(A+B) = C**	**2,044,002**	**2,402,638**
Payments:			
Payment to Federation Account		1,467,655	1,810,775
Transfer to JV Cash call Account		265,070	343,294
Total Outflow	**(D)**	**1,732,725**	**2,154,069**
Balance as at 31st December		**311,277**	**248,569**

Analysis of Gas value variances with actual Sales Receipts

An analysis of the validated NNPC-COMD Sales values compared to actual Gas receipts into JP Morgan Chase Gas Revenue (Dollar) Account was carried out. Table 4-31 below gives a summary of the observed variances between actual Sales and receipts for the year under review.

Table 4-31 Monthly Analysis of Gas Sales Volume and Value

Month of Sales	Volume	NNPC/COMD Sales Value	CBN Receipts		Variance	Gas Escrow Account	Undue & unpaid Invoices	Exchange Loss	Total
			Direct from Traders	**NGL 2 Price balance**					
	MT'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
January	99	76,524	76,524		(0)				-
February	51	34,966	34,682		284			284	284
March	85	51,695	51,695		0				-
April	84	61,051	60,526		525			525	525
May	82	47,331	47,084		247		247		247
June	54	37,252	37,252		0			-	-
July	154	110,956	110,688		268			268	268
August	81	45,185	44,887		298			299	299
September	76	49,945	49,513		432			432	432
October	71	35,943	35,943		(0)				-
November	37	12,808	12,067		741		198	543	741
December	73	30,733	21,088		9,645		9,645		9,645
Total	**946**	**594,391**	**581,949**	-	**12,442**	-	**10,090**	**2,351**	**12,441**

The table above shows the total value of Gas in the sum of **$594.391 Million** invoiced by NNPC-COMD and a net receipt of **$581.949 Million** was traced to JP Morgan Chase Gas Revenue Account. The variance of **$12,442 Million** is accounted for as follows:

I. $10.090 Million not due for settlement as at 31st December, 2014

II. $2.351 Million exchange losses.

Key findings on Gas sales value and Receipt variances

There was an exchange loss in Gas transactions to the tune of **$2.351 Million**

Implication

There was a shortfall in remittance to the Federation account in the sum of $2.351 Million resulting from exchange losses in the year 2014.

Recommendation

NNPC is to ensure that payments are made in the currency of transaction and currency conversions are also made at the prevailing CBN rates.

NNPC Response

The transactions are in accordance with the Agreement and approval.

Analysis of NLNG Feedstock value variances with actual Sales Receipts

An analysis of the validated NNPC-COMD Sales values compared to actual NLNG Feedstock receipts into JP Morgan Chase Feedstock Revenue (Dollar) Account was carried out. Table 4-32 below gives a summary of the observed variances between actual Sales and receipts for the year under review.

Table 4-32 2013 Analysis of NLNG Feedstock

Month of Sales	Volume	NNPC/COMD Sales Value	**CBN Receipts**	Variance	NDPR Escrow Account	Credit Note	Spiking Cost	Undue & unpaid Invoices	Due & Unpaid Invoices	MCA Escrow Account	Total
	MBTU'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**				**$'000**
January	59,110	147,155	115,961	31,194	398	292				30,504	31,194
February	50,775	132,931	109,468	23,463	160	239				23,064	23,463
March	61,383	147,290	128,416	18,874	210					18,664	18,874
April	56,111	148,366	119,372	28,994	456	6,063				22,475	28,994
May	63,704	156,119	130,169	25,950	445					25,505	25,950
June	57,614	137,391	107,543	29,848	326					29,522	29,848
July	56,989	136,663	109,627	27,036	286					26,750	27,036
August	62,874	144,664	124,573	20,091	279					19,812	20,091
September	50,995	116,717	110,846	5,871	204					5,667	5,871
October	64,843	140,971	131,990	8,981	217	743				8,021	8,981
November	60,053	131,931	119,793	12,138	181	474				11,483	12,138
December	63,425	142,451		142,451	529			122,310		19,612	142,451
Total	**707,876**	**1,682,650**	**1,307,758**	**374,892**	**3,691**	**7,811**	**-**	**122,310**	**-**	**241,079**	**374,891**

The total sum of $374.891 Million in the above table represents the variance between sales value and actual proceeds and the sum was accounted for as follows:

i. $3.691 Million as first line transfer to NDPR Escrow Account
ii. $7.811 Million credit notes
iii. $122.310 Million representing invoices not due for settlement in 2014
iv. $241.079 Million as transfer to MCA Escrow account

Key Findings on NLNG Feedstock sales value and Receipt variances

a) NNPC did not provide statements of Escrow account for reconciliation and validation of transactions while NDPR could also not confirm the transaction.

Implication

Loss of time value of money due to late payment

Recommendation

a) NNPC to ensure strict compliance with the 30 days credit period and collection of late payment penalty from the Customer.

4.6 Reconciliation and Validation of Financial Flows from Companies

The Financial Flows from all companies covered in the 2014 Oil and Gas Audit were reconciled with the receipts by the respective Government Agencies. The integrity of the figures provided by the companies and Government Agencies were further verified for correctness, completeness, accuracy and reliability through validation procedures adopted in the audit.

Reconciliation of Financial Flow

The reconciliation of financial flows is achieved by comparing the initial templates submitted by the oil operating companies with the templates from Government agencies. The company operators submitted templates indicating payments in respect of their financial flows, while the Government agencies submitted templates indicating receipt of funds from the operators. The payments are validated through payment documents, receipts, bank statements and other corroborative evidences.

The report covers Petroleum Profit Tax, Royalty (Oil), Royalty (Gas), Company Income Tax on Gas, Gas Flared Penalties, Concession Rentals, Education Tax, Value Added Tax, Withholding Tax, PAYE, NESS Fee and other payments by oil producing entities to Government entities like NDDC, NCDMB and NIMASA. These financial flows are made in US Dollars.
Tables of aggregated and disaggregated financial flows are presented hereunder. The summary of the financial flows are presented below.

Key Findings on Reconciliation of Financial flows from companies.

a. CBN failed to provide information on company-by-company basis for payments into the NESS account while most Oil and Gas companies did not present records on NESS payment, although some of the companies responded that shipping companies mostly paid NESS fees on their behalf.

Implication

a. The non-availability of company-by-company records on NESS payments at the CBN poses challenges to NEITI audit reconciliations and also defeats one of the cardinal objectives of NESS, which is the tracking of exports and repatriation of proceeds by companies engaged in Oil and Gas export.
b. The none remittance of NLNG dividends, interest and loan repayment in the sum of $13.92 Billion in 2013 makes the cumulative amount received from NLNG and not remitted to Federation account by NNPC as at the end of 2014 (including amounts revealed in previous NEITI audit reports) as $14.34 Billion.

Recommendation

a. CBN should maintain comprehensive information on a company-by-company basis for NESS payments.
b. The recurring non-remittance of NLNG dividends, interest and loan repayments to the Federation Account by NNPC should be investigated.

Summary of Reconciled Flows from Companies

Table 4-34 below shows total company-by-company financial flows. This includes payments like PAYE, WHT etc.

Table 4-33 Summary of Reconciled Flows from Companies

Entity	Royalty	Gas Royalty	Concession Rentals	NESS	NCDMB	NDDC	NIMASA	VAT	WHT	Transport Revenue	PPT	EDT	PAYEE	CIT	Production Bonus
	$'000	$'000	$'000	NGN'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
CONOIL	4,272.50	-	-	44.83	-	6,999.98	-	3,898.44	3,741.21		63,809.70	2,931.00		-	-
CONOG	49,798.02	-	55.42	375.95	-		-	848.00	-		86,226.80	2,087.00		-	-
ND WESTERN	33,371.70	-	-	201.90	-		-	151.94	131.26		498.28	-		-	-
NECONDE	54,766.10	-	-		-		-	1,687.08	1,648.90		-	-		-	-
SEPLAT	156,742.92	1,053.10	-	757.11	6,162.05	11,406.18	-	30,772.95	29,761.61		3,152.76	-		-	-
SHEBAH	-	-	-		-		-	27.63	-		-	-		-	-
PILAR	1,241.98	-	-		342.55	979.07	-	1,467.12	1,453.20		1,078.25	52.21		-	-
STARDEEP	-	-	25.56	6,111.03	-	17,164.20	-	40,954.44	47,281.00		1,500,646.69	99,119.50		-	-
MPN	1,264,522.14	-	52.07	8,053.71	17,958.79	72,310.04	-	89,846.85	105,433.83		3,133,782.80	106,398.18		126,972.76	-
Brittania-U	49.98	-	-		-		-	50.00	100.00		-	-		-	-
Oriental Energy	123,858.99	-	-		-	16,898.27	-	43.96	-		-	-		-	-
Dubril	1,856.85	-	-		-	198.67	-	410.96	112.37		-	41.54		-	-
FHN	14,491.41	-	-	30.27	30.02		-	319.01	329.11		-	-		-	-
Optimum	-	-	-		-		-	3.60	-		-	-		-	-
Waltersmith	5,049.55	-	-	115.40	-		-	190.89	181.26		1,499.98	-		-	-
Oando	91,351.48	11,577.82	-		-		-	1,851.26	405.68		1,018.22	-		-	-
Platform	958.67	-	-	70.03	145.67	2,449.89	-	1,781.06	2,562.91		-	100.22		-	-
ESSO	347,761.66	-	-	1,197.41	5,399.00	42,513.34	-	-	22,213.55		-	40,526.17		-	90,450.00
NEW CROSS	364.80	-	9.88		-		-	164.33	601.21		303.34	-		-	-
ATLAS	4,220.31	-	-		-		-	21.75	44.08		-	-		-	-
FRONTIER	-	-	-		-		-	-	-		-	-		-	-
CHEVRON	640,566.69	28,502.54	132.87		17,495.26	57,925.91	-	82,378.87	97,087.07		281,879.55	49,864.73		43,751.97	-
NAOC	212,973.32	18,441.40	189.51	1,163.80	384.77	22,203.83	-	12,946.49	25,511.48		90,680.20	14,845.24		82,208.13	-
PAN OCEAN	-	-	15.91		-		-	197.58	201.78		130.26	-		-	-
TEPNG	565,698.43	8,172.79	40.29		18,388.47	142,547.41	-	115,560.89	107,406.40		317,093.30	42,410.00		161,331.86	-
ADPNL	122,993.24	-	-	18,203.36	7,782.75	87,851.34	-	7,388.37	22,580.87		408,595.08	22,940.42		-	-

Entity	Royalty	Gas Royalty	Concession Rentals	NESS	NCDMB	NDDC	NIMASA	VAT	WHT	Transport Revenue	PPT	EDT	PAYEE	CIT	Production Bonus
	$'000	$'000	$'000	NGN'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
APENL	40,236.54	-	-	609.35	3,585.66		-	15,724.11	15,786.08		114,471.59	9,612.82		-	-
NAE	-	-	-	650.03	5,358.46	23,617.41	-	27,494.47	27,681.68		-	5,669.70		-	-
PETROBRASS	-	-	-		-		-	-	-		-	-		-	-
SNEPCO	47,525.64	-	16.17		3,959.43	57,933.84	-	40,093.35	39,146.64		1,802,159.38	92,874.44		-	-
STAT OIL	492,386.32	-	-		24,760.29	24,760.29	-	108.38	45.57		1,248,460.00	57,164.58		-	-
STERLING	61,747.10	-	7.76		-	999.98	-	540.33	326.23		-	-		-	-
TUPNI	-	-	-		-	82,659.05	-	-	-		-	-		-	-
ALIIED	12,715.19	-	-	79.28	-		-	1.94	155.60		-	-		-	-
AMNI	59,335.41	-	97.78	791.01	666.25	1,949.96	-	7,557.61	7,382.13		9,331.96	1,432.34		-	-
CAMAC	-	-	-		-		-	-	-		-	-		-	-
ENERGIA	1,563.39	-	10.00		275.51	698.81	-	1,196.72	1,955.25		-	-		-	-
EXPRESS	-	-	599.96		-		-	-	-		-	-		-	-
MIDWESTERN	4,364.13	-	-	277.47	12,428.06		-	6,672.93	5,764.64		8,505.12	-		-	-
MONIPULO	-	-	-		-	4,320.80	-	-	-		-	-		-	-
NDPR	3,512.05	-	-		-		-	2,173.84	4,538.67		899.98	99.98		-	-
SUMMIT	-	-	-		-		-	-	-		-	-		-	-
SPDC	782,335.29	-	321.90		25,058.21	155,317.93	-	122,976.25	123,584.73		-	47,556.88		107,562.76	-
CAVENDISH	-	-	19.33		-		-	-	-		-	-		-	-
AENR	-	-	-	143.38	93.65	2,827.05	-	665.02	1,155.51		-	9,870.49		-	-
NPDC	492,386.32	-	-		3,648.81	8,007.26	-	1,045.93	783.43		1,248,460.00	-		-	-
TEXACO						1,540.16	-								
TOTAL	**5,695,018.13**	**67,747.64**	**1,594.41**	**38,875.32**	**153,923.65**	**846,080.66**	**1,188,848.08**	**619,214.33**	**697,094.96**	**27,049.50**	**10,322,683.23**	**605,597.42**	**-**	**521,827.47**	**90,450.00**

4.7 Financial Flows to the Federation Account

The aggregate Oil and Gas Specific Revenue Flows to the Federation Account through the respective agencies are set out below:

Table 4-34 Aggregate Oil and Gas Flow

Mineral Revenue (Oil and Gas Sector)	2014 US$'000
Nigeria National Petroleum Corporation (NNPC)	
(i) Crude Sales	9,810,552
(ii) Gas Sales	1,707,971
(iii) Crude Sales November 2013*	615,797
(iv) Domestic Crude	17,038,524
Ministries of Petroleum Resources (DPR)	
(v) Oil Royalty	6,311,102
(vi) Gas Royalty	135,030
(vii) Penalty for Gas Flared	18,693
(viii) Rentals (Acreage and Rentals)	2,628
(ix) Signature Bonus	142,249
(x) Miscellaneous Oil Revenue	506,894
Federal Inland Revenue Services (FIRS)	
(v) Petroleum Profit Tax – PPT	15,697,977
Total Mineral Revenue (A)	**51,987,416**
Less Deductions:	
Excess Crude	(964,481)
JVC Crude	(7,891,312)
Domestic Crude	(7,750,526)
Excess Gas Royalty	(15,324)
Excess PPT	(2,233,418)
Excess Oil Royalty	(1,768,883)
Total Deductions (B)	**(20,623,943)**
-	-
Net Mineral Revenue Available for Sharing (A+B)	**31,363,473**
Rate	

Mineral Revenue (Oil and Gas Sector)	2014 US$'000
Federal Government - 45.83%	**14,374,382**
State Government - 23.25%	**7,290,878**
Local Government - 17.92%	**5,620,962**
13% Derivation - 13.00%	**4,077,252**

Figures are as reported in the CBN and OAGF Validated Templates

**Crude sold in November, 2013 amounted to $615.797 Million were receipted in January, 2014.*

See **Error! Reference source not found.** for monthly breakdown

The Federation Account recorded total **Oil and Gas specific** collections of **$51.987 Billion** for 2014 from its representatives in the sector - NNPC, DPR and FIRS. This figure excludes WHT payment made by Oil producing companies as this is pooled with other non-oil and gas receipt into the Federation Account (FA) as reported by both CBN and FIRS. NNPC collections, prior to deductions, amounted to **$29.173** Billion from its sales of Crude Oil and Gas through JV, PSC and other production operations entered into with Oil Producing Companies.

PPT amounted to **$15.698 Billion** while Royalty (PSC/JV/Gas) payments recorded **$6.446 Billion** in the same period. The collection of these revenue heads are supervised by FIRS and DPR respectively. Other peripheral oil and gas specific collections are Gas Flared penalty **($18.693 Million)**, Signature Bonus **($142.249 Million)**, Concession Rentals **($2.628 Million)** and Miscellaneous Oil Revenue **($506.894 Million)** for the period under review.

Through transfer mandates sent to CBN by NNPC (for Crude Oil and Gas Sales) and OAGF (DPR and FIRS Collections), these collections are monetized and remitted to the FA just in time for Federation Accounts Allocation Committee (FAAC) meeting every month. The OAGF accounts for these remittances after a Credit Advice for each vote head has been sent to it indicating a successful transfer of collections to the Federation Account.
All deductions by NNPC (JV Cash calls) and the Federation’s transfers to ECA are made at source. However, it is reported in the OAGF as though these payments were made after remitting to the FA. As a result, total remittances to the FA (deductions and transfers inclusive) from Oil and Gas specific revenue heads (‘Mineral revenue’ as classified in OAGF) for the period was **$51.987 Billion**

Out of the **$51.987 Billion** MR remitted in the year, the highest aggregate revenue from a single vote was domestic crude payments with **$17.038 Billion** about **32.81%** of the MR which was **$10.727 Billion, $7.222 Billion,** and **$1.341 Billion** more than Oil Royalty, Export Crude Sales and PPT respectively. These four vote heads jointly accounted for **93.98%** of the total revenue for the year under review. Domestic crude sales were closely followed by petroleum profit tax payments of **$15.698 Billion** which accounted for 30.20% of the total payments.

The subsequent percentage contributions of these vote heads are further illustrated in the chart below.

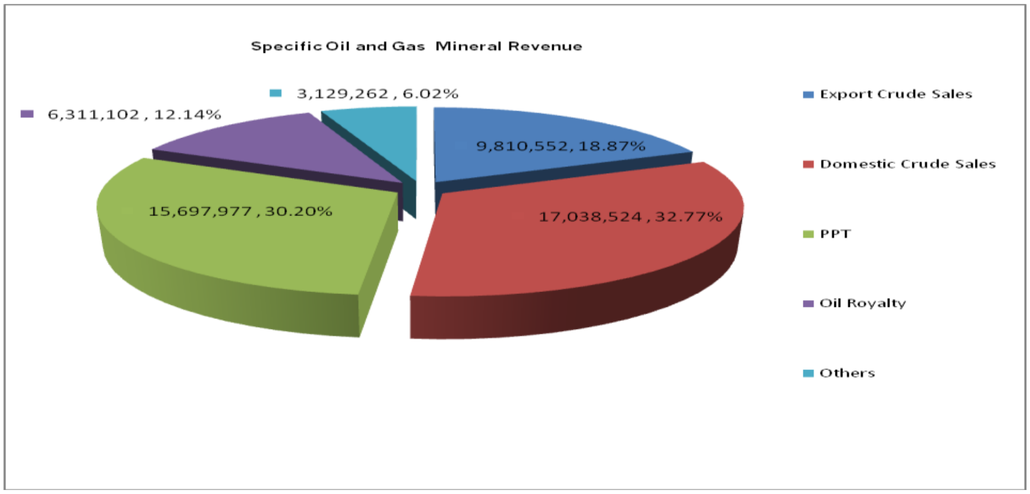


Figure 4-10 Percentage Contribution of the top 5 Oil and Gas Revenue Heads

Distribution of Mineral Revenue among Federal, State and Local Government

Total Disbursement to Federal, State and Local Governments for the year under review was performed in accordance with the Constitution of the Federation, 13% derivative of MR, amounted to $4.077 Billion was further deducted from the revenue for allocation to be shared by the nine constitutionally acknowledged oil producing States of the Federation. An aggregate of $27.286 Billion was left to be shared by the 3 tiers of Government.

The vertical formula, as determined by RMAFC and approved by the National Assembly allotted **52.68%, 26.72%** and the balance of **20.60%** to the Federal, State and Local Governments respectively. The amount standing to the credit of the Local Government Councils in the Federation Account is also allocated to the State/Local Governments joint allocation account or the benefit of their individual Local Government Councils (LGCs) as stated in section 162 of the Constitution of the Federal republic of Nigeria. The **52.68%** share of the Federal Government is further broken down into special funds established by the Federal Government. The Federal Capital Territory gets **1%,** Stabilization Fund **0.50%**, Development of Natural Resources **1.68%**, Share of Derivation and Ecology **1%** and the remaining **48.50%** is swept into the Consolidated Revenue Fund (CRF) Account.

The Federal Government received a total of **$14.374 Billion** while the 36 State Governments shared **$7.290 Billion** and the 774 LGCs all shared **$5.620 Billion** from the Federation's Mineral Revenue. The States and the LGCs further shared the revenue due to them using the horizontal formula; the percentages due to each State/LGC were determined by RMAFC while the criteria used were as specified in the Constitution of the Federal Republic of Nigeria.

Table 4-35 Monthly Oil and Gas Specific Revenue Flows to the Federation Accounts

Mineral Revenue (Oil and Gas Sector)	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
N' Millions	$	$	$	$	$	$	$	$	$	$	$	$	$
Amount transferred from													
(i) Crude Sales	770	941	1,167	1,039	1,052	757	772	863	727	616	492	616	9,811
(ii) Gas Sales	61	178	139	284	51	214	264	174	34	254	-	54	1,708
(iii) Crude Sales November 2013	616	-	-	-	-	-	-	-	-	-	-	-	616
(iv) Domestic Crude	1,353	1,424	1,526	1,246	1,613	1,234	1,147	1,686	1,328	948	1,606	1,928	17,039
(v) Petroleum Profit Tax – PPT	1,235	1,733	1,156	1,145	1,394	1,593	1,343	1,250	1,251	1,255	1,262	1,083	15,698
(v) Oil Royalty	451	714	690	441	564	445	724	531	367	454	550	381	6,311
(viii) Rentals (Acreage and Rentals)	0	0	1	0	-	0	0	0	0	0	0	0	3
(vii) Penalty for Gas Flared	1	3	3	1	1	1	1	1	2	1	3	1	19
(vi) Gas Royalty	9	12	8	9	15	11	13	13	10	15	8	12	135
(ix) Signature Bonus	-	100	-	-	-	-	41	1	-	-	-	-	142
(x) Miscellaneous Oil Revenue	0	0	-	0	0	0	1	17	-	1	0	488	507
Mineral Revenue (A)	**4,496**	**5,105**	**4,689**	**4,166**	**4,690**	**4,254**	**4,306**	**4,535**	**3,719**	**3,544**	**3,921**	**4,563**	**51,987**
Less:													
Excess Crude	-	-	(211)	(272)	(266)	-	-	(216)	-	-	-	-	(964)
JVC Crude	(1,232)	(726)	(616)	(616)	(616)	(516)	(616)	(616)	(616)	(616)	(492)	(616)	(7,891)
Domestic Crude	(547)	(613)	(726)	(500)	(817)	(427)	(555)	(1,086)	(497)	(234)	(675)	(1,073)	(7,751)
Excess Gas Royalty	-	(3)	-	-	(6)	(2)	(4)	-	-	-	-	-	(15)
Excess PPT	(47)	(546)	-	-	-	(405)	(155)	(246)	(247)	(251)	(258)	(79)	(2,233)
Excess Oil Royalty	(64)	(326)	(303)	(54)	(177)	(58)	(337)	(164)	(0)	(88)	(184)	(15)	(1,769)
Total Deductions (B)	**(1,890)**	**(2,214)**	**(1,856)**	**(1,442)**	**(1,881)**	**(1,408)**	**(1,667)**	**(2,328)**	**(1,360)**	**(1,188)**	**(1,608)**	**(1,782)**	**(20,624)**
Net Mineral Revenue for Sharing (A+B)	**2,606**	**2,890**	**2,833**	**2,724**	**2,809**	**2,846**	**2,639**	**2,207**	**2,359**	**2,355**	**2,313**	**2,780**	**31,363**
Mineral Revenue													
Rate (%)													
45.83	1,195	1,325	1,298	1,249	1,288	1,305	1,210	1,011	1,081	1,079	1,060	1,274	14,374
23.25	606	672	659	633	653	662	614	513	548	547	538	646	7,291
17.92	467	518	508	488	503	510	473	396	423	422	415	498	5,621
13.00	339	376	368	354	365	370	343	287	307	306	301	361	4,077
100	**2,606**	**2,890**	**2,833**	**2,724**	**2,809**	**2,846**	**2,639**	**2,207**	**2,359**	**2,355**	**2,313**	**2,780**	**31,363**

Source: Validated OAGF Templates and CBN FAAC Component Statements

Table 4-36 Revenue Allocation Ratio

	%
Federal Government	**52.68**
State Government	**26.72**
Local Government Councils	**20.6**

4.8 Sub-National Payments

These are remittances made by the entities to the State Inland Revenue Services. These remittances are grouped into three as follows:

- Pay As You Earn (P.A.Y.E)
- Withholding Tax (WHT)
- Value Added Tax (VAT)

The Validation of each payment to various States' Internal Revenue Service was not carried out. We were given receipts and other supporting documents for each payment made by the covered entities.

Pay-As-You-Earn (PAYE) FIRS

A Pay As You Earn Tax (PAYE) is a tax on Income of Employees on a monthly basis. The relevant deductions are paid either to Federal Inland Revenues or State Government. The PAYE of resident in Abuja are paid to FIRS while the PAYE of employees in other State are paid to their respective State as enacted by PITA. The appropriate PAYE rate are: 7%, 11%, 15%, 19%, 21% and 24% of the taxable income.

Below is the PAYE received by FIRS in 2014 from Nigeria Oil and Gas industries:

Table 4-37 PAYE received by FIRS in 2014 from Nigeria Oil and Gas industries

PAYE (FIRS)	FIRS $	Entities $	Diff ($)
ADDAX PETROLEUM DEVELOPMENT NIGERIA LIMITED	88,361.25	155,786.26	- 67,425.01
ADDAX PETROLEUM OPL 227 LIMITED	10,303.03	-	10,303.03
AGIP ENERGY & NATURAL RESOURCES NIGERIA LIMITED	144,876.59	-	144,876.59
AGIP ENERGY AND NATURAL RESOURCES	6,537.10	-	6,537.10
CHEVRON NIGERIA LIMITED	9,520,322.39	9,520,322.39	-
ENERGIA LTD	203.92	-	203.92
ESSO EXPLORATION & PRODUCTION (OFFSHORE EAST) NIG.LTD	2,341.17	-	2,341.17
ESSO EXPLORATION & PRODUCTION NIG. LTD	29,061.38	-	29,061.38
MOBIL PRODUCING NIGERIA UNLIMITED	993,944.39	993,944.39	-
NATIONAL INVESTMENT MANAGEMENT SERVICE (NAPIMS)	65,548.11	-	65,548.11
NIGERIA AGIP OIL COMPANY	3,236,762.50	-	3,236,762.50

NIGERIA PETROLEUM DEVELOPMENT COMPANY LTD	252.56	-	252.56
NIGERIAN AGIP EXPLO. LTD	2,291,816.94	-	2,291,816.94
NIGERIAN PETROLEUM DEVELPMENT COMPANY (NPDC)	2,984.86	-	2,984.86
PHILLIPS OIL CO. NIG. LTD	321,560.20	-	321,560.20
SEPLAT PETROLEUM DEV. COMPANY LIMITED	42,583.65	-	42,583.65
SEPLAT ENERGY NIGERIA LIMITED	45,236.59	-	45,236.59
	16,802,696.62	**10,670,053.03**	**6,132,643.59**

The above significant differences were as a result of failure by entities to separate the PAYE meant to State from Federal.

Error! Reference source not found. shows each remittances made by the covered entities to various States Inland Revenue Service.

PAYE Payments to States Internal Revenue Service

Table 6-20 State Internal Revenue Service - PAYE

STATE INTERNAL REVENUE SERVICE - PAYE			
S/N	**STATE**	**%**	**$'000**
1	LAGOS STATE	**41.0%**	152,001.18
2	DELTA STATE	**20.9%**	77,646.78
3	EDO STATE	**1.4%**	5,189.30
4	AKWA -IBOM STATE	**11.4%**	42,405.65
5	RIVERS STATE	**24.7%**	91,696.55
6	BAYELSA STATE	**0.0%**	183.78
7	IMO STATE	**0.2%**	861.28
8	OGUN STATE	**0.2%**	586.73
9	CROSS RIVER STATE	**0.1%**	414.96
	TOTAL	**100%**	**370,986.21**

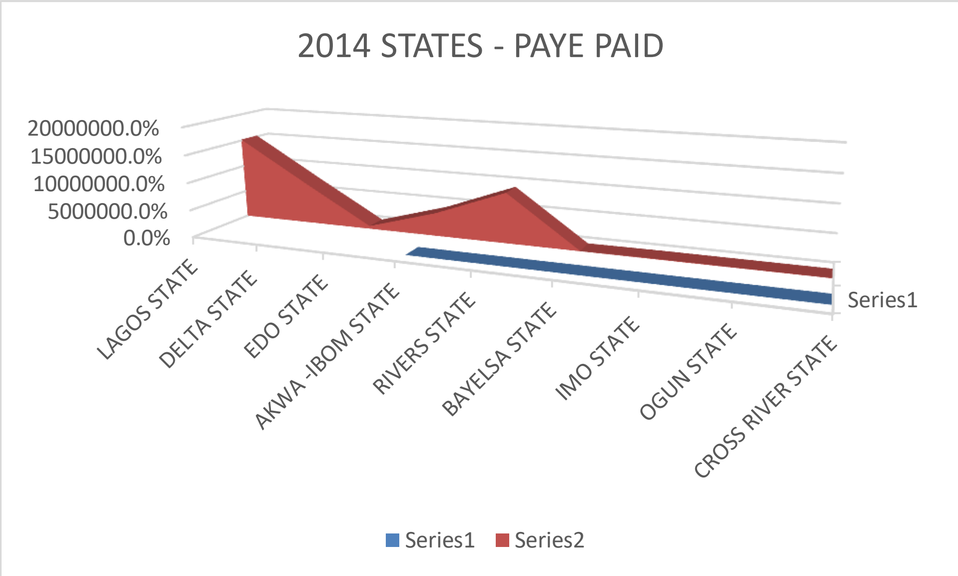


Figure 4-11 PAYE Paid

WHT Payments to States Internal Revenue Service

Table 4-38 WHT Payments to States Internal Revenue Service

PAYMENTS TO STATES INTERNAL REVENUE SERVICE - WHT			
S/N	**STATE**	**%**	**$'000**
1	LAGOS	38.58%	2,903.74
2	RIVERS	45.99%	3,461.85
3	DELTA	7.45%	560.37
4	EDO	0.29%	22.20
5	BAYELSA	5.23%	393.41
6	KADUNA	0.25%	18.82
7	C/ RIVER	0.38%	28.81
8	KANO	0.27%	20.67
9	OYO	0.34%	25.31
10	IMO	1.01%	76.32
11	ABIA	0.06%	4.71
12	ENUGU	0.01%	0.44
13	OGUN	0.13%	9.55
14	ONDO	0.01%	0.46
	TOTAL	**100%**	**7,526.66**

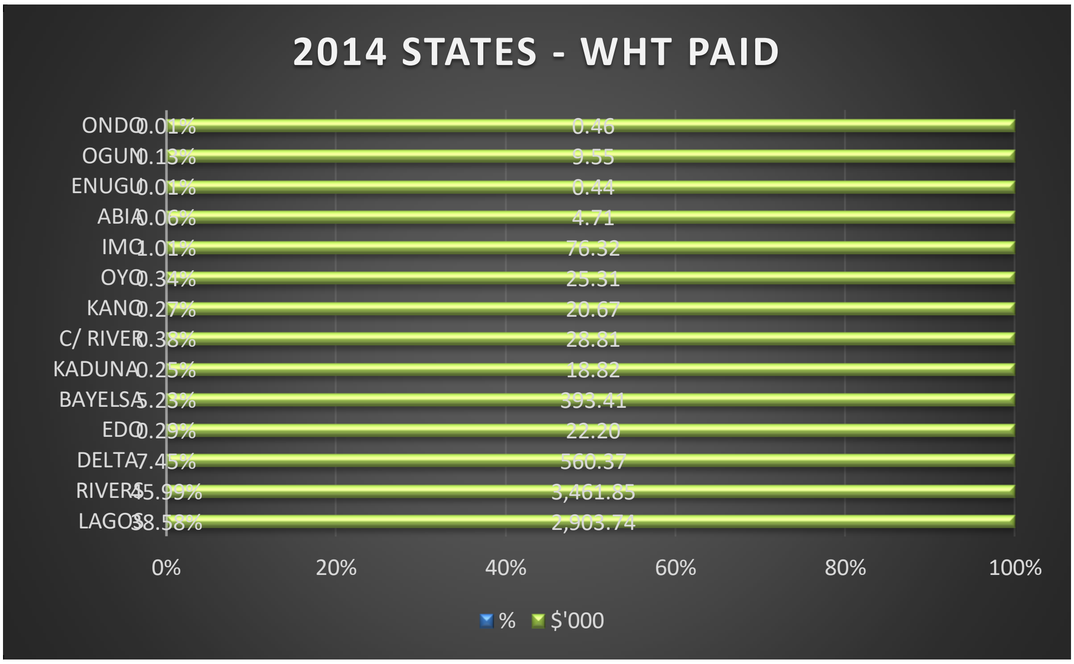


Figure 4-12 WHT Paid

Value Added Tax (VAT)

Value Added Tax (VAT) was introduced in Nigeria in 1993 and the current rate in Nigeria is 5%. The below table indicated the each entity payments into Federation Account as reported and validated to the accounts of FIRS is shown in the table below.

Table 4-39 Total Value Added Tax Remitted during the year by entities

Total Value Added Tax Remitted during the year by entities	
Names of Entities	**Amount ($)**
CONOIL	3,898,442.43
CONOG	848,002.09
ND WESTERN	151,941.51
NECONDE	1,687,079.05
SEPLAT	30,772,947.57
SHEBAH	27,629.98
PILAR	1,467,119.50
STARDEEP	40,766,725.06
MPN	89,846,847.16
Brittania-U	50,000.00
Oriental Energy	43,956.80
Dubril	410,961.69
FHN	319,005.28
Optimum	3,025.06
Waltersmith	190,893.12

Total Value Added Tax Remitted during the year by entities	
Oando	1,851,262.38
Platform	1,781,055.57
NEW CROSS	164,331.76
ATLAS	21,748.77
CHEVRON	82,349,908.85
NAOC	12,945,180.47
PAN OCEAN	197,576.40
TEPNG	115,560,885.04
ADPNL	7,388,366.17
APENL	15,724,111.42
NAE	27,492,009.89
SNEPCO	40,093,350.51
STAT OIL	108,384.22
STERLING	119,725.75
ALIIED	1,935.50
AMNI	7,557,612.34
ENERGIA	1,196,724.86
MIDWESTERN	6,667,563.12
NDPR	2,173,838.13
SPDC	122,976,246.62
AENR	664,882.03
NPDC	1,045,929.77
	-
Total	**618,567,205.87**

Total of Value Added Tax recorded in 2014 decreased by **40%** as compared with VAT reported in 2013 **($965,521,000).** TEPNG contributed the largest percentage of 18.7% which amounted to **$115 million.**

Education Tax (EDT)

Table 4-40 EDT paid during the year 2014 by Oil Companies

EDT paid during the year 2014 by Oil Companies	
Names of Entities	**Amount ($)**
CONOIL	2,931,000.00
CONOG	2,087,000.00
PILAR	52,209.00
STARDEEP	99,119,499.00
MPN	106,398,177.79
Dubril	41,543.08
Platform	100,216.00
USAN- Mobil	40,526,167.92
CHEVRON	49,864,726.20
NAOC	14,845,236.04
TEPNG	42,409,999.92
ADPNL	22,940,423.77
APENL	9,612,818.00
NAE	5,669,697.63
SNEPCO	92,874,436.00
STAT OIL	57,164,581.19
AMNI	1,442,922.66
NDPR	99,975.00
SPDC	47,556,884.14
AENR	9,870,489.93
Total	**605,608,003.26**

The Education Tax paid by Oil and Gas sector in the economy in 2014 stand at $605 million.

4.9 Social Expenditures by Extractive Companies

Extractive companies are involved in the extraction of raw materials from the earth to be used by consumers. The extractive industry consists of any operations that remove metals, mineral and aggregates from the earth. Examples of extractive processes include oil and gas extraction – the main focus of this report, others examples though outside the scope of the assignment include mining, dredging and quarrying.

Social and economic spending referred to as Corporate Social Responsibility remains an aspect of negligence until recent times, in the extractive sector especially the oil and gas industry in Nigeria. The International Oil Companies (IOCs) especially relinquished their duty of reasonable care, thereby causing damage due to the reckless actions engaged in previous times. This has led to environmental degradation as well as socio-cultural vices especially in communities where they operate in.

For the purpose of this report and as required by the EITI standard, unilateral company disclosure of transactions on social, infrastructure and quasi-fiscal expenditures are provided in this report. This is because reconciliation was not feasible and the beneficiaries were not Government agencies but various third parties. It is pertinent to know that there is a thin line to what distinguishes social from infrastructure expenditure as indicated by the EITI standard. A total number of forty-six (46) entities submitted social and/or infrastructure templates, amongst which sixteen (16) of them did not fill either templates. The entities include: ND Western, Oando/Conoco Philip, Stat Oil, Allied, Camac, Britania-U, Dupri, Express, First Hydrocarbon, Neconde, Newcross, Optimum Petrol, Pillar Oil, Summit, NPDC and Shebah. Entities that populated both templates are: Mobil Producing Nigeria, Chevron, Mobil (ESSO-OML 133), Mobil (ESSO-OML 138), SNEPCO, CONOG, Monipulo, SPDC and NDPR. Supporting documentation used in validating some material transactions were; certificates of completion for completed projects, contract agreements for incomplete projects, invoices from suppliers/contractors, payment instructions, cheques, deposit slips and pictures were provided by few of the companies.

Social Expenditures by the Covered Entities

Social expenditure is made with a conscious choice or decision by the entity which is not a basis for contract or license award to the company. Companies deem it fit to give back to the communities they operate in by engaging in voluntary infrastructural projects such as; building of schools, hospitals as well as provision of other social amenities and socio-cultural spending.

The table below shows a social expenditure projects for 2014.

Table 4-41 Social Expenditure for the Covered Entities

SOCIAL EXPENDITURE FOR THE COVERED ENTITIES									
			AS AT 2014					AS AT 2013	
			AMOUNT				AMOUNT		
S/N	COMPANY	NO OF PROJECT	NGN	USD	EQUIV USD	NO OF PROJECT	NGN	USD	EQUIV USD
	JVs								
1	MOBIL PRODUCING NIGERIA	31	420,812,274	216,291	2,851,753	48	411,965,587	370,519	2,989,173
2	NOAC	13	5,420,431	-	34,307	12	4,956,360	-	31,469
3	PAN OCEAN	1		262,331					
4	TOTAL - TEPNG	47	15,979,264	5,245,506		128	10,337,571,844	5,248,801	70,884,178
5	CHEVRON	122	2,421,176,337		15,323,901	81	1,879,507,243	-	11,933,379
6	SPDC	127	57,209,427,277	1,060,374	34,725,136				
	PSCs								
7	ADDAX-APDNL	17	148,857		960	9	261,058	1,681	3,339
8	ADDAX - APENL	1	36,874		237				
9	ESSO - OML 133	3	315,437		1,888	2	230,726,665	-	1,464,931
10	ESSO - OML 138	3	110,677		793				
11	NAE	4	38,886		250	4	92,948	250	840
12	SNEPO	35	174,959	1,381		27	153,200	967	1,940
13	STARDEEP	22	2,797,608	1,562		19	2,038,296	1,470	14,412
14	STERLING	6	376,240			6	230,185	85	1,546
15	TOTAL - TUPNI	35	529,300	1,223					
	MFOs								
16	AMNI	7	166,971,969		371,894	8	67,405,118	3,209,531	3,637,500
17	ATLAS	2	50,410,000						
18	CONOG	3	451,895,013						
19	CONOIL	1	41,888,000						
20	DUPRI					1	1,520,000	-	9,651
21	ENERGIA	42	137,933,298	1,823,355					
22	FRONTIER	4	54,087,662						
23	MID WESTERN	7	317,668	2,026					
24	MONIPULO	25	129,654,200			19	185,117,339	-	1,175,348
25	NDPR	10	70,689,009			12	224,346,075	-	1,424,420
26	ORIENTAL ENERGY	6	546,343,954	2,845,445		11	585,258,720	3,657,867	7,373,795
27	PILLAR OIL					6	19,780,000	-	125,587
28	PLATFORM	8	72,540,900						
29	SEPLAT	8	189,000	1,141		9	169,500,000	1,093,547	2,169,737
30	WALTER SMITH	3	128,840			5	32,266,186		204,865
	TOTAL	**593**	**61,800,393,933**	**11,460,635**	**53,311,118**	**407**	**14,152,696,824**	**13,584,718**	**103,446,110**

A total number of 593 project units were embarked on during the year in-view, as against 407 units embarked on in 2013, with a disparity of 186 project units. There was a 337% increase of expenses made in NGN currency with an absolute difference of NGN 47,647,697,109.14, while the expenses made in USD currency has a percentage decrease of 16% with absolute figure of USD 2,124,083.19 as compared with 2013. It was obviously evident that the International Oil Companies (IOCs) are the major contributors to their host communities, with Shell (SPDC) taking the top lead, next to Chevron and TOTAL.

Infrastructure Expenditures by the Covered Entities

Unlike social expenditure, infrastructure expenditure is mandated as it is tied to the licence, contract or agreement the company operates under. It involves projects like the provision of goods and services (including loans, grants and infrastructure works), in full or partial exchange for oil, gas or mining exploration or production concessions or physical delivery of such commodities. Such agreement may be in the form of infrastructure or other commitments made by the Licensee.

From the table 4-27 below, a total number of 8 (eight) companies populated the infrastructure expenditure template, leaving Mobil, Monipulo and SPDC with the highest number of projects embarked on in 2014.

Table 4-42 Infrastructure Expenditure for the Covered Entities as at 2014

INFRASTRUCTURE EXPENDITURE FOR THE COVERED ENTITIES AS AT 2014					
			AMOUNT		
S/N	COMPANY	NO OF PROJECT	NGN	USD	EQUIV USD
	JVs				
1	MOBIL PRODUCING NIGERIA	34	6,436,965,892	77,826	40,798,640
2	SPDC	6	425,966,000.00	657,000.00	3,491,000.00
	PSCs				
3	ESSO - OML 133	4	519,815		3,185
4	ESSO - OML 138	2	36,400		218
5	SNEPO	5	316	2	
	MFOs				
6	CONOG	2	140,000,000		
7	MONIPULO	25	130,104,200		
8	NDPR	1		6,304,177	
	TOTAL	79	7,133,592,623	7,039,004	44,293,043

4.10 Quasi-Fiscal Expenditures

Quasi-fiscal simply means "having to do with financial transactions of units that are not included in a Government's budget but have same effects. Quasi-fiscal expenditures by SOEs include arrangements whereby SOEs are required to undertake public social expenditure such as payments for social services, public infrastructure, fuel subsidies, national debt servicing, etc. without explicit budget support. Previous audits have revealed that the Nigeria National Petroleum Corporation (NNPC) makes extensive quasi-fiscal expenditures. We had a challenge of NAPIMS not populating templates they ought to have populated which was escalated. Due to this, details of the fiscal expenditures by the State Owned Enterprise could not be ascertained.

Findings and Recommendations

Highlighted below are some observations with suggested recommendations made during the course of the audit.

Findings

1. Covered entities did not have a clear understanding of the difference between infrastructure and social expenditure. This was evident as some populated the same information in both templates.
2. Sixteen (16) entities did not populate either the infrastructure or social expenditure template. This could either be as result of not engaging in corporate social responsibility during the year in view or mere negligence. NAPIMS did not populate templates to be submitted for the assignment. In the case of Pillar oil limited, it was observed that expenses made in relation to infrastructure and social expenditure which exist were not disclosed explicitly in the supposed template which ought to have been populated. However, it was subsequently discovered that the 2014 audited financial statement captured corporate social responsibility expenses as direct cost.
3. We anticipated that more companies would have embarked on infrastructure projects during the year especially the IOCs.

Implications

1. The analysis done may not be totally accurate, which is as a result of templates not filled by some covered entities. Thus, the amounts expended on infrastructure and social expenditure during the year may not be fairly stated, hence relied upon.
2. Quasi expenditure made during the year could not be ascertained. This is also as a result of National Petroleum Investment Management Services (NAPIMS) not providing relevant information as required.

Recommendations

- Covered entities should be properly educated on the difference between infrastructure and social expenditure so that appropriate data can be provided.

- The importance of providing adequate information should be emphasized, so that the true state of their activities can be properly represented.
- NAPIMS should be sanctioned appropriately for not populating templates, therefore not making information accessible and nullifying the purpose of this assignment.
- A close monitoring should be done by the approved authority in making sure that infrastructure expenditure contract agreements are not neglected and appropriate sanctions be given to those to fault the contract.

5. In-kind Flows

5.1 Introduction

In-kind Flows are non-Financial transactions, under Production Sharing Contracts (PSCs) and Joint Venture Alternative Funding Arrangements. They involve the settlement of Taxes and Royalty liabilities, Carried Party Costs, compensation and loan settlement by means of crude oil allocations, instead of financial payments.

Under PSC arrangement, the Government levies in respect of Royalty and Petroleum Profit Tax (PPT), as well as share of Profit from PSC operations are settled by crude oil allocation to NNPC on behalf of the Federation.

Alternative Funding Arrangement includes Carry /Modified Carry Agreements and Third Party Financing. Capital commitments by the Operators (Carrying Party) on behalf of NNPC are settled through tax offsets and Crude oil allocation for the balance.

In-Kind Flows under Production Sharing Contract Operations

Production Sharing Contract is an arrangement that allows an International Oil Company to bring in the technology and capital to explore for oil and gas resources, with the hope of recovering its investment and share the rewards with the host National Oil Company (NNPC).

Cost is recoverable with crude oil in the event of commercial finding, with provisions made for:

- Royalty Oil – to meet the Royalty liability due to the Government for the period.
- Tax Oil – to cover the Petroleum Profits Tax liability determined for the period.
- Cost Oil – to meet the PSC Operator's CAPEX and OPEX costs.
- Profit Oil – Shared between NNPC and the PSC Operator on an agreed profit sharing ratio.

Acreages operating under PSC arrangements in 2014 are as classified below:

- 1 Block allocated to Ashland in 1973.
- 19 Blocks allocated in 1990:
  - 12 to Foreign Companies.
  - 7 to Indigenous companies.
- Eighteen blocks allocated to 9 Companies, between 2002 and 2004.
- Forty four blocks were allocated in 2005.
- Fifteen blocks allocated in 2006.

The following are the three sets of fiscal regimes under the PSC:

- The 1993 fiscal regime applicable to PSC agreements signed in 1993 (ITC) & ITA Post July 1998.
- The 2000 fiscal regime applicable to PSC agreements signed in 2000 to 2005 (ITA & cost Uplift).
- The 2005 fiscal regime applicable to PSC agreements signed in 2005 and beyond (R-Factor i.e. high cost penalty applies).
-

During the year under review, nine (9) Production Sharing Contract arrangements were engaged in exploration and production activities. The details of these PSC Companies are presented below:

Table 5-1 Production Sharing Contract Companies

S/N	Contractors/Operators	Blocks		Major Fields	Contract Year	1st Oil Date
		OPLs	OMLs			
1	Addax Petr. Dev.(Nig) Ltd.	98/118	123/124	Antan/Brass	1973/1998	May-98
2	Addax Petr. Expl.(Nig) Ltd.	90/225	126/137	Okwori	1992/1998	Mar-05
3	Nigerian Agip Exploration	316	125	Abo	1993	Apr-03
4	Shell Nig. Expl. & Co.	212	118	Bonga	1993	Nov-05
5	Esso Expl. & Prod. Co.	209	133	Erha	1993	Mar-06
6	Statoil Nigeria Limited	217	128	Agbami Unit Tract 2	1993	Sep-08
7	Total Upstream Nig. Limited	246	130	Akpo Main/Apko	1998/2005	Mar-09
8	Sterling Oil Expl. & Energy	280	143	Okwuibome	2006	Apr-11
9	Esso (Mobil)	222	138	Usan	1993	Mar-12

* Usan oil field which was acquired by Mobil - Esso in February 2014 operator was previously Total

Under this arrangement, NNPC lifts crude oil, on behalf of the Federation, in settlement of Contractors PPT and Royalty liabilities. NNPC-NAPIMS in conjunction with the PSC Companies determine what the Royalty and PPT liability are, for each period, which is based on the PSC Agreements and provisions of the law. Below is a schematic diagram of allocation of Crude Oil Lifting from PSC arrangement.

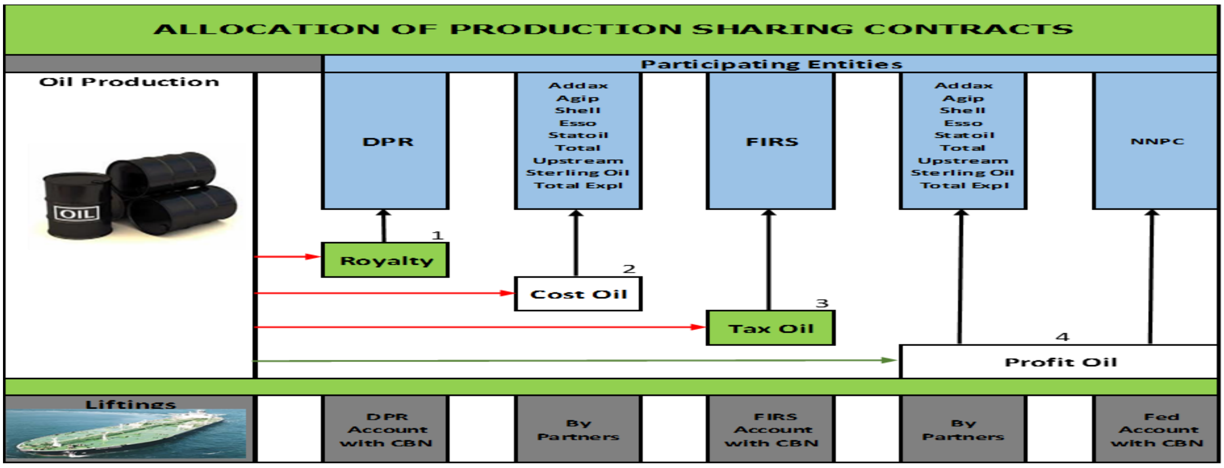


Figure 5-1 A schematic diagram of allocation of Crude Oil Lifting from PSC arrangement

Sales of Oil and Gas Revenue in Kind (DPR & FIRS)

Sale of revenue in kind from PSC arrangement and Modified Carry Agreements include: Royalty on oil and gas and Taxes.

PSC typically pay royalties and taxes (PPT and EDT) in kind. The oil lifted is sold by NNPC COMD on behalf of DPR or FIRS and the funds are paid into DPR account or FIRS account.

Table 5-2 Gross Summary of In-Kind-Flows for 2014

		2014
	US$'000	US$'000
PSCs / MCAs IN KIND PAYMENTS		
Petroleum Profit Tax (PPT) - PSCs/MCAs		
FIRS - PPT (PSC)	7,092,071	
FIRS - PPT (MCA)	350,598	**7,442,669**
Royalty (Oil) - PSCs/MCAs		
DPR - ROYALTY (PSC)	1,360,256	
DPR - ROYALTY (MCA)	96,786	**1,457,042**
MCA Gas & Oil CIT/EDT		
FIRS - CIT GAS	68,952	
FIRS - EDT OIL	2,839	
FIRS - EDT GAS	5,137	**76,928**
MCA Royalty (Gas)	17,300	**17,300**
PSCs/MCAs in Kind Payments (Total)		**8,993,939**

Summary of Volume and Value of NNPC Lifting in 2014 from PSC Operations for the Account of DPR and FIRS for Settlement of Royalty and PPT Liabilities

Royalty

A review and validation of the PSC liabilities for Royalty obligation for 2014 period was undertaken. Find below the summary of the volume and value of Royalty and Tax Oil lifted from PSC operations by NNPC.

Table 5-3 Summary of Volume and Value of NNPC Lifting in 2014, for the Account of DPR for Settlement of Royalty Liability as per validation

Month of Lifting	Bbl	PSC Royalty Value	Amount paid	Difference/ Outstanding
-	Bbl'000	$'000	$'000	$'000
January	1,100	119,738	119,758	- 20
February	2,944	315,567	315,566	0
March	550	58,926	58,926	-
April	1,251	131,443	53,281	78,162
May	604	66,615	70,835	- 4,220
June	1,494	164,002	163,658	343
July	1,557	165,239	165,239	0
August	490	48,975	77,327	- 28,351
September	1,125	108,670	103,025	5,645
October	650	55,813	75,059	- 19,247
November	920	69,664	73,663	- 4,000
December	1,030	55,605	-	55,605
Total	**13,714**	**1,360,256**	**1,276,338**	**83,917**

The above lifting volumes and value have been validated and confirmed to NNPC-COMD crude oil lifting profile and sales documents. The payment for each monthly lifting (except December lifting that was not due for settlement as at 31st December, 2014 as a result of 30 days credit limit) was confirmed to DPR/CBN JP Morgan account.

The lifting volumes were also confirmed to DPR records.

It should also be noted that some lifting transactions were under paid to the tune of $83.917 million (see table 5-3), which may be due to bank commission. We however, consider this to be immaterial.

Table5-4 below is the record of DPR-PSC lifting transactions as per completed populated template returned by NNPC-COMD, which is in variance with validated lifting record shown in table 5-3 above.

Table 5-4 Summary of Volume and Value of NNPC Lifting in 2014 for the Account of DPR for Settlement of Royalty Liability as per NNPC-COMD returned template

Month of Lifting	Bbl	Value ($)
January	1,100	- 19.95
February	2,944	0.17
March	550	-
April	1,251	78,162.45
May	604	- 4,220.26
June	1,494	343.45
July	1,557	0.07
August	490	- 28,351.22
September	1,125	5,644.58
October	650	- 19,246.91
November	920	- 3,999.88
December	1,030	55,604.91
Total	**13,714**	**83,917.40**

Petroleum Profit Tax (PPT)

A review and validation of the PSC Petroleum Profits Tax (PPT) liabilities for 2014 period was undertaken. Find below the summary of the volume and value of Tax Oil lifted from PSC operations by NNPC.

Table 5-5 Summary of Volume and Value of NNPC Lifting in 2014 for the account of FIRS for settlement of PPT Liabilities

Month of Lifting	Bbl	Value ($)	Amount Paid ($)	Difference/Outstanding ($)
January	7,955,280	911,055,570.08	911,055,550.08	20
February	5,014,569	572,173,743.91	572,173,743.91	
March	8,802,379	957,166,090.39	957,166,070.39	20
April	8,339,406	861,327,519.82	861,328,482.82	(963)
May	5,459,131	574,450,437.14	574,450,377.14	60
June	4,963,894	523,436,632.77	523,436,632.77	
July	6,071,734	656,422,551.53	656,422,500.53	51
August	5,795,257	665,331,917.86	665,331,897.86	20
September	6,717,800	748,470,919.59	748,470,799.59	20
October	5,418,212	592,970,423.32	592,970,393.32	30
November	4,362,220	483,016,724.57	483,016,724.57	
December	4,336,394	483,441,526.03		483,441,526.03
Total	**73,236,276**	**8,029,264,057.01**	**7,545,823,172.98**	

The above lifting volumes and value have been validated and confirmed to NNPC-COMD crude oil lifting profile and sales documents. The payment for each monthly lifting (except December lifting that was not due for settlement as at 31st December, 2014 as a result of 30 days credit limit) was confirmed to FIRS/CBN JP Morgan account.

The lifting volumes were also confirmed to DPR records.
However, some lifting transactions were under paid to the tune of $221, which may be due to bank commission, while April lifting was overpaid by $963 (see table 5-5 above). We however, consider this to be immaterial.

It should be noted that the total lifting volume of 73,236,276bbl valued at $8,029,264,057.01 in above includes June cargo of 999,006bbl with the corresponding value of $106,654,879.57, erroneously paid by a Customer to NNPC/CBN JP Morgan Crude Oil and Gas Account.

Key finding relating to production Sharing Contract (PSC)

1. NNPC-COMD could not provide a copy of production allocation entitlement model to enable audit test procedure on it application.

Implications

1. The Federation may be shortchanged from entitlement model or its inappropriate application.
2. Loss of revenue to the Federation as a result of 0% royalty consideration to some companies.

Recommendations

1. NNPC should make available all information relevant to the NEITI Oil and Gas industry audit for audit while Auditors should sign relevant confidentiality and data protection agreements.

2. The non-payment of Royalty for water depth above 1000m should be reviewed as companies operating in such water depths are already making huge profits as technology to exploit in such water depths are now readily available unlike the past.

NNPC Response:

NNPC entitlement computation models are available for review and evaluation to any interested party should the need arise. The templates are encrypted and resident on selected workstations in order to maintain security, propriety and integrity of our data.

5.2 Joint Venture Alternative Funding Arrangements

The traditional method for funding Joint Venture Operations, as provided in the Joint Operating Agreement (JOA) is the Cash Call. The Joint Operating Agreement – JOA, is the legal framework that defines the working relationship between the NNPC and its joint venture partners.

The JOA defines Cash Call as the amount, which the parties to the Joint Venture Agreement must pay into the Joint Account, in order to meet their respective participating interest. This includes share of both the Capital Expenditure (CAPEX) and Operating Expenditure (OPEX).

As a result of the Federal Government inability to meet up with its Cash Call obligations on a timely basis, various Alternative Funding Arrangements have been entered into with some Joint Venture Companies to provide the funds needed to enable the running of oil and gas operations of certain fields.

In the late 1980s/early 1990s, Crude Swap Arrangements were resorted to, whereby the Operator funded NNPC's share of Cash Call requirements and thereafter lifted NNPC's share of production from the related field, to sell and meet the Cash Call default. However, the current forms of Alternative Funding Arrangements are in two broad categories, which are:

- Third Party Financing
- Carry Agreements and Modified Carry Agreements (MCAs)

5.3 Third Party Financing

This 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 financing 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 requirement
- Balance in the account is shared in accordance with the JV equity holding

Under this form of Alternative Arrangement, the Joint Venture Partners identify an approved project, which requires third party financing. The project is then isolated from the entire JV operations. A Special Purpose Vehicle (SPV) is created by the JV Partners, which acts as the borrower. A Bridge Loan or Facility agreement is drawn up between the SPV and the project Financiers or Bridge Lenders. The Loan facility has a principal and interest component. There are also loan administrative expenses that must be paid. Proceeds from the sale of the crude oil/gas are remitted into the Escrow Account already opened, and funds are disbursed from the account for payment of the Third Party loan principal, together with the related Interest and administrative expenses. Balance in the Escrow Account (if any), is shared by the JV partners, in accordance with their respective JV equity holding.
The current Third Party financed projects are as follows:

- Natural gas Liquids Project (NGL 2).
- Satellite Field Development Project.
- Reserve Development Project.

Overview of NGL 1 And 2 Projects and Performance Profile as at 31st December, 2014

Project Background

The Natural Gas Liquids (NGL) Project is a JV project between NNPC and MPNU, under the NNPC/MPNU Joint Venture. The entire project is made up of two parts – NGL 1 and NGL 2. NGL 1 had a total project cost of **$810 million**, and was funded via Equity Contribution from the sponsors. The NGL 1 facility was commissioned in 1998, and commenced commercial export in 1999.

NGL 2 Facility, on the other hand, is an expansion of NGL 1 production and export facilities. It commenced production in March 2008. NGL 2 was, and is still being funded through Third Party Finance, and it is structured in such a way that the MPNU retains **51%** and NNPC has **49 %**.

Table 5-6 Summary of NGL 2 funding history

Year	Description	Amount (USD$ Billion)
2004	Initial Funding ($1.406 billion): • Sponsors' equity • International Lenders • Local Lenders **Total Initial Funding**	 0.131 1.173 0.102 **1.406**
2008	Supplemental Cost Financing by Local banks	**0.220**
2009	Loan Re-sizing ($265 million): • UBA • SCB • Exxon Mobil **Total Loan re-sizing**	 0.150 0.015 0.100 **0.265**
2010	Additional Loan	**1.100**

Note that the Supplemental Loan of **USD $220 million** was re-sized to **USD$265 million** in 2009, and taken over by a new set of financiers, as listed above.

Key finding on NGL 2 project

The revenue sharing structure of 51% and 49% for MPN and NNPC respectively does not confer commercial fairness to the Federation whose interest in MPN JV is 60%. There is no evidence to suggest that MPNU is bearing additional costs to warrant a change from the original JV participation ratio.

Implication

The net cash flow to the Federation from third party financed projects is very insignificant when compared to the project gross revenue flows and also not in accordance with the equity participation of the JV partners.

Recommendation

NNPC should always ensure that there is commercial fairness to the Federation whenever loan agreements are entered with third parties.

NNPC's Response

The structure of 51% to MPNU and 41% to NNPC is as requested by the Guarantor to the loan deal – Overseas Private Investment Corporation (OPIC).

Satellite Field Development Project (SFDP)

The Satellite Field Development project (SFDP) is a Joint Venture project set up to fund and develop up to 22 undeveloped oil and gas fields. The Project was set up in Phase I and Phase II is a roll-over of Phase I. NNPC and MPNU lifting revenue from this project are deposited into an offshore account and used for periodic debt services after which the balance is transferred to the JV Partners' (NNPC & MPNU) designated accounts after meeting the necessary conditions.

Reserve Development Project (RDP)

The Reserves Development Project (RDP) was set up for the construction and drilling of 27 oil wells in 10 Joint Venture assets with Mobil Producing Nigeria Unlimited. The total cost of the RDP was **$1.5billion** which was sourced as loans from both Nigerian and international commercial banks. The table below shows summary of lifting volume and value from RDP in 2014.

Table 5-7 Reserve Development Project

Month of Lifting	Volume	RDP Value
-	Bbl'000	$'000
January	1,855	203,780
February	950	105,277
March	950	103,121
April	917	102,359
May	-	-
June	950	108,783
July	-	-
August	950	96,596
September	-	-
October	950	81,385
November	950	75,702
December	950	50,742
Total	**9,422**	**927,745**

The total crude oil lifted from the Project was **9,422,000 Bbls** with sales value of **$927,745,000** (as shown in the table above),

The crude oil lifting as summarized in the above table has also been validated and confirmed to NNPC-COMD schedule of crude oil lifting and NNPC-COMD record of monthly allocation (between NNPC and partners) of crude oil lifting from production volumes in 2014.

Carry Agreements

This is an Alternative Funding arrangement in which Joint Venture (JV) Partner(s) in addition to its equity contribution for the execution of Capital Projects, carries NNPC's equity contribution, in form of a loan, which is payable through tax offsets (Carry Tax relief) and in-kind (i.e. crude oil), for balance of Carry Cost (Carry Oil) and Profit share (Share Oil).

Under this arrangement, the Operator agrees to carry the non-operator, and bears the cost of the CAPEX portion of the project on behalf of the NNPC. This arrangement allows for financing based on cost estimates. However, there is no dedicated account established for carry proceeds. The Operator lifts NNPC's share of crude oil produced from the project, to meet the residual Carry Cost, after the Carry Tax Relief (CTR) has been set off from the total Carry Cost.

NNPC had no control over the sales proceeds realized from the disposal of the crude oil and gas lifted by the Operator to meet the Carry Cost (Carry Oil) and compensation (Share Oil) due to the Operator. Consequently, the traditional carry arrangement is no longer attractive to NNPC as an alternative funding arrangement, and has, therefore, given way to the Modified Carry Agreement (MCA) model.

Modified Carry Agreement

This arrangement is very similar to the Carry Agreement described above. However, NNPC lifts and markets the Carry Oil and Share Oil, due to the Carrying party, and pays cash to the operator for the cash financing provided. The Carrying party recovers the Carry Capital Cost (CCC) in Dollars. An Escrow Account is opened, and the sales proceeds with respect to the Carry oil and Share oil are paid into the Escrow Account. NNPC's Portion of the Agreed Capital Cost approved by the Joint venture partners is financed by the Operator through monthly cash call payments into a dedicated account for the project.

In other word, Modified Carry Agreement (MCA) is a modification of the existing Carry Agreement (CA). In this case, the recovery of the full capital cost is made through tax offsets (Carry Tax Relief), by the carrying party, and the balance of the carry cost (Carry Oil) is lifted by NNPC, and cash remitted to the Carrying Parties' account.

In order to compensate the Carrying Party for providing the finances to meet the Carried Party's share of approved capital cost, an interest rate designed to yield a financial internal rate of return (FIRR) of 8% is factored into the financial model for the project.

The project monthly Cash Call requests are approved by the NNPC- NAPIMS who issues written Mandate to the Carrying Party to fund the cash call due. The Carrying Party pays NNPC's portion of the approved Cash Call request (CAPEX portion) into the Carry Proceeds Account dedicated for the Carry project, and jointly controlled by the JV parties. From this Account, funds are swept daily into the JV Construction Account based on a one time standing instruction to sweep funds from the Carry Proceed Account into the JV Construction Account. In other words, the Carry Proceeds Account is a zero daily balance account. The Carrying Party is expected to pay its own equity share of the Cash Call due into the JV Construction Account the same day, as money is swept from the Carry Proceeds Account into the JV Construction Account. From the JV Construction Account, the capital costs of the project are settled as at when due.

The recovery of the Carry Capital Cost and Compensation by the Carrying Party is through tax offsets, and the Carried Party's share from the project as follows:

a. 85% of the Carry Capital Cost is recovered through tax offsets, by transferring NNPC's tax benefits to the Carrying Party.
b. The balance 15% of the Carry Capital Cost is recovered from NNPC equity production.

A principal distinguishing feature of MCA is that NNPC is the only party that lifts and markets the Carrying Party in settlement of the Carry Capital Cost (CCC) and the Compensation.

There are 13 active MCAs contracts. However, production of Crude Oil or Gas were made from 9 contracts (See: S/N 1,2,3,4,5,9,10,11 and 13 in the table below) in 2014 according to NNPC-COMD record. Below is the schedule of active MCAs contract.

Table 5-8 Schedule of active MCAs contract

S/N	CONTRACT NAME	OPERATOR	COMMENCEMENT DATE	STATUS
1	2007-2009 MPN BUNDLE	MPN	2009	ACTIVE
2	2010 DRILLING BUNDLE	MPN	2010	ACTIVE
3	2010 OSO RE/CONDENSATE	MPN	2010	ACTIVE
4	GBARAN-UBIE	SPDC	2008	ACTIVE
5	NEMBE CREEK BUNDLE	SPDC	2008	ACTIVE
6	CAWTHORNE CHENNEL	SPDC	2009	ACTIVE
7	GBARAN-UBIE PHASE 2	SPDC	2012	ACTIVE
8	TNP BUNDLE	SPDC	2012	ACTIVE
9	NLNG T4/T5	NAOC	2009	ACTIVE
10	BENIBOYE/EBOCHA	NAOC	2010	ACTIVE
11	OML 58 UPGRADE	TEPNG	2009	ACTIVE
12	OFON PHASE 2	TEPNG	2009	ACTIVE
13	2008 CHEVRON	CHEVRON	2009	ACTIVE

Validation of MCA transactions in 2014

A comprehensive review of the Modified Carry Agreement (MCA) transactions for 2014 was carried out, with a view to identifying the JVs involved in the MCA arrangement, and the number of MCA projects being executed by each JV, and their performance in 2014.

During the course of validation, we identified the JVs involved in the alternative funding arrangement and the particular projects concerned and reviewed the records of each MCA project, operations and activities in 2014. We also verified crude oil and gas lifted in 2014 under each of the MCA projects and traced Government Take, regarding payment of MCA Royalty Oil and PPT Oil to the respective DPR and FIRS accounts.

Summary of Royalty Oil and Tax Oil Revenue Derived by the Federation from MCA Projects in 2014

Presented in Table 5-9 below is a summary of the Royalty revenue flows to the Federation from MCA projects in 2014.

Table 5-9 Summary of Royalty Oil Revenue Derived by the Federation from MCA Projects in 2014

Month of Lifting	Bbl	MCA Royalty Value	Amount paid	Difference/ Outstanding
-	Bbl'000	$'000	$'000	$'000
January	27	2,942	-	2,942
February	93	10,336	-	10,336
March	59	6,424	-	6,424
April	76	8,411	-	8,411
May	217	24,497	-	24,497

June	71	7,989	-	7,989
July	19	2,136	-	2,136
August	-	-	-	-
September	146	13,936	-	13,936
October	64	5,469	-	5,469
November	79	5,364	-	5,364
December	172	9,282	-	9,282
Total	**1,024**	**96,786**	**-**	**96,786**

The above table shows that the total sales value of MCA Royalty Oil lifted in 2014 was **$96,786,000**.

Presented in Table 5-10 is a summary of the Tax revenue flows to the Federation from MCA projects in 2014.

Table 5-10 Summary of Tax Oil Revenue Derived by the Federation from MCA Projects in 2014

Month of Lifting	Bbl	MCA PPT Value	Amount paid	Difference/ Outstanding
-	**Bbl'000**	**$'000**	**$'000**	**$'000**
January	100	11,017	-	11,017
February	342	37,903	-	37,903
March	222	24,057	-	24,057
April	274	30,294	-	30,294
May	761	85,896	-	85,896
June	265	29,917	-	29,917
July	66	7,263	-	7,263
August	-	-	-	-
September	535	51,000	-	51,000
October	236	20,191	-	20,191
November	297	20,088	-	20,088
December	635	32,973	-	32,973
Total	**3,733**	**350,598**	**-**	**350,598**

Validation/confirmation of payments to FIRS/CBN JP Morgan account shows that all the sales value for MCA Tax Oil lifted in 2014 were confirmed.

Summary of MCA Revenue from Crude Oil and Gas Lifting in 2014 and its Distribution

Presented in Table 5-11 and 5-12 below are the summaries of the revenue flows from sales of (Crude Oil and Gas) MCA projects in 2014, and its distribution.

Table 5-11 MCA Crude Oil Revenue and its Distribution

Joint Venture	Volume (Bbl000)	Value ($'000)	FIR- PPT ($'000)	DPR- ROYALTY ($'000)	EDU Tax ($'000)	Carry+ Share ($'000)
NNPC/MPN JV	145,000	15,902,730	11,016,616	2,942,005		1,944,109
NNPC/NAOC JV	85,360	10,680,476	7,262,724	2,136,095	1281657.1	
CNL, MPN & NAOC JV	1612002.83	158,086,640	109,094,219	29,740,500		19,251,921
CNL & MPN JV	1,125,710	106,909,285	74,061,407	19,778,218		12,471,641
SPDC/CNL/MPN	2421701.73	217,675,294	149,163,081	42,189,319	958,849	25,364,045
Total	**5,389,775**	**509,254,425**	**350,598,047**	**96,786,137**	**2,240,506**	**59,031,716**

The breakdown of the above MCA on Gas Revenue and Distribution is presented in Table 5-12 below.

Table 5-12 MCA Gas Revenue and Distribution

Joint Venture	Volume (Bbl000)	Value ($'000)	FIR-	DPR-ROYALTY ($'000)	EDU	Carry+ Share ($'000)
-	-	-	PPT ($'000)	-	Tax ($'000)	-
NNPC/MPN JV	4,352,422	12,590,073	8,510,671	2,135,294		1,944,109
NNPC/NAOC JV	3,944,121	10,617,513	7,463,335	1,872,521	114610.83	1,281,657
CNL, MPN & NAOC JV	5745229.33	32,924,615	10,930,320	2,742,374	0	19,251,921
CNL & MPN JV	25,843,454	34,565,517	17,662,440	4,431,437	124,214	12,471,641
SPDC/CNL/MPN	3034754.95	13,189,802	6,270,479	1,573,239	1,189,417	5,346,084
SPDC/CNL/MPN/NAOC	6,908,331	35,763,561	12,587,457	3,158,143	3,709,194	20,017,961
Total	**49,828,312**	**139,651,081**	**63,424,701**	**15,913,008**	**5,137,436**	**60,313,373**

It should be noted that the volume in the above table is as determined by NNPC and obtained by dividing Gas Value by the average Unit price. i.e. (Value/unit price of Gas = Volume) and this may be different from actual volumes recorded by the IOCs.

Key findings on Modify Carry Agreement

The recovery of the Carry Capital Cost and Compensation by the Carrying Party through tax offsets of 85% of the Carry Capital Cost

Implication:

Federation may be losing revenue through over statement of capital cost by the carrying company.

Recommendation:

NNPC-NAPIMS to ensure periodic and timely verification of capital cost claimed by the company and also conducts value for money audit in order to assess the benefit accruable from MCAs. NNPC and the IOCs should also ensure full and periodic reconciliation of Gas Volumes in order to avoid reporting different Volumes and Values.

6. Company Level Financial Flows

6.1 Introduction

Company level financial flows pertains to the record of individual company payments made to the Government and this is ascertained by comparing the initial templates submitted by the Oil and Gas operating companies with the templates from Government agencies. The payments are validated through payment documents, receipts, bank statements and other corroborative evidences and differences are subsequently reconciled.

For the year under review, all financial flows reported as payment by the Oil and Gas Companies are as confirmed receipt by the respective receiving Government Agencies.

In-Kind financial flows not involving cash payments as in the case of PSCs and MCAs are recorded in the value of actual Crude Oil Lifting for the year under review since it can be safely assumed that payment has been made by the companies concern as at the time of lifting by NNPC. All In-Kind payments have been confirmed to NNPC records and validated to CBN statements of accounts. The above explains the difference that might arise in the In-Kind flow figures and actual cash remittance by NNPC into CBN accounts from the lifting within the year.

Highlight of Government revenues and company payments also includes state owned enterprises

The financial flow into Nigeria Government from all sources in the Oil and Gas sector of the Extractive Industries and State Owned Enterprises in 2014 amounted to **$19.581 billion**. The followings are the major revenues which were made by all Covered Entities and State Owned Enterprises into the federation account. All the payments were reviewed and reconciled with the concerned entities except the NESS which the information provided by CBN is not adequate to validate with the evidence provided by entities while detail data information from NIMASA were not validated to the covered entities due agency and nature of treatment given by the maritime authority:

a. Royalty on Oil
b. Royalty on Gas
c. Gas Flared Penalties
d. Concession Rentals
e. Production Bonus
f. Withholding Tax (WHT)
g. Petroleum Profits Tax (PPT)
h. Companies Income Tax (CIT)
i. Education Tax (EDT)
j. Pay-As-You-Earn (PAYE)
k. NDDC Levy
l. NCDMB payments

m. NESS fees
n. NIMASA payments

In addition, state owned enterprises revenue flows are derived from the followings Government agencies;

- ✓ NNPC
- ✓ NAPIM
- ✓ COMD

Analysis of Financial inflow from both Oil and Gas Sector and State Owned Enterprises to Federal Government

PPT

Introduction

The Petroleum Profits Tax (PPT) is a tax imposed on the profits from the winning of petroleum in the course of petroleum operations in an accounting period. The principal legislation guiding the computation of this tax is the Petroleum Profits Tax Act 2004 (as amended).

Under the JV arrangement, there is consolidation of revenues and expenses in Nigerian petroleum profits taxation as revenue aggregation and deductible expense rules are set on a company basis and not at the level of wells, fields, blocks etc. Thus, there is no *Ring Fencing*.

The Production Sharing Contract (PSC) arrangements with NNPC appear to have introduced Ring Fencing to the Contract Areas covered by the PSC, and thus each entity is requested to file its PPT Returns on a license-by-license basis and filed through NNPC-NAPIMS to **FIRS.**

For Royalty administration in Nigeria, the Department of Petroleum Resources (DPR) is responsible for the reconciliation of production volumes, computation and receipt of royalty on oil from all upstream companies in Nigeria.

In validating the royalty liabilities and payments made by the entities during the review year, the consultants were guided by the under listed sections of the various acts and regulations operating in Nigeria.

A. Petroleum (Drilling and Production) Regulation of 1969
B. Petroleum Profit Tax Act 1959 (LFN 2004)
C. Deep Offshore and Inland Basin Production Sharing Contracts Act of 1999
D. Marginal Fields Operations (Fiscal Regime) Regulations 2005

Details on the basis for computing PPT, Royalty and other taxes/levies are contained in Error! Reference source not found.

In addition, the following issues were noted with respect to Royalty and PPT validations for the year 2013:

I. Termination of 2000 MoU and establishment of new pricing regime

In an effort by DPR to resolve the lingering price dispute between the Federal Government and OPTS, the DPR in consultation with NNPC-COMD and FIRS, resolved in 2013 that:

a. Realizable price should be used as fiscal price from January 2008 to June 2010.
b. The OSP be used as fiscal price from July 2010 to December 2012. However, the companies objected to this.
c. The weighting ratio of 50% Platts, 30% Argos and 20% LOR be adopted for the new pricing mechanism for the first 2 years and thereafter changed to 40% Platts, 40% Argos and 20% LOR. (See **Error! Reference source not found.**) as provided in 2014 Audit Appendix. The new pricing mechanism takes effect from 1st January, 2013.

II. FIRS Interpretation of Court Ruling on the use of RP

FIRS communication of Court ruling in 2015 with effect that all parties to the dispute arising from the pricing mechanism of Crude Oil are advised to use RP as against OSP pending the resolution of the case.

This FIRS interpretation of court ruling was the position adopted by FIRS in its review of 2012 NEITI Audit report as obtained from 2014 Report (See **Error! Reference source not found.)** and this position is contrary to the interpretation by the companies and thus, there is the need to urgently resolve all pricing issues.

In the application of the two positions above, it is observed that in 2014, there were minimal issues with respect to the application of pricing (provided by NNPC) in the computation of royalties as the new OSP provided by NNPC is also referred to as RP **(**See **Error! Reference source not found.**) as obtained from the 2014 Audit Report. However, some companies still adopt their respective RP, which is (different from that provided by NNPC) in pricing for PPT computations.

Petroleum Profit Tax (PPT) is a tax imposed on the profits derived from petroleum operations in an accounting period. (Actual Year Basis)

Table 6-1 Total PPT remitted to Federation Account

Total PPT remitted to Federation Account	
Names of Entities	**Amount ($)**
CONOIL	63,809,700.00
CONOG	86,226,796.34
ND WESTERN	498,277.53
SEPLAT	3,152,761.00
PILAR	1,078,245.00
STARDEEP	1,500,646,686.00
MPN	3,133,782,803.59
Waltersmith	1,499,975.00
Oando	1,018,219.18
NEW CROSS	303,342.80
CHEVRON	281,879,548.97
NAOC	90,680,203.50
PAN OCEAN	130,257.52
TEPNG	317,093,295.79
ADPNL	408,595,081.56
APENL	114,471,587.95
SNEPCO	1,802,159,382.02
STAT OIL	1,248,460,000.00
AMNI	9,331,963.36
MIDWESTERN	8,505,123.67
NDPR	899,975.00
NPDC	1,248,460,000.00
Total	**10,322,683,225.77**

SNEPCo paid the larger percentage of 17%.

i Royalty on Oil

Royalty is computed based on the depth of water and also based on contract agreements. The depth of water is applicable to Production Sharing Contract and Joint Venture while royalty on Marginal Field is computed based on production per day. Type of operations are as follows:

- Onshore – 20%
- 0-100m – 18.5%
- 100-200m-16.7%
- 201-500m – 12%
- 501-800m- 8%
- 801-1000m- 4%

- > 1000m – Nil

Review of 2012 PPT and Royalty Validation Report

The summary of findings as per the 2013 Audit and the present status as at 2014 audit are stated in the table below:

Table 6-2 Summary of Findings in 2013 Audit Report& 2014 Update

S/N	Summary of Findings in 2013	Update as at 2014 Audit
1	The lingering pricing dispute between the IOCs and Nigerian Government resulted in revenue loss of over US$4.04billion in the last 8 years.	The price differentials continued as Government and the IOCs could not reach a mutual agreement on the pricing methodology to be adopted.
2	The disputes between DPR and SNEPCo continued as both parties continued to compute royalty liabilities on a different rate. While SNEPCo applied 1% for the OML 118 (Bonga), DPR continued to apply 1.75%.	This continued as SNEPCo applied 1% on its royalty computation against DPR's advised rate of 1.75%.
3	Untimely payments by the indigenous operating companies as regards Royalty and PPT payments	Majority of the marginal field entities continued to default in payments of royalty and PPT in 2014 according to the Petroleum regulation Act.

The Royalty payments by the companies are shown according to their level of contribution to the federation account in table 6-3 below:

Table 6-3 Summary of Royalty on Oil per entity

Summary of Royalty on Oil per entity		
Name of Entity	**Amount ($)**	**Percentage**
MPN	1,264,522,138.69	22.20
SPDC	782,335,289.00	13.74
CHEVRON	640,566,692.63	11.25
TEPNG	565,698,432.97	9.93
STAT OIL	492,386,321.22	8.65
NPDC	492,386,321.22	8.65
USAN- Mobil	347,761,657.95	6.11
NAOC	212,973,322.38	3.74
SEPLAT	156,742,916.10	2.75
Oriental Energy	123,858,990.73	2.17
ADPNL	122,993,243.20	2.16
Oando	91,351,482.32	1.60
STERLING	61,747,102.65	1.08
AMNI	59,335,405.55	1.04
NECONDE	54,766,098.62	0.96
CONOG	49,798,024.36	0.87
SNEPCO	47,525,640.18	0.83
APENL	40,236,537.89	0.71
ND WESTERN	33,371,703.85	0.59
FHN	14,491,414.10	0.25
ALIIED	12,715,186.42	0.22
Waltersmith	5,049,550.24	0.09
MIDWESTERN	4,364,130.52	0.08
CONOIL	4,272,500.78	0.08
ATLAS	4,220,313.24	0.07
NDPR	3,512,049.92	0.06
Dubril	1,856,851.72	0.03
ENERGIA	1,563,385.31	0.03
PILAR	1,241,977.84	0.02
Platform	958,670.01	0.02
NEW CROSS	364,800.62	0.01
Brittania-U	49,975.00	0.00
Total	**5,695,018,127.24**	**100%**

As depicted in the above table, Mobil Producing Nigeria which is operating Joint Venture contributed the highest amount of about 22.2% of the total amount to the Federation Account.

Key findings from Royalty Validation

Pricing Methodology

The Royalty payable on Crude Oil by companies is a function of the value of the Crude Oil, which in turn is determined by the price. There have always been issues over the pricing mechanism to be adopted in the computation of Royalty, i.e. whether OSP (as determined by NNPC) or RP (as determined by Companies) should be used.

- The prices applied by SPDC on its royalty computation continued to differ from the advised prices of NNPC-COMD.

Implication

The lingering pricing dispute between the IOCs and Nigerian Government has resulted in revenue loss over the years.

Recommendations

1. The Minister of Petroleum Resources should compel the DPR to finalize the appropriate pricing methodology for royalty computation.
2. The controversy over the new pricing regime of 2013 and the Court ruling of 2015 on the application of OSP should be speedily resolved.
3. DPR, FIRS and NNPC should conclude the on-going discussions on pricing methodology.
4. An adequate pricing framework should be clearly defined in the Petroleum Industry Bill (PIB).

Inconsistent application method of OSP to compute Royalty by DPR

It was observed that the applications of prices on production volumes were not consistent during the year. E.g. OSP were applied on production volumes as per their B/L date in some months while average monthly OSP were applied in some other periods by DPR.

Implication

Inconsistent valuation of production volumes leads to different computation of Royalty payable.

Recommendation

Royalty computation should be carried out based on the average monthly price as provided by NNPC-COMD adjusted by the crude type's API gravity (considering the pricing option adopted by the entity).

Disputes in Applicable Rates for SNEPCO

During the 2014 audit, it was observed that the disputes between DPR and the PSCs (SNEPCO) continued as both parties continued to compute royalty liabilities on a different rate. While SNEPCO apply 1% DPR continues to apply 1.75%

Implication

Shortfall in revenue remittance to the Federation account.

Recommendations

1. The Federal Government should compel the Regulatory Agencies and the IOCs to agree on a rate to be adopted for subsequent years or compel SNEPCO to adopt DPR's rate, being the agency responsible.
2. The Ministry of Petroleum Resources should appoint an independent consultant to confirm the accurate water depth level for these blocks and advise on an appropriate rate which should be agreed with the operators of the blocks.
3. Alternatively, an amendment to the deep offshore and inland basin Act can be effected by the National Assembly to cater for the water depths in disputes.

Untimely Royalty payments by the indigenous operating companies

1. The audit observed that the marginal field and sole risks companies defaulted in the payments of the obligatory dues to the Federation.

Implication

Shortfalls in revenue remittance to the Federation account

Recommendation

The respective Agencies: DPR, FIRS, NDDC, NCDMB and TETFUND should ensure the entities pay what is due as at when due and they should be strict with the penalties imbedded in their Acts/Binding laws.

Clarification of the Petroleum (Drilling and Production) Regulations of 1969 as amended

In accordance with section 61(1) of the Petroleum (Drilling and Production) Regulations of 1969 (as amended), the lessee is expected to pay to the Minister not more than one month after the end of every quarter or otherwise as the Minister may direct a royalty at a rate of the chargeable value of the crude oil and casing-head petroleum spirit, produced from the relevant area in the relevant period. However, we observed that while JVs were paying on a monthly basis (with the provision of the two-month in arrears, the indigenous entities were paying lump sum on a quarterly basis.

Implication

Inconsistent timing in revenue flows to the Federation account.

Recommendation

DPR is to clarify or interpret this clause and ensure uniform enforcement on payments across all petroleum companies.

Entity Response

I. SNEPCo.

"The reason for the difference between the royalty rate applied by NAPIMs in the tax return filed on behalf of the contract area and the rate applied by the contractor, SNEPCO, in the tax computation is due to the fact that ongoing negotiations between DPR and SNEPCO are yet to be concluded regarding the compromise/mutually acceptable royalty rate that should be applied for purposes of royalty computation and payment. The necessity for a mutually agreeable compromise arose because by virtue of the Section 61(1a)(vii), of the Petroleum Act, Laws of the Federation of Nigeria, the applicable rate defined under the law for production in water depths beyond 1,000 metres, is actually zero percent. Considering that on the average the Bonga PSC is at water depths in excess of 1,000m, it would be expected that no royalty is payable from the Bonga PSC. However due to the practical fact that by nature, the sea bed is not static as obtains onshore, both DPR and SNEPCO recognised that there would be areas within the Bonga PSC that may be more or less than 1,000m water depth. Accordingly discussions commenced between both parties to ascertain the compromise royalty that should be applied. Unfortunately this has not been concluded and has formed part of the issues currently under dispute between NNPC and SNEPCO

It is noteworthy that Section 61,(2a)(2b), of the Petroleum Act, also recognises and supports that in the event of a dispute or disagreement as to royalty due, the tax payer is permitted to apply the rate it believes in pending resolution of the issue. Please see extract of the relevant sections of the Petroleum Act attached for your guidance."

Validation of Flows from Gas Flare Penalty

Table 6-4 Validation of Flows from Gas Flare Penalty

S/N	Name of Entity	Gas flare penalty Paid $'000
1	CONOIL	10.45
2	CONOG	145.57
3	ND WESTERN	-
4	NECONDE	-
5	SEPLAT	674.53
6	SHEBAH	-
7	PILAR	10.73
8	STARDEEP	2,758.03
9	MPN	1,213.72
10	Brittania-U	11.10
11	Oriental Energy	134.54
12	Dubril	208.81
13	FHN	-
14	Optimum	-
15	Waltersmith	-

16	Oando	609.15
17	Platform	224.16
18	USAN- Mobil	-
19	ERHA- Mobil	-
20	NEW CROSS	95.73
21	ATLAS	103.96
22	FRONTIER	-
23	CHEVRON	1,588.31
24	NAOC	358.04
25	PAN OCEAN	-
26	TEPNG	1,356.34
27	ADPNL	-
28	APENL	-
29	NAE	500.00
30	PETROBRASS	-
31	SNEPCO	270.06
32	STAT OIL	-
33	STERLING	7.22
34	TUPNI	-
35	ALIIED	1,464.84
36	AMNI	411.95
37	CAMAC	-
38	ENERGIA	173.45
39	EXPRESS	-
40	MIDWESTERN	34.56
41	MONIPULO	21.33
42	NDPR	-
43	SUMMIT	-
44	SPDC	828.88
45	CAVENDISH	-
46	AENR	-
47	NPDC	-
	Total	**13,215.46**

Total payments of Gas flared penalty in 2014 amounted to **$13,215,000** representing a **28%** decline in payment as compared with **$18,475,000** reported in 2013. This is as a result of reduction in gas flared during the year under review.

Key findings on Gas Flare Penalty

The following are issues revealed by the audit in the assessment and collection of Gas Flare Penalties:

1. Inadequate measurement infrastructure to determine the quantity of Gas Flared by the Oil and Gas Companies
2. Non-compliance with the 2008 Gas flaring penalty rates.
3. Poor collection of Gas flared penalties and lack of political will to implement the April 2008 Regulation on the new rate.
4. Lack of enabling legal and regulatory environment that will encourage the development of Gas Infrastructure by the Oil and Gas Companies.

Implications

1. Incorrect determination of Gas Flared volumes and consequent under assessment of Gas flared penalties.
2. Sub-optimal collections of Gas Flared penalties and consequent lower revenue to the Federation.
3. Low-level investment in Gas infrastructure by the Oil and Gas Companies.

Recommendations

1. DPR should enforce payment of new gas flare penalty rate.
2. DPR should exercise greater control over the assessment and collections of gas flare penalty.
3. Develop and implement a National Master plan on Gas.

ii Royalty on Gas

Royalty on gas is based on gas sales. Royalty on gas sales is the sum paid by the holder of a Concession to the Federation account based on the volume of gas produced and sold from the fields within the concession in line with the following fiscal terms:

a) Onshore 7% of gas sale
b) Offshore 5% of gas sale

Payments of Royalty on Gas by entities are summarized in the below table 8-3:

Table 6-5 Summary of Royalty on Gas per entity

Summary of Royalty on Gas per entity		
Name of Entity	**Amount ($)**	**Percentage**
SPDC	34,694,452.00	55.6
NAOC	18,441,401.84	29.6
TEPNG	8,172,789.51	13.1
SEPLAT	1,053,100.45	1.7
Total	**62,361,743.80**	**100%**

SPDC paid the highest percentage of 55.6% of the total.

iii Gas Flared Penalties

Gas Flare Penalty is the penalty imposed on Oil and Gas company that flared gas in the economy. The objective is to serve as a deterrent for burning the natural gas that is associated with crude oil when it is pumped from the ground. This correctional measure is to end air pollution, environmental degradation caused by Gas flaring and also encourage investment in Gas infrastructure by the Oil and Gas Companies.

The regulations governing gas flare penalty include:

- **Regulation 42 of the Petroleum (Drilling and Production) Regulations, 1969.**
- **Associated Gas Re-injection Act, 1979.**
- **Associated Gas Re-injection (Continued Flaring of Gas) Regulations, 1984.**
- **Cap. 26 Laws of the Federation of Nigeria, 1990.**

Gas flare penalty rates used under various fiscal regimes are:

- 2K applicable from 1985 to June 1992
- 50K applicable from July 1992 to December 1997
- N10 applicable from January 1998 to March 2008
- $3.5 applicable from April 2008 to Date (still in contention)

The rate of N10 as provided by the Regulation of January 1998 is still being applied as against the $3.5, which is the latest rate. The companies complete a Self-Assessment based on the parameters in the Act and make monthly payments to the designated JP Morgan Accounts which are subsequently reconciled with the DPR.

In the table below, the amount of gas flared penalty paid by each entity are summarised:

Table 6-6 Summary of Gas Flared Penalty paid by entities

Summary of Gas Flared Penalty paid by entities	
Name of Entity	**Amount ($)**
CONOIL	10,447.63
CONOG	145,566.64
SEPLAT	674,528.65
PILAR	10,733.77
STARDEEP	2,758,033.53
MPN	1,213,723.74
Brittania-U	11,097.00
Oriental Energy	134,542.59
Dubril	208,807.22
Oando	609,149.33
Platform	224,156.79
NEW CROSS	95,733.03
ATLAS	103,960.05
CHEVRON	1,588,306.08
NAOC	358,037.34
TEPNG	1,356,335.08
NAE	500,000.00
SNEPCO	270,064.67
STERLING	7,218.76
ALIIED	1,464,839.00
AMNI	411,953.48
ENERGIA	173,452.31
MIDWESTERN	34,555.08
SPDC	828,882.00
Total	**13,194,123.77**

Stardeep contributed the highest percentage of 21%. Also, Gas Flared penalty reported on an aggregate decreased by **29%** in 2014 as compared to 2013 which was $18.475 million.

iv Concession Rentals

Oil and Gas companies is entitle to pay concession Rentals as rent on oil blocks in which they have been granted concession. There are two type of Rentals, which are:

- Oil Prospecting Licenses (OPL)
- Oil mining Lease (OML)

The license is non-exclusive and is granted for a period of one year. It is renewable annually.

Below Table represent the payment of concession by entities:

Table 6-7 Concession Rental Summary per Company

Concession Rental Summary per Company	
Name of Entity	**Amount ($)**
CONOG	55,423.47
STARDEEP	25,558.15
MPN	52,072.30
NEW CROSS	9,878.94
CHEVRON	132,872.55
NAOC	189,510.62
PAN OCEAN	15,910.00
TEPNG	40,288.35
SNEPCO	16,166.09
STERLING	7,764.37
AMNI	97,775.76
ENERGIA	10,000.00
EXPRESS	599,960.00
SPDC	321,900.00
CAVENDISH	19,325.00
Total	**1,594,405.60**

v Production Bonus

Only Mobil (USAN) paid $9.045million as production bonus during 2014 fiscal year

vii Withholding Tax (WHT)

A withholding tax is an advance and indirect source of taxation deducted at source from the invoices of the tax payer.
The prevalent Withholding tax rates in Nigeria are usually **10%** or **5%** depending on the type of transaction and collecting authority for the tax (which can be a Federal Inland Revenue or the State Inland Revenue). WHT on transaction involved incorporated companies are remitted to FIRS while unincorporated company remitted to State Inland Revenue in Nigeria.

The WHT remitted to FIRS are summarised in Table 6-8.

Table 6-8 WHT remitted to FIRS by entities

WHT remitted to FIRS by entities	
Name of Entity	**Amount $**
CONOIL	3,741,205.30
ND WESTERN	131,256.93
NECONDE	1,648,895.94
SEPLAT	29,761,609.41
PILAR	1,453,204.00
STARDEEP	47,075,113.10
MPN	105,433,833.11
Brittania-U	100,000.00
Dubril	112,374.38
FHN	329,109.84
Waltersmith	181,264.88
Oando	405,680.78
Platform	2,562,912.22
USAN- Mobil	22,213,554.49
NEW CROSS	601,211.82
ATLAS	44,078.74
CHEVRON	96,711,107.44
NAOC	25,480,457.95
PAN OCEAN	201,777.79
TEPNG	107,406,397.52
ADPNL	22,580,870.50
APENL	15,786,079.53
NAE	27,681,676.30
SNEPCO	39,146,641.81
STAT OIL	45,571.92
STERLING	18,518,284.86
ALIIED	155,604.98
AMNI	7,382,132.37
ENERGIA	1,955,252.32
MIDWESTERN	5,764,639.87
NDPR	4,538,667.98
SPDC	123,583,989.62
AENR	1,155,216.98
NPDC	783,432.72
Total	**714,673,107.41**

Total withholding tax payment by all Oil and Gas companies to the Federation Account in 2014 amounted to **$714,673,107**. The overall WHT remitted by entities in 2014 experienced a decrease of 28% as compared to 2013.

ix Companies Income Tax (CIT)

Table 6-9 Company Income Tax paid by Oil Company on Gas

Company Income Tax paid by Oil Company on Gas	
Name of Entity	**Amount ($)**
MPN	126,972,755.00
CHEVRON	43,751,965.00
NAOC	82,208,128.60
TEPNG	161,331,859.59
SPDC	107,562,760.00
Total	**521,827,468.19**

Company Income Tax received by FIRS during 2014 amounted to **$522 million** with the TEPNG contributed the highest amount of **$161 million.**

xiv NESS fees

Table 6-10 NESS fee paid during the year under review

			Amount
S/N	**ENTITY**	**Volume**	**USD'000**
1	Addax Petroleum Development (Nigeria) Limited	-	18,203.36
2	Addax Petroleum Exploration (Nigeria) Limited	-	609.35
3	Agip Explorations	1,230	143.38
4	Allied Energy Resources (Nigeria) Limited	-	79.28
5	Amni International Petroleum Development Company Limited	-	791.01
6	Conoil	-	44.83
7	Consolidated Oil Company Limited	-	375.95
8	Esso Exploration and Production Nigeria Limited	9,061	1,197.41
9	First Hydrocarbon Nigeria Limited	-	30.27
10	Midwestern Oil and Gas Company Plc	-	277.47
11	Mobil Producing Nigeria Unlimited	-	8,053.71
12	ND Western	1,722	201.90
13	Nigerian Agip Exploration Limited	5,455	650.03
14	Nigerian Agip Oil Company Limited	10,023	1,163.80
15	Platform Petroleum Limited	-	70.03
16	Seplat Petroleum Development Company	-	757.11
17	Stardeep	-	6,111.03
18	Walter Smith Petroman Oil Limited	-	115.40
	Total	**27,491**	**38,875.31**

The above NESS fee was the amount populated by entities and was validated by tracing to necessary evidence of payment made available during the field work. This NESS fee is still remains un-reconciled with the relevant Government agency.

6.2 Cash Call

Nigerian National Petroleum Corporation (NNPC) operates a joint venture relationship with International oil companies in the exploration and exploitation of Nigeria's oil reserves.

National Petroleum Investment Management Services (NAPIMS) is a subsidiary of NNPC (Nigerian National Petroleum Cooperation) charged with the management of the Federation's investment in the Oil and Gas Joint Venture Operations.

There are generally three types of business arrangements;

- Joint Ventures
- Product sharing contract
- Service contract

Joint Ventures

This is the arrangement that NAPIMS is involved with and as at 2014 NNPC was in a joint venture agreement with six entities and each of these entities act as the operator of the JV

The JV Operators are:

- Shell Petroleum Development Company (SPDC)
- Mobil Producing Nigeria Unlimited (MPNU)
- Chevron Nigeria Limited (CNL)
- Total Exploration and Production Nigeria Limited (TEPNG)
- Nigerian Agip Oil Company Limited (NAOC)
- Pan Ocean Oil Corporation (Nigeria Limited (POOCN)

The structure of the Joint Venture arrangements with the IOCs mentioned above and their participating interests are shown in the table 6-1 below:

Table 6-11 Participatory Interest

S/NO	JV	OPERATOR	PARTICIPATORY INTEREST							
			NNPC %	SPDC %	MOBIL %	CHEVRON %	TOTAL %	NAOC %	POCNL %	POOCN %
1.	SPDC JV	SPDC	55	30	-	-	10	5	-	-
2.	MOBIL JV	MOBIL	60	-	40	-	-	-	-	-
3.	CHEVRON JV	CHEVRON	60	-	-	40	-	-	-	-
4.	TEPNG JV	TOTAL E&P	60	-	-	-	40	-	-	-
5.	NAOC JV	NAOC	60	-	-	-	-	20	20	-
6.	PAN OCEAN JV	PANOCEAN	60	-	-	-	-	-	-	40
7.	NPDC/CHEVRON JV	NPDC	60	-	-	40	-	-	-	-
8.	NPDC/SPDC JV	NPDC	55	30	-	-	10	5	-	-

See **Error! Reference source not found.** for the list of OMLs managed in each JV.

The JV arrangements in S/NOs 7 and 8 in the above Table arose from NNPC exercising its right under the JOA to appoint its upstream subsidiary-Nigerian Petroleum Development Company (NPDC) to manage the operatorship of certain fields. The exercise of this right, which is not intended to change the ownership or participatory interest ratio, gave rise to the following two arrangements or subsidiary JVs

I. NNPC (NPDC)/SHELL/TEPNG/NAOC

The OMLs transferred by SPDC to NPDC under this change of operatorship arrangement are OMLs 13 and 20. OML 13 is licensed to operate within Utapate field while OML 20 operates within Egbema, Egbema West and Ugada fields.

II. NNPC (NPDC)/CHEVRON

The OMLs transferred by CNL to NPDC from the CNL JV are OMLs 49 and 51. The OMLs are licensed to operate within Aroh and Oghareki fields.

The transfer of Operatorship has invariably created two additional JV relationships to which cash calls are paid in addition to the six shown in Table 6-10 (JV Participating interests) above. NNPC however remains the interest holder in these JV relationships.

Cash Call Request, Budgeting and Approval Process

Cash calls are based on the Annual Work Programme of each Joint Operation and covers such diverse areas as Exploration, Drilling, Production, Development, Construction, Engineering Facilities, Technical Materials, for both crude oil and gas, in addition to administrative overheads, referred to as OPEX.

On receipt of the Cash Call, NNPC summons a meeting of the Cash Call Processing Committee where unacceptable items of cost are rejected and the net value accepted by the Committee is signed by all parties i.e. NNPC and other Partners including the Operator. The IOCs are members of the Cash Call Processing Committee.

The work programme is agreed in advance among the Joint Partners and approved by their Operating Committees (OPCOM) as provided in the JOA. The OPCOM is constituted in accordance with the JOA as the highest decision making authority and is charged with the overall supervision, control and direction of all matters pertaining to the Joint Operations.

Cash Calls are initiated monthly by the JV Operator and served on NNPC and other Partners early enough to enable NNPC and all Partners including the Operators to lodge their equity portions of the Cash Calls into the JV Dollar and Naira Cash Call Bank Accounts on or before the 1st day of the Cash Call month.

NNPC has prying and audit rights over all these Accounts, but the custody and transactional authority over these Joint Operating Bank Accounts rests with the Operators.

2014 Budget for Cash Call Items

The Budget Office of the Federation always conveys to NNPC the approved spending limits for Cash Call activities of each year in absolute value (Dollars).

The approved limit so conveyed hardly ever tallies with the Annual Budget request of NNPC. Therefore on receipt of this approved limit, which is now the approved Cash Call Budget for the year, NNPC splits the amount among the JV partners after due process of consultations and meetings.

CBN/NNPC Cash Call Funding

The total funding in 2014 from JP Morgan Chase Oil and Gas Revenue Account (in dollars) for both Naira and Dollar request by NNPC through NAPIMS are as stated below:

Table 6-12 Total Cash Call Funding in Dollar

Months			
	Paid through CBN Crude Oil & Gas Revenue	Paid through NNPC Gas Revenue	Total
	Account No: 000000400941775	Account No: 00000081696438	
	US $'000	US $'000	US $'000
	(A)	(B)	C = A+B
January	465,930	149,867	615,797
February	615,797	-	615,797
March	725,926	-	725,926
April	615,797	-	615,797
May	615,797	-	615,797
June	615,797	-	615,797
July	515,797	-	515,797
August	615,797	-	615,797
September	615,797	-	615,797
October	615,797	-	615,797
November	572,806	42,991	615,797
December	341,185	150,436	491,621
	6,932,221	**343,294**	**7,275,515**

Source: JPMorgan Chase CBN Cash Call Joint Venture Account

Table 6-13 Comparison of Cash Call Account Funding of 2013 and 2014 in Dollar

	2013	2014	INCREASE/ (DECREASE)
	$	$	$
Total funding from JP Morgan Oil and Gas Revenue Account	7,277,349,866.46	7,275,514,893.90	1,834,972.56

Source: JPMorgan Chase CBN Cash Call Joint Venture Account, NEITI Audit Report 2014

The table above shows a decline of **$1,834,972.56** in 2014 Dollar Cash Call Account Funding compared to 2013, indicating approximately 0.025**%** fall in the Dollar cash call Account funding in 2014.

The total funding of cash call account totaling **$7,275,514,893.90** represents the amount transferred for both cash call and non-cash call items.

Analysis of Cash Calls reported by NAPIMS

Table 6-14 Analysis of Cash Calls reported by NAPIMS

	Exploration and Production						
Months	SPDC	TEPNG	Chevron	NAOC	POOC	Mobil	Total
	US $'000	US $'000	US $'000	US $'000	US $'000	US $'000	US $'000
January	149,003	71,425	79,340	47,310	6,089	84,532	437,699
February	149,139	67,963	62,063	49,449	18,430	89,475	436,520
March	92,733	69,898	137,572	49,657	6,124	90,600	446,583
April	66,610	55,329	158,150	40,266	28,454	74,841	423,650
May	210,049	88,658	193,778	20,922	36,249	58,026	607,681
June	134,201	65,897	74,708	9,561	30,716	103,171	418,253
July	66,552	64,976	7,660	100,611	16,392	103,684	359,875
August	66,807	50,688	40,017	93,162	11,367	144,386	406,427
September	143,853	49,818	136,365	67,946	4,788	120,775	523,545
October	170,650	180,899	40,549	24,107	5,600	20,933	442,738
November	107,350	125,450	309,359	78,255	3,436	139,278	763,128
December	302,905	0	86,108	56,809	752	297,260	743,834
2007 - 2012 PERF. BAL PAID IN 2014	-	-	-	-	24,407	-	24,407
	1,659,851	**891,002**	**1,325,669**	**638,055**	**192,804**	**1,326,960**	**6,034,341**

Source: NAPIMS Validated Template

6.3 NDDC Levy

NDDC 3% Contribution Levy

The Niger Delta Development Commission was established in 2000 by the **NDDC Establishment Act**. The Act sets out the mandate of the Commission which is collection of 3% of annual budget of upstream companies and the tackling ecological problems which arise from exploration of oil minerals in the Niger-Delta area.

Table 6-15 NDDC 3% Contribution Levy

S/No	ENTITY	%	3% NDDC Levy US$
1	Addax Petroleum Development (Nigeria) Limited	10.38%	87,851,340.00
2	Agip Explorations	0.33%	2,827,048.88
3	Amni International Petroleum Development Company Limited	0.23%	1,949,964.00
4	Chevron Nigeria Limited	6.85%	57,925,909.66
5	Conoil	0.83%	6,999,975.00
6	Dubri Oil Company Limited	0.02%	198,666.06
7	Energia Limited	0.08%	698,813.00
8	Esso Exploration and Production Nigeria Limited	5.02%	42,513,339.71
9	Mobil	8.55%	72,310,043.45
10	MoniPulo Limited (Petroleum Development)	0.51%	4,320,799.50
11	Nigerian Agip Exploration Limited	2.79%	23,617,410.92
12	Nigerian Agip Oil Company Limited	2.62%	22,203,828.76
13	Nigerian Petroleum Development Company Limited	0.95%	8,007,264.45
14	Oriental Oil	2.00%	16,898,271.00
15	Pillar Oil Limited	0.12%	979,066.66
16	Platform Petroleum Limited	0.29%	2,449,887.00
17	Seplat Petroleum Development Company	1.35%	11,406,179.72
18	Shell Nigeria Exploration and Production Company Limited	6.85%	57,933,836.65
19	Shell Petroleum Development Company	18.36%	155,317,933.47
20	Stardeep	2.03%	17,164,197.57
21	Statoil	2.93%	24,760,291.82
22	Sterling Oil Exploration & Energy Production Co. LTD	0.12%	999,975.00
23	Texaco Nigeria - Outer Shelf	0.18%	1,540,160.58
24	Total Exploration & Production Nigeria Limited	16.85%	142,547,409.27
25	Total Upstream Nigeria Limited	9.77%	82,659,050.07
		100%	**846,080,662.19**

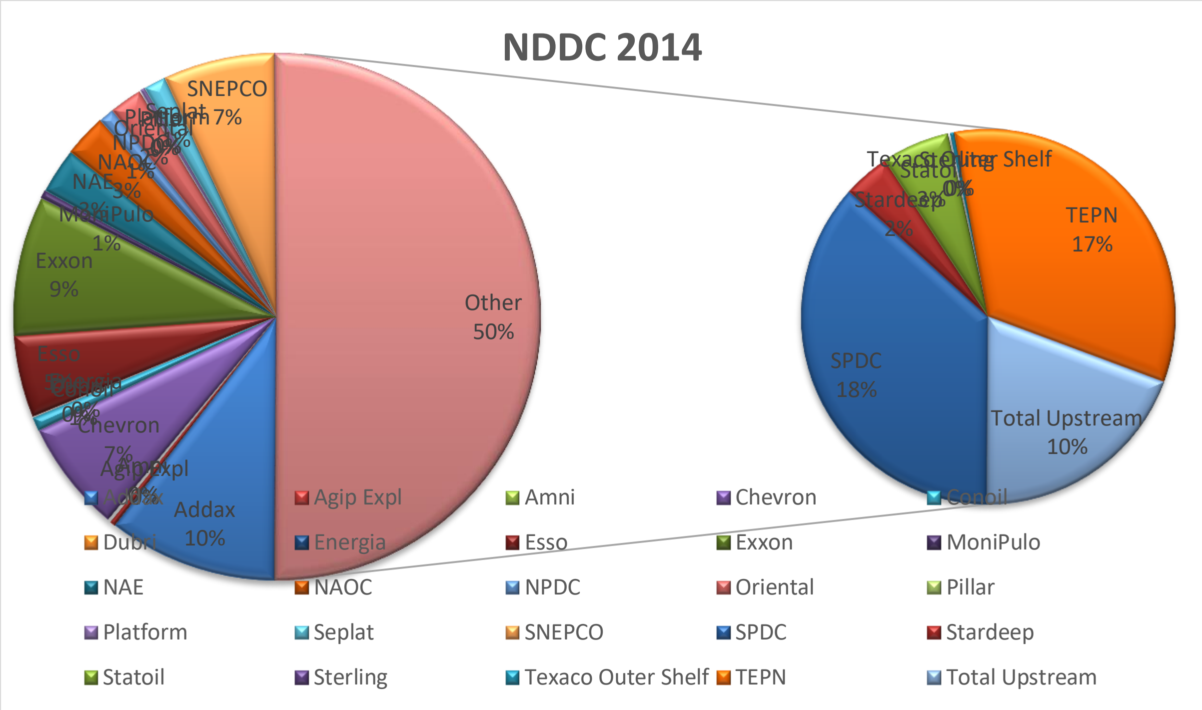


Figure 6-1 NDDC Levy

There was a **50%** increase in total NDDC payments in 2014 as compared with **$562,921,000** payment in 2013.

6.4 Nigeria Content Development and Monitoring Board (NCDMB)

The Nigerian Content Development and Monitoring Board (NCDMB) has been established to implement the provisions of the Act, which make it mandatory for the collection of 1% Statutory deductions from any contract awarded to any operator, contractors, sub-contractors, alliance partners or any other entity in any project operation activity in any transactions in the upstream sector of the Industry. There is also provision in the Act for a Nigerian Content Development Fund, which is established for the purpose of funding the implementation of Nigerian content development in the Nigeria oil and gas industry.

The table below shows NCDMB contribution by the respective Oil and Gas Companies during the year under review.

Table 6-16 Content Development and Monitoring Board (NCDMB)

S/No	ENTITY	Percent	NCDMB US$
1	Addax	7.015%	11,924,421.38
2	Afren	0.300%	510,577.81
3	Afren Explo	0.190%	323,633.47
4	Afren Invest	0.603%	1,024,433.11
5	Afren Resources	1.826%	3,104,300.05
6	Agip Explo	0.083%	141,460.64
8	Amni	0.392%	666,254.01
9	Ase River	0.001%	2,111.64
11	Baker	0.077%	131,117.37
12	BJ Services	0.063%	107,263.56
13	Bristow Heli	0.035%	58,803.27
16	Chevron	15.152%	25,755,588.98
21	Crestech	0.008%	13,542.36
22	Deawoo	0.716%	1,217,425.80
23	Delta Afrik	0.177%	300,676.20
24	Dorman Long	0.001%	2,496.85
26	Eiffel	0.287%	488,562.27
27	Energia Limited	0.360%	612,258.40
28	Esso	5.861%	9,962,577.43
30	FHN	0.018%	30,025.48
31	Folawiyo	0.013%	22,834.15
32	Fred Olsen	0.040%	68,372.21
33	Frigate	0.001%	884.56
34	Geo Services	0.000%	50.44
35	Globestar	2.477%	4,210,795.92
36	Halliburton	0.299%	508,020.24
37	Henan	0.028%	46,959.31
38	Hyundai	0.548%	930,784.55
39	Magcobar	0.000%	214.91
40	M-I Nig	0.001%	1,308.92
41	Midwestern	0.439%	745,496.11
42	Exxon	0.001%	1,257.44
43	Mobil Producing	10.719%	18,221,736.43
44	MoniPulo	0.051%	86,440.83
45	New Cross	0.019%	32,660.78
46	NDPR	0.050%	84,280.31
47	Niger Star 7	0.013%	22,417.33
48	NAE	3.121%	5,304,738.93
49	NAOC	0.225%	382,522.33
50	NPDC	2.147%	3,648,813.16
51	Nov. O&G	0.062%	106,006.04
53	Onesubsea	0.095%	161,944.52

55	Pan Afri	0.487%	827,664.23
56	POOC	0.072%	122,262.63
57	Petro Brass	0.012%	21,056.97
58	Pillar	0.202%	342,549.84
59	Pipe Coaters	0.028%	46,749.82
60	Platform	0.066%	113,009.11
61	Pointcelli	0.241%	408,953.55
62	Saidel	0.073%	124,447.21
63	Saipem	1.717%	2,918,991.04
64	Samsung	0.981%	1,667,968.40
65	Schlumberger	0.007%	11,149.43
66	Seplat	3.625%	6,162,053.23
69	SPDC	14.741%	25,058,209.65
70	Shoreline	0.028%	47,908.55
71	Sinopec	0.560%	952,234.68
72	Star Ultra Deep	0.090%	153,438.18
73	Stardeep	1.215%	2,065,105.43
74	Statoil	0.011%	19,110.31
77	Tenaris	0.011%	19,167.86
78	Texaco	0.224%	380,668.35
79	TEPN	21.989%	37,378,107.60
81	Universal	0.023%	38,780.25
83	Well Dynamics	0.002%	2,872.48
84	Western Geco	0.000%	5.13
85	Worley	0.081%	138,343.85
			169,986,877.29

In 2014, total NCDMB payments amounted to **$169,986,877** which is a **47%** increase over **$115,925,000** recorded in 2013.

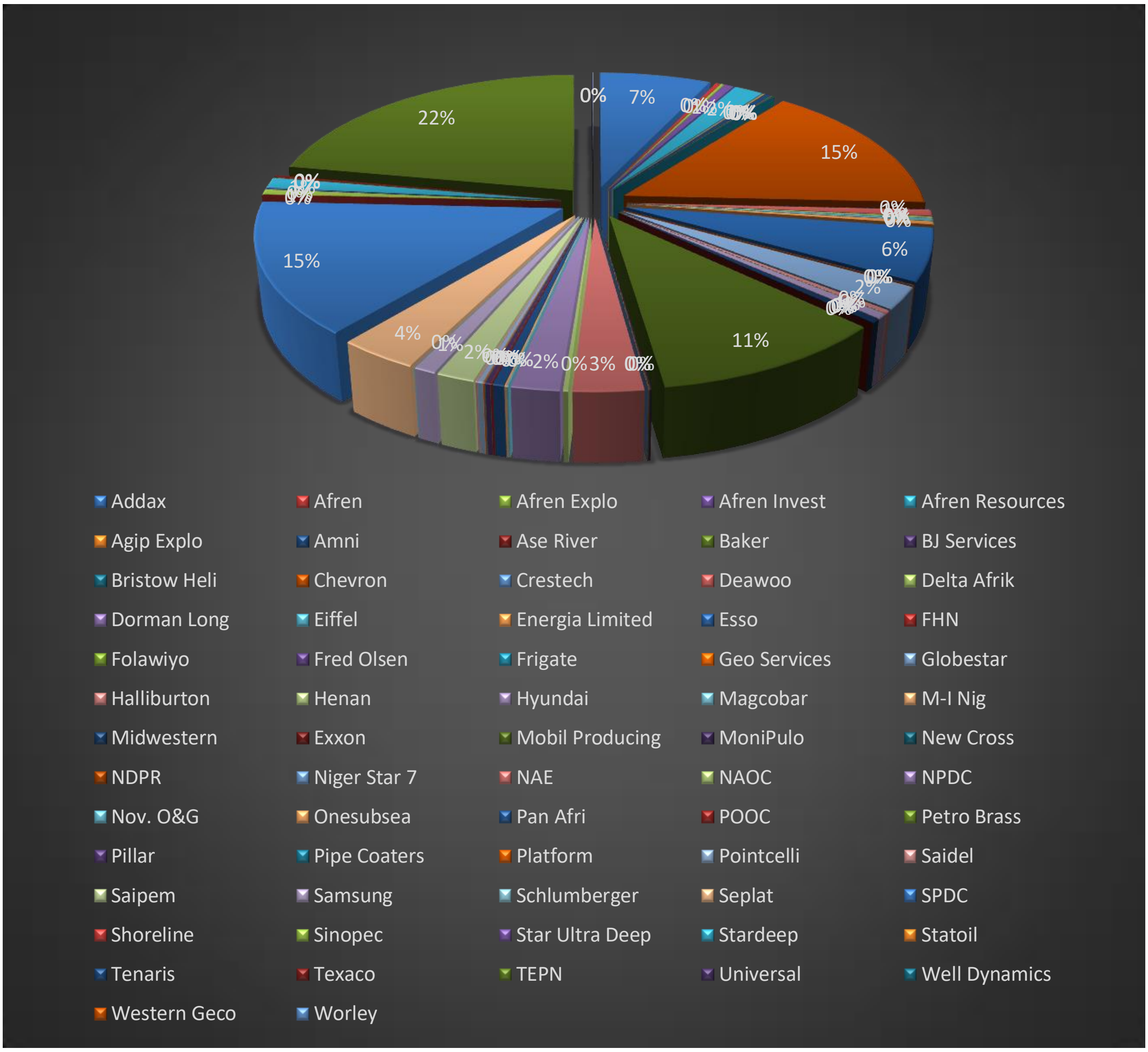


Figure 6-2 NCMDB Payments

6.5 Transportation Revenue

The Agency of Government in charge of transport revenue of interest to NEITI Oil and Gas Audit is Nigerian Maritime Administration and Safety Agency (NIMASA) which is the apex regulatory and promotional maritime Agency in Nigeria. It was created on August 1, 2006, and its objectives include promoting the development of indigenous commercial shipping in international and coastal shipping trade and promoting maritime safety and security. The Agency was created from the merger of National Maritime Authority and the Joint Maritime Labour (both former parastatals of the Federal Ministry of Transport). This amalgamation was done to avoid duplication of responsibilities and to further grown the maritime industry by creating a proper network for the administration of maritime safety seafarers' standards and security, maritime labour, shipping regulation, promotion of commercial shipping and cabotage activities and pollution prevention and control in the marine environment.

Categories of Oil and Gas Products Transport

This can be broadly categorized into wet products, crude, chemicals and gas.

Wet products include products grouped as Gasoline, Heavy Duty Oil and Bitumen. Crude oil is a major item on the listing of wet cargoes. Various chemicals transported through the use of Merchant Tankers are billed using chemical benchmark rate. Caustic Soda, Linear Alkyl Benzene and other chemicals are included in this classification.

Gases are generally transported through the use of LPG/LNG Tankers. These include butane, propone, LPG and LNG Condensate attracts the same benchmark rates as gases.

The NIMASA Act 2007 outlines and states that the agency shall be funded by monies accruing from the following sources:

I. 3% of gross freight on all international inbound and outbound cargo from ships or shipping companies operating in Nigeria to be collected and paid over to the Agency to meet its operational costs;
II. 0.5% of stevedoring charges collected by employers of dock labour;
III. All fees for ship registration, licenses, surveys, examination certification and permits issued by the Agency, fine and levies paid to the Agency;
IV. All other financial assets that may from time to time be vested in or accrue to the Agency in the course of performing its functions under the Act or pursuant of the Act;
V. All other sums collected or received by the Agency for services rendered or facilities provided by the Agency;
VI. Gifts, grant, aids, etc. and
VII. All such other sums as may be received by the Agency from other sources.

Relevant Revenue Paid by Oil & Gas Industry

I. 2% Cabotage levies: Section 42 of the Cabotage Act 2003 establishes the Cabotage Vessel Financing Fund. Section 43(a) stipulates that "a surcharge of 2 per cent of the contract sum performed by any vessel engaged in the coastal trade". The currency of the levy collection is denominated in Naira and Dollar. Section 44 of the Act empowers NIMASA to collect, deposit and administer the fund in commercial banks under guidelines proposed by the Minister of Transport and approved by the National Assembly.

II. 3% of gross freight: Section 15(a) empowers NIMASA to collect "3% of gross freight on all international inbound and outbound cargo from ships or shipping companies operating in Nigeria to be collected and paid over to the Agency to meet its operational costs". The currency of the levy collection is Dollar denominated.

III. The NESS fee rate is 0.12% of FOB value of crude oil export in the period under review.

IV. Pipeline transportation fees is payable to Federation by the IOCs' such as Shell Petroleum Development Company and Nigerian Agip Oil Company, however, the basis of computation was not made available to us

Table 6-17 Summary of Transportation Revenue

	Summary of Transportation Revenue	
S/N	**Entities**	**Amount**
		USD'000
1	SPDC	27,049.50
2	NAOC	-
3	NIMASA(2%Cabotage Fees)	926,766.08
4	NIMASA(3% of Gross Freight)	262,082.00
5	NESS (0.12%)	38,875.31
	Total	1,254,772.89

In summary, a total sum of $1.25 billion represents transportation revenue in the year 2014. Both Cabotage fees of 2% and 3% of gross freight were administered by NIMASA which contributed highest amount of $1.18 billion, this represent 94.74% of total transportation revenue for the year. NESS generated 3.1% of total amount while SPDC had lowest amount of $0.27 billion, equivalent to 2.2%.It is worthy to note that out of the total payment made by SPDC,$16.8 million relates to 2013 that was settle in 2014.

NAOC did not make any payment, rather it was accrued. The details of amount outstanding as at the year-end is as shown below:

Table 6-18 NAOC Outstanding

			Naira converted to Dollar		Total
Description	**N'000**	**Rate**	**USD'000**	**USD'000**	**USD'000**
Balance per General Ledger 1 January 2014	9,905,175	163.59	60,548	57,569	118,117
Charge for the year	385,738	163.59	2,358	16,266	18,624
Balance per General Ledger 31 December 2014	10,290,913		62,906	73,834	136,741

In view of this, the total amount payable by NAOC is $136.7 million. Accumulated outstanding balance as at the beginning of 2014 was $118 million, the charge for the year was represent $18 million.

We observed the followings:

1. NAOC is yet to pay a total sum of $136.7 million to the Federation Account
2. We noted that the sources of revenue generated and reported are not given same balances. However, reasons were given that not all the revenues raised by the shipping department were collected. They have debtors which are yet to pay up their debts and which have been accumulated in the books.
3. We were limited to information and documents given to us during the Audit review process. We could not achieve some certain audit objectives based on their financial records.
4. The $ 16.8 million payable in 2013 but actually paid in 2014 by SPDC was not disclosed in the template as closing balance in 2013.
5. The schedule of Cabotage fee sent to NEITI by NIMASA is different from the schedule we got during the field validation
6. Proper record of Cabotage payments received from the Entities was not in place.

Implications

1. Reconciliation of marine transport revenue to ascertain amount accruing from those companies that engaged in Oil and Gas export could be difficult as a result of inadequate records by NIMASA
2. Also, the value of outstanding amount that is yet to be paid by NAOC will have been affected by inflation
3. Poor method of record keeping by NIMASA may allow some oil company to under pay cabotage fee
4. Difference observed in the schedule of Cabotage fee sent to NEITI by NIMASA and the schedule we received from NIMASA, could reduce integrity of data or information from the Agency

Recommendations

1. Adequate record should be maintained and tailored towards information required by EITI standards on marine transport related revenue from the Oil and Gas Companies.
2. It is recommended to carry out high level investigation of NIMASA activities to date
3. Relevant antigraft agencies should be involved in order to ensure recovery of outstanding amounts.
4. Proper reconciliation of records should be carried out frequently
5. All units that monitored the inflow from oil companies should encourage regular

Table 6-19 Summary of both Naira and Dollar Cabotage Fees in 2014

	CABOTAGE FEE		CABOTAGE FEE
	N'000	**Rate**	**USD'000**
2% Cabotage Fees in Dollar	-	-	915,399.35
2% Cabotage Fees in Naira converted to US Dollar	1,859,495.67	163.59	11,366.73
Total			**926,766.08**

Source: NEITI-NIMASA Documents

Table 6-20 Schedule of 0.12% Charged on FOB by NESS 2014

S/N	ENTITY	Volume '000	Amount USD'000
1	Addax Petroleum Development (Nigeria) Limited	-	18,203.36
2	Addax Petroleum Exploration (Nigeria) Limited	-	609.35
3	Agip Explorations	1,230	143.38
4	Allied Energy Resources (Nigeria) Limited	-	79.28
5	Amni International Petroleum Development Company Limited	-	791.01
6	Conoil	-	44.83
7	Consolidated Oil Company Limited	-	375.95
8	Esso Exploration and Production Nigeria Limited	9,061	1,197.41
9	First Hydrocarbon Nigeria Limited	-	30.27
10	Midwestern Oil and Gas Company Plc	-	277.47
11	Mobil Producing Nigeria Unlimited	-	8,053.71
12	ND Western	1,722	201.90
13	Nigerian Agip Exploration Limited	5,455	650.03
14	Nigerian Agip Oil Company Limited	10,023	1,163.80
15	Platform Petroleum Limited	-	70.03
16	Seplat Petroleum Development Company	-	757.11
17	Stardeep	-	6,111.03
18	Walter Smith Petroman Oil Limited	-	115.40
	Total	**27,491**	**38,875.31**

Source: NESS Template

6.6 Nigeria Petroleum Development Company (NPDC)

Nigeria Petroleum Development Company (NPDC) is one of the subsidiaries of Nigeria National Petroleum Corporation (NNPC) responsible for the production of crude oil at various fields across the country. NPDC operates eleven Oil Mining Licences (OML). Three of these OMLs are operated solely by NPDC while the other eight are operated in joint capacity with other private oil firms. Below is a summary of the OMLs, their location, percentage of ownership and their applicable royalty rate;

Table 6-21 NPDC OMLs Locations & Ownership

OML	LOCATION	PERCENTAGE OF OWNERSHIP			APPLICABLE ROYALTY RATE
		NPDC	JOINT OWNER	PERCENT OF JOINT OWNER	
119	OKONO/OKPOHO	100%	Nil		18.50%
65 &111	OREDO, OZIENGBE, ABURA	100%	Nil		20.00%
4,38, & 41	AMUKPE (OML 38),OBEN (OML 4),OKPORHURU (OML 38), OROGHO (0ML 38), SAPELE (OML 41), OVHOR (OML 38/41)	55%	SEPLAT	45%	20.00%
26	OGINI, ISOKO	55%	FHN	45%	20.00%
30	OLOMORO, OWEH, ORONI, UZERE, ERIEMU, EVWRENI, AFIESERE, KOKORI	55%	SHORELINE	45%	20.00%
34	UGHELLI EAST, UGHELLI WEST, UTOROGU	55%	ND WESTERN	45%	20.00%
42	BATAN, ODIDI	55%	NECONDE	45%	20.00%
40	OPUOMA	55%	ELCREST	45%	20.00%

Issues brought forward from prior year (2013) audit

- $147.864 Million balance from refund of $536.922 Million cash call paid to NPDC was outstanding.
- $1.7billion from $1.8 billion consideration from 8 OMLs assigned to NPDC from shell JV between 2010 and 2011 was outstanding.

- The consideration for four (4) OMLs in NAOC JV assigned in December, 2012 was not paid as last (2013) audit.

NNPC has not provided explanations on whether the issues have been resolved or not.

Implication

The federation would have lost substantial revenue from the long outstanding receivable.

Recommendation

Government should carry out investigation to unravel all issues surrounding the transaction involving transfers of the OMLs to NPDC, and overdue period taken to remit all liabilities.

a) Findings on Crude Oil Lifted by COMD on Behalf of NPDC

Total volume of hydrocarbon produced by the Company could not be verified due to unavailability of data from the Company. However, 6,678,966 barrels of crude oil valued at about $680,682,812.51was observed to be lifted by COMD on behalf of NPDC. Proceed of the lifted crude oil could not be traced to the Federation Account. Though, this was included in the schedule of liftings in federation crude as supplied by Crude Oil Sales Marketing (COSM) Unit, the actual volume of Crude Oil liftings for the Federation Account in 2014 did not include the NPDC liftings.

b) Findings on Royalty Payment on Crude Oil and Gas Production

The Company reported a total payment of $327,395,955.86 during the year. However, DPR reported $492,386,321.22 as total Royalty received during the year. Royalty accrued as payable by NPDC on production during the year was $633,819,717.10. With outstanding balance of $144,949,351.2 as at the beginning of the year. This brings total outstanding as at year end to $451,373,112.44. Payments were not verified to supporting documents as documents were not made available.

Based on the populated template, there was no royalty accrued for gas production during the year. There was also no remittance of Gas Royalty during the year. Outstanding balance of $15,228,040.77 at the beginning of the period remained the same as at the end of the period.

c) Findings on NDDC Levy and Gas Flare Penalty

NPDC reported total payment of NDDC levy of N1,000,000,000, during reconciliation we observed that NDDC received N1,208,539,794 on behalf of NPDC. NPDC defended this by saying the difference is payment made by them on OMLs operated by them on behalf of NAPIMs. Opening liabilities reported by NPDC N20,911,683,751.51. Accrued liabilities for the year is N8, 424,150,000 and $81,080,000 respectively. This brings the total liabilities as the end of 2014 to N28,335,833,752 and $81,080,000.

The Company did not report any payment regarding gas flare penalty during the year. However, $394,364,890.00 was accrued as gas flare penalty in the year. Outstanding penalty as at the beginning of the year was $1,425,324,195.38 based on the completed template and accordingly, computed outstanding liability as at year end was $1,819,689,085.38 as against $1,580,240,080.65 reported on the template.

d) Findings on Payments of Tax Liabilities

Outstanding PPT balance at the beginning of the year was $1,179,804,438.95 and the calculated closing balance is $910,937,132.55 as against $1,127,491,745.35 shown on the template. However, this could not be validated because NPDC could not provide financials to substantiate this claim.

PAYE outstanding liability as at 31 December 2014 was ₦42,330,334.09.

The total unremitted WHT at the end of the period was ₦17,095,101,913.3.

The Company did not report any education tax for the year. Also, there was no payment on the outstanding balance of ₦15,692,422,800 as at the beginning of the year which remain the same as the end of the period.

The total outstanding VAT liability as at beginning of the year was ₦5,933,808,729.18 while balance at year end was ₦7,029,211,381.68

In summary the total outstanding liabilities of NPDC as at December 31, 2014 were **N68,194,900,180.9** and **$3,278,307,371.14** respectively.

Table 6-22 outstanding Liabilities of NPDC

	NGN	USD
PAYE	42,330,334.09	
WHT	17,095,101,913.3	
EDT	15,692,422,800	
VAT	7,029,211,381.68	
Royalty on Oil		451,373,112.44
Royalty on Gas		15,228,040.77
PPT		910,937,132.55
NDDC Levy	28,335,833,752	81,080,000
Gas Flared Penalty		1,819,689,085.38
Total	**68,194,900,180.9**	**3,278,307,371.14**

Implications

I. Production volume of crude by the Company could not be ascertained. Consequently, some financial obligations of the Company to various stakeholders relating to crude production could not be established.
II. Loss of revenue to the federation which has hampered developmental programs of the federation
III. Loss in value of the fund due to delayed remittance.

Recommendations

I. The company should disclose all production data from all the OMLs being operated and also disclose financial obligation to stakeholders arising therefrom.
II. High level investigation on NPDC from inception to date should be carried out
III. NPDC should remit outstanding liabilities with appropriate penalties without further delay.

7. Downstream Operations

7.1 Overview

The Nigerian Downstream business of the Oil and Gas Sector in 2014 dealt with product refining, distribution and retail services as it faced a lot of financing and supply challenges which got worse with time. The downstream sector reaches consumers through products such as gasoline or petrol, kerosene, jet fuel, diesel oil, heating oil, fuel oils, lubricants, waxes, asphalt, natural gas, and liquefied petroleum gas (LPG) as well as hundreds of petrochemicals.

Petroleum products supplies have always been difficult for successive Governments in Nigeria. With the new democratic dispensation, the supply and distribution of petroleum products improved including frequent increases in petroleum products prices. Prices have been seen to rise from their lowest levels in the 1980s to their current levels today. Nigeria, as the sixth largest oil exporter in OPEC, Africa's second largest producer of crude oil after Libya, eighth largest exporter in the whole world, the country has suffered from erratic and declining supply of all products. This decline has not been without related increases in prices of products.

The refining, petrochemical, and transportation sectors of the oil industry in Nigeria are controlled by Government and indigenous operators and are an area in which Government has made considerable investment over the years. The downstream sector is beset by a non-commercial pricing environment and lack of resources to maintain and manage the infrastructure properly. The focus of the Government's policy on the downstream sector can be summarized as follows:

- To maintain self-sufficiency in refining
- Need to ensure regular and uninterrupted domestic supply of all petroleum products at reasonable prices
- To establish infrastructure for the production of refined products for export.

The oil marketers in the downstream sector in Nigeria are divided into two segments; the majors and the independent Nigerian marketers. Currently, the independent marketers number over 500, with a market share of less than 30%.

The downstream sector is the distribution arm and the link to the final consumers. Frequent break downs of Nigeria's four refineries as a result of neglect, skipping the routine turn around maintenances, general inefficiencies in managing the refineries and outright sabotage has also complicated the issues. This has always resulted in product supply shortages and scarcity of products at retail outlet; a situation which breeds black market, product hoarding, diversion and pipelines vandalism. Government rather than build more refineries and instill greater discipline in the way and manner the refineries are managed, it rather resorted to massive importation of refined petroleum products to bridge the wide gap that exist between domestic production and domestic demand. This process makes the process of subsidy financing very expensive.

The downstream sector in Nigeria is well established. NNPC has four refineries, at Kaduna, Port Harcourt and Warri have a combined installed capacity of 445,000 bpd. A comprehensive network of pipelines and Depots strategically located throughout Nigeria links these refineries. NNPC, through its subsidiary, the Pipelines and Products Marketing Company (PPMC), supplies only to bulk customers. They, in turn, meet the needs of millions of customers across the country for products ranging from gasoline and jet fuel to diesel, fuel oil and liquefied petroleum gas. International oil companies, and Independent Petroleum Marketers are also able to import and supply products through their retail chains and distribution networks.

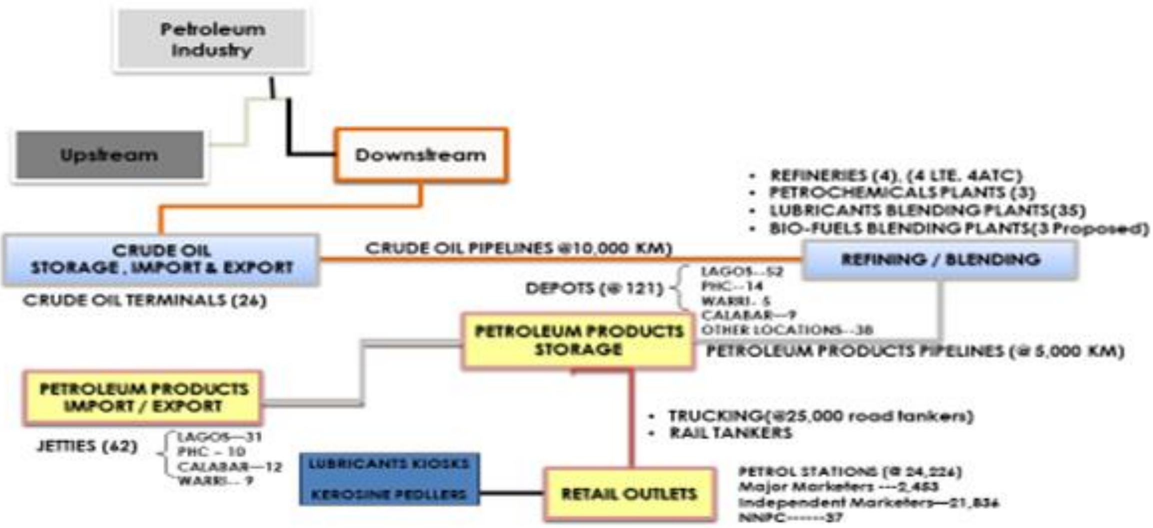


Figure 7-1 Process Flow Downstream

Source DPR

7.2 Pipelines and Product Marketing Company (PPMC)

PPMC is a subsidiary of NNPC. Its key responsibilities are to transport crude oil to the refineries and, evacuate the refined petroleum products to the domestic and international markets efficiently and at low cost and maintain network of pipelines and depots. It also provides marine services for effective distribution of petroleum products nationwide.

PPMC Core Business

- Transport crude oil to refineries
- Supply and distribute petroleum products to Nigerian market
- Operate Petroleum Product Distribution Pipelines and Storage Depots
- Operate crude oil and products terminals and jetties
- Marketing and sales of basis and special petroleum product

Crude Allocation to Payment Flow

The process of crude allocation to sales and payment is stated as follows:

- COMD allocates 445,000 bpd to NNPC Group,
- PPMC receives the 445,000 bpd allocated, this is the subsidiary of NNPC responsible for handling domestic crude oil activities
- COMD issues invoice to NNPC Group for payment to NNPC/CBN crude oil sales Naira account.
- The payment is usually due after 90 days of credit
- All money from sales of refined petroleum product or refined crude oil products go to NNPC Group account.

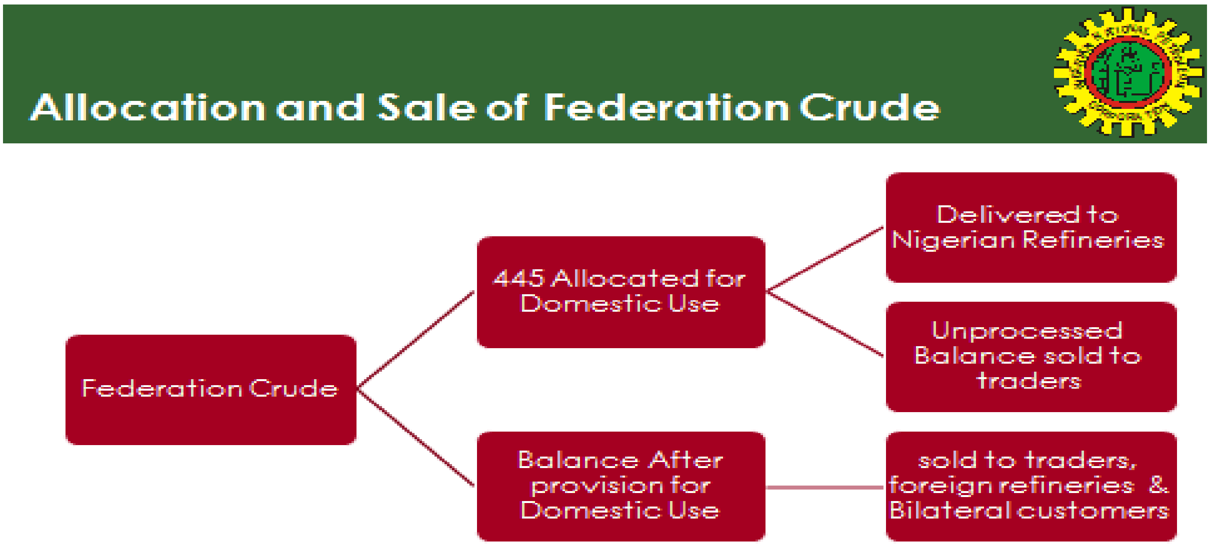


Figure 7-2 Allocation and Sales of Federation Crude

Domestic crude oil lifted by PPMC

The Federal Government allocates 445,000 bbls/day for domestic crude processing at the local Refineries based on their combined installed capacity. The table below shows Domestic Crude allocation according to COMD's Domestic Crude Sales schedule for 2014.

Table 7-1 Summary of domestic crude oil lifted by PPMC in 2014

PPMC Lifting (Mmbbls)	**2014**	**2013**
Supply to Refineries	**26.47**	**38.293**
PPMC Crude Oil Exchange	56.43	59.464
Offshore Processing	21.11	24.665
Export as unprocessed PPMC Crude	56.18	36.392
A. Total PPMC liftings	160.20	158.814
B. Supposed PPMC yearly allocation of 445,000 bpd	162.425	162.425
Difference (B-A)	2.22	3.611

NNPC-Domestic Crude Report 2014

Domestic crude oil allocation is made up of Crude oil supplied to the refineries, crude oil used for offshore processing/Swap arrangements and exported unprocessed crude.

The refineries put together have not been able to refine up to 20% of the Domestic Crude Oil allocation of 445,000 bpd thus have resulted to Alternative production arrangements such as Offshore Processing and Swap in order to meet up with the increasing local demand for refined petroleum products. These arrangements have so far not been profitable to the Government and people of Nigeria even though the corporation (NNPC) considered it as the best option.

The table below shows the percentage of domestic allocation which is refined locally.

Table 7-2 percentage of domestic allocation which is refined locally

Year	Domestic Allocation	Refinery Delivery	% Refined
	(MBBLS)	**(MBBLS)**	
2009	161,914	19,363	11.96
2010	166,523	34,703	20.84
2011	164,454	45,394	27.60
2012	162,343	34,927	21.51
2013	158,814	38,293	24.11
2014	160,201	26,474	16.53

The table below reveals summary of how the domestic crude oil allocation was apportioned to product exchange, offshore processing arrangement, export and refineries.

Table 7-3 Utilization of Allocated Domestic Crude Oil

	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	5,742
2011	164,454	45,394	39,341	23,688	-	56,032
2012	162,343	34,927	49,214	22,755	-	55,447
2013	158,814	38,293	36,392	24,665	-	59,464
2014	160,201	26,474	56,181	21,111	-	56,435

Table 7-4 Analysis of Domestic Crude Oil Utilization

	Allocated Crude	Refinery Delivery	Export	OPA	Crude Exchange	SWAP
	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	5,742
2011	164,454	45,394	39,341	23,688	-	56,032
Total	**492,891**	**99,458**	**279,684**	**51,024**	**950**	**61,774**
Percentage	100.00%	20.18%	56.74%	10.35%	0.19%	12.53%
2012	**162,343**	**34,927**	**49,214**	**22,755**	**-**	**55,447**
Percentage	100.00%	21.51%	30.31%	14.02%	-	34.15%
2013	**158,814**	**38,293**	**36,392**	**24,665**	**-**	**59,464**
Percentage	100.00%	24.11%	22.91%	15.53%	-	37.44%
2014	**160,201**	**26,474**	**56,181**	**21,111**	**-**	**56,435**
Percentage	100.00%	16.53%	35.07%	13.18%	-	35.23%

**In 2010, 950,000 bbls was exchanged for heavy crude for KRPC processing.

Analysis has shown that only 16.53% of the domestic crude oil allocation (**160,200,558 bbl)** for the year under review was refined in the country, exported 35.07%, while 13.18% and 35.23% were used for OPA and SWAP arrangements respectively.

The above table implies that all refineries in the country were only able to refine 16.53% of the domestic crude oil allocation of 445,000 bpd. As a result of this minute percent necessitated PPMC to make alternative production arrangements which were Offshore Processing and SWAP arrangements in order to increase availability of petroleum products for local consumption.

Analysis of Offshore Processing and SWAP Arrangement

The Nigeria National Petroleum Corporation (NNPC) is the major player in the downstream industry through its subsidiary called Pipelines and Products Marketing Company which has four refineries with a total petroleum refining capacity of 445,000 bpd. Federal Government allocates this quantity of crude to NNPC for its lifting for domestic processing at its Refineries. The crude oil is pumped from the fields through pipelines to the oil storage tanks at the terminals where it is thereafter pumped through fiscal meters to the refineries for processing into petroleum products. The Refineries and their installed production capacity in barrels per day are stated in table below:

Table 7-5 Installed Capacity of Refineries

Refineries	Capacity(bpd)
Port Harcourt Refining Company (PHRC) – Old	65,000
Port Harcourt Refining Company (PHRC) – New	150,000
Warri Refining and Petrochemical Company Limited (WRPC)	120,000
Kaduna Refining and Petrochemical Company (KRPC)	110,000
Total	**445,000**

The performances of refineries have fallen below designed capacity partly due to aging and inadequate maintenance, necessitating the external sourcing of refined petroleum products to address increasing domestic demand. This alternative production arrangement commenced in 2010 with the introduction of Offshore Processing Arrangement (OPA) with Nigermed and SIR and in 2011 PPMC introduced the SWAP arrangement with four contractors. (DUKE-OIL AITEO, ONTARIO, TRAFIGURA and TELEVERAS).

At the end of 2010, OPA contract with Nigermed was terminated**.** PPMC continued OPA contract with SIR and SWAP arrangements despite the continual losses recorded.

SWAP arrangements refer to a value for value arrangement where the operators deliver corresponding net product value, i.e. inclusive of demurrage cost, to the net value derived from the Crude Oil loaded, i.e. exclusive of associated costs - demurrage. Thus, the arrangement encompassed all costs (Crude Oil, Products and associated costs), thereby relieving NNPC of the burden of cash payment.

Offshore processing Arrangements (OPA) is an arrangement to allocate crude oil for processing on daily basis at the SIR refinery located in Ivory Coast

Table 7-6 Summary of Offshore Processing Arrangement (SIR)

VOLUME (BBLS)	VALUE ($)	FREIGHT ($)	DEMURRAGE ($)	PROCESSING FEE ($)	TOTAL ($)
23,056,025.00	2,207,846,804.75	51,959,094.73	1,137,926.63	57,640,062.50	2,318,583,888.61
RETURNED PRODUCTS					
PMS (MT)					

976,313.99	904,728,828.18	24,059,691.59	11,353,837.78	-	941,118,671.54
DPK (MT)					
1,004,085.92	882,739,578.77	25,756,915.31	16,216,418.44		925,716,998.44
RETAINED PRODUCTS					
LPG					
57,452.95	37,159,181.52				37,159,181.52
FUEL OIL					
317,829.69	165,298,796.81				165,298,796.81
VGO					
296,811.12	168,881,299.45				168,881,299.45
					2,238,174,947.76
Net Difference (Loss)					**(80,408,940.85)**

Source-PPMC OPA & SWAP Template

The total quantity of crude oil for OPA in 2014 was **23,056,025 bbls** valued at **$2,207,846,804.75.**Other cost includes freight of $51,959,094.73, Demurrage $1,137,926.63 and processing fee of **$ 57,640,062.50**, totaling **$ 2,318,583,888.61.**Comparing the values of both retained products and returned products resulted in a total loss of $ 80,408,940.85 to NNPC-PPMC. This shows that OPA is not profitable for NNPC

Table 7-7 Details of SWAP Arrangement in 2014

CRUDE OIL -REFINED PRODUCT EXCHANGE ARRANGEMENT 2014							
PPMC-TRAFIGURA	CRUDE OIL		PRODUCT				
	DELIVERYQUANTITY (BBLS)	VALUE ($)		QUANTITY (MT)	VALUE ($)	DEMURRAGE ($	**OVER-DELIVERY**
CRUDE OIL	22,648,014.00	2,244,675,015.12	PMS	1,305,565.74	1,330,768,473.29	12,363,026.24	
			DKP	957,869.94	971,798,723.77	14,279,529.71	
Demurrage		659,417.33					
Total	**22,648,014.00**	**2,244,675,015.12**		**2,263,435.68**	**2,302,567,197.06**	**26,642,555.95**	31,249,625.99
PPMC-TALEVERAS	**CRUDE OIL**		**PRODUCT**				
	DELIVERYQUANTITY (BBLS)	**VALUE ($)**		**QUANTITY (MT)**	**VALUE ($)**	**DEMURRAGE ($**	**UNDER-DELIVERY**
CRUDE OIL	11,244,564.00	1,125,183,984.25	PMS	886,871.61	861,791,211.76	5,198,891.70	
			DKP	149,596.30	148,975,642.89	3,013,040.92	
Demurrage		182,123.77					
Total	**11,244,564.00**	**1,125,183,984.25**		**1,036,467.91**	**1,010,766,854.65**	**8,211,932.62**	(122,629,062.22)
PPMC-DUKE AITEO	**CRUDE OIL**		**PRODUCT**				
	DELIVERYQUANTITY (BBLS)	**VALUE ($)**		**QUANTITY (MT)**	**VALUE ($)**	**DEMURRAGE ($**	**UNDER-DELIVERY**
CRUDE OIL	11,266,371.00	1,120,177,577.80	PMS	1,232,896.61	1,121,114,137.56	3,739,669.02	

			DKP	-	-	-	
Demurage		15,938.39					
Total	**11,266,371.00**	**1,120,177,577.80**		**1,232,896.61**	**1,121,114,137.56**	**3,739,669.02**	(2,803,109.26)
PPMC-DUKE ONTARIO	**CRUDE OIL**		**PRODUCT**				
	DELIVERYQUANTITY (BBLS)	**VALUE ($)**		**QUANTITY (MT)**	**VALUE ($)**	**DEMURRAGE ($**	**UNDER-DELIVERY**
CRUDE OIL	11,275,722.00	1,125,131,870.40	PMS	1,035,081.78	1,024,149,656.18	8,452,672.24	
			DKP	105,534.97	87,285,933.90	2,018,881.81	
Demurrage		237,961.85					
Total	**11,275,722.00**	**1,125,131,870.40**		**1,140,616.75**	**1,111,435,590.08**	**10,471,554.05**	(24,167,834.37)
					Gross Under-Delivery		(118,350,379.86)
		Total cost incurred by PPMC for product Exchange		5,664,234,159.21			
		Total Product Value to PPMC for product Exchange		5,545,883,779.35			

Table 7-8 Summary of SWAP Arrangement for 2014

Summary of SWAP Arrangements for 2014				
	PPMC-TRAFIGURA	PPMC-TALEVERAS	PPMC-DUKE AITEO	PPMC-DUKE ONTARIO
CRUDE VOLUME (BBLS)	22,648,014.00	11,244,564.00	11,266,371.00	11,275,722.00
CRUDE VALUE ($)	2,244,675,015.12	1,125,183,984.25	1,120,177,577.80	1,125,131,870.40
TOTAL PRODUCT VALUE ($)	2,302,567,197.06	1,010,766,854.65	1,121,114,137.56	1,111,435,590.08
OTHER COST ($)	26,642,555.95	8,211,932.62	3,739,669.02	10,471,554.05
NET GAIN/LOSS	31,249,625.99	(122,629,062.22)	(2,803,109.26)	(24,167,834.37)

Source-PPMC OPA & SWAP Template

NNPC-PPMC had SWAP arrangement which is an arrangement for the exchange of crude oil for refined petroleum products with the above oil firms. Analysis showed that NNPC-PPMC only gained from the deals it had with TRAFIGURA while others resulted to loss meaning that there is no cost efficiency in the transactions between NNPC and its Offshore Processing partner (SIR) and its SWAP partners.

According to the audit exercise, the combined net loss of both OPA and SWAP arrangement is $198.8 million.

Table 7-9 Summary of losses on Product Exchange (SWAP) and Off-Shore Processing Arrangement in 2014

ARRANGEMENT	NET LOSS
	USD
SWAP Arrangement	(118,350,379.86)
Offshore Processing Arrangement (OPA)	(80,408,940.85)
Total	**(198,759,320.71)**

Observations:

1. OPA and SWAP arrangement are not cost efficient to NNPC Group as the two arrangements resulted to loss
2. Also, there was no difference observed when compared quantity of crude oil allocated for OPA and SWAP in the COMD records and PPMC records.

Table 7-10 Non- Difference of Allocation Volume between Arrangements

BBLS	COMD Records	PPMC Records	Variance
OPA	21,110,600.00	21,110,600.00	-
Swap	56,434,671.00	56,434,671.00	-

Implication:

1. The huge loss will have reduced total revenue to NNPC Group

Recommendations:

1. The contract agreement could be modified or NNPC should seek for lucrative alternative that will boost domestic product without resulting to loss.

Export Sales

Naphtha, Low Pour Fuel Oil and High Pour Fuel Oil represent intermediate products from refineries which could be processed further for the production fuel components for other industrial need. These intermediate products are generally exported; the quantities exported over six are summarized below.

Table 7-11 Summary of Products Export Sales

	2009	2010	2011	2012	2013	2014
Product	**Qty (Mt)**	**Qty (Mt)**	**Qty (Mt)**	**Qty (Mt)**	**Qty (Mt)**	**Qty (Mt)**
Naphtha	277,466.16	358,248.43	525,181.15	356,639.24	413,768.81	240,969.75
LPFO	209,642.93	548,257.37	599,243.91	294,925.36	755,072.08	223,724.89
Long Residue	117,467.40	-	-	-	-	-
HPFO	210,461.35	100,542.60	336,486.99	119,660.98	-	271,284.47

Source-PPMC Export Sales

The total quantity exported by PPMC in 2014 was 735,979.11 MT. We can deduce from the table above that the volume of intermediate product exported in the year under review was relatively low when compared with other years. This is an indication that more of these products were being processed in the country so as to meet the need of local industries.

Coastal Sales

This involves delivery of petroleum products such as PMS, AGO and DPK along coastal areas. The distribution of petroleum products within the coastal areas of Port Harcourt, Apapa, Warri and Calabar are shown below:

Table 7-12 Summary of Coaster sales for 2014

PRODUCT	QTY(MT)	QTY(LTR)	VALUE
-	-	-	=N=
AGO	9,214.586	10,689,194	1,407,980,633.68
DPK	2,266,987.798	2,809,491,025	115,488,884,467.70
PMS	194,857.842	260,701,280	22,070,970,364.80
TOTAL	2,471,060.226	3,080,881,499	138,967,835,466.18

Source-PPMC Coastal sales Template

PPMC was able to circulate 10.6 million liters of AGO,2.8 billion liters of DPK and 260 million liters of PMS in 2014.NNPC PPMC has been able to generate a total sum of N 138.9 billion from the sales of these products.

Table 7-13 Summary Pipeline Movement

Summary of Pipeline Product Movement			
Product	**Dispatched (M3)**	**Received (M3)**	**Variance (M3)**
PMS	3,344,664	2,976,334	(368,330)
DPK	18,573	21,115	2,542
AGO	249,278	193,650	(55,628)

Source-PPMC Pipeline movement

There are five areas for pipeline product movement which are Gombe, Port Harcout, Kaduna, Warri and mosimi. No figure was filled in for Gombe area, summary table covers four areas.PMS and AGO had variances of 368,330m^3 and 55,628m^3 respectively.

Table 7-14 Summary of Pipeline Product Movement Kaduna

Summary of Pipeline Product Movement Kaduna			
Product	**Dispatched (M3)**	**Received (M3)**	**Variance (M3)**
PMS	5,935.00	15,061.00	9,126.00
DPK	-	-	
AGO	20,621.00	13,107.00	(7,514.00)

Summary of Pipeline Product Movement Warri			
Product	**Dispatched (M3)**	**Received (M3)**	**Variance (M3)**
PMS	34,579.00	35,113.00	534.00
DPK	-	-	-
AGO	28,568.00	10,791.00	(17,777.00)
Summary of Pipeline Product Movement P/H			
Product	**Dispatched (M3)**	**Received (M3)**	**Variance (M3)**
PMS	84,381.00	85,705.00	1,324.00
DPK	18,573.00	21,115.00	2,542.00
AGO	56,809.00	50,624.00	(6,185.00)
Summary of Pipeline Product Movement Mosimi			
Product	**Dispatched (M3)**	**Received (M3)**	**Variance (M3)**
PMS	3,219,769	2,840,455	(379,314)
DPK	-	-	-
AGO	143,280	119,128	(24,152)

PPMC Crude Losses

Crude oil loss in upstream operations sector is becoming inevitable in the country; there are cases of loss of domestic crude allocated to refineries. Warri-Kaduna line suffered highest losses in 2014; this has been attributable to theft. Highest loss was recorded in June, November and July 2014.Other affected lines were NPDC-Warri and Bonny-PHRC.

Table 7-15 Details of PPMC Crude Losses

	WARRI - KADUNA	Estimated Value	NPDC – WARRI	Estimated Value	BONNY - PHRC	Estimated Value
	QUANTITY (BBLS)	**USD**	**QUANTITY (BBLS)**	**USD**	**QUANTITY (BBLS)**	**USD**
January	85,075	8,507,500.00	-	-	6,898	689,800.00
February	83,859	8,385,900.00	-	-	1,867	186,700.00
March	48,995	4,899,500.00	57,648	5,764,800.00	3,240	324,000.00
April	74,475	7,447,500.00	1,784	178,400.00	-	-
May	93,087	9,308,700.00	30,553	3,055,300.00	-	-
June	156,860	15,686,000.00	12,174	1,217,400.00	-	-
July	115,204	11,520,400.00	710	71,000.00	-	-
August	-	-	32,541	3,254,100.00	-	-
September		-	-	-	-	-
October	46,656	4,665,600.00	-	-	-	-

November	149,880	14,988,000.00	-	-	-	-
December		-	-	-	-	-
Total	**854,091**	**85,409,100.00**	**134,700**	**13,399,000.00**	**12,005**	**1,200,500.00**

Source-PPMC Crude Losses

Note: The Estimated value is based on a flat rate of $100/bbls

Audit has revealed that 1,000,796 bbls of crude oil valued at estimated amount of $ 100,008,600.00 were lost by PPMC in 2014.This huge loss has been attributable to pipeline vandalisation, theft and sabotage.

Observation

PPMC revenue for 2014 has been reduced by $100,008,600.00 which represents estimated crude oil loss for the year

Implication

The sabotage will increase total cost of maintaining pipelines because PPMC will have to spend more in fixing damaged pipe and equipment

Recommendation

It will do PPMC a lot of good by organizing orientation programme educating the public on dangers involved in vandalising oil pipelines

PPMC Product Depot Balances

This refers to imported and locally refined products (PMS, DPK and AGO) discharged at various depots. These products are transported from one depot to another through pipelines, however is becoming ineffective due to destruction. Balances at various NNPC depot across the country are summarized below:

Table 7-16 Summary of Depot Balances for PMS in Metric Tons

Summary of Depot Balances for PMS in Metric Tons										
	CLOSING STOCK AS REPORTED	**CLOSING STOCK AS REPORTE**	**2014 OPENIN G STOCK**	**RECIEPTS**	**DE-WATER/T O SLOP**	**SALES/TRASFER S OUT**	**CLOSING STOCK**	**UNACCOUNTE D LOSSES**	**CALCULATE D CLOSING STOCK**	**CLOSING STOCK VARIANCE**
ATLAS	21,631.49	21,782.51	21,782.5	1,835,497.8	-	1,848,114.67	9,167.97	1.51	9,164.19	3.78
WARRI	-	-	-	523,480.00	-	418,394.00		127.00	104,959.00	(104,959.00
CALABAR	5,104.00	6,162.00	6,162.00	127,060.41	210.00	130,128.87	4,366.00	1,482.46	1,401.08	2,964.92
MOSIMI	36,474.78	41,337.01	41,337.0	1,241,884.4	-	1,234,313.26	48,923.2	15.10	48,893.05	30.20
SATELLITE	3,240.44	3,273.68	3,273.68	410,864.21	-	408,616.57	5,520.56	0.76	5,520.56	-
IBADAN	513,336.30	13,869.35	13,869.3	423,276.41	-	419,250.75	17,904.8	9.82	17,885.20	(17,875.38)
LORIN	9,662.48	10,046.03	10,046.0	53,380.77	-	58,807.71	4,572.28	75.50	4,543.59	28.69
BENIN	19,010.00	19,134.00	19,134.0	25,830.00	-	26,380.00	19,407.0	735.00	17,849.00	1,558.00
ORE	7,239.69	7,757.63	7,757.63	2,963.38	-	8,242.34	2,478.67	-	2,478.67	-
SULEJA	(202,968.00	25,375.00	25,375.0	8,593.00	-	22,974.00	7,183.00	1.00	10,993.00	(3,810.00)
MINNA	6,905.00	6,238.00	6,238.00		-	4,495.00	1,680.00	63.00	1,680.00	-
KADUNA	8,405.00	-	-	135,380.00	-	134,928.00	-	511.00	(59.00)	59.00
JOS	20,870.00	20,870.00	20,870.0	891.00	211.00	10,915.00	7,405.00	3,230.00	7,405.00	-
GOMBE	10,141.00	10,141.00	10,141.0		-	5,279.00	4,629.00	233.00	4,629.00	-
MAIDUGR	411.00	411.00	411.00		-		411.00		411.00	-
PH	(3,395.00)	1,306.00	1,306.00	408,972.99	225.00	407,871.52	2,869.00	686.52	1,495.95	1,373.05
ABA	19,348.00	19,349.00	19,349.0	57,838.81	5,577.00	56,089.66	15,446.0	75.15	15,446.00	-
ENUGU	5,485.00	5,482.00	5,759.00	-	-	-	5,822.00	63.00	5,696.00	126.00
MKD	-	-	-	-	-	-	-	-	-	-
YOLA	7,134.00	7,134.00	7,134.00	-	-	4,321.00	2,712.00	101.00	2,712.00	-
GUSAU	7,090.00	7,126.00	7,126.00	-	-	5,085.00	1,795.00	262.00	1,779.00	16.00
KANO	31,881.00	31,885.00	31,885.0	7,875.00	-	36,102.00	3,639.00	42.00	3,616.00	23.00
TOTAL				**5,263,788.2**	**6,223.00**	**5,240,308.33**		**7,714.81**		**(120,461.75**

Source-PPMC Depot Balance templates

Observations

Some of the reasons giving for variation in PMS stock balance were:

- Passing of valves in PHRC during transfer to depot PMS
- Obsolete loading meters causing over/under delivery at PH depot to Aba depot
- Line packing and line breaks in Kaduna
- Defective loading meters in Kaduna

Table 7-17 Summary of Depot Balances for DPK in Metric Tons

Summary of Depot Balances for DPK in Metric Tons										
DEPOT	**CLOSING**	**CLOSING**	**2014**	**RECIEPTS**	**DE-**	**SALES/TRASFER**	**CLOSING**	**UNACCOUNTE**	**CALCULATE**	**CLOSING**
ATLAS	-	-	-		-	-	-		-	-
WARRI	-	-	-	210,760.0	-	210,417.00		424.00	(81.00)	81.00
CALABAR	(52.00)	-	-	-	-	-	-		-	-
MOSIMI	575.64	575.64	575.64	-	-	496.92	1,086.50	13.94	64.78	1,021.72
SATELLITE	126.28	-	-	-	-	-	-	-	-	-
IBADAN	1,120.12	1,113.56	1,113.56	-	-	-	1,113.56	-	1,113.56	-
ILORIN	424.76	424.76	424.76	-	-	-	437.06	12.30	412.46	24.60
BENIN	1,119.00	1,119.00	1,119.00	-	-	-	1,119.00	-	1,119.00	-
ORE	363.26	363.26	363.26	-	-	1.64	361.62	-	361.62	-
SULEJA	4,788.00	4,788.00	4,788.00	-	-	-	4,811.00	-	4,788.00	23.00
MINNA	8,410.00	8,419.00	8,419.00	-	-	-	8,285.00	-	8,419.00	(134.00)
KADUNA	(616.00)	-		89,487.00	-	89,546.00		7.00	(66.00)	66.00
JOS	1,371.00	1,365.00	1,365.00	-	-	-	1,417.00	-	1,365.00	52.00
GOMBE	124.00	124.00	124.00	-	-	-	129.00	-	124.00	5.00
MAIDUGR	787.00	787.00	787.00	-	-	-	787.00	-	787.00	-
PH	(190.00)	1,145.00	1,145.00	153,980.8	-	152,329.88	2,694.00	101.97	2,694.00	(0.00)
ABA	334.73	287.00	287.00	13,583.00	751.25	13,080.31	39.00	0.56	37.89	1.11
ENUGU	806.00	806.00	806.00	-	-	-	810.00	4.00	802.00	8.00
MKD	-	-		-	-	-		-	-	-
YOLA	1,162.00	1,169.00	1,169.00	-	-	317.00	843.00	3.00	849.00	(6.00)
GUSAU	253.00	279.00	279.00	-	-	-	288.00	-	279.00	9.00
KANO	1,233.00	1,233.00	1,233.00	-	-	-	1,239.00	-	1,233.00	6.00
Total					751.25	466,188.75		566.77		

Source-PPMC Depot Balance templates

Observations

Reasons given for variation in DPK stock balance were**:**

- Longtime sludges in PH depot tanks resulting to inaccurate dipping levels
- Defective loading meters in Kaduna

Table 7-18 Summary of Depot Balances for AGO in Metric Tons

Summary of Depot Balances for AGO in Metric Tons										
	CLOSING STOCK AS REPORTED BY LAST AUDIT	**CLOSING STOCK AS REPORTED BY PPMC FOR 2013**	**2014 OPENING STOCK**	**RECIEPTS**	**DE-WATER/TO SLOP**	**SALES/TRASFERS OUT**	**CLOSING STOCK**	**UNACCOUNTED LOSSES**	**CALCULATED CLOSING STOCK**	**CLOSING STOCK VARIANCE**
ATLAS COVE	8,085.72	8,589.68	8,589.68	131,463.00		96,303.66	25,344.20	-	43,749.02	(18,404.82)
WARRI	-	-	-	188,413.00		203,759.00		328.00	(15,674.00)	15,674.00
CALABAR	6,695.06	6,694.00	6,694.00	25.00	17.00	26.21	6,728.00	52.21	6,623.58	104.42
MOSIMI	11,522.38	11,635.80	11,635.80	81,944.24		27,592.24	44,216.04	81.70	65,906.10	(21,690.06)
SATELLITE	389.02	388.72	388.72	-		25.80	362.92		362.92	-
IBADAN	3,010.19	2,742.92	3,124.38	23,211.78		4,165.36	17,109.70	2.58	22,168.22	(22,165.64)
ILORIN	352.60	352.60	352.60	2,390.80			2,752.00		2,743.40	8.60
BENIN	5,007.00	5,241.00	5,241.00	9,330.00		6,738.00	7,839.00	14.00	7,819.00	20.00
ORE	601.14	601.14	601.14	-		6.20	595.12		594.95	0.18
SULEJA	15,113.00	16,355.00	16,355.00	7,717.00		3,727.00	20,120.00		20,345.00	(225.00)
MINNA	12,434.00	12,433.00	12,433.00				12,411.00		12,433.00	(22.00)
KADUNA	8,373.00	8,373.00		138,641.00		138,433.00		196.00	12.00	(12.00)
JOS	8,388.00	8,388.00	8,388.00			1,086.00	7,098.00		7,302.00	(204.00)
GOMBE	5,426.00	5,566.00	5,677.00	-		3,633.00	2,042.00		2,044.00	(2.00)
MAIDUGRI	1,324.00	1,324.00	1,324.00				1,324.00		1,324.00	-
PH	(33.00)	1,112.00	1,112.00	80,316.47		81,436.52	2,296.00	2,304.05	(2,312.10)	4,608.10
ABA	2,692.00	2,691.00	2,691.00	44,199.00	4,251.00	38,122.89	4,543.00	26.89	4,489.23	53.77

ENUGU	3,402.00	3,402.00	3,402.00	-			3,407.00	40,824.00	(37,422.00)	40,829.00
MKD	-	-	-	-					-	-
YOLA	1,447.00	1,447.00	1,447.00			117.00	1,332.00		1,330.00	2.00
GUSAU	2,787.00	3,200.00	3,200.00	-		828.00	2,482.00	63.00	2,309.00	173.00
KANO	6,009.00	6,023.00	6,023.00	5,390.00		3,154.00	8,315.00	4.00	8,255.00	60.00
TOTAL				713,041.29	4,268.00	609,153.86		43,896.42		

Source-PPMC Depot Balance templates

Observations

Some of the reasons given which could not verify for variance in AGO stock balance were:

- Defective loading meters
- Line packing and line breaks

Implication

Inability to generate reliable data

Recommendation

Obsolete and defective electronic measuring equipment, pipelines and all other malfunctioning gadgets should be revamped as this will enable PPMC to generate a more accurate and reliable data.

7.3 Refineries' Balances

The total crude oil allocated to the four refineries at Warri (WRPC), Kaduna (KRPC) and Port Harcourt (PHRC), is analysed in the tables below to Show Crude intake and Utilisation in tonnage.

Table 7-19 KRPC Refinery Balance (Crude Material Balance) MT

KRPC Refinery Crude Material balance						
Input	**Opening Stock**	**Receipt**	**Processed**	**Closing stock**	**Audit Closing Stock**	**Variance**
	MT	**MT**	**MT**	**MT**	**MT**	**MT**
ESCRAVOS CRUDE	37,515	548,972	580,637	43,682	5,850	37,832
URALS LIGHT	15,333	-	-	12,934	15,333	(2,399)
UGHELI BLEND	35,160	86,413	85,434	-	36,139	(36,139)
SLOP	5,306	37,217	34,009	11,905	8,514	3,391

Source: KRPC Template

Table 7-20 KRPC Refinery Balance (Products Material Balance) MT

Product	2013 Closing Stock	Opening Stock	Production	Evacuation	Losses	Closing Stock	Calculated Closing	Variance
	MT	MT	MT	MT	MT	MT	MT	MT
Off Gas	-	-	-	-	-		-	-
LPG	84	-	-	-	-	66	-	(66)
PMS	10,877	10,628	139,968	135,379	-	12,338	15,217	2,879
DPK	14,720	14,745	86,495	91,354	-	10,581	9,886	(695)
AGO	11,444	11,352	137,311	136,776	-	9,380	11,887	2,507
LPFO	15,515	15,356	176,467	166,902	-	4,348	24,921	20,573
Asphalt	6,627	6,444	-	1,394	-	5,236	5,050	(186)
Kero-Solvent	216	-	-	-	-	-	-	216
Intermediate Product	194,197	-	-	-	-	-	-	194,197
Internal Consumption	2,538	-	-	-	-	-	-	2,538

Source: KRPC Template

Observations:

4. We noticed huge difference between the closing balances in 2013 and opening balances in 2014 of finished products as shown above. Total closing balance in 2013 was 256,218 MT while opening figures for 2014 was 58,525 MT, creating a difference of 197,693 MT
5. The total KRPC crude oil intake for 2014 was 705,595 MT
6. We could not have access to losses during the year

Implication:

1. Closing balance for one period should be opening balance for the beginning of next period. However, the observed difference may make finished products calculated for the year to be inaccurate.

Recommendation:

2. The balances in previous period or year should always be agreed with opening balances of next period and where there is difference; it should be documented in the records rather than silent about it.

.

PHRC Refinery Balance

Table 7-21 PHRC Refinery Balance (Crude Material Balance) MT

PHRC Refinery Balance(Crude Material balance)						
Input	Opening Stock	Receipt	Processed	Closing stock	Audit Closing Stock	Variance
	MT	MT	MT	MT	MT	MT
BONNY LIGHT	32,142	1,266,274	1,267,780	31,636	30,636	1,000

Source: PHRC Template

Table 7-22 PHRC Refinery Balance (Products Balance) MT

Products	2013 Closing Stock	Opening Stock	Production	Evacuation	Losses	Closing Stock	Calculated Closing	Variance
	MT	MT	MT	MT	MT	MT	MT	MT
Off Gas	-	-	-	-	-		-	-
LPG	39,074	39,074	14,044	3,115	-	48,618	50,003	1,385
PMS	110,008	28,085	292,672	467,254	-	35,681	(146,497)	(182,178)
DPK	13,138	11,753	185,466	171,229	-	24,045	25,990	1,945
AGO	20,494	19,929	326,442	246,883	-	59,272	99,488	40,216
Fuel Oil	141,799	50,382	334,533	270,201	-	60,210	114,714	54,504
Coke	-	-	1,199	-	-	-	-	-
LPG Flared	-	-	14,500	-	-	-	-	-
Fuel /loss	-	-	98,924	-	-	-	-	-

Source: PHRC Template

Observations

I. A part from LPG product, differences were observed in 2013 closing balance and 2014 opening balance for other products as indicated above. No explaining was giving as to the differences.

II. According to data made available to us, total production loss for the year was 98,924 MT. This figure was not shown product by product.

III. Total quantities of Bonny light received as crude intake in 2014 were 1,266,274 MT, out of which 1,267,780 MT were processed. Quantities processed higher than crude intake by 1,506 MT, there was no explanation giving as regarding the difference.

Implication

I. Differences observed in 2013 closing balance and 2014 opening balance of products produced may make it difficult to get actual closing product for the year end.

Recommendation

I. Frequent reconciliation should be carried out for the observed differences

WRPC Refinery Balance

Table 7-23 WRPC Refinery Balance (Products Balance) MT

		2013 Audited OB	Opening Balance	OB Differences	Import	Processed	Evacuated	Closing Stock	Audited Stock	Closing	Variance
ESCRAVOS	OFF GAS		-	-	-	-	-	-			-
	LPG	146,340.00	2,837.00	143,503.00	-	45,907.00	12,067.00	36,683.00	36,677.00		6.00
	PMS	6,730.00	59,081.00	(52,351.00)	127,572.00	336,128.00	464,752.00	54,227.00	58,029.00		(3,802.00)
	DPK	22,364.00	22,366.00	(2.00)	-	200,695.00	210,810.00	11,748.00	12,251.00		(503.00)
UGHELLI	AGO	(11,733.00)	29,209.00	(40,942.00)	-	213,553.00	230,426.00	12,327.00	12,336.00		(9.00)
	LPFO	130,593.00	129,912.00	681.00	-	281,012.00	351,758.00	58,216.00	59,166.00		(950.00)
SLOP	ASPHALT		-		-	-	-		-		
	CONSUMPTION		-		-	-	-		-		
	COKE BURNT		-		-	-	-		-		
	LOSSES		22,815.00		-		-		-		

Observations:

1. There were huge variances in the Audited Closing stock for 2013 as reported by WRPC and the Opening stock of 2014 as reported by WRPC for LPG, PMS, AGO and LPFO.
2. The reported closing stock showed variances with the calculated Closing stock after material balance.
3. According to WRPC, "CONSUMPTION" includes Gas, LPG, LPFO and AGO but the Losses of 28, 815 MT was not broken down into products.
4. WRPC did not provide the Audit with the Crude intake volumes.

Implication:

1. Closing balance for one period should be opening balance for the beginning of next period. However, the observed difference may make finished products calculated for the year to be inaccurate.

Recommendation:

1. The balances in previous period or year should always be agreed with opening balances of next period and in situations where the audited closing balances differ from the actual closing balances as is the case here, the reasons should have been documented and effected as appropriate.

7.4 Petroleum Pricing Product Regulatory Agency (PPPRA)

The PPPRA was set to implement the recommendations of Special Committee set up by the Government to address the challenges in the downstream petroleum sector.

The Agency's mandates include the following:

- To determine the pricing policy of petroleum products.
- To regulate the supply and distribution of petroleum products.
- To create an information databank through liaison with all relevant agencies to facilitates the making of informed and realistic decisions on pricing policies.
- To oversee the implementation of the relevant recommendations and programmes of the Federal Government as contained in the White Paper on the Report of the Special Committee on the Review of the Petroleum Products Supply and Distribution, taking cognizance of the phasing of specific proposals.
- To moderate volatility in petroleum products prices, while ensuring reasonable returns to operators.

- To establish parameters and codes of conduct for all operators in the downstream petroleum sector.
- To maintain constant surveillance over all key indices relevant to pricing policy and periodically approve benchmark prices for all petroleum products;
- To identify macro-economic factors with relationship to prices of petroleum products and advice the Federal Government on appropriate strategies for dealing with them.
- To prevent collusion and restrictive trade practices harmful in the sector.
- To create firm linkages with key segment of the Nigerian society, and ensure that its decision enjoy the widest possible understanding and support.
- To exercise mediatory role as necessary for all stakeholders in the sector.
- To carry out such other activities as appear to it necessary or expedient for the full and efficient discharge of its functions.

In view of the inadequacy of the petroleum products supplied by NNPC, licenses were granted by PPPRA to other independent marketers to import the products. To this effect, subsidy is paid on such products to both NNPC and independent marketers.

Product Quantities for which Subsidies were processed for Payment in 2014

The volume of petroleum products supplied by other marketers through the PPPRA under the PSF scheme in 2014 was 12.218 billion litres for Premium Motor Spirit (PMS). Other marketers did not import Dual Purpose Kerosene (DPK) during the period under review.

NNPC imported 6.786 billion litres of PMS and 3.059 billion litres of DPK, while the refineries produced 0.617billion litres of PMS and 0.335 billion litres of DPK during the same period. These volumes are shown in the table below and form the basis for which subsidies were processed by the PPPRA and advised to NNPC.(see table 4.0)

In comparison with 2013, imported quantity of Premium Motor Spirit (PMS) supplied by marketers through PPPRA substantially increased by 19% from 10.245 billion litres in 2013 to 12.218 billion litres in 2014. On the other hand, NNPC importation decreased marginally from 7.315billion litres of PMS in 2013 to 6.786 billion litres of PMS in 2014 given a percentage decrease of about 3.75%.

The total volume of PMS on which subsidy claims were processed in 2014 was 19.610 billion litres while 3.339 billion litres of HHK was also processed for subsidy. The total subsidy processed for payments for 2014 amounted to N1.217 trillion. This shows a marginal reduction from N1.315 trillion in 2013 as reported in the last audit. This gives a reduction of about 3.88% from 2013.
However, from the table above there was an increase of N42.52billion in the subsidy processed for payment by PPPRA for other marketers in 2014 over that of last audit. This gives an increase of about 3.91%. The subsidy processed for the NNPC in the same period decreased by N140.8billion. This gives a decrease of about 9.4%.

Product Volumes of (PMS) Imported by other Marketers in 2014

The quantity of premium motor spirit (PMS) imported by other marketers through PPPRA increased from 10.245 billion litres in 2013 to 12.218 billion litres in 2014.

The quantity of premium motor spirit (PMS) imported by NNPC decreased marginally from 7.315 billion litres in 2013 to 6.717 billion litres in 2014.
Out of a total volume of 18.935 billion litres of PMS imported in 2014, Independent Oil Marketers accounted for 65% while NNPC accounted for the balance of 35%. In 2013 NNPC imported 41% of PMS while Other Oil marketers accounted for 59%.

Product Volumes for which Sovereign Debt Statements were Issued

19.610 bn litres of PMS were discharges in 2014 for which SDSs were issued. 58.478m litres of PMS were arrears from prior years which were also processed for payment in the year.

3.339bn litres of HHK were processed for payment in the year.

Processing of Sovereign Debt Statements (SDSs) and Sovereign Debt Notes (SDNs)

The subsidy claims are computed based on the following considerations:

(i) Shore - tank volume confirmed by the PPPRA appointed Inspectors and Federal Ministry of Finance Auditors.
(ii) The reference-pricing period is 5 days around mother vessel (MV) bill of lading dates using PPPRA pricing template based on the period of calculation.

The payments are processed in batches for the marketers that meet 80% truck out. This is done twice a month.

The Finance Department of PPPRA confirms the computation of subsidy from PSF unit and signs the summary sheet while the Audit signs the final copy. The Finance department issues the Sovereign Debt Statement (SDS). The signatories on SDS are AGM (Finance), GM (Operations) and the Executive Secretary (ES) in that order. The legal unit seals the SDS.

Debt Management Office (DMO) issues Sovereign Debt Note (SDN) to the marketers. The DMO will notify PPPRA, Ministry of Finance Auditor and CBN. The SDS qualifies marketers to get SDN from DMO. The marketers receive the payment of the value on the SDN from the CBN as issued by DMO at maturity date.

7.5 Subsidy Regime

The PPPRA employs Import Parity Principle, which is referred to as pricing template. This includes:

a) Landing cost of the product
b) Margins for the marketers, Dealers and Transporters
c) Jetty- Depot through-put
d) Other charges and Taxes.

The objectives of the pricing templates are to ensure transparency, full cost recovery, fairness and efficiency in the importation process.

Based on the above considerations, PPPRA determines the applicable subsidy per litre for the product on daily basis. The subsidy for any petroleum product is obtained by multiplying the quantity of product by the under-recovery rate.

Where the ex-depot price (which is arrived at by deducting the distribution margins from the open market price) is higher than the landing cost, there is over-recovery and the oil marketing companies would be required to pay back to the Federal Government the amount of worked over-recovered. When it is lower, the marketers are entitled to be paid the under-recovery from the Government through PPPRA who issues Sovereign Debt Statements (SDS) and forwards them to DMO that issues Sovereign Debt Notes (SDN) to the marketers to be redeemed at the Central Bank of Nigeria. The redemption is being done through the excess crude oil Naira account domiciled with the CBN as against the earlier position when payments were done from the Petroleum Support Fund account domiciled with the Central Bank of Nigeria.

According to the Agency, Subsidy gap = open market price - pump price.

Computation of Subsidy

Generally, subsidy per litre or the under-recovery rate is the difference between landing Cost and the Ex Depot Price of the petroleum product. Landing cost is calculated thus:

For Imported products:

Landing Cost = Product Price per Litre X Exchange Rate +Freight+ lightering +Jetty Cost + Financing +Trader's margin

Litres per metric tonne (1,341 litres)

For Locally Refined Products:

Freight, Finance Charges, Trader's Margin and lightering Charges are excluded from Landing Cost. (Note: lightering charge is part of Product cost on PPPRA Price Template)

The Petroleum Support Fund (PSF)

The Government established the Petroleum Support Fund (PSF) with effect from 2006 as an intervention fund. The Petroleum Support Fund (PSF) is a pool of funds provided for by the three tiers of Government to stabilize the domestic prices of petroleum products against volatility in international crude and product prices. For details on the PSF see: http://nairametrics.com/wp-content/uploads/2013/03/pppra-revised-guideline-for-the-administrtion-of-petroleum.pdf.

Eligibility for Drawing from the Fund

(i) Oil Marketing/Trading Companies are expected to meet the rules and regulations set by the PPPRA on the management /administration of the Petroleum Support Fund (PSF) as follows:

i. Applicant must be an Oil Marketing/Trading Company registered in Nigeria with the Corporate Affair Commission (CAC) to conduct petroleum products business.

ii. Beneficiary/Claimant must possess the following:

- Proof of Ownership or a valid throughput agreement of storage facility with a minimum of 5,000 metric tons for the particular product. Ownership of retail stations is an added advantage.

- Possession of a valid DPR import permit.

iii. Having satisfied 1 and 2 above, an applicant shall submit application for participation in the Scheme to the PPPRA.

iv. Successful applicants shall sign an agreement with the PPPRA to become a participant under the Scheme.

v. Approval to import shall be expressly conveyed by the PPPRA to the participant Importer.

vi. Beneficiary/Claimant must be notify PPPRA within a minimum of three (3) days ahead of cargo arrival in the country and furnish the PPPRA with the relevant documents including copies of involves, bills of landing, source of funding and expected date of arrival for documentation.

vii. The product loading and arrival time must be within a maximum of 30 days and must meet products specification by the DPR and SON.

viii. All approvals for important are valid for a maximum of three months based on the current PPPRA quarterly importation plan.

ix. Deliveries must be made to depot location approved by the DPR and witnessed by PPPRA Operatives, External Auditors and the Industry Consultant.

x. All documents forwarded to the PPPRA must contain shore tank report duly signed by PPPRA Representatives at discharge locations. xi. (i) All out-turn deliveries to approved locations must be through invoices at approved ex-depot prices.

(ii) Marketers shall render out-turn delivery returns which must contain the invoiced ex-depot prices and volumes to the PPPRA as part of conditions for continued participation in the Scheme.

In 2012, the PPPRA management put in place additional Policy measures that the oil marketers need to fulfill before they could be eligible.

SDSs issued by PPPRA in 2014 (Subsidy Claims Processed)

Based on the schedules provided, a total of N1.103trillion SDSs were processed for NNPC and other marketers out of N1.217 trillion due for the year 2014. The balance of N114.456 billion for discharges in 2014 was processed in the following year. N450.719 billion SDSs were issued to other marketers.

Issuance of SDNs by DMO

Our reference to work on subsidy payments recorded in CBN validated templates showed that a total of ₦481.578billion was paid to oil marketers in the year. This amount paid is higher than the total of ₦450.719 billion processed for payment in the year.

Payments obtained from the CBN template could not be matched with the subsidy claims processed for the marketers for the year 2014 as the SDSs to which the payments relate could not be determined from the CBN schedule.

In 2013, ₦554.369billion SDNs were processed by DMO and SDN valued at ₦495.182billion were issued leaving a balance of 59.187billion as untreated SDN. While ₦495.182billion SDNs were issued, ₦422.457 SDNs was released to the marketers, leaving a balance of ₦72.724billion as un-released SDNs. The unprocessed ₦59.187billion and unreleased ₦72.724billion make up the unpaid subsidy claim of 131.911billion as at 31st December, 2013. This was added to total SDSs processed of ₦450.719 as at 2014 to give us ₦582.631.

Meanwhile, total subsidy released by CBN is ₦481.578 which is subtracted from ₦582.631 to arrive at ₦101.053billion as total unreleased processed SDS as at 31st December, 2014. Addition of ₦114,456billion unprocessed SDSs as at 31 December, 2014 to the unreleased sum resulted in a total outstanding subsidy claims of ₦215,509billion as at the year ended 31 December, 2014.

Table 7-24 Summary of quantities of petroleum products supplied by marketers in 2014

Marketers	2014 (Litres'000)		2013 (Litres'000)		Change (Litres'000)
Other marketers through PPPRA:					
PMS	12,217,966		10,244,813		1,973,153
DPK	-		-		
Sub Total	12,217,966		10,244,813		1,973,153

NNPC					-
PMS- Import	6,716,652		7,315,033		(598,381)
Local	617,028		1,768,105		(1,151,077)
DPK (HHK) –Import	3,003,840		2,650,451		353,389
Local	334,987		828,715		(493,728)
Sub Total	10,672,508		12,562,304		(1,889,796)
Grand Total	**22,890,474**		**22,807,117**		**83,357**

Table 7-25 Summary of Subsidy Processed by the PPPRA to be paid by Federal Government for 2014

Marketers	2014 N'000		2013 N'000		Change N'000
Other Marketers through PPPRA:					
PMS	565,175,070		522,655,347		42,519,723
DPK					
Sub Total	565,175,070		522,655,347		42,519,723
NNPC:					
PMS-Import	296,732,205		355,532,600		(58,800,395)
Local	24,489,385		72,105,642		(47,616,257)
DPK(HHK)-Import	299,105,592		284,398,871		14,706,721
Local	31,851,711		80,924,030		(49,072,319)
Sub Total	652,178,893		792,961,143		(140,782,250)
Grand Total	**1,217,353,963**		**1,315,616,490**		**(98,262,527)**

Table 7-26 SDSs issued for the year 2014

S/N	**MARKETER**	**QUANTITYOBSERVED (LTRS)**	**SUBSIDY AMOUNT ₦**
	Discharged and processed in 2014		
1	A & E PETROL NIGERIA LTD	79,220,361	3,974,659,103
2	A.A RANO NIG. LTD	21,372,574	962,793,354
3	ACORN PETROLEUM PLC	62,486,604	3,059,073,182
4	AITEO ENERGY RESOURCES LTD	330,840,621	15,991,913,310
5	ASCON OIL COMPANY LTD	157,908,465	7,864,541,095

6	AVIDOR OIL & GAS LTD	44,151,045	2,356,341,286
7	A–Z PETROLEUM PRODUCTS LTD	238,540,344	11,616,504,319
8	BLACKLIGHT ENERGY LIMITED	169,833,130	8,654,027,056
9	BOVAS & COMPANY LTD	183,927,771	9,325,773,861
10	BULK STRATEGIC RESERVE LTD	38,540,600	2,037,191,912
11	CONOIL PLC	267,331,656	12,946,521,624
12	CYBERNETICS INTERNATIONAL SERVICES LTD	55,737,075	2,844,773,249
13	DEE JONES PETROLEUM & GAS LTD	164,948,491	8,534,311,585
14	DOZZY OIL AND GAS LTD	187,336,536	9,497,668,397
15	EMADEB ENERGY SERVICES LTD	193,081,085	10,026,152,603
16	FATGBEMS PET CO. LTD	89,729,943	4,619,358,076
17	FIRST DEEP WATER DISCOVERY LTD	19,673,255	1,020,451,733
18	FOLAWIYO ENERGY LTD	485,266,308	23,610,472,173
19	FORTE OIL PLC (FORMERLY AP PLC)	398,059,122	20,775,322,660
20	FRESH SYNERGY LTD	19,781,733	971,480,895
21	GULF TREASURES LIMITED	125,173,821	6,434,672,403
22	HEYDEN PETROLEUM	96,659,152	4,782,603,134
23	HUDSON PETROLEUM LTD	36,262,325	1,681,574,929
24	HYDE ENERGY (NIG) LIMITED	122,712,078	6,062,030,057
25	IBAFON OIL LTD	61,238,536	3,134,413,728
26	INDEX PETROLUBE AFRICA	55,976,521	2,830,417,878
27	INTEGRATED OIL & GAS	282,140,090	14,214,548,365
28	IPMAN INVESTMENT LTD	29,068,763	1,385,707,932
29	LINC NIGERIA LIMITED	41,104,748	1,977,335,309
30	MAINLAND OIL & GAS LIMITED	144,388,450	7,027,478,869
31	MASTERS ENERGY OIL & GAS LTD	356,192,992	17,963,739,902
32	MATRIX ENERGY LTD	226,233,650	11,848,915,994
33	METTLE ENERGY LIMITED	20,744,645	1,121,248,062
34	MOBIL OIL NIGERIA PLC	172,191,470	8,606,483,281
35	MRS OIL & GAS COMPANY LTD	273,941,713	13,696,090,672
36	MRS OIL NIG. PLC	185,889,344	9,339,736,686
37	NEPAL OIL AND GAS SERV. LTD	110,792,690	5,404,648,613
38	NIPCO PLC	524,211,249	25,711,548,639
39	NORTHWEST PETROLEUM & GAS LTD	416,913,462	21,241,536,458
40	OANDO PLC	509,860,215	26,359,349,648
41	OBAT OIL & PETROLEUM LTD	61,696,361	3,287,725,904
42	RAHAMANIYYA OIL AND GAS LTD	93,184,574	4,350,950,498
43	RAINOIL LTD	304,652,940	15,709,292,739
44	SAHARA ENERGY RESOURCE LTD	142,790,264	7,157,360,410
45	SHORELINK OIL AND GAS SERVICES LTD	222,853,381	10,833,418,070

46	STOCKGAP FUELS LTD	83,061,357	4,253,649,830
47	SWIFT OIL LTD	236,538,016	12,359,392,409
48	TECHNO OIL LTD	295,025,990	15,242,612,916
49	TEMPOGATE OIL & ENERGY COMPANY LTD	65,569,401	3,382,444,529
50	TONIQUE OIL SERVICES LTD	-	53,225,816
51	TOTAL NIGERIA PLC	341,196,974	16,309,915,682
52	TSL LOGISTICS LIMITED	104,392,186	5,294,140,830
53	VINE OIL & GAS LTD	20,791,861	971,811,583
	Sub total	**8,971,215,939**	**450,719,353,250**
	Discharged in 2014 and processed in 2015		
1	A & E PETROL NIGERIA LTD	24,201,055	939,951,534
2	A.A RANO NIG. LTD	76,069,164	2,269,108,374
3	ASCON OIL COMPANY LTD	20,466,778	475,443,257
4	AVIDOR OIL & GAS LTD	45,584,154	1,192,447,180
5	A–Z PETROLEUM PRODUCTS LTD	84,193,362	2,964,019,418
6	BLACKLIGHT ENERGY LIMITED	94,233,502	3,959,954,453
7	BOVAS & COMPANY LTD	65,419,244	1,854,579,192
8	BULK STRATEGIC RESERVE LTD	48,215,518	2,125,923,752
9	CONOIL PLC	224,138,126	9,628,691,894
10	CYBERNETICS INTERNATIONAL SERVICES LTD	10,197,411	266,662,298
11	DEE JONES PETROLEUM & GAS LTD	146,560,189	4,929,281,419
12	DOZZY OIL AND GAS LTD	63,530,500	2,084,932,451
13	EMADEB ENERGY SERVICES LTD	11,569,908	546,446,752
14	FIRST DEEP WATER DISCOVERY LTD	16,769,849	742,568,914
15	FOLAWIYO ENERGY LTD	42,472,727	1,801,693,058
16	FORTE OIL PLC (FORMERLY AP PLC)	207,979,535	6,891,764,548
17	GULF TREASURES LIMITED	12,871,977	332,097,007
18	HEYDEN PETROLEUM	33,769,367	1,112,191,376
19	HUDSON PETROLEUM LTD	10,019,297	431,330,736
20	HYDE ENERGY (NIG) LIMITED	19,705,833	829,418,511
21	IBAFON OIL LTD	22,133,550	551,346,718
22	INTEGRATED OIL & GAS	65,306,185	1,897,933,259
23	MAINLAND OIL & GAS LIMITED	63,228,539	2,682,170,247
24	MARK-CLAIRE LTD	26,850,143	908,946,366
25	MASTERS ENERGY OIL & GAS LTD	47,314,681	1,884,239,747
26	MATRIX ENERGY LTD	128,319,409	4,687,310,385
27	MOBIL OIL NIGERIA PLC	83,446,815	3,245,121,091
28	MRS OIL & GAS COMPANY LTD	82,748,076	2,120,834,110

29	MRS OIL NIG. PLC	41,421,310	975,471,851
30	NEPAL OIL AND GAS SERV. LTD	12,325,122	319,097,420
31	NIPCO PLC	73,182,402	1,757,307,239
32	NORTHWEST PETROLEUM & GAS LTD	140,734,083	3,965,023,436
33	OANDO PLC	209,618,500	9,229,350,955
34	OBAT OIL & PETROLEUM LTD	53,045,199	1,749,454,533
35	RAINOIL LTD	137,923,871	4,204,609,051
36	SAHARA ENERGY RESOURCE LTD	251,443,512	9,109,046,725
37	SHORELINK OIL AND GAS SERVICES LTD	61,922,366	1,575,397,986
38	STOCKGAP FUELS LTD	20,649,928	514,389,706
39	SWIFT OIL LTD	118,689,829	3,146,593,789
40	TECHNO OIL LTD	142,292,525	4,897,781,660
41	TOTAL NIGERIA PLC	242,191,630	8,612,830,392
42	TSL LOGISTICS LIMITED	22,472,633	1,042,954,898
	Sub total	**3,305,227,802**	**114,455,717,688**
	Grand total	**12,276,443,741**	**565,175,070,938**

Review of PPPRA- PSF Financial Statements

The 2014 audited financial statement for Petroleum Support Fund was not made available for audit review.

Determination of National Demand of Refined Product

NNPC with all stakeholders in the downstream industry determine the national consumption of refined product. Relevant information is gathered from the refineries to determine their production level for the next quarter, at least two months ahead of the arrival of the first cargoes. Land- based stocks and marine stocks are also established.

On these bases, the likely shortfall of petroleum product is determined. Twenty days of product sufficiency as a buffer is also put into consideration and provided. At the end of these exercise, the shortfall between demand for products and local production by refineries are established and is covered by imports.
Currently there is no standard model for determining national consumption for petroleum products.

Subsidy Re-Investment and Empowerment Programme (Sure-P)

In January 2012, the decision to remove the subsidy on Premium Motor Spirit (PMS) was announced by Government, the pump price was before January, 2012 put at N140/ litre. Since then, the Subsidy that is paid to oil marketers that are involved in the importation of PMS is based on a price-gap of N97 per litre instead of the former N65/litre which is still applicable as at 2014.

The Government proposed to save the price differentials of N32/litre from the increased pump price as a genuine intention of the Government on the deregulation policy. The savings is expected to be channeled to fund a combination of programmes to stimulate the economy and alleviate poverty through provision of critical infrastructures and safety projects. This initiative led to the establishment of Subsidy Reinvestment and Empowerment Programme (SURE-P) by the Federal Government to apply its share on various sectors of the economy.

In 2013, Office of the Accountant General of the Federation (OAGF) gave total SURE-P distribution of N426, 590,828,297.16 which was still applicable in 2014.
Shown in the table below:

Table 7-27 SURE-P Distribution to all the tiers of Government

	N	N
	2014	**2013**
Federal Government	180,000,000,000.00	180,000,000,000.00
FGN Share of Derivation & Ecology	3,711,340,206.19	3,711,340,206.19
Federal Capital Territory	3,711,340,206.19	3,711,340,206.19
Stabilization Account	1,855,670,103.09	1,855,670,103.09
FGN Share of Development of Natural Resources	6,235,051,546.39	6,235,051,546.39
Total to FGN including FCT	**195,513,402,061.86**	**195,513,402,061.86**
State Government	99,167,010,309.24	99,167,010,309.24
Local Government	76,453,608,247.44	76,453,608,247.44
13% Derivation	55,456,807,678.88	55,456,807,678.88
Total to States and Local Govt. Councils	**231,077,426,235.32**	**231,077,426,235.32**
Grand Total	**426,590,828,297.18**	**426,590,828,297.18**

Reconciliation of payments of subsidy by the Federal Government with Amount Received by Importers

The sovereign Debt Notes (SDNs) issued and released by the DMO to the oil marketers in 2014 were reviewed against the schedule of redeemed Sovereign Debt Notes gotten from the CBN.

The Sovereign Debt Note (SDN) issued and those released by the DMO IN 2014 stood at N565, 175,070,937.83 and total sum of N481, 578,208,568.65 were redeemed by CBN in 2014.

8. Physical and Process Audit

8.1 Gas Production and Utilisation

Gas Production and Utilization

The total gas production, utilization (sales, re-injection/lift and fuel) and flared in 2014 is compared with previous years and shown in table below.

Table 8-1 Comparison of Gas Production and Utilization between 2010 - 2014

Comparison of Gas Production and Utilization between 2010 – 2014						
Usage (mmscf)	**2010**	**2011**	**2012**	**2013**	**2014**	
A. Total Gas Production	3,418,106.30	3,346,973.37	2,559,129.96	3,209,321.14	2,587,638.92	
Gas Sales	1,265,966.87	1,436,856.29	588,345.91	1,198,756.94	2,014,996.23	
Gas Flared	1,279,272.84	884,357.98	369,500.14	373,178.46	277,779.28	
Utilised/Fuel Gas	115,738.97	129,329.38	123,247.79	154,601.76	174,885.19	
B. Total (Sales, Flared, Utilised/Fuel)	**2,660,978.68**	**2,450,543.65**	**1,081,093.84**	**1,726,537.16**	**2,467,660.69**	
C. Gas Re-injected	756,124.53	764,261.90	1,224,915.32	814,269.32	797,272.24	
D. Total (B+ C)	3,417,103.21	3,214,805.55	2,306,009.16	2,540,806.48	3,264,932.93	
E. Difference (A-D)	**1,003.09**	**132,167.82**	**253,120.80**	**668,514.66**	**(677,294.02)***	

Source: Entities Validation template and 2013 NEITI Auditor's report

**Difference: The excess is from the gas stock*

The Table shown above indicates a 19.37% decrease in gas production in 2014 compared to 2013, as well as a 25.56% decrease in gas flared for the year under review.

The individual company's gas production and its utilization is shown in the table below while gas flaring activity in 2014 is shown graphically.

Table 8-2 Summary of Gas Production and Utilization 2014

COMPANIES	GAS PRODUCED	UTILIZED/FUEL	REINJECTED	FLARED	SALES
ADDAX	46,547.00	1,665.00	15,731.00	29,156.00	
AENR	7,364.13	109.5	-	7,254.62	
ALLIED*	-	-	-	-	
AMNI	8,834.26	146.62	2,141.57	6,546.09	
BRITTANIA U	453.736	-	-	90.39	
CHEVRON	301,691.00	30,569.00	35,908.00	57,145.00	178,068.64
CONOIL	225.294	103.727	-	121.567	
CONTINENTAL	1,510.79	133.816	-	1,376.97	
DUBRI	1,679.77	-	-	1,659.34	
ENERGIA	3,367.92	25,210.95		1,456.72	
ESSO	135,023.87	7,066.30	124,729.80	3,227.77	
MOBIL	410,168.00	32,250.00	305,519.00	44,079.79	451,915.00
MONIPULO	475.971	9.228		466.74	
NAE	9,779.12	1,737.75	6,668.41	1372.96	
NAOC	334,965.00	36,074.00	3,712.00	25,787.00	499,520.00
NDPRL	8,311.54	146.36	-	774.80	7,404.76
NPDC*					
ORIENTAL*					
PANOCEAN	5,759.62	445.92	-	24.20	5,238.52
PILLAR	186.82			186.82	
PLATFORM	8,498.44	193.72		8,304.72	
SEEPCO	1,132.19	1,016.82	-	115.38	
SNEPCO	50,581.37	3,855.47	-	2,201.27	44,605.11
SPDC	682,309.83	11,240.03	9,391.00	50,106.00	611,359.00
STARDEEP	154,951.65	8,081.41	137,679.50	9,190.74	-
TEPNG	217,522.40	8,223.37	90,297.97	22,665.67	97,084.00
TUPNI	196,299.20	6,606.19	65,493.99	4,468.71	119,801.19
WALTERSMITH*					
TOTAL	**2,587,638.92**	**174,885.19**	**797,272.24**	**277,779.28**	**2,014,996.23**

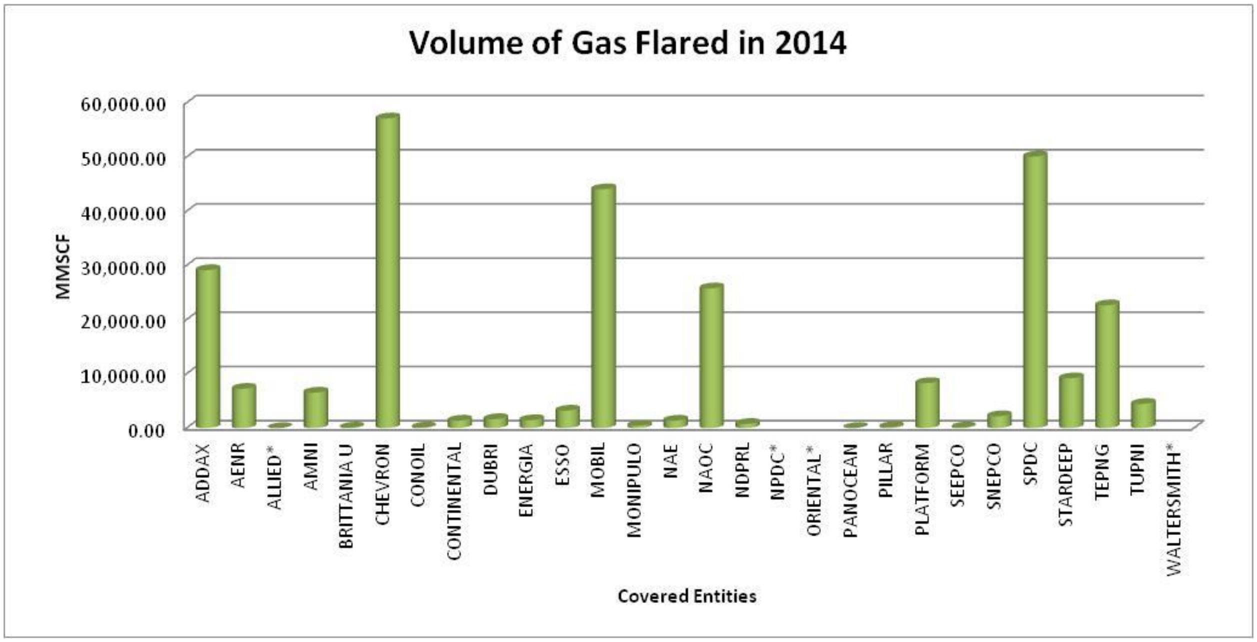


Figure 8-1 Gas Flared Volumes 2014

From the above chart, Chevron flared the highest volume of gas in 2014 just as the case was in 2013. Chevron flared 57,145 mmscf of gas, which represents about 21% of the total gas flared volume of 277,779.28 mmscf.

The table below shows the percentage of gas flared as a proportion of total gas productions from 2010 to 2014.

Table 8-3 Gas flared as a proportion of gas produced from 2010 - 2014

Usage (mmscf)	2010	2011	2012	2013	2014
A. Total Gas Production	3,418,106.30	3,346,973.37	2,559,129.96	3,209,321.14	2,587,638.92
Gas Flared	1,279,272.84	884,357.98	369,500.14	373,178.46	277,779.28
% of Gas Flared to Production	37.43%	26.42%	14.44%	11.63%	10.73%

The total volume of gas flared in 2014 is 10.73% of total gas production as against 11.63% in 2013. This decline in flared gas volume was attained as a result of increase in gas sales.

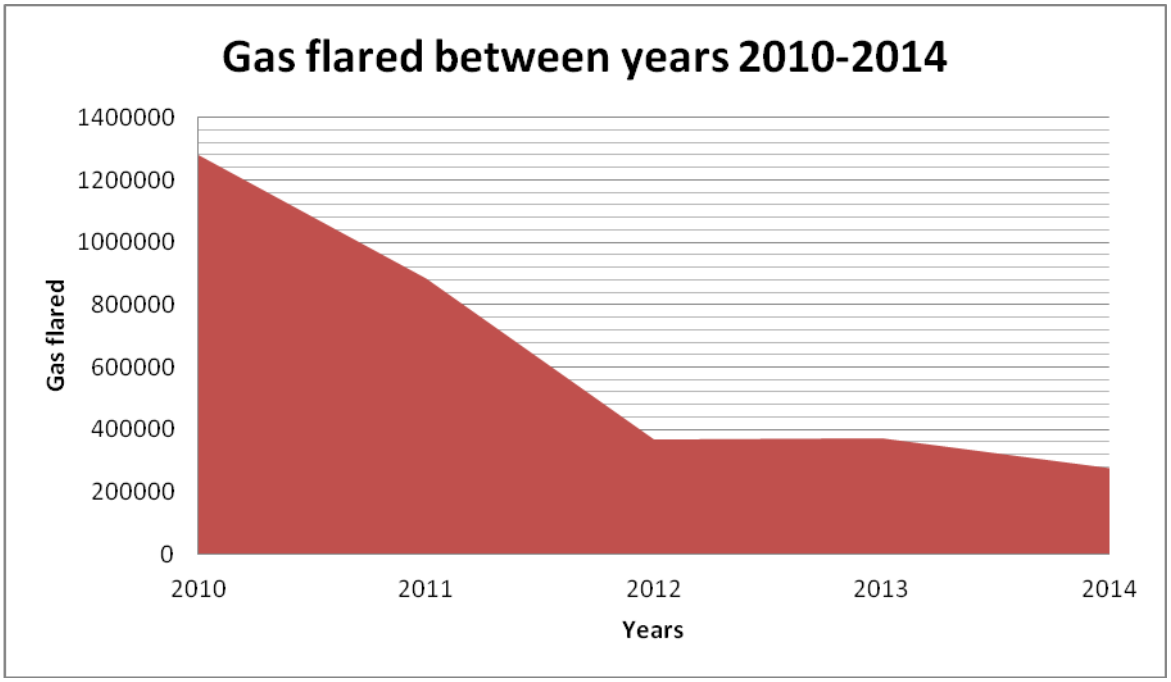


Figure 8-2 Comparison of Gas Flared Volumes 2010 – 2014

The chart below depicts companies re-injected gas volumes:

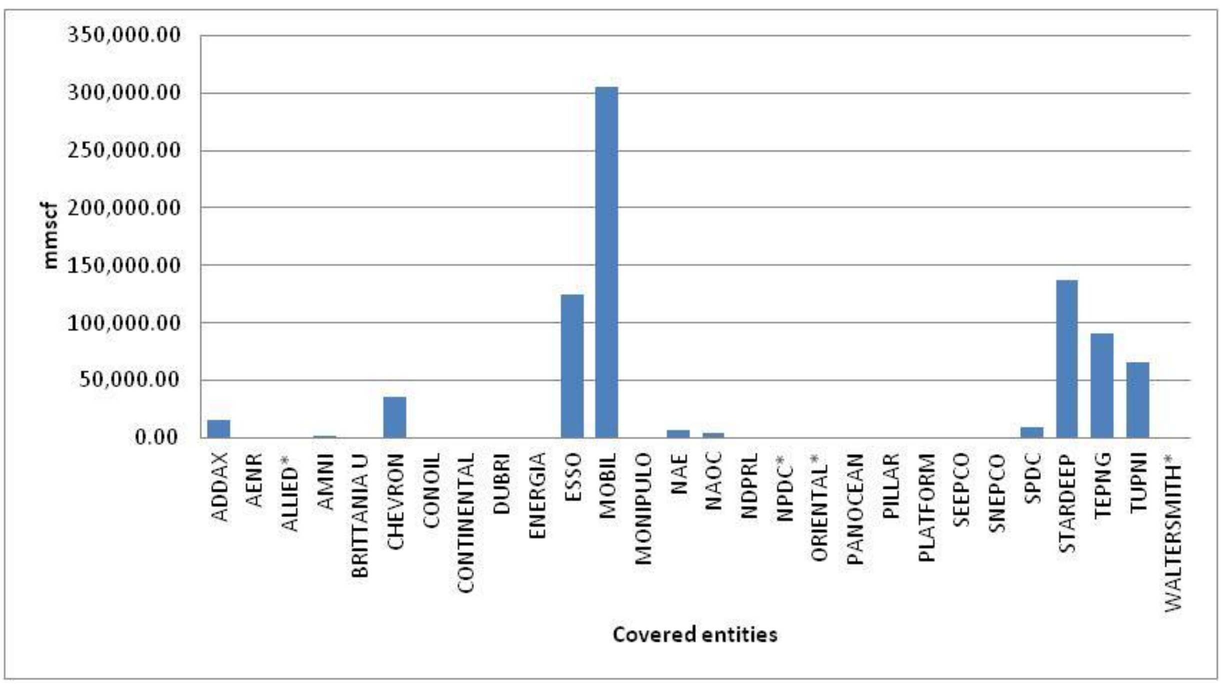


Figure 8-3 2013 Gas Re-injected Volumes

The overall re-injected volume in 2014 is 797,272.24mmscf which is a 2.08% decrease on 2013 re-injected volumes of 814,269.32 mmscf. Mobil Producing Nigeria Unlimited (MPNU) re-injected the highest volume of gas in 2014 which accounted for 38.32% of the overall re-injected gas in 2014.

Gas is re-injected into formation to assist oil production. Some oil reservoirs need gas pressure to push oil to the surface. If this gas pressure depletes, the desired rate of oil production will be affected. To maintain the desired reservoir pressure, the gas is re-injected into the reservoir to assist oil flow to the surface. This gas is not sold or lost, but re-cycled in operation to produce more oil.

Key Findings on optimal Gas Utilisation

There was a slight drop in the production of gas from the year 2013-2014 by 19.37% after an increase had been recorded in 2012-2013. This fall may be attributable to pipeline vandalisation, theft and sabotage.

The volume of gas flared has been reducing gradually over the 5 year period (2010-2014) which is a good omen for the industry, although attaining a nil volume of gas flared is the desired goal.

Observations

In the course of our audit exercise, the following challenges were identified among others.

i. Some of the entities did not fill the gas production and volumetric flow templates

ii. Some entities paid gas flare penalty but did not fill the Gas production and volumetric flow templates.

Implications

This shows that Nigeria is still far from achieving optimal gas utilization and there is the need to identify and address some of the challenges.

Recommendation

1. Government to create an enabling environment for investments in the gas exploitation and development by ensuring the competitive pricing of gas, attractive fiscal regimes and provision of adequate security for gas infrastructures to prevent vandalism and sabotage.

2. Government to encourage investment in domestic gas utilization infrastructures that will meet increasing demand of gas for power, feedstock industries and other local uses.

3. Government should pass the PIB to ensure regulatory certainties.

4. Government to ensure an adequate and effective metering system in gas operations.
5. Government to review the current trend in the divestment of Federal Government equity holdings in oil and gas operations. The assignment of some gas revenue yielding OMLs lacked transparency and this has greatly reduced gas and feedstock revenue accruable to the federation.

Crude Oil Production and Lifting Data

The total Crude Oil Production and lifting volumes by NNPC and the Oil companies for the period 2014 is summarized in Table 8-4 below:

Table 8-4 Total Crude Oil Production and Lifting from 2013 – 2014

PRODUCTION	2014	2013	% Change
	Bbl'000	Bbl'000	Bbl'000
Total Opening Inventory	16,288	12,489	30.42%
Production	798,542	800,488	-0.24%
Ekanga/Zafiro Crude(1)	4,063	4,030	0.82%
Total Inventory for Lifting	818,893	817,007	0.23%
Terminal adjustment/shrinkage(2)		(381)	-100.00%
Available Total Terminal Inventory	**818,893**	**816,626**	0.28%
LIFTING			
Federation Export:			
Joint Venture Operators (JV)	172,990	79,929	116.43%
Production Sharing contractors (PSCs)	103,793	99,375	4.45%
Service Contractors (SCs)	1,991	2,649	-24.84%
Sub –Total Federation Export	**278,774**	**181,953**	53.21%
PPMC Domestic Crude Supply (Refining / Sales)			
Joint Venture Operator (JVs)	66,984	153,965	-56.49%
Production Sharing Contractors	3,864	4,849	-20.31%
Sub –Total Domestic Crude Supply (Refining / Sales)	**70,848**	**158,814**	-55.39%
Sub-Total: Federation +PPMC Lifting	**349,622**	**340,767**	2.60%
Other Operators:			
JV Operators	112,211	167,466	-32.99%
Production Sharing Contractors PSCs	211,939	207,385	2.20%
Service Contractors (SCs)	830	999	-16.92%
Sole Risk	59,203	65,667	-9.84%
Marginal Fields	16,901	18,054	-6.39%
Other Operators	45,849	-	

Sub-Total:	**446,933**	**459,571**	-2.75%
Total Lifting	**796,555**	**800,338**	-0.47%
Balance Closing Inventory	22,338	16,288	37.14%

[1] Ekanga/Zafiro crude represents the production from the unitized zone operated by Nigeria and Mobil Equatorial Guinea which is not included in the Operating Companies' production in Nigeria, but has been included in the total lifting by the Operators and NNPC.

[2]Shrinkages or Terminal adjustments represent losses due to evaporation and drainage of the crude in the terminals during the process of removing water and sediments in the period that the crude stayed in the tanks before export.

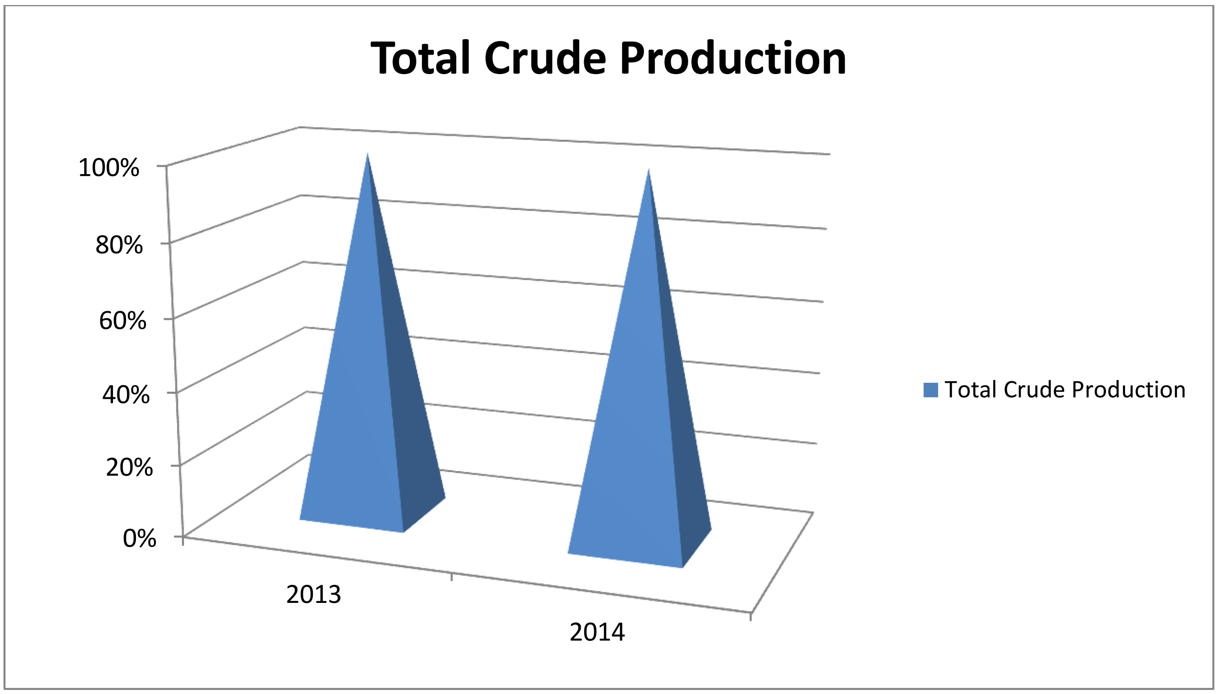


Figure 8-4 Total Crude Production 2013 – 2014

There was a marginal decline in 2014 production as compared to 2013. Production dropped from **800.488 million bbls** in 2013 to **798.542 million bbls** in 2014. The difference of **1.946 million bbls** reflects a decline of **0.24%** in 2014 production as compared to 2013.

The total federation Crude oil export increased as compared to 2013. In 2014, the federation export volume was **278.774 million bbls** as compared to **181.953 million bbls** in 2013 which reflects an increase of **53.21%.**

Crude Oil Production by Operating Arrangements

The total production of crude oil obtained from COSM-COMD records in 2014 is as shown below:

Table 8-5 Crude Oil Production by Operating Arrangements

Total production	2010	2011	2012	2013	2014	% Change
	('000 bbls)	('000 bbls)	('000 bbls)	('000 bbls)	('000 bbls)	(2014 & 2013)
Joint Ventures (JVs)	529,166	521,517	465,329	399,412	427,712	7%
Production Sharing Contracts (PSCs)	316,887	289,334	320,434	313,935	320,200	2%
Service Contracts (SCs)	2,711	2,802	3,056	3,205	3,005	-6%
Sole Risk (SR)	41,938	44,511	46,246	64,589	27,943	-57%
Marginal Fields	3,804	8,081	18,061	19,347	19,682	2%
TOTAL	894,506	866,245	853,126	800,488	798,542	

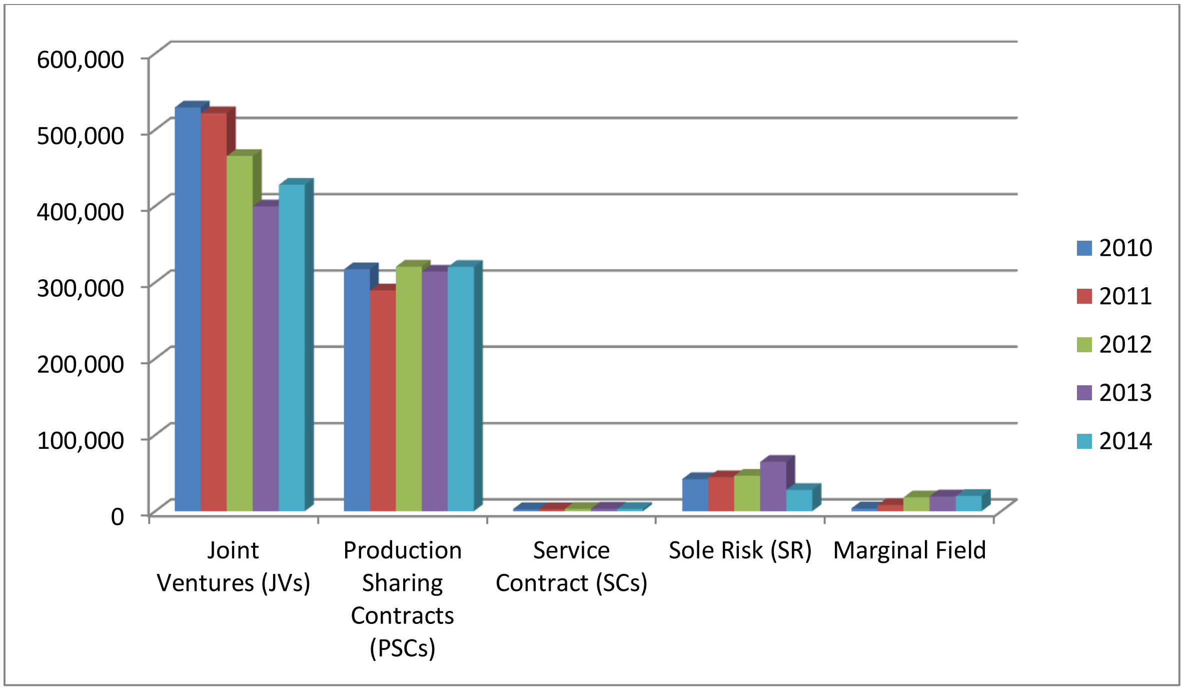


Figure 8-5 Crude Oil Production in Barrels by Operating Arrangements

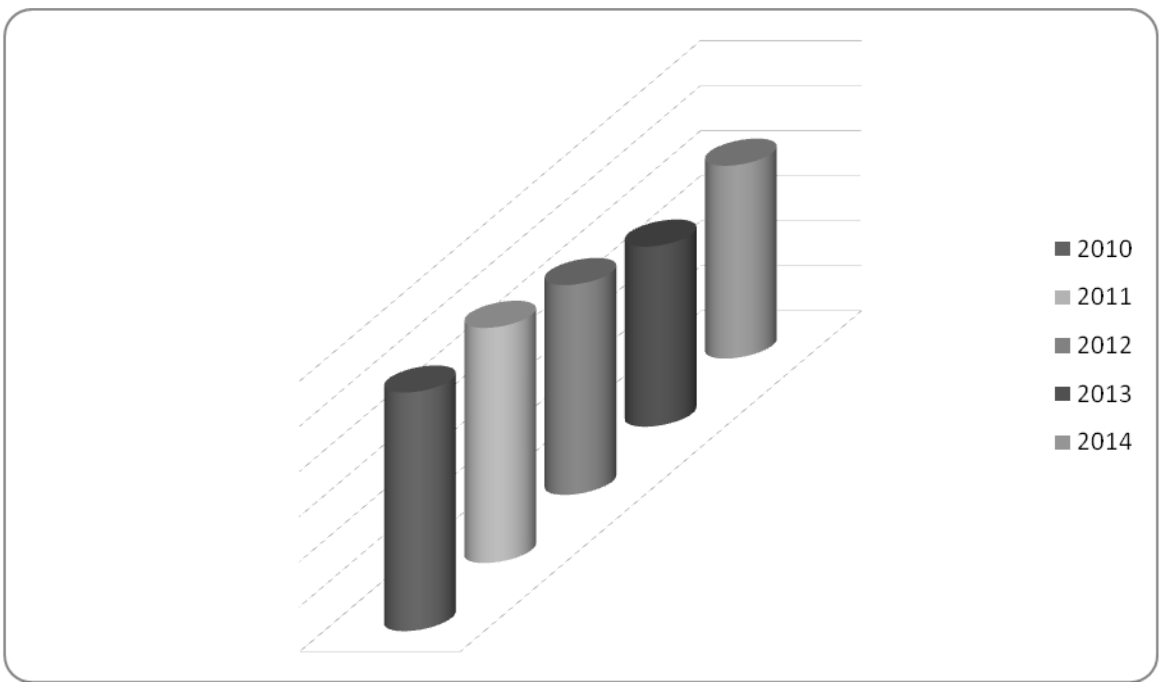


Figure 8-6 2013 JV Production

Joint Venture (JV) production increased by 7% from 399.412 million bbls in 2013 to 427.712 million bbls in 2014. This shows a production increase of 28.300 million bbls.

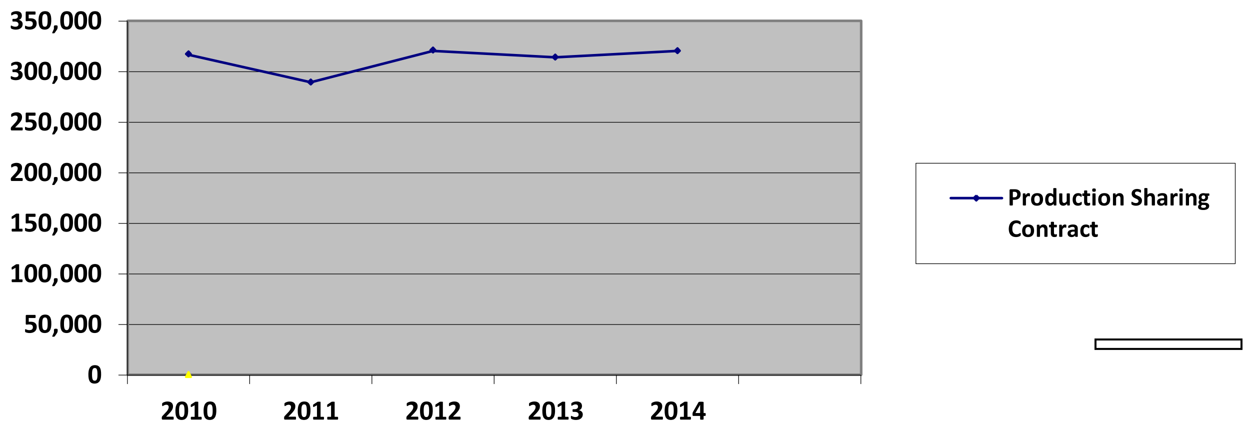


Figure 8-7 2014 PSC Production

Production Sharing Contract (PSC) production increased from 313.935 million bbls in 2013 to 320.200 million bbls in 2014 reflecting a 2% marginal increase with respect to overall crude operation in 2014 in comparison to 2013.

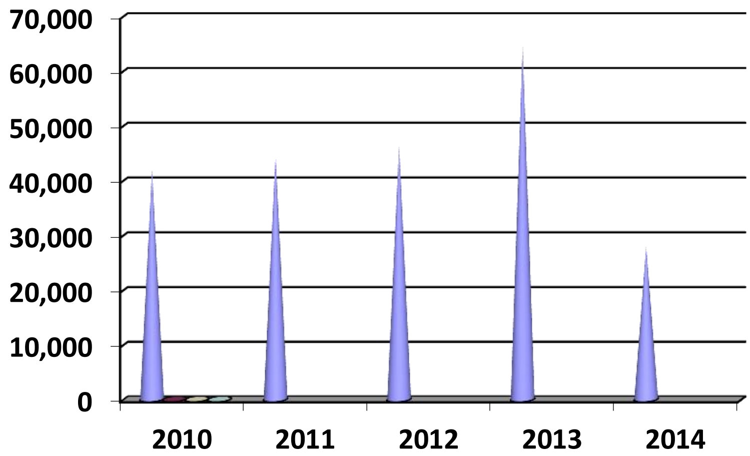


Figure 8-8 2014 Sole Risk Production

Sole Risk production volumes decreased significantly in 2014 as compared to 2013. Production decreased from 69.589 million bbls in 2013 to 27.943 million bbls in 2014 showing a reduction of 57%. This was due to pipeline vandalisation, theft and sabotage.

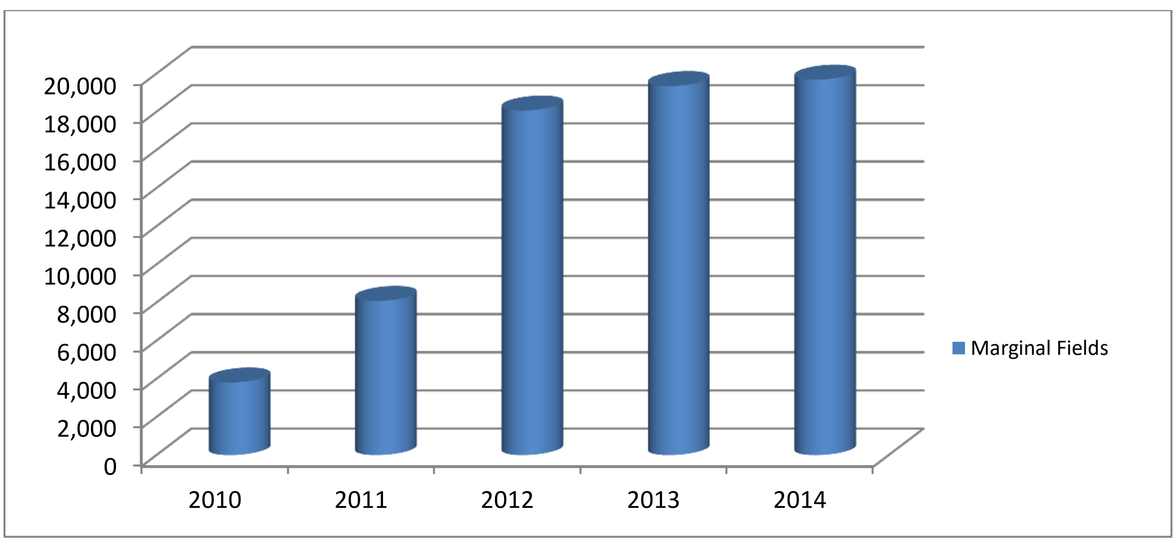


Figure 8-9 2014 Marginal Fields

Marginal fields' production volumes slightly increased from 19.347 million bbls in 2013 to 19.682 million bbls in 2014. This increase of 2% is however insignificant in comparison to increase of 7% recorded in 2013. This shows decreased participation in the upstream operations by indigenous firms in comparison to 2013.

Crude Oil Lifting by Operating Arrangements

The volume of crude oil lifting by operating arrangements is shown in the table below:

Table 8-6 Total Crude Oil Lifting By Operating Arrangements

Total Lifting	2010	2011	2012	2013	2014
	('000 bbls)	('000 bbls)	('000 bbls)	('000 bbls)	('000 bbls)
NNPC Lifting	387,632	385,937	380,621	340,767	287,221
Other JV Operators	235,833	228,375	209,552	167,466	140,491
Production Sharing Contract (PSC)	228,817	198,194	205,382	207,385	320,200
Service Contracts	920	868	2,445	998	3,004
Sole risk (Independent Operators)	40,760	46,655	50,778	65,667	27,942
Marginal field	4,286	7,258	17,868	18,054	19,682
Grand Total	**898,248**	**867,287**	**866,646**	**800,337**	**798,542**

Source: NNPC-COMD

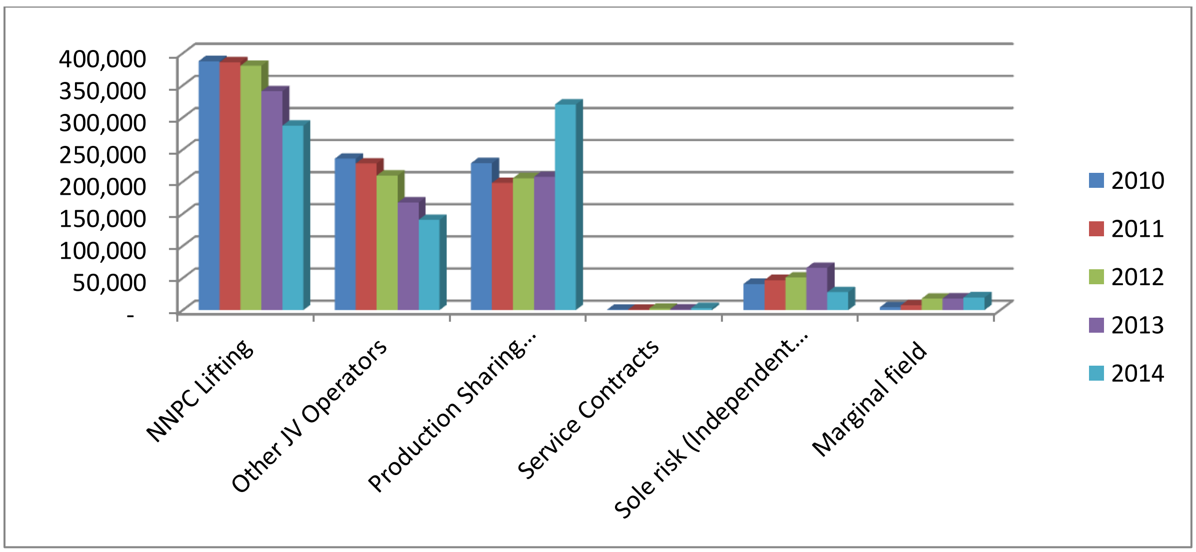


Figure 8-10 Crude oil lifting by Operating Arrangements

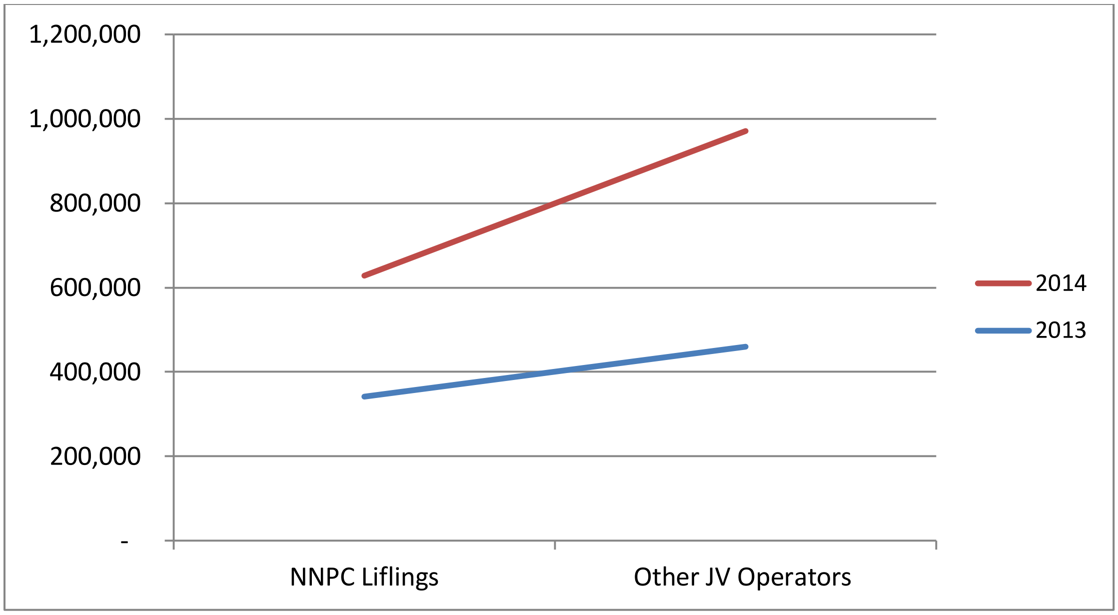


Figure 8-11 Crude Oil Lifting By NNPC and Other JV Operators

Crude oil lifting by NNPC declined by 15.71% while crude oil lifting by Other JV Operators increased by 11.26% in 2014 compared to 2013 performances which corresponds with the marginal drop in production volumes.

Table 8-7 Month by Month Lifting during the Year for all Productions Arrangement

MONTH	CRUDE OIL & CONDENSATES		NNPC		LIFTINGS	COMPANY	TOTAL	LIFTINGS
	PRODUCTION		FEDERATION	DOMESTIC		LIFTINGS	LIFTINGS	Barrels/Day
	Barrels/Month	Barrels/Day(a)	LIFTINGS	REFINERIES	EXPORT			
JANUARY	71,050,121	2,291,939	25,226,519	1,243,838	6,040,403	34,038,285	66,549,045	2,146,743
FEBRUARY	64,503,935	2,303,712	24,149,104	2,917,375	2,778,039	38,776,097	68,620,615	2,450,736
MARCH	66,478,409	2,144,465	24,171,871	2,309,690	2,654,900	35,739,480	64,875,941	2,092,772
APRIL	66,475,018	2,215,834	22,389,952	4,808,800	1,062,854	41,615,195	69,876,801	2,329,227
MAY	69,246,619	2,233,762	25,435,958	5,285,968	2,809,596	32,951,204	66,482,726	2,144,604
JUNE	65,057,548	2,168,585	20,880,198	2,467,834	2,884,428	39,144,453	65,376,913	2,179,230
JULY	63,823,549	2,058,824	17,743,538	924,686	3,314,785	40,341,228	62,324,237	2,010,459
AUGUST	68,096,960	2,196,676	21,234,864	164,707	7,508,865	41,229,496	70,137,932	2,262,514
SEPTEMBER	62,685,497	2,089,517	24,153,067	-	7,470,720	35,494,283	67,118,070	2,237,269
OCTOBER	68,317,214	2,203,781	20,925,600	1,647,473	6,424,366	35,225,305	64,222,744	2,071,701
NOVEMBER	63,598,311	2,051,558	24,181,902	951,196	5,654,233	34,248,443	65,035,774	2,167,859
DECEMBER	69,208,408	2,232,529	20,226,546	-	7,578,141	38,129,208	65,933,895	2,126,900
TOTAL	798,541,589		270,719,119	22,721,567	56,181,330	446,932,677	796,554,693	2,182,342

Source: NNPC-COMD

Total Lifting of Crude Oil by NNPC and other Companies

The percentage lifting between NNPC and other Companies is shown in table 8-8 below.

Table 8-8 Total Lifting Of Crude Oil by NNPC and Other Companies

Total Liftings	2010	% of Lifting	2011	% of Lifting	2012	% of Lifting	2013	% of Lifting	2014	% of Lifting
	Bbl'000		Bbl'000		Bbl'000		Bbl'000		Bbl'000	
NNPC	387,632	43.15%	385,937	44.50%	380,621	43.92%	340,767	42.58%	287,221	35.97%
Other Companies	510,616	56.85%	481,350	55.50%	486,025	56.08%	459,570	57.42%	511,321	64.03%
TOTAL	**898,248**	**100%**	**867,287**	**100%**	**866,646**	**100%**	**800,337**	**100%**	**798,542**	**100%**

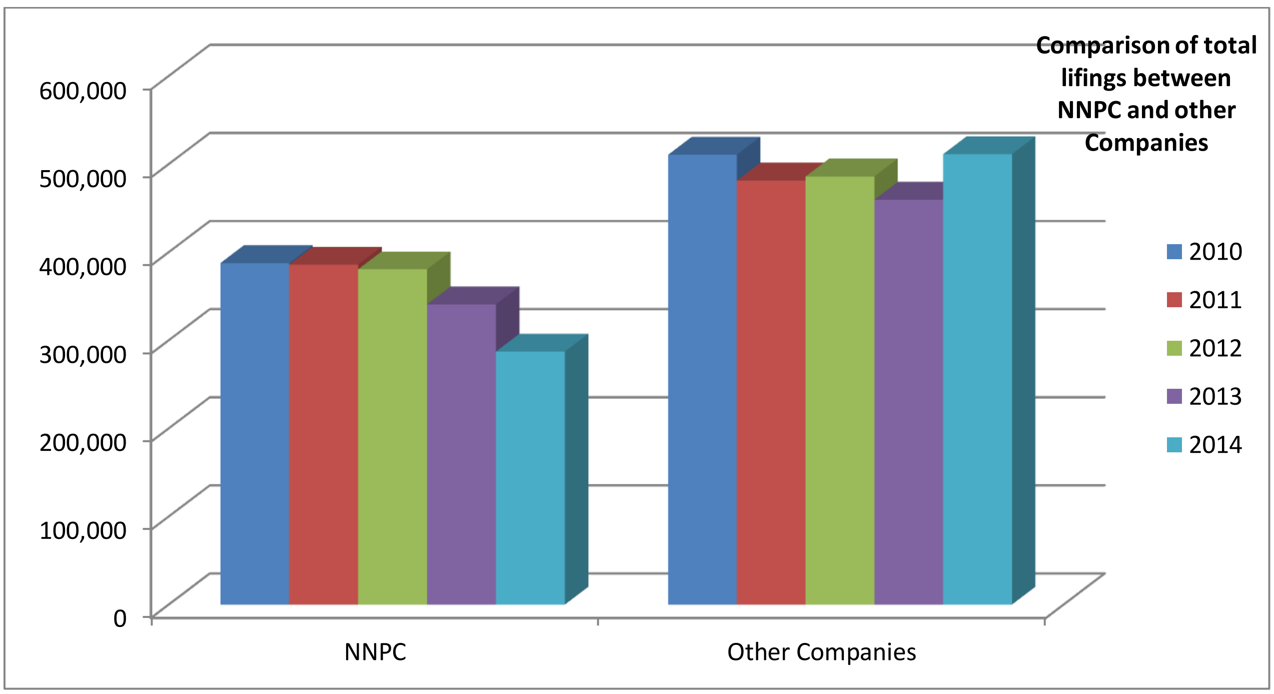


Figure 8-12 Total Lifting By NNPC and Other Companies

8.2 Disaggregated Oil Flows

Comparison of Crude Oil Production between Companies and DPR

Table below shows the comparison between the volumes of crude oil produced by stream as reported by the companies, NNPC and DPR in 2014.

Table 8-9 Comparison of Production between NNPC and DPR

STREAM	NNPC	DPR
ABO (PSC)	8,010,447	8,298,092
AGBAMI (PSC)	87,280,118	86,171,532
AKPO (PSC)	55,359,122	54,933,282
ANTAN		18,112,986
AMENAM BLEND	43,918,145	-
ASAMARATORO	462,199	-
BB(MCA)	2,684,510	-
BB(sc)	3,004,571	-
BL(MCA)	8,168,338	-
BONGA(PSC)	58,241,166	58,282,931
BONNY LIGHT	70,659,326	77,154,187
BRASS BLEND	30,673,918	36,400,244
EA (af)	7,206,421	7,028,594
EBOK	10,394,902	9,627,031
EKANGA ZAFIRO		3,763,224
ERHA(psc)	36,159,773	35,959,867
ESC	70,617,653	-
ESCRAVOS	70,250	70,937,602
FB (ELCREST)	120,356	-
FB (FHC)	350,618	-
FB (NECONDE)	6,645,770	-
FB (NPDC)	17,547,372	-
FB(SEPLAT)	7,240,197	-
FORCADOS BLEND	36,275,559	68,076,995
IMA	312,162	776,133
ODUDU		26,478,183
OKONO (AENR)	18,799,185	12,053,749
OKORO		5,608,008
OKWORI		8,460,061

OKWB(PSC)	8,204,336	
OKWUIBOME (PSC)	4,752,962	
OSO CONDENSATES	7,295,750	
OYO BLEND	413,759	615,824.00
PENNINGTON LIGHT	5,708,168	5,834,616.00
QIL(MCA)	88,720,351	
QUA IBOE LIGHT	39,020,799	134,322,114.00
TULJA		4,202,870.00
UKPOKITI	345,682	546,255.00
USAN (PSC)	44,561,710	44,518,002.00
YOHO	19,315,994	18,971,337.00
	798,541,589	**797,133,719**

Source: NNPC Crude Production by Stream Template, DPR Reconciled Crude Production Template

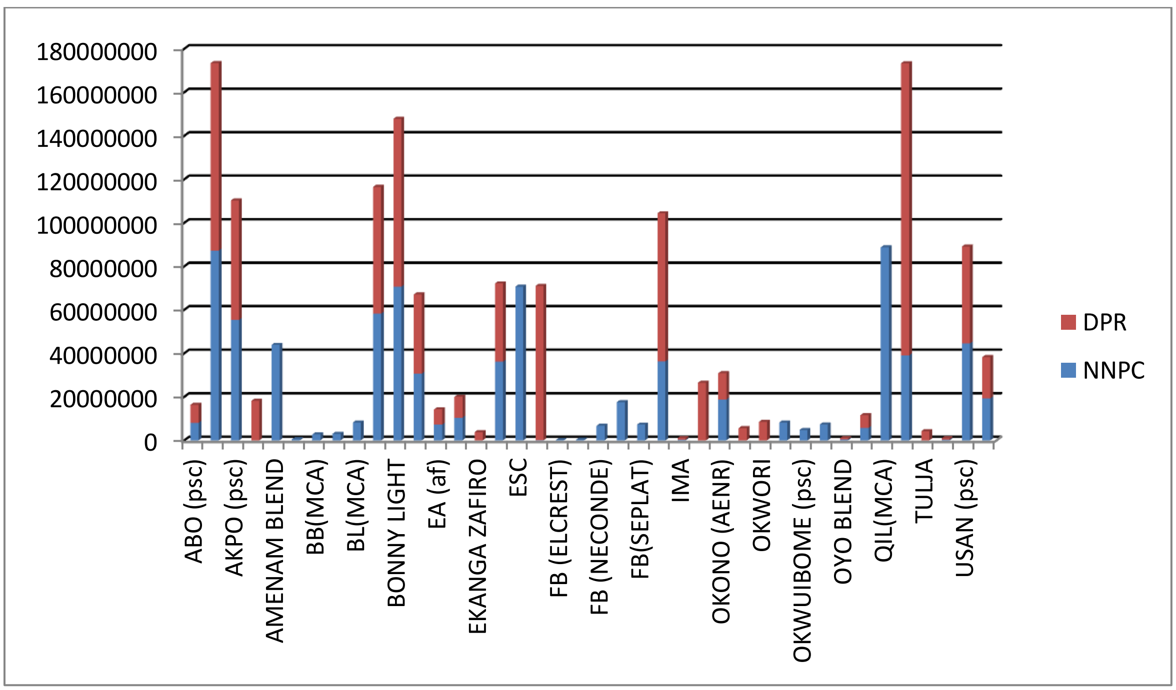


Figure 8-13 Comparison of Fiscalised Crude Production by Stream

Table 8-10 Comparison of Production between NNPC and DPR

STREAM	NNPC	DPR	Difference
ABO (PSC)	8,010,447	8,298,092	(287,645)
AGBAMI (PSC)	87,280,118	86,171,532	1,108,586
AKPO (PSC)	55,359,122	54,933,282	425,840
ANTAN		18,112,986	(18,112,986)
AMENAM BLEND	43,918,145		43,918,145
ASAMARATORO	462,199		462,199
BB(MCA)	2,684,510		2,684,510
BB(sc)	3,004,571		3,004,571
BL(MCA)	8,168,338		8,168,338
BONGA(PSC)	58,241,166	58,282,931	(41,765)
BONNY LIGHT	70,659,326	77,154,187	(6,494,861)
BRASS BLEND	30,673,918	36,400,244	(5,726,326)
EA (af)	7,206,421	7,028,594	177,827
EBOK	10,394,902	9,627,031	767,871
EKANGA ZAFIRO		3,763,224	(3,763,224)
ERHA(PSC)	36,159,773	35,959,867	199,906
ESC	70,617,653		70,617,653
ESCRAVOS	70,250	70,937,602	(70,867,352)
FB (ELCREST)	120,356		120,356
FB (FHC)	350,618		350,618
FB (NECONDE)	6,645,770		6,645,770
FB (NPDC)	17,547,372		17,547,372
FB(SEPLAT)	7,240,197		7,240,197
FORCADOS BLEND	36,275,559	68,076,995	(31,801,436)
IMA	312,162	776,133	(463,971)
ODUDU		26,478,183	(26,478,183)
OKONO (AENR)	18,799,185	12,053,749	6,745,436
OKORO		5,608,008	(5,608,008)
OKWORI		8,460,061	(8,460,061)
OKWB(PSC)	8,204,336		8,204,336
OKWUIBOME (PSC)	4,752,962		4,752,962
OSO CONDENSATES	7,295,750		7,295,750

OYO BLEND	413,759	615,824.00	(202,065)
PENNINGTON LIGHT	5,708,168	5,834,616.00	(126,448)
QIL(MCA)	88,720,351		88,720,351
QUA IBOE LIGHT	39,020,799	134,322,114.00	(95,301,315)
TULJA		4,202,870.00	(4,202,870)
UKPOKITI	345,682	546,255.00	(200,573)
USAN (PSC)	44,561,710	44,518,002.00	43,708
YOHO	19,315,994	18,971,337.00	344,657
			-
	798,541,589	**797,133,719**	1,407,870

Table 8-11 Disaggregated Export Data by region

STREAM (Production in Barrels)	NNPC	DPR
Western Zone		
ABO (PSC)	8,010,447	8,298,092
EA (af)	7,206,421	7,028,594
ESCRAVOS	70,250	70,937,602
FORCADOS BLEND	36,275,559	68,076,995
OYO BLEND	413,759	615,824
PENNINGTON LIGHT	5,708,168	5,834,616
TULJA		4,202,870
UKPOKITI	345,682	546,255
TOTAL	**58,030,286**	**165,540,848**
Lagos Zone		
AGBAMI (PSC)	87,280,118	86,171,532
AKPO (PSC)	55,359,122	54,933,282
BONGA(PSC)	58,241,166	58,282,931
ERHA(PSC)	36,159,773	35,959,867
USAN (PSC)	44,561,710	44,518,002
TOTAL	**281,601,889**	**279,865,614**
Eastern Zone		
STREAM	**NNPC**	**DPR**
ANTAN		18,112,986
AMENAM BLEND	43,918,145	
ASAMARATORO	462,199	
BB(MCA)	2,684,510	
BB(sc)	3,004,571	

BL(MCA)	8,168,338	
BONNY LIGHT	70,659,326	77,154,187
BRASS BLEND	30,673,918	36,400,244
EBOK	10,394,902	9,627,031
EKANGA ZAFIRO		3,763,224
ESC	70,617,653	
FB (ELCREST)	120,356	
FB (FHC)	350,618	
FB (NECONDE)	6,645,770	
FB (NPDC)	17,547,372	
FB(SEPLAT)	7,240,197	
IMA	312,162	776,133
ODUDU		26,478,183
OKONO (AENR)	18,799,185	12,053,749
OKORO		5,608,008
OKWORI		8,460,061
OKWB(PSC)	8,204,336	
OKWUIBOME (PSC)	4,752,962	
OSO CONDENSATES	7,295,750	
QIL(MCA)	88,720,351	
QUA IBOE LIGHT	39,020,799	134,322,114
YOHO	19,315,994	18,971,337
TOTAL	**458,909,414**	**351,727,257**

Table 8-12 Production Volumes by Oil Companies

S/N	Production Companies	Production (Barrels)	%
1	ADDAX	25,835,163	3.24%
2	Agip Energy	3,004,571	0.38%
3	AMNI	6,316,784	0.79%
4	ATLAS	235,841	0.03%
5	Brtttania	448,891	0.06%
6	Chevron	161,161,357	20.18%
7	Consolidated Oil	3,705,860	0.46%
8	Dubri	70,250	0.01%
9	Elf	32,855,702	4.11%
10	Energia	1,400,292	0.18%
11	ESSO EXP&PRO NIG LTD	36,159,773	4.53%
12	Express Petroleum	109,841	0.01%
13	Midwester Oil Limited	3,481,691	0.44%

14	Mobil	154,352,894	19.33%
15	Moni Pulo Limited	1,204,597	0.15%
16	NAOC	24,441,209	3.06%
17	Newcross	429,553	0.05%
18	Nig. Agip Expel (NAC)	8,424,206	1.05%
19	Niger Delta PET Res Ltd	918,907	0.12%
20	NPDC/SEPLAT	46,312,718	5.80%
21	Oriental Energy	10,394,902	1.30%
22	Pan Ocean	1,610,674	0.20%
23	Pillar Oil	604,793	0.08%
24	Platform Petroleum Limited	759,658	0.10%
25	Prime Energy	462,199	0.06%
26	SA Petrol/Total Upstream Nigeria	55,359,122	6.93%
27	SEEPCO	4,752,962	0.60%
28	Shell	107,347,106	13.44%
29	SNEPCO	58,241,166	7.29%
30	Texaco	2,366,658	0.30%
31	TUPNI	44,561,710	5.58%
32	Walter Smith pet Oil Limited	1,210,539	0.15%
		798,541,589	**100%**

The table above shows the volume of barrels produced by 32 oil companies in 2014.

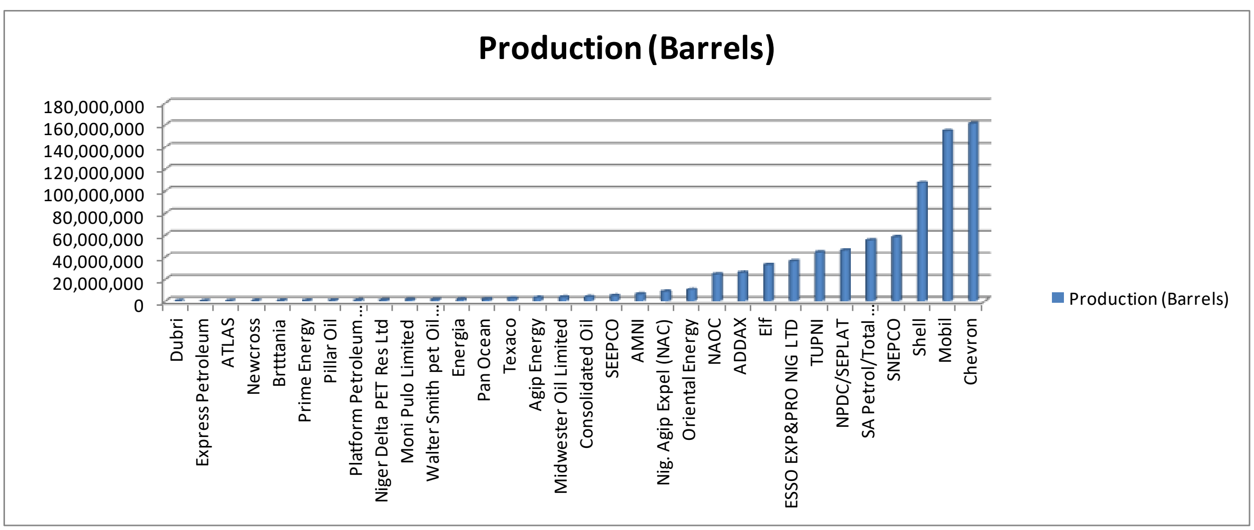


Figure 8-14 2014 Production Volumes by Oil Companies

Chevron produced 161,161,357 barrels which accounted for 20.18% of the total production volume in 2014 and closely trailed by Mobil with 154,352,894 barrels resulted into 19.33% of the total production volume while Shell produced 13.44% of the total production with 107,347,106 barrels. The trio accounted for 52.95% of the total production volume.

Domestic Lifting

The Federal Government allocates 445,000 bbls/day for domestic crude processing at the local Refineries based on their combined installed capacity. The table below shows Domestic Crude allocation according to COMD's Domestic Crude Sales schedule for 2014.

Table 8-13 PPMC Lifting

PPMC Lifting (Mmbbls)	**2014**	**2013**
Supply to Refineries	**26.47**	**38.293**
PPMC Crude Oil Exchange	56.43	59.464
Offshore Processing	21.11	24.665
Export as unprocessed PPMC Crude	56.18	36.392
A. Total PPMC liftings	160.20	158.814
B. Supposed PPMC yearly allocation of 445,000 bpd	162.425	162.425
Difference (B-A)	2.22	3.611

Domestic crude oil allocation is made up of Crude oil supplied to the refineries, crude oil used for offshore processing/Swap arrangements and exported unprocessed crude.

The refineries put together have not been able to refine up to 30% of the Domestic Crude Oil allocation of 445,000 bpd thus have resulted to Alternative production arrangements such as Offshore Processing and Swap in order to meet up with the increasing local demand for refined petroleum products. These arrangements have so far not been profitable to the Government and people of Nigeria even though the corporation (NNPC) considered it as the best option.

The table below shows the percentage of domestic allocation which is refined locally.

Table 8-14 Domestic crude allocation proportion refined from total refinery delivery

Domestic crude allocation proportion refined from total refinery delivery			
Year	Domestic Allocation	Refinery balances	% refined
2010	166,523	34,703	20.84
2011	164,454	45,394	27.6
2012	162,343	34,927	21.51
2013	158,814	38,293	24.11
2014	160,201	26,474	16.53

The table below gives a summary of the various channels of how the domestic crude oil allocation is utilized. This includes off-shore processing, production and crude exchanges aside the deliveries to local refineries

Table 8-15 Utilization of Allocated Crude

Utilization of allocated crude						
	Allocated Crude	Refinery Delivery	Export	Offshore Processing	Crude Exchange	Product Exchange
	Bbl'000	**Bbl'000**	**Bbl'000**	**Bbl'000**	**Bbl'000**	**Bbl'000**
2010	166,523	34,703	97,792	27,336	950	5,742
2011	164,454	45,394	39,341	23,688	-	56,032
2012	162,343	34,927	49,214	22,755	-	55,447
2013	158,814	38,293	36,392	24,665	-	59,464
2014	160,201	26,474	56,181	21,111	-	56,435

Domestic Crude Lifting between Refineries and Export

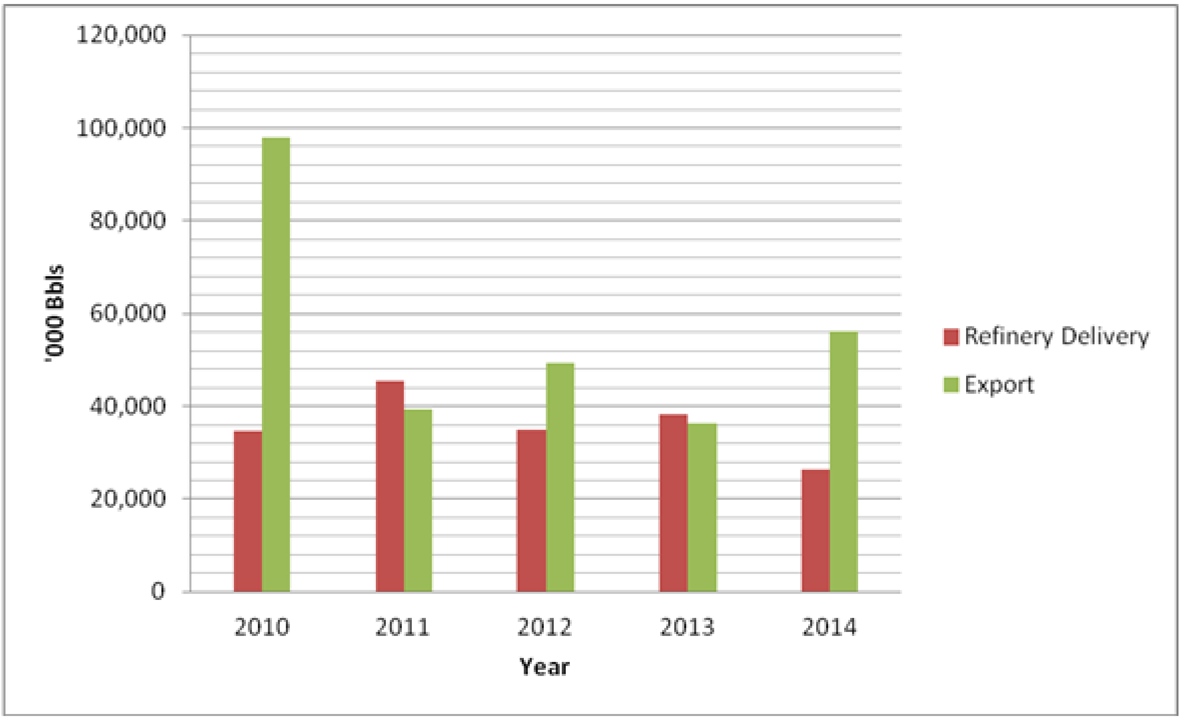


Figure 8-15 Showing domestic crude lifting between refineries and export

From the tables above, the refineries were able to refine a total of **26.474 million bbls** in 2014 out of **160.201 million bbls** of the allocated domestic crude which is **16.53%** of the total domestic crude allocation.

8.3 Petroleum Products Mass Balance Reconciliation

Product Importation and Distribution

The Nigeria National Petroleum Corporation (NNPC) has four refineries with a design capacity of 445,000 barrels per day. The Federal Government allocates this quantity of crude to NNPC for its domestic liftings.

The crude is pumped through the pipelines from the oil terminals to the refineries Crude-intake tank farms where it is then refined into petroleum products.

The individual refining capacities of the refineries, in barrels per stream day (BPD) are as follows:

Table 8-16 Total Refining Capacity in Nigeria

Refinery	Capacity bpd
Port Harcourt Refining Company (PHRC) – Old	65,000
Port Harcourt Refining Company (PHRC) - New	150,000
Warri Refining and Petrochemical Company Limited (WRPC)	120,000
Kaduna Refining and Petrochemical Company (KRPC)	110,000
Total	445,000

Source: PPMC

The PHRC old refinery has been moribund for about 20 years but the allocation of 65,000 bbls still continues. The performances of the other three refineries have fallen below designed capacity partly due to aging and inadequate maintenance, necessitating the external sourcing of refined petroleum products to address increasing domestic demand. This alternative production arrangement commenced in 2010 with the introduction of Offshore Processing Arrangement (OPA) with Nigermed and SIR and in 2011 PPMC introduced the SWAP arrangement with four contractors. (DUKE-OIL AITEO, ONTARIO, TRAFIGURA and TELEVERAS).

The OPA contract with Nigermed was discontinued at the end of 2010 even though **THIS WAS THE ONLY CONTRACT with gains.** PPMC continued OPA with SIR and SWAP arrangements despite the continual losses recorded in these contracts. The Audit was unable to obtain written explanations from PPMC as to why the Nigermed contract with gains was discontinued while the SIR and Swap contracts with huge losses is continued.

Crude Allocation to Refineries

The table below gives a summary of the various channels of how the domestic crude oil allocation is utilized. This includes off-shore processing, production and crude exchanges aside the deliveries to local refineries.

Table 8-17 Summary of Domestic Crude Oil Utilization 2010-2014

	Allocated Crude	Refinery Delivery	Export	OPA	Crude Exchange	SWAP
	Bbl'000	Bbl'000	Bbl'000	Bbl'000	Bbl'000	Bbl'000

2010	166,523	34,703	97,792	27,336	**950	5,742
2011	164,454	45,394	39,341	23,688	-	56,032
2012	162,343	34,927	49,214	22,755	-	55,447
Total	**493,320**	**115,024**	**186,347**	**73,779**	-	**117,221**
Percentage	**100%**	**23.32%**	**37.77%**	**14.96%**	-	**23.76%**
2013	158,814	38,293	36,392	24,665	-	59,464
Percentage	**100%**	**24.11%**	**22.91%**	**15.53%**	**-**	**37.44%**
2014	160,201	26,474	56,181	21,111	-	56,435
Percentage	**100%**	**16.53%**	**35.07%**	**13.18%**		**35.23%**

***In 2010, 950,000 bbls was exchanged for heavy crude for KRPC processing.*

Audit issue on Crude Allocation to Refineries

From the above, the refineries capacity utilisation was only **16.53%,** which means in 2014 out of a total allocation of **160.201 million barrels**, only **26.474 million barrels** were processed in the country. The balance of **83.47%** was either processed outside the country or exported by NNPC.

Implication

These arrangements, has so far not been profitable to the Nigeria Government even though the corporation (NNPC) insists it's the best option.

Recommendations

- As a matter of urgency, the Federal Government should privatize the refineries
- The restiveness in the Niger delta should be addressed
- The crude allocation to the NNPC for the refineries should be limited to their current capacity utilization.
- The allocation to the old moribund Port Harcourt Refinery should be stopped forthwith.

8.4 Report on Crude Oil Theft

Information from NNPC Annual Statistical Bulletin reported an increase in Pipeline vandalism by 4.54% over the previous year. A total of 3,732 line breaks was reported on NNPC pipelines out of which 3,700 was as a result of vandalism, while 32 cases were due to system deterioration resulting in a loss of 355.69 thousand mt. of petroleum products worth about N44.75 billion. Also 1.08 million barrels of Crude oil worth about N14,846.71 million was lost in the same period. There were 32 cases of fire incidents during the year under review.

Referenced linked to the report is provided
https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&cad=rja&uact=8&ved=0ahUKEwiplZmHmYrRAhWBu48KHZi_AtYQFggbMAA&url=http%3A%2F%2Fwww.nnpcgroup.com%2FPortals%2F0%2FMonthly%2520Performance%2F2014%2520ASB%25201st%2520Edition%2520(2).pdf&usg=AFQjCNG0IdPNJ2_PPA3Bzg899unpjEnkfQ&sig2=-yeZgJrMzKSuy_UCE0LMuA

8.5 Crude Oil Production to Revenue Streams

The oil and Gas industry is made up of several operators and guided and monitored by strict laws from regulators. The relationship and activities are interwoven but the final output is revenue that comes to the respective parties.

After production Crude oil and gas are normally allocated to the Federation from Joint Venture operations through the NNPC in accordance with the Federation’s equity share or participatory interests in each of the Joint Venture operations. The Federation is also entitled to crude oil and gas from In-Kind payments for Royalty and Petroleum Profits Tax (PPT) as well as Profit Oil from Production Sharing Contract (PSC) operations in the country. Furthermore, Oil and Gas Revenue is derived by the Federation from residual crude oil and gas production from JV fields under certain Alternative Funding arrangements such as Third-Party Financing arrangements and Carry Agreements (CAs) / Modified Carry Agreement (MCAs).

The NNPC-COMD is saddled with the responsibility to lift, market and sell all Government crude oil entitlements on behalf of the Federation from the above sources. The proceeds from the sale of the various lifting are, however, accounted for through designated foreign and local bank accounts with JP Morgan Chase and CBN for each of the parties (FIRS, DPR, NNPC, etc.). Thus, The Federation equity crude oil and gas is accounted for directly by the NNPC, while the sales proceeds, with respect to crude oil and gas lifting for Royalty and Petroleum Profits Tax / Companies Income Tax as well as Education Tax, are accounted through bank accounts opened and maintained by the DPR and FIRS respectively.

Revenue Flows from NNPC Crude Oil lifting are for the Account of various Parties such as the Federation Entitlement, Federal Inland Revenue Service (FIRS), Department of Petroleum Resources (DPR), Modified Carrying Agreement (MCA) Escrow Accounts, NPDC Account, Pan Ocean Account (after deduction of Debt Service Charge). Production volumes are allocated based on both company and NNPC entitlements while NNPC entitlement liftings are on behalf of FIRS, DPR, Federation (Profit Oil or Equity) and alternative Funding Partners. NPDC entitlements are also lifted by NNPC but payments made into NPDC account.

Figure 8-16 captures the total process flow for production through to cash conversion in the industry.

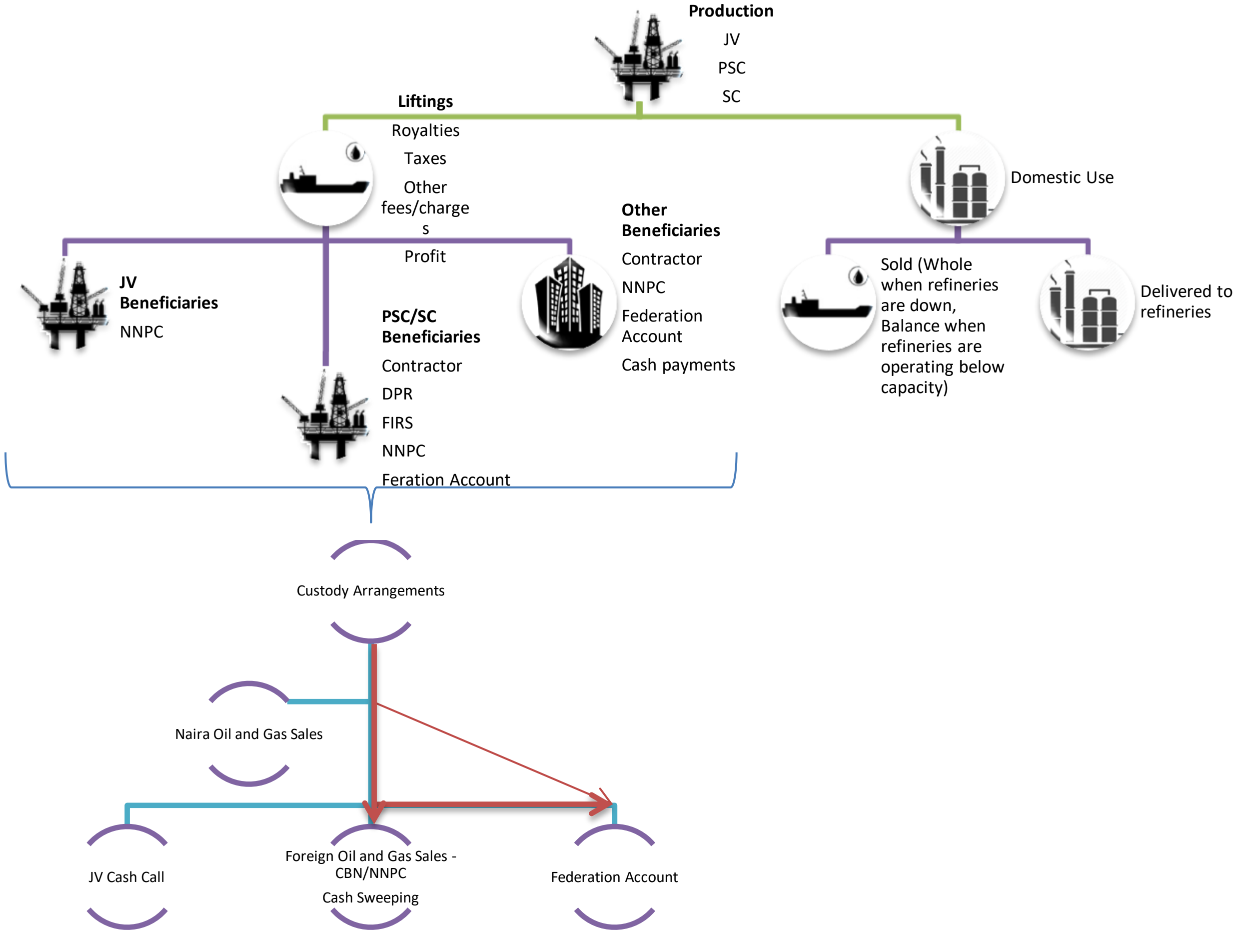


Figure 8-16 Production to Sales Flow

8.6 Department of Petroleum Resources

DPR Offices are nationwide represented by Zonal and field offices. DPR's Primary role is to regulate and monitor Oil and Gas activities. The department also administers and provides accurate report on production volumes and gas reserves by oil producers.

DPR maintains a national data repository situated at the Lagos office which is responsible for the maintenance administration to support effective monitoring of oil companies.
The Stake holders DPR relate with within the industry are FIRS, NNPC, CBN, International organizations, Service companies and Oil companies.

The regulatory activities of the DPR include:

- Monitoring the Petroleum Industry operations to ensure consistency with national goals and international standards and practice.
- Processing industry applications for leases, licences and permits.
- Ensure timely and accurate payments of Rents, Royalties and other revenues due to Government

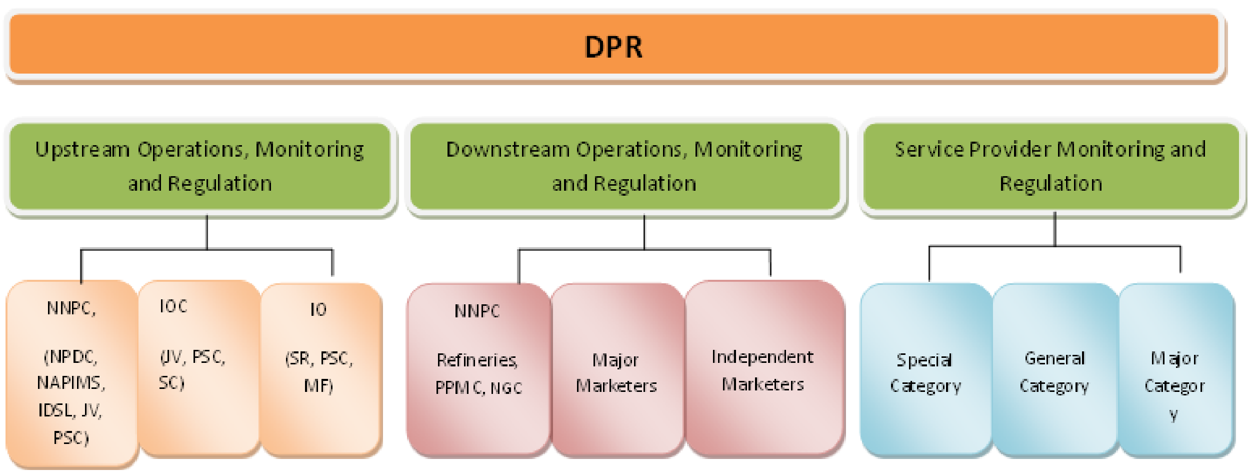


Figure 8-17 The Nigerian Oil and Gas Industry – Institutional Organogram

Source: DPR 2014 Oil and Gas Industry Annual Report

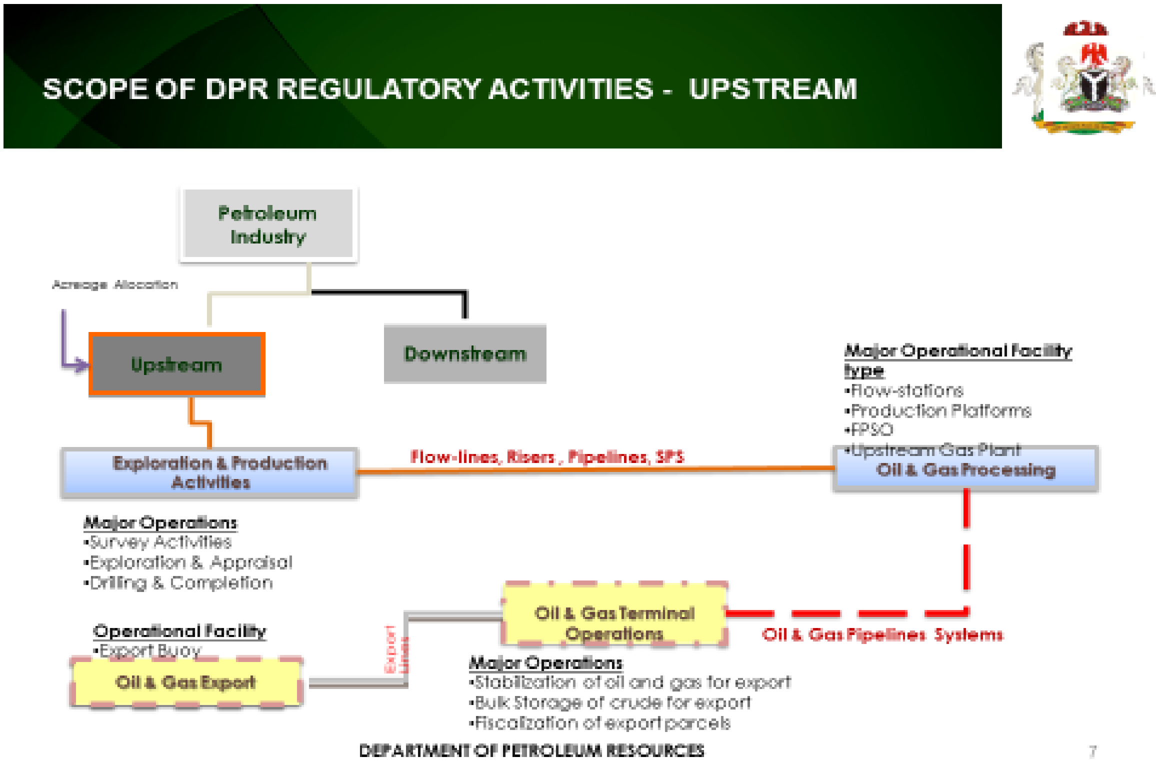


Figure 8-18 Scope of DPR Regulatory Activities - Upstream

Source: DPR

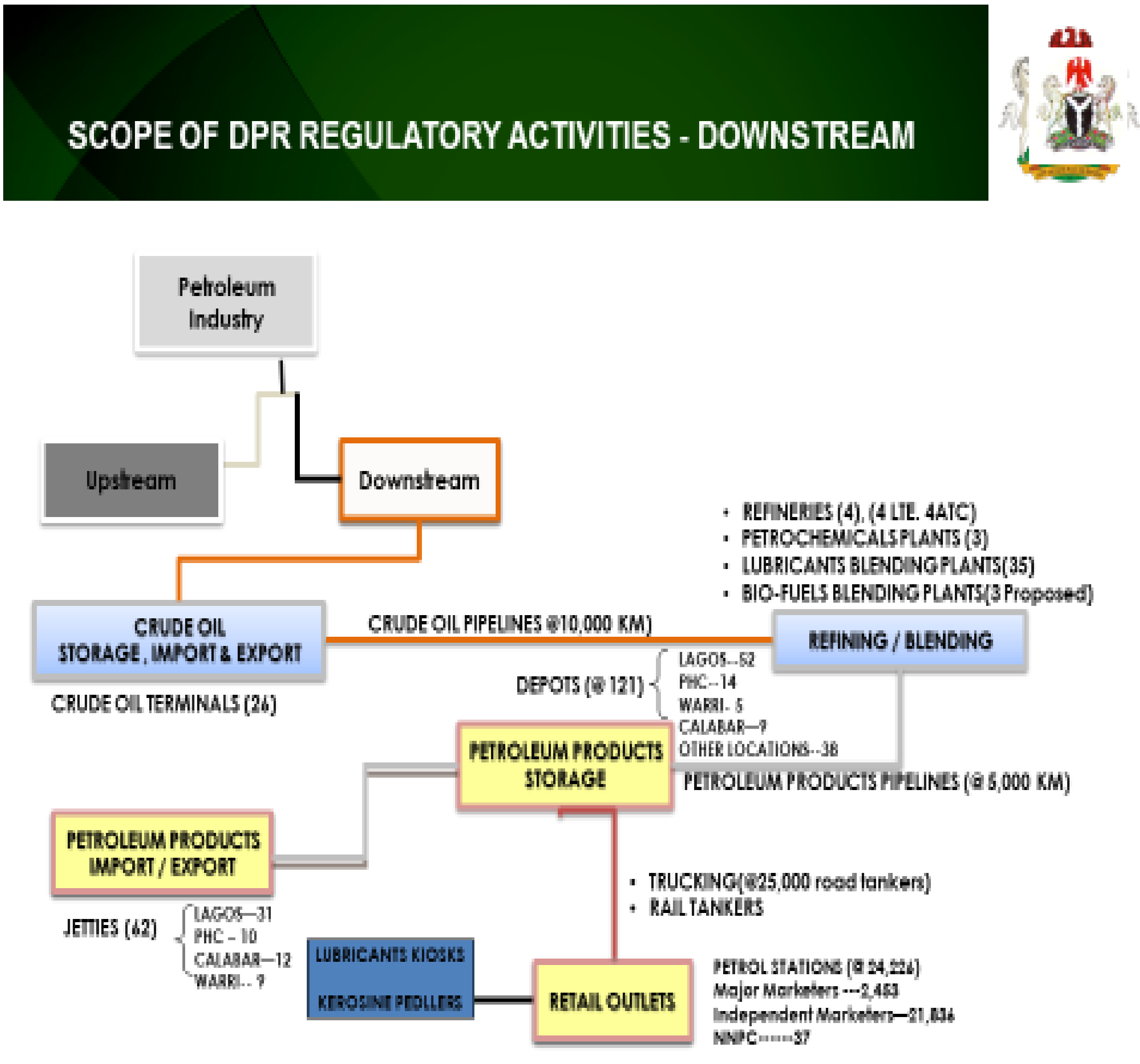


Figure 8-19 Scope of DPR Regulatory Activities - Downstream

Source: DPR

The Scope of DPR's regulatory activities

Upstream

- Exploration and production activities
- Oil and gas processing
- Flow station
- Production Platform
- FPSO (used at deep offshore Locations where platforms cannot be used)

- Oil and Gas terminal Operations
- Export

Downstream

- Crude storage, import and export
- Refinery
- Petroleum products
- Retail Outlets

Payment Process

DPR has designation accounts for each of the payment type applicable fir the oil & gas industry– gas, royalty, etc into which entities make direct payments after being advised by DPR.

Paying entities are expected to clearly state the name of the company, the payment being made and the period the payment covers.

DPR gets statement from JP Morgan Chase on payments made by these entities on a regular basis bulk of which is Naira denominated. DPR gets notified at the end of the week for all payments made within the week and then sends out receipts in hard copy to the payers. According to DPR, there is an on-going plan to automate the process.

Computation of Amount due to each Entity

Amount payable by each entity is computed based on volume, gas flared and rentals. Payments made by entities are entered into templates and any gap detected will require DPR to write the entity (ies) involved informing them of the need to bring payments to date. This activity is carried out on a regular basis. One of the requirements of DPR is that December liabilities should have been settled by February of the following year.

Basis of Computation

- Concession Rental - computed based on acreage.
- Oil royalty - computed using oil volume and production, API.
- Gas royalty - computed from the value of gas sold as obtained from invoices.
- Gas flare penalty is computed on a monthly basis per entity. In the case of a sole risk, the owner of the concession is accountable while the contractors are held accountable in the case of a PSC. In the case of a JV however, all parties are accountable for the payment according to equity. A forum is provided where parties sign off amount to pay.

Companies are also allowed to conduct self-assessment to ensure what is due is paid and Pioneer status is given by the Ministry of Trade and Investment.

Enforcement of Payments

DPR ensures that companies comply with regulatory payments through the following means:

- DPR may stop attending to the company's request
- they don't go for inspection,
- DPR stops the company from lifting,
- DPR may also seize the cargo and sell off the crude as last resort as provide by the Petroleum ACT.

The Revenues Collected by DPR

1. Signature bonus – money paid by winners of concession granted
2. Concession Rental – this is the money payable by owners of a concession and this is paid on an annual basis either by an OPL or OML holder. As provided by the petroleum drilling regulation, the rate for OPL is $10 per Square meters while for OML is $20 per Square Kilometres (on conversion). After 10 years of conversion to OML, the rate goes down from $20 to $15 per square kilometers. Upon conversion from OPL to OML, the company relinquishes a portion of the acreage and as such may not have the initial acreage they had when they were operating with an OPL.
3. Royalty on Oil – this is the money paid to the Government as the owner of the resources. The rate charged depends on production as stipulated by the contract type and Gas Sales. Royalty is paid on a monthly basis

Basis for Calculation

OIL ROYALTY

The Petroleum Act and the Petroleum (Drilling and Production) Regulations and its Amendments provide for Oil Royalty

PARAMETERS

PRODUCTION VOLUME (V)

CRUDE OIL PRICE (P) i.e. Official selling price or the New Fiscal Price

API GRAVITY OF THE OIL (Which relates to the Price, API gravity, is a measure of how heavy or light a petroleum liquid is compared to water: if its API gravity is greater than 10, it is lighter and floats on water; if less than 10, it is heavier and sinks)

ROYALTY RATE (R) (Depending on the terms & Terrain as provided in the Petroleum Drilling & Prod Regulation)

OIL ROYALTY = V*P*R

ROYALTY ON GAS SALES

The Petroleum Act provides for Royalty on Gas Sales
Royalty on Gas Sale refers to the Sum of money paid by a holder of a Concession to the Federation based on the value of the quantity of Gas that is sold from the fields within the Concession in line with the following fiscal terms:
7% OF GAS SALE (ON SHORE)
5% OF GAS SALE (OFFSHORE)
Parameters
Royalty Rate
Value of Gas Sold
GAS SALES ROYALTY = R*VGS

GAS FLARE PAYMENTS
Associated Gas Re injection Act Provides for Gas Flare Payments:
Parameters
Gas Flare Volume
Penalty Rate----N10/Mscf
Gas Flare Payment = PR*GFV

8.7 The Nigeria National Petroleum Corporation

The Nigeria National Petroleum Corporation (NNPC) since its establishment in 1977 has been the primary vehicle through which the Nigerian Government has carried out its commercial ventures in the Nigerian oil and gas industry. The NNPC is vested with the exclusive responsibility for upstream and downstream development, which entails exploiting, refining, and marketing Nigeria's crude oil. NNPCs oil and gas operations are undertaken both in upstream and downstream operations.

The NNPC operates through the Department of Petroleum Resources (DPR) and its subsidiaries to ensure that the companies operating within the industry comply with the industry regulation, process applications for licenses, lease and permits as well as to establish and enforce environmental regulations.

These subsidiaries consist of companies involved in Exploration and Production (E&P), Gas Development, Refining, Distribution, Petrochemicals, Engineering and Commercial Investment and they are:

- National Petroleum Investment Management Services (NAPIMS)
- Nigeria Gas Company Limited (NGC)
- Nigeria Petroleum Development Company Limited (NPDC)
- Nigeria Engineering and Technical Company Limited (NETCO)
- Integrated Data Services Limited (IDSL)
- Pipeline and Product Marketing Company (PPMC)

- Kaduna Refining and Petrochemical Company Limited (KRPC)
- Port Harcourt Refining Company Limited (PHRC)
- Warri Refining and Petrochemical Company Limited (WRPC)
- Hydrocarbon Services (Nigeria) Limited (HYSON)
- Nigeria Liquefied Natural Gas Limited (NLNG)
- Duke Oil
- NNPC Retail

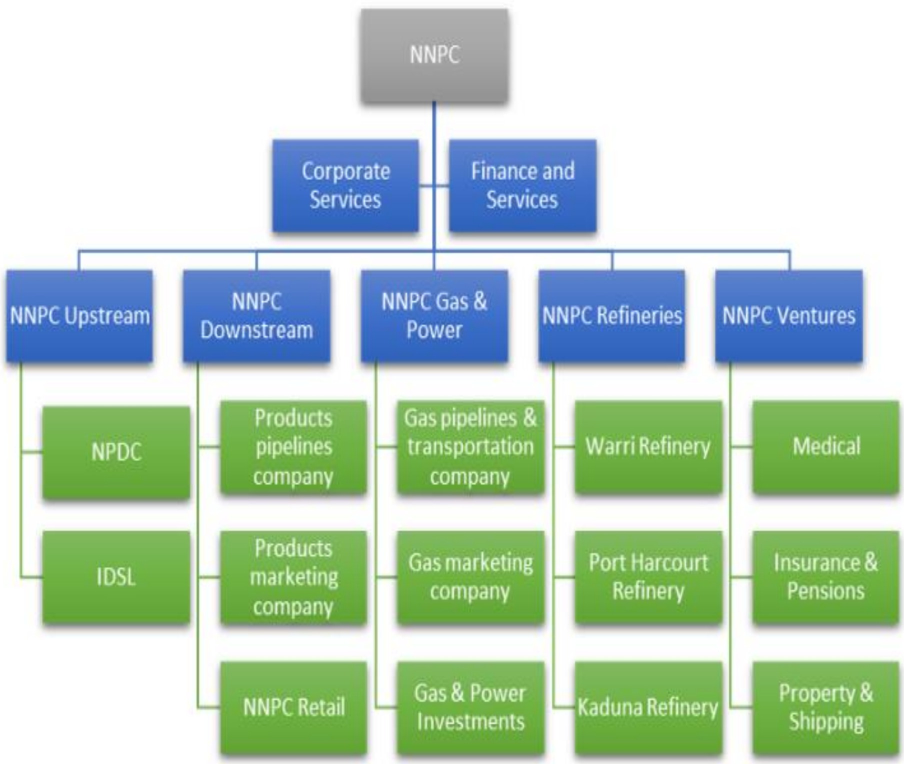


Figure 8-20 NNPC Group Structure as at 2014

Source: Petroleum Bill Industry.com

Crude Oil Marketing Department (COMD)

COMD is a strategic business unit under the NNPC responsible for the sales and marketing of equity crude. The department is divided into four divisions.

- Crude Oil Stock Management – handles the stock, lifting of crude oil and gas, opening and closing stock as well the volume available to be lifted. Schedule of lifting is managed with timetable. COSM holds regular meetings with the producers Shell, NAOC, Chevron, and Independent marginal operators. The oil companies will provide what the production will be for a month plus 2. At the meeting they agree on entities to lift and what volume to be lifted depending on entitlements. There is also quarterly reconciliation.
- Shipping and Terminal: handles the shipping and the lifting of the crude they work with the customers based on the program for lifting.
- Commercial Department: handles the marketing of the crude this is done through term contracts usually spanning a period of 12 months. The timing is based on when the approvals, bidding process are completed and agreement is signed. NNPC gives crude FOB until the vessel is loaded, thereafter the customer bears the risk to the destination, however NNPC monitors the vessels to their destinations. Lifting is based on a 30 days credit period meaning i.e. a customer that lifts on 1st of June will be due for payment 1st of July. A letter of credit is a prerequisite for lifting; a base price usually stated in the contract is used secure the transaction and determine value of crude before lifting. Payments are made into the FIR, DPR or CBN/NNPC crude oil revenue account with JP Morgan Chase in New York, at the end of the month COMD gets bank statement from CBN and they reconcile to ensure that all lifted for the month has been paid. The group treasury is the custodian of the NNPC CBN statement.
- Finance and Account Once payment is made F & A handle the receipt as well as miscellaneous income such as insurance or sales of JV asset. At the end of the month a representation is made to FAAC of all the receipts and the revenues.

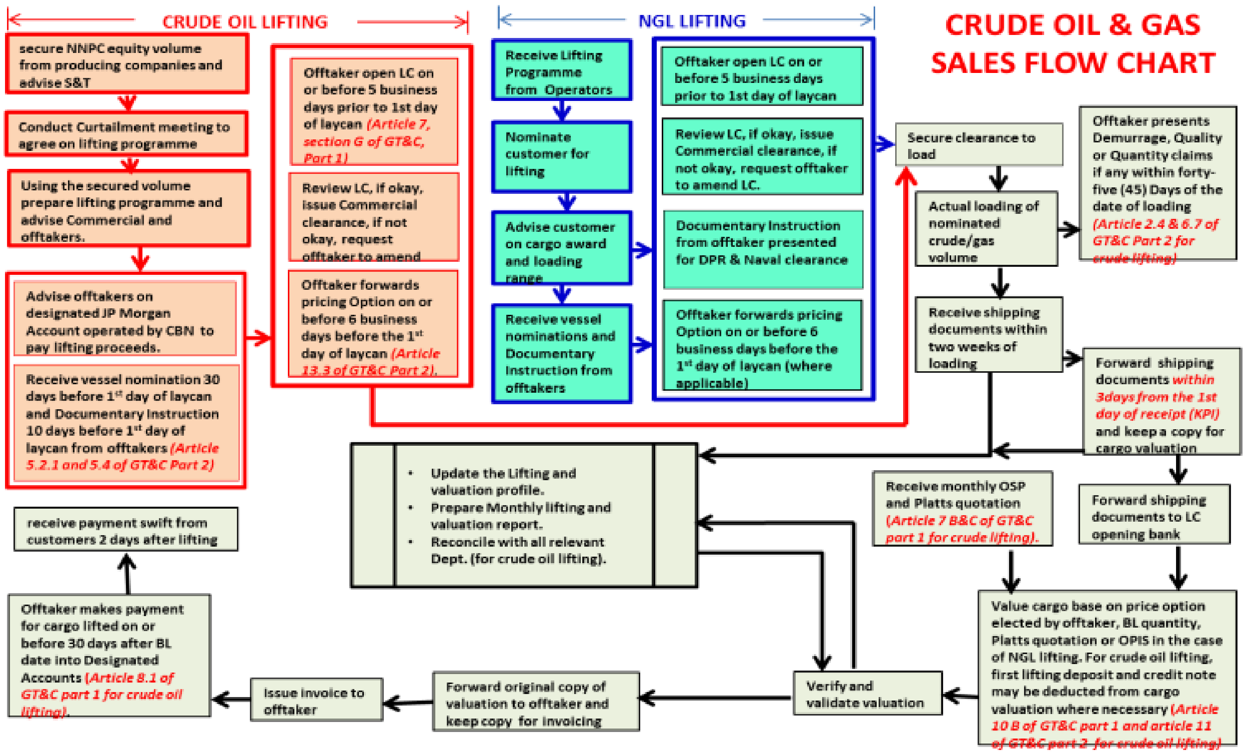


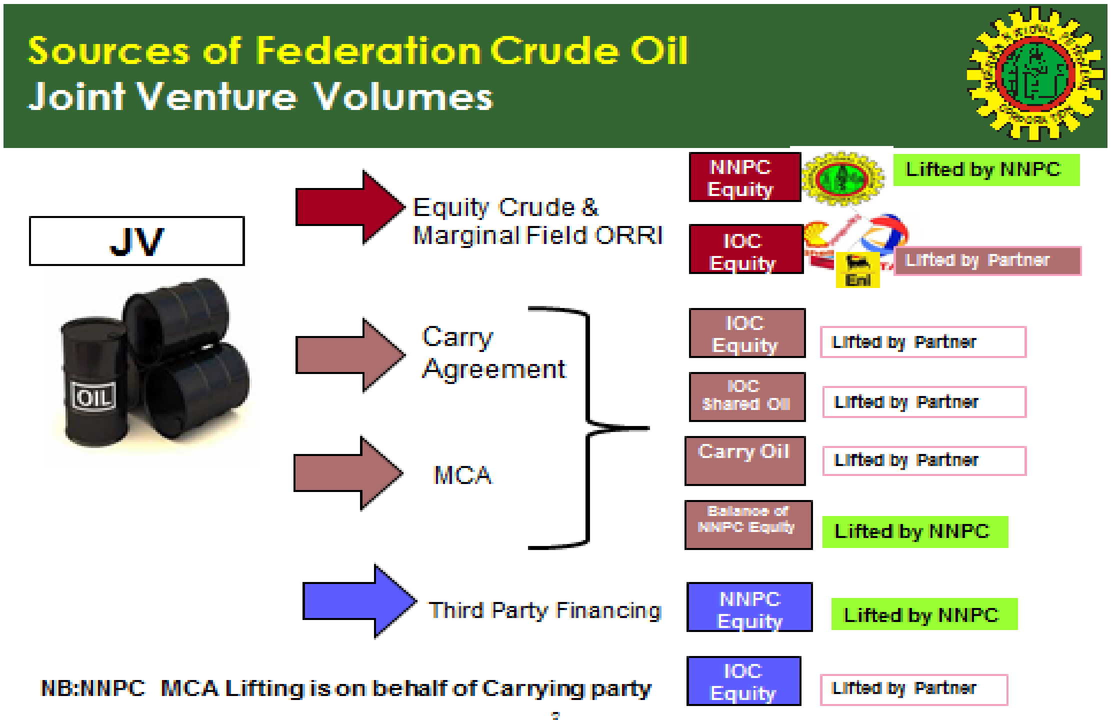
Figure 8-21 Crude Oil and NGLs Sales Procedure

Source NNPC-COMD

Sources of Federation Crude Oil

Equity Crude produced in JVs arrangement is shared between the NNPC and IOCs. The sharing and lifting is determined at reconciliation meetings in attendance will be DPR and FIRS. The venture volume diagram shows how the crude volumes in JVs are shared it also shows the party that lift for various alternate funding arrangements in the JVs.

For the MCA the full value of oil gets to the escrow account first where funding portion is deducted before the balance is shared among the entities.



Third party financing requires some special purpose vehicles formed because of the funding deficit. The SPV is given the rights to the production by the partners this is then used to enter sales and purchase agreement with buyers. The agreement is then used in obtaining funding for the project from the lender.

The funding goes into a special funds account for the project. Proceeds from the sales of the project are domiciled with the lender. The lender is able to deduct principal and interest from here before the balance is shared among the partners. There is always some reserve in the account. The group finance of NNPC monitors these accounts.

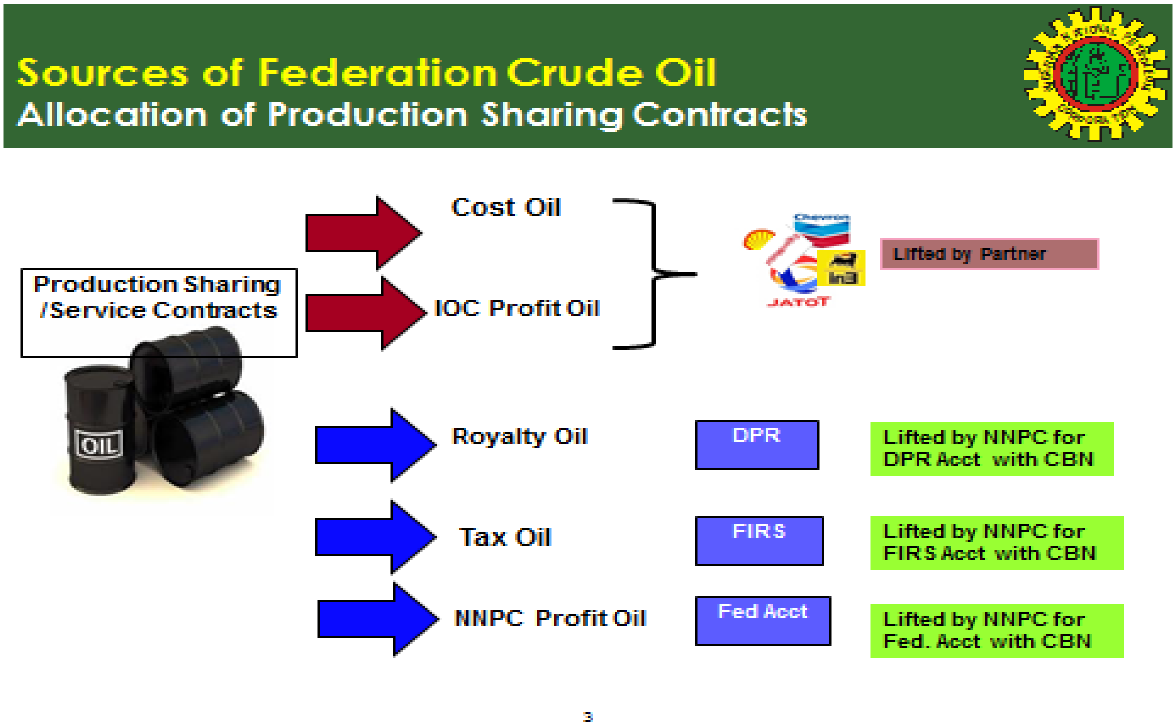


Figure 8-22 Allocation of Production Sharing Contract

The production Sharing contract is slightly different from the JV. Here the Government is not charged unless oil is found in the course of exploration activities.

For the PSC volume is split into cost oil and profit oil. NNPC and oil companies will share the profit oil while other regulatory payments are also taken care off.

The cost of production is determined by the receipt of OPEX and CAPEX, this is done by COSM to determine any excess over the cost is determined then lifted. Most of the PSC are still running and it is the profit oil that is being lifted by NNPC.

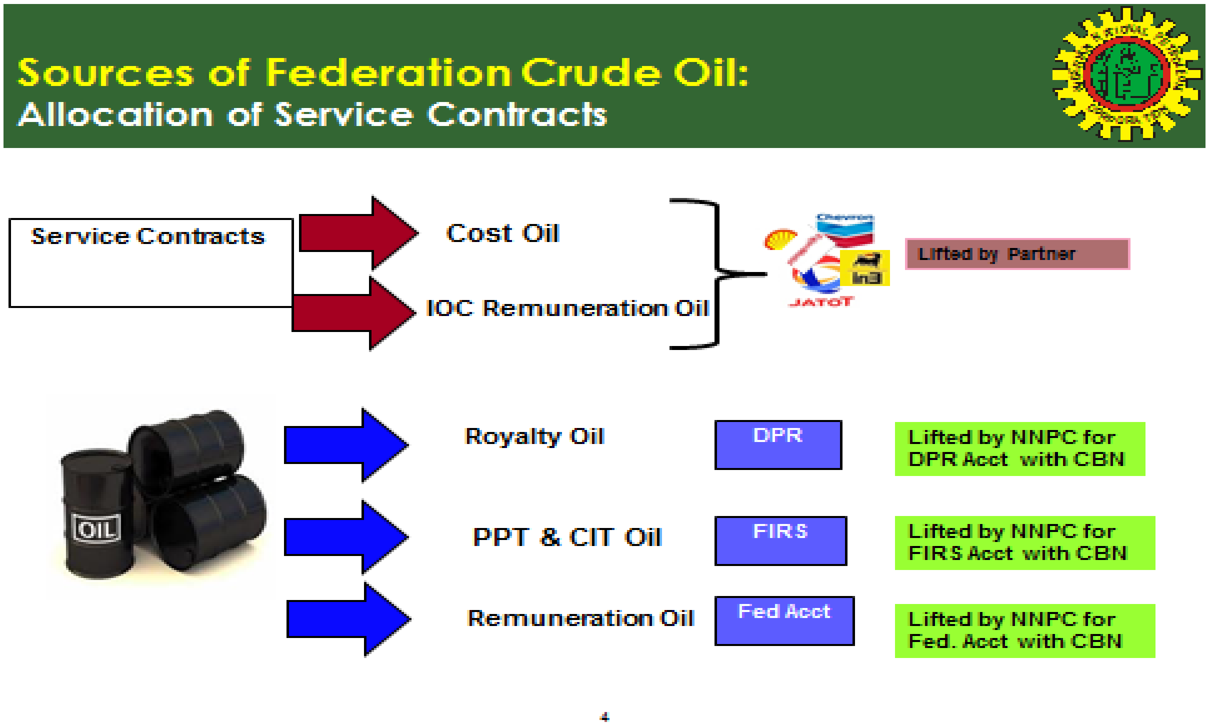


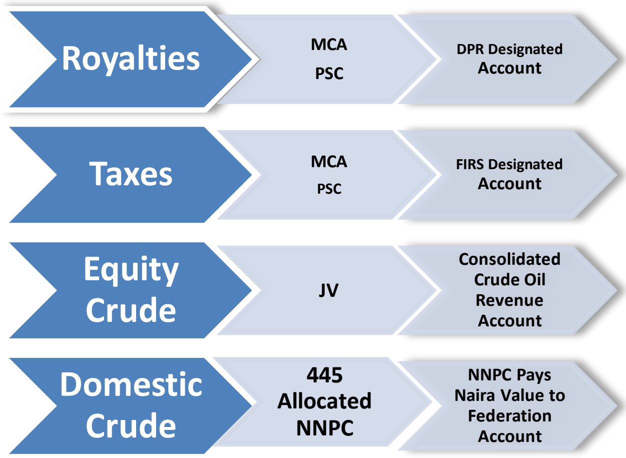
Figure 8-23 Allocation of Service Contracts

The service contract is similar to PSC however IOCs don't have agreement like equity sharing they are instead providing service for NNPC. As such they don't share in the profit oil. What is lifted by them is the Cost oil and remuneration oil, while NNPC lifts for FIR, DPR and the Federation.

Sale and Payment for Federation Crude

- NNPC Advertise for bidders for purchase of crude and selection made
- Sales Term Contract are entered annually or bi-annually with Government approval (Ministry of petroleum is involved)
- Customers are advised in advance on a lifting program monthly as provided by Shipping and Terminal department.
- Customer produces irrevocable letter of Credit before presentation of vessel
- Vessels loading is witnessed by 13 agencies (DPR, Customs etc.)
- DPR Certifies volume loaded and Bill of lading issued stating actual quantity loaded.
- Letter of Credit Bank makes payment into designated bank account after a credit period of 30days. For NNPC Domestic crude lifted by PPMC now NPMC based on the 445,000 barrels day given by Federal Government to ensure Nigeria has adequate petroleum supply. They get 90 days credit based on the complex arrangement involve in refining.

- Letter of Credit bank make payment into any of the bank according arrangements.



Credit Periods

- NNPC Domestic Crude – 90 Days
- Bilateral – 30 to 90 days
- International Traders – 30 days

Figure 8-24 Flow of Oil Revenue into Federation Account

Flow of Oil Revenue into Federation Account

Federation Crude Oil and Gas lifting are broadly classified into Equity Export Crude and Domestic Crude. Both categories are lifted and marketed by NNPC and the proceeds remitted to the Federation Account.

Equity Export receipts, after adjusting for Joint Venture (JV) Cash Calls, are paid directly into JP Morgan Account operated by Central Bank of Nigeria (CBN). Domestic Crude Oil of 445,000 bpd is allocated for refining to meet domestic products supply. Payments are effected to Federation Account by NNPC after adjusting crude and product losses and pipeline repairs and management costs incurred during the period.

NNPC also lift Crude Oil and Gas, other than Equity and Domestic Crude Oil, on behalf of DPR and FIRS proceeds of which are remitted into Federation Account.

The Third Party finance lifting are Crude Oil and Gas from fields that are financed using alternative finance/loan facility which require the servicing of debt obligations before remitting the balance to Federation Account as Price Balance as shown below:

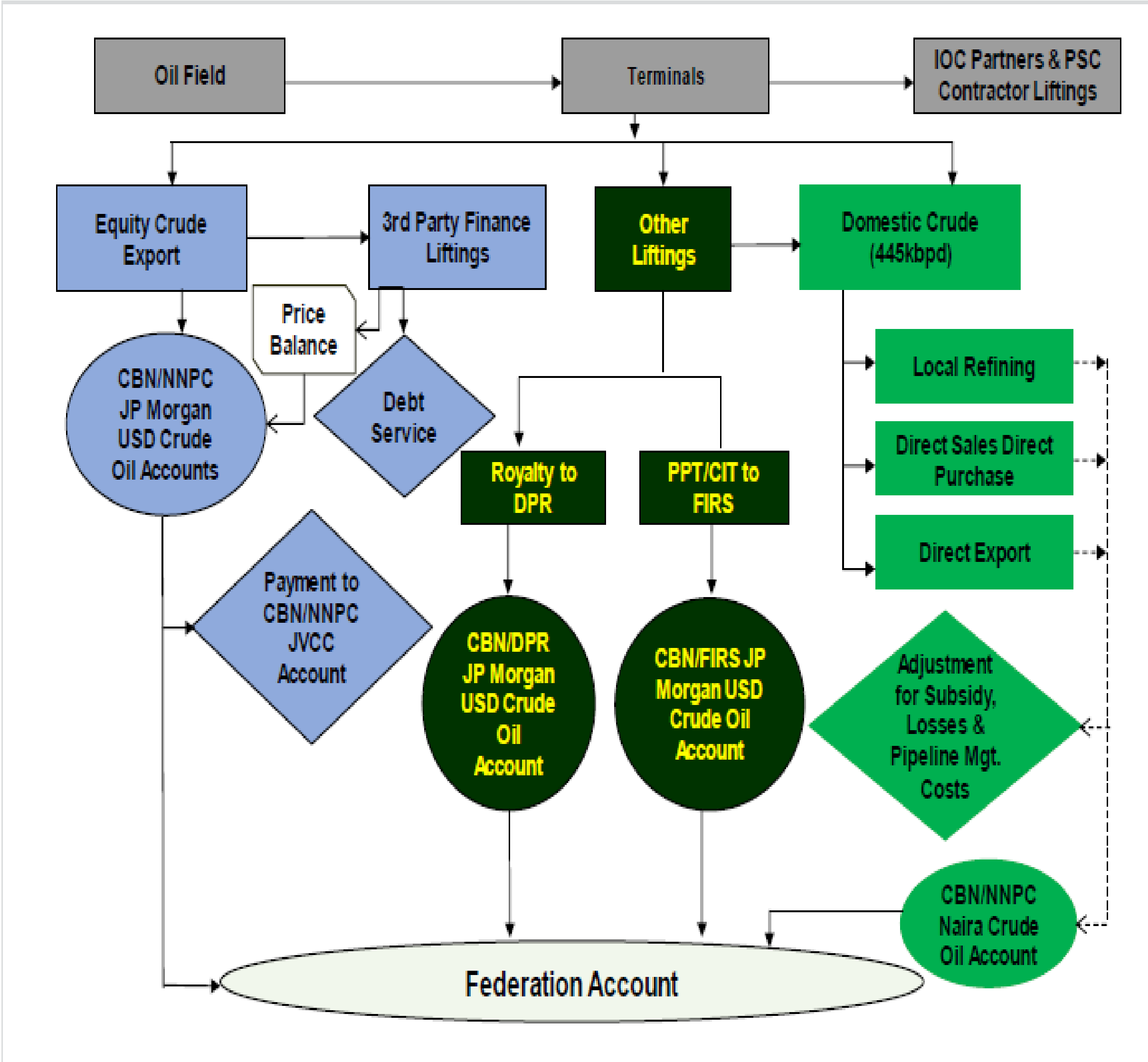


Figure 8-25 Flow of Oil Revenue into Federation Account

The above table shows the flow of oil revenue into federation account, however for 2014 Direct Sales Direct purchase was Swap and Offshore Processing

The Summary of Oil & Gas Sales and Inflow to Federation Account can be depicted as follows:

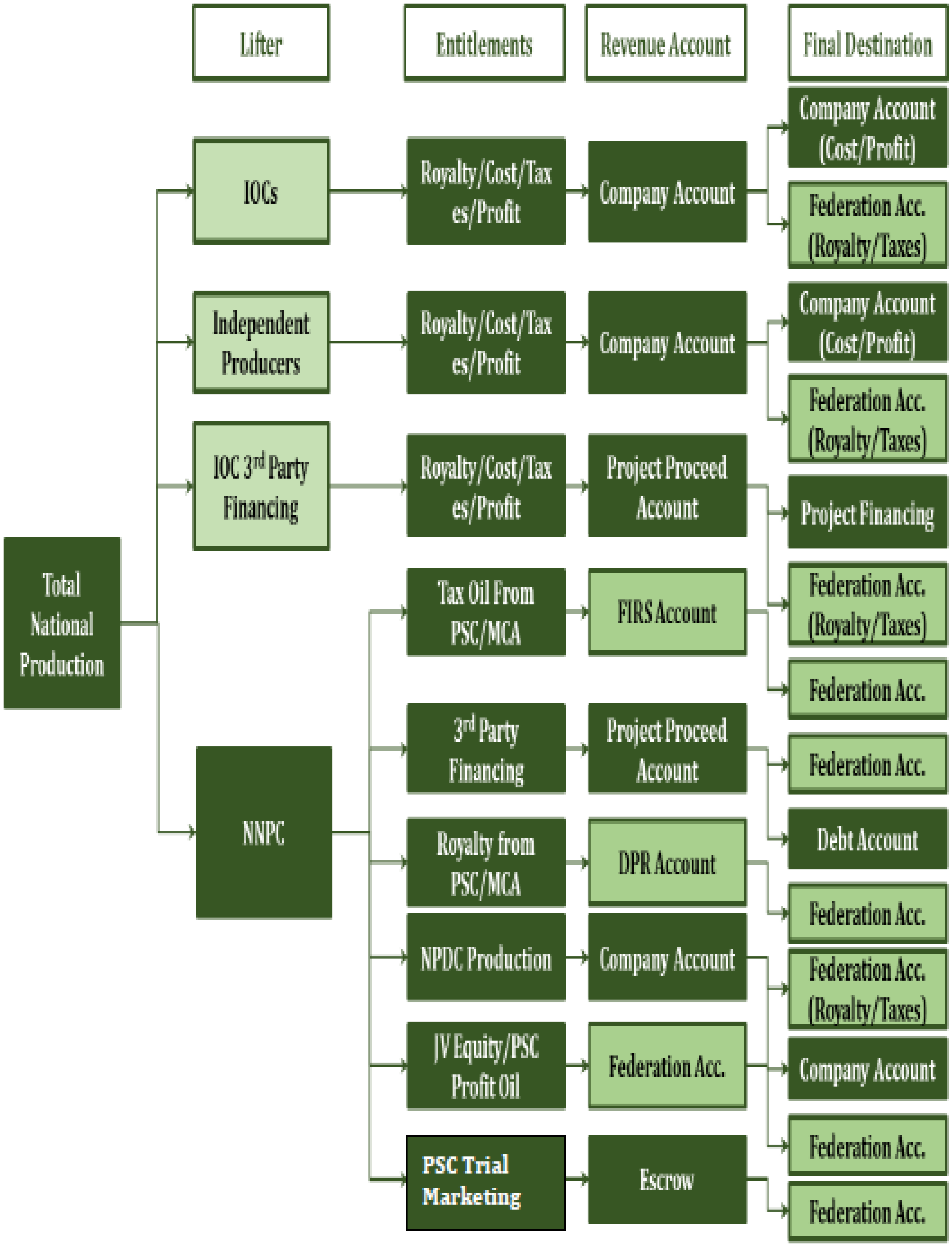


Figure 8-26 Summary of Oil & Gas Sales and Inflow to Federation Account

8.8 The National Petroleum Investment Management Services (NAPIMS)

The National Petroleum Investment Management Services (NAPIMS) in the Exploration and Production Directorate of NNPC, it is an integral arm of the Corporation which manages Government investments in the Joint Ventures.

This is under the NNPC and it is charged with the responsibility of managing the Federation's investments in Upstream E&P sector of the Nigerian. Its mission is "to enhance the benefits accruing to the Federation from its investments in the Upstream Petroleum Industry, through effective cost control and supervision of the Joint Venture Contract (JV), Production Sharing Contract (PSC) and Service Contract (SC) Operations".

NAPIMS is a partner in the Joint Venture (JV) assets and the Concessionaire in the Production Sharing Contract (PSC) arrangements and it is neither an operator nor a regulatory body of the industry, but included because it manages the Federal Government of Nigeria (FGN) interests in the oil and gas industry.

The National Petroleum Investment and Management Services (NAPIMS) has the responsibility of maximizing the economic development of Hydrocarbon resources. The functions of ensuring optimum management of Government assets within the JV and PSC portfolios, efficient deployment of resources for low cost operation with a view of yielding optimum revenue fir Government and the actualization of Government agenda in the operations of JV/PSC assets.

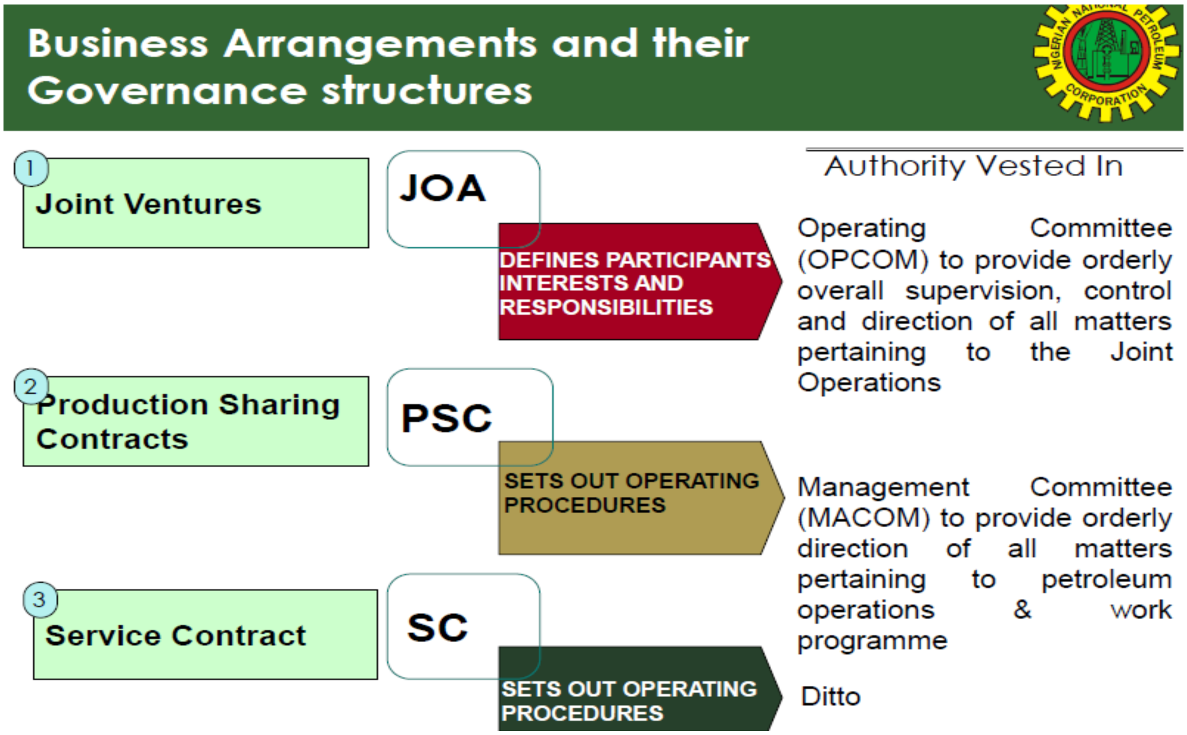


Figure 8-27 The Business Arrangements and their Governance Structure

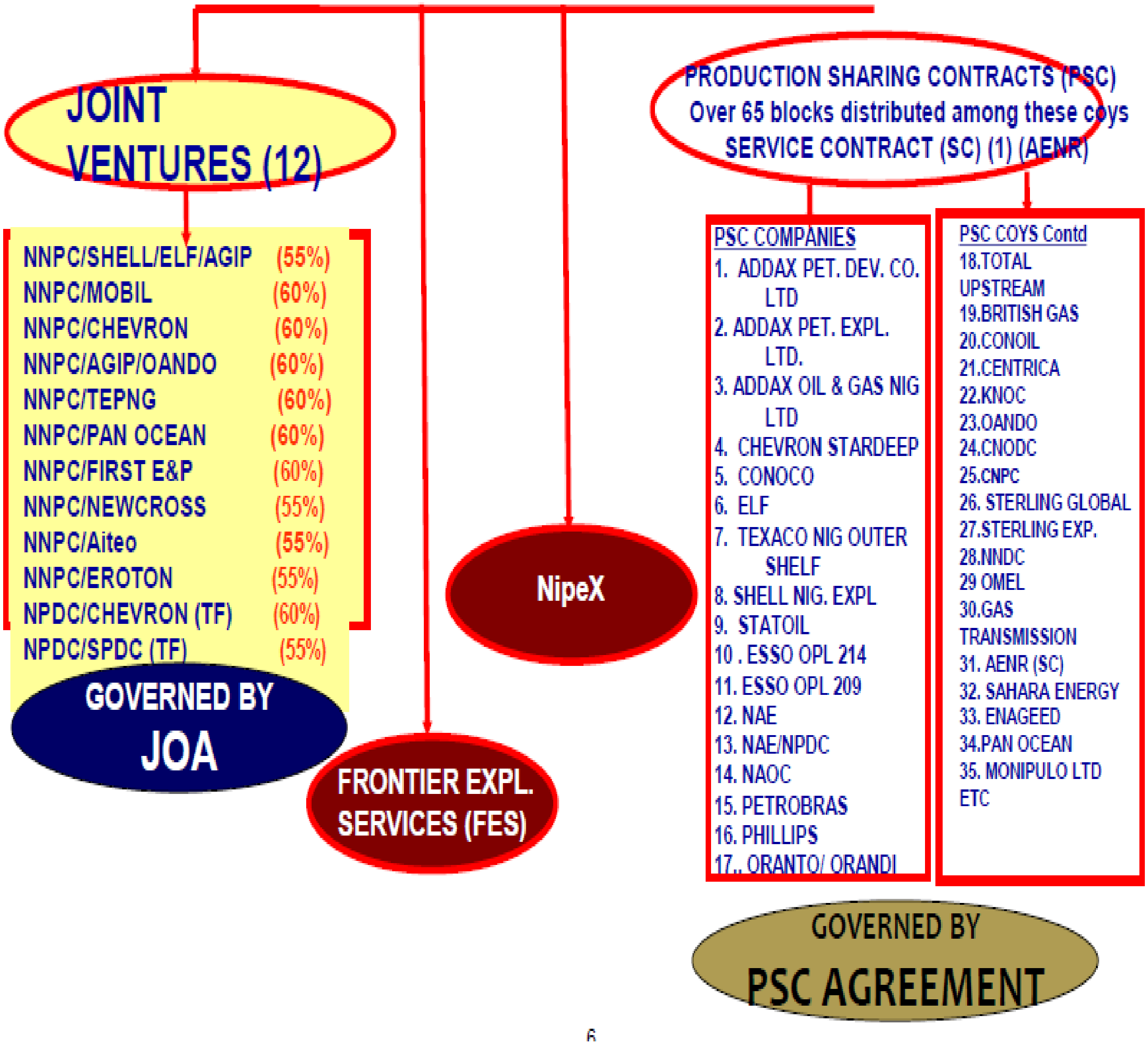


Figure 8-28 NAPIMS Investment Management Portfolio

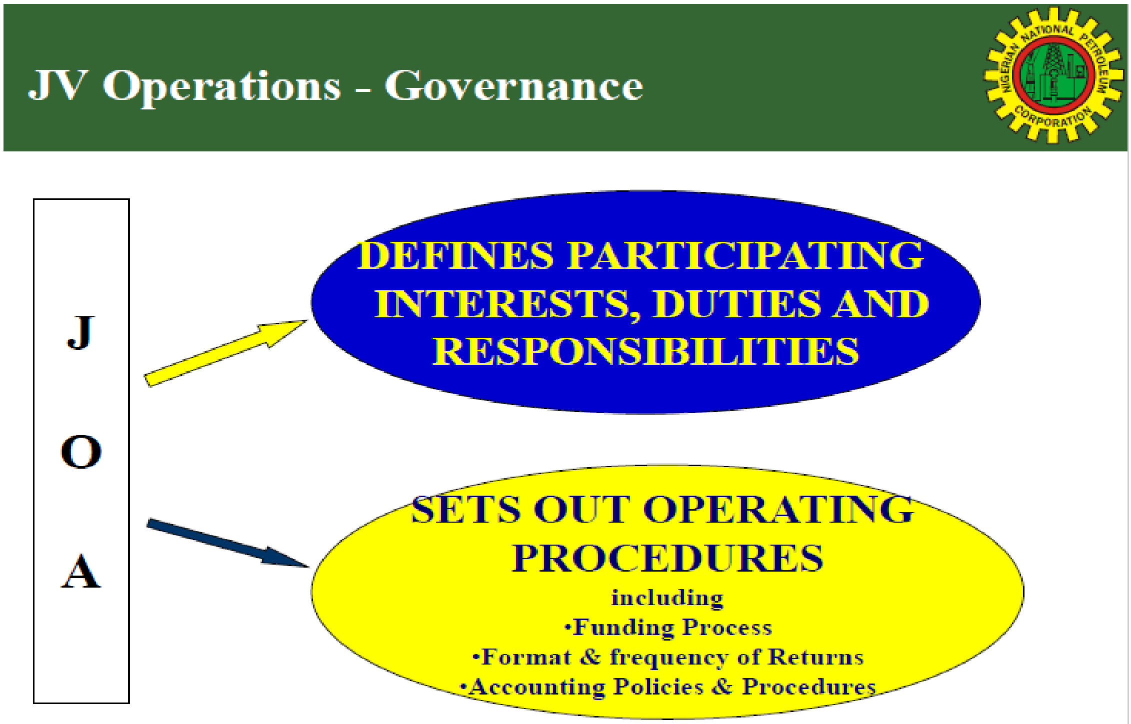


Figure 8-29 JV Operations Governance

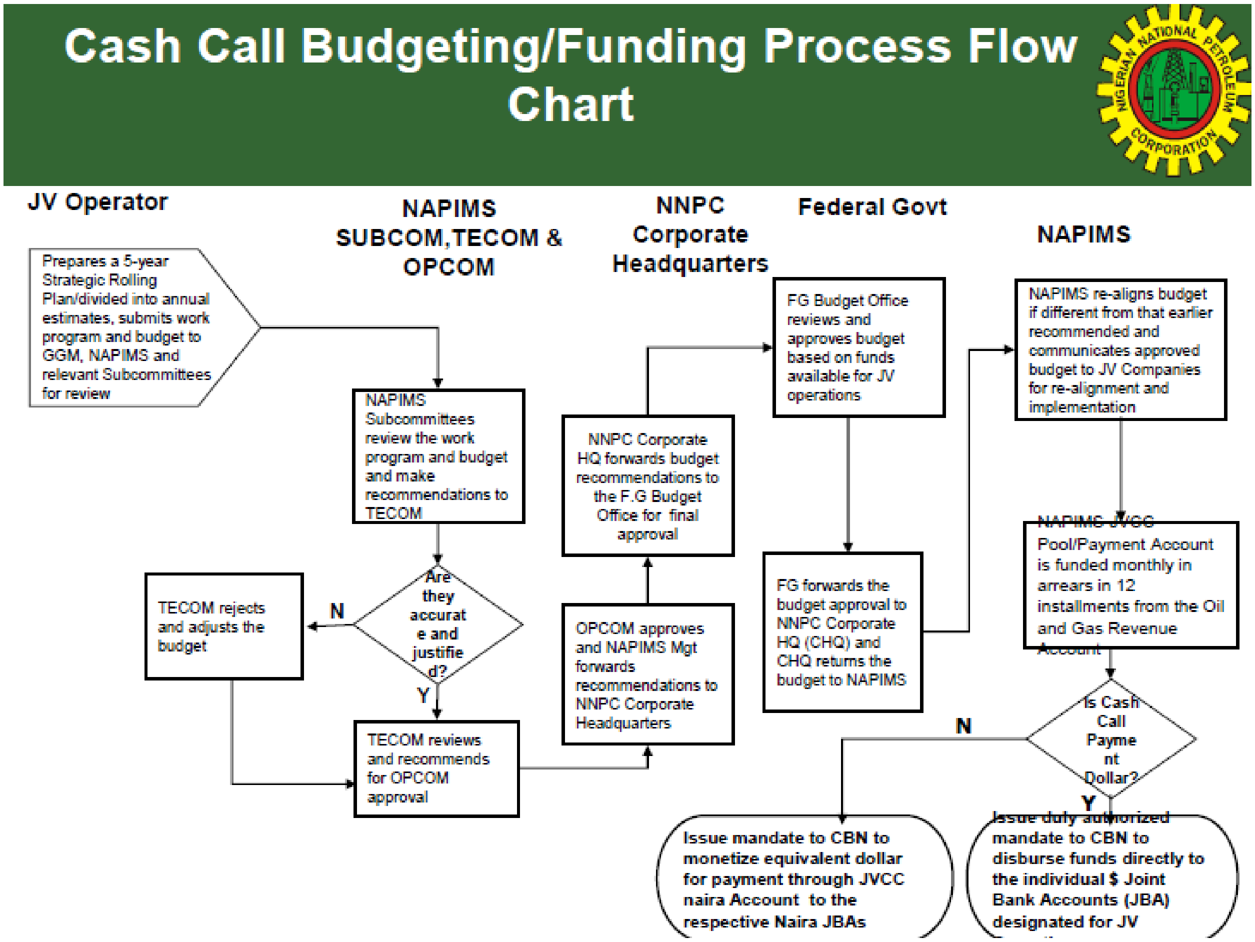


Figure 8-30 Cash Call Budgeting/Funding Process Flow Chart

Source NAPIMS

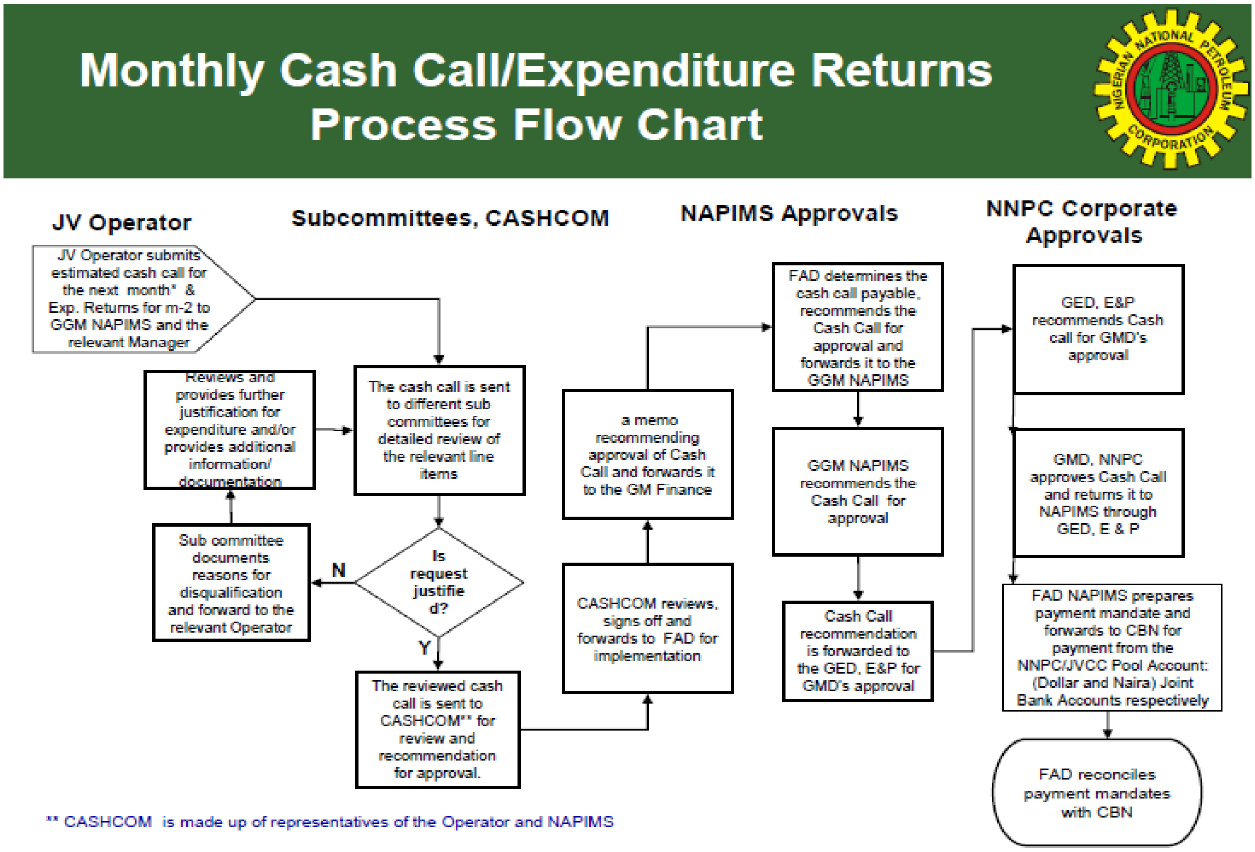


Figure 8-31 Monthly Cash Call/Expenditure Returns Process Flow Chart

JV Funding Mechanisms

- JV Cash Calls – the traditional funding approach
- Alternative Financing Mechanisms –
  - Partner Financing
    - Modified Carry Agreements
  - 3rd Party Financing
    - Financial Institutions

Funding of Joint Venture Operations: Cash Call

Cash Call: a monthly request by an operator to all partners in the respective participating interests for advance payment to meet anticipated costs and expenditures in the cash call month. It is usually made in currency stipulated in the Joint Venture Agreement (Naira and Dollar)

In the light of recent events the Federal Government of Nigeria in December 2016 announced the Exits of JV Cash Call Payments to IOCs as it was established to be a drain to the nation. The implication is that the Government can channel resources to more important areas to improve the economy.

8.9 Federal Inland Revenue Service (FIRS)

FIRS is an agency of the Ministry of Finance and it reports to the Honorable Minister of Finance. Section 51 of the Federal Inland Revenue Service (Establishment) Act provides that the FIRS Board shall be subject to the general direction of the Minister of Finance and any written direction, order or instruction given by him after consultation with the Executive Chairman shall be carried out by the Board as long as the directive does not require the Board to increase or decrease any assessment of tax or judgment debt due, or which would have the effect of initiating, forbidding the initiation of, withdrawing or altering the normal course of any proceeding whether civil or criminal, relating either to the recovery of any tax or to any tax offence. Section 60 of the Act states that, “The Minister may give to the Service or the Executive Chairman such directives of a general nature or relating generally to matters of policy with regards to the exercise of its or his functions as he may consider necessary and the Service or the Executive Chairman shall comply with the directives or cause them to be complied with.”

The Federal Inland Revenue Service (FIRS) is saddled with the following key responsibilities:

- Assessment and collection of Taxes
- Accounting for taxes collected and maintenance of tax records
- Enforcement of payment of taxes as may be due to the Government
- Review the tax regimes and promote the application of tax revenues to stimulate economic activities and development.
- Establishment and maintenance of a system for monitoring international dynamics of taxation in order to identify suspicious transactions and perpetrators and other persons involved
- Issuance of taxpayer identification number
- Advising the Federal Board of Inland Revenue on professional and technical tax issues referred to it

Taxes, with respect to the oil and gas industry are handled by three major departments/sections of FIRS:

- Upstream
- Downstream (for marketing companies)
- Oil Services

External Governance Framework

The legislations and rules that determine the governance structure of FIRS are:

1. Constitution of the Federal Republic of Nigeria 1999 (CFRN): Item 59 of the Second Schedule to the Constitution places taxation of incomes, profits and capital gains, except as otherwise prescribed by the Constitution, in the Exclusive Legislative List. This is the groundnorm for the governance framework of FIRS.

2. The FIRS Act 2007: The FIRS Act established the Federal Inland Revenue Service as a body corporate. The Act is divided into 8 parts and 5 schedules and also specifies the following:

- Establishment and composition of the FIRS Management Board.
- Powers and functions of the Board and the Service, including the establishmen and functions of the Technical Committee of the Board (TECOM). Among other important functions, TECOM considers all tax matters that require professional and technical expertise and thereafter makes recommendations to the Board.
- Management and staff of the Service including the appointment of the Board
- Secretary, pensions and staff regulations. Staff regulations refer to the power of the FIRS Board to make regulations relating generally to the conditions of service of staff including appointment and promotion, termination, dismissal and discipline of staff, and appeals against dismissal or other disciplinary measures.
- Financial powers of the Service.
- Tax administration and enforcement powers of the Service.
- Offences and penalties.
- Other general and miscellaneous provisions.

3. Public Procurement Act 2007:

This Act commenced on 4 June 2007, as an Act to establish the National Council on Public Procurement and the Bureau of Public Procurement as Regulatory authorities responsible for the monitoring and oversight of public procurement, harmonizing the existing Government policies and practices by regulating, setting standards and developing the legal framework and professional capacity for public procurement in Nigeria, and for related matters.

The objectives of the Bureau of Public Procurement are:

- The harmonization of existing Government policies and practices on public procurement and ensuring probity, accountability and transparency in the procurement process
- The establishment of pricing standards and benchmarks
- Ensuring the application of fair, competitive, transparent. value-for-money standards and practices for the procurement and disposal of public assets and services and
- The attainment of transparency, competitiveness, cost effectiveness and professionalis in public sector procurement system.

4. Freedom of Information Act 2011:

The Freedom of Information Bill was signed into law by the President on May 28, 2011. The objectives of the law are as follows:

- Making Public Records and Information more freely available
- Provision for Public Access to Public Records and Information
- Protection of public records and information consistent with public interest
- Protection of personal privacy.
- Establishment of Procedures for the achievement of the above objectives and related purposes.

5. Public Service Rules (PSR) 2008:

“The main thrust of the 2008 Edition of the Public Service Rules is to ensure that the fundamental ethical issues in the Public Service are strictly adhered to. It is, therefore, aimed at entrenching the issues of transparency, accountability, justice, equity, due process and the rule of law. All these are very paramount to the conduct of Government business, which all Public Servants must imbibe.” – Late President Umar Musa Yar’Adua, GCFR, 2008.

The PSR makes provision for a wide range of work-related issues including recruitment and appointments, discipline, leave and reward for outstanding service. It is published under the authority of the Office of the Head of Service of the Federation.

6. FIRS Human Resource Policies and Processes (HRPP):

This is a handbook of Human Resource procedures and processes in the governance structure of FIRS. It is similar to the PSR. The HRPP provides that where any matter is not provided for by it, recourse shall be made to the PSR, in the first instance. The HRPP is published by the Service and is an essential working tool for all members of the Service.

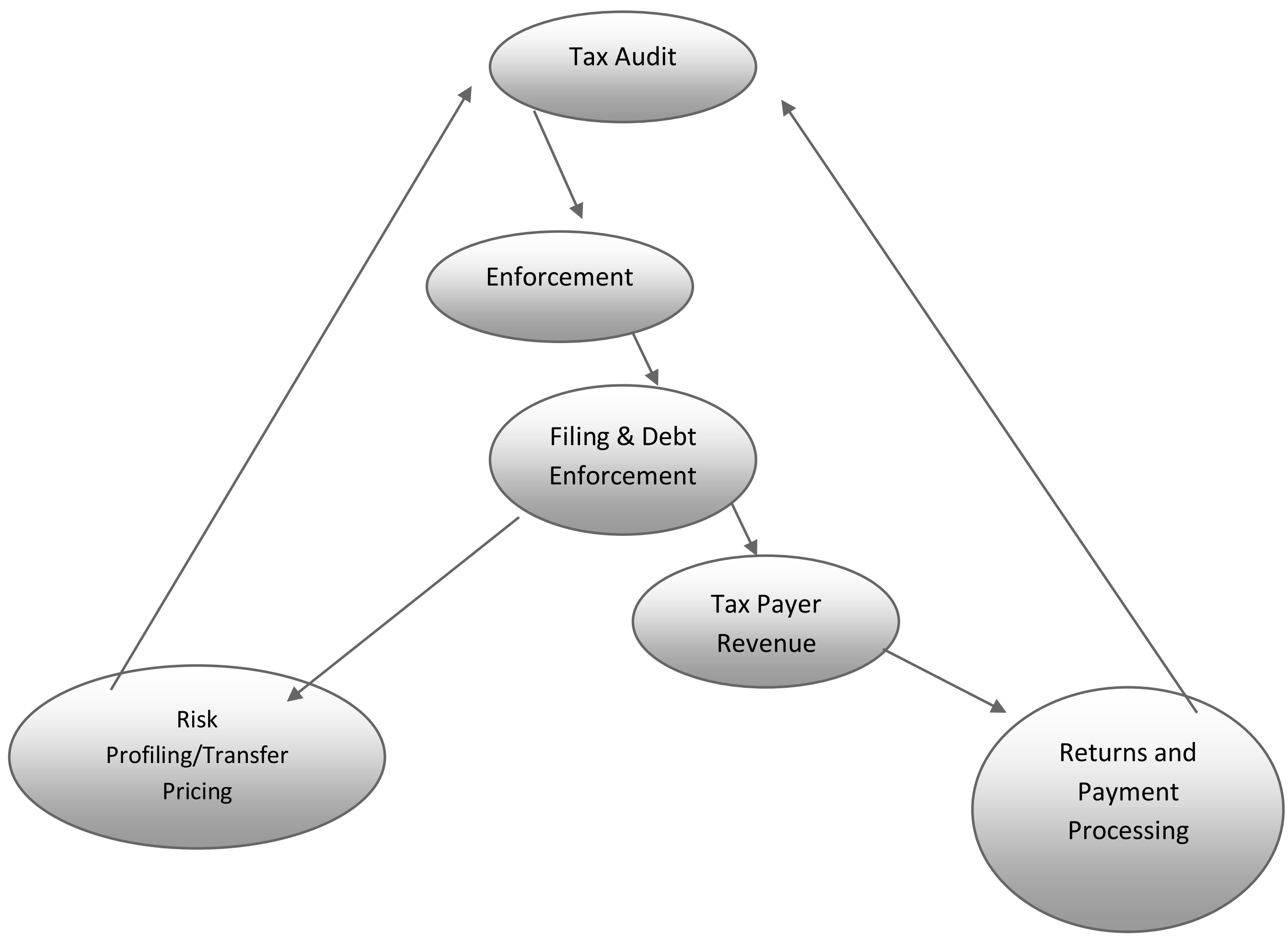


Figure 8-32 FIRS Process Flow

8.10 The Central Bank of Nigeria (CBN)

The Central Bank of Nigeria (CBN) being the banker to the Federation of Nigeria is the custodian of all revenues accruing to the nation from various sources. In 2014 the CBN received the following streams of revenue on behalf of the federation from oil and gas sector:

- Accounts operated by NNPC and JP Morgan Chase Bank maintained in US Dollars
- Nigerian National Petroleum Corporation (NNPC) Domestic Crude oil and Gas sales maintained in Naira
- Department for Petroleum Resources (DPR) revenues operated by JP Morgan Chase Bank New York maintained in US Dollars
- FIRS revenues operated by JP Morgan Chase Bank New York Maintained in US Dollars.

The various accounts relating to oil and gas revenue maintained by the CBN in 2014 is as follows:

- Company Income Tax (CIT)
- Petroleum Profit Tax (PPT)
- Education Tax
- Value Added Tax Received
- Withholding Tax Received
- Domestic Crude Oil sales proceeds in Naira
- Domestic Gas Sales proceeds in Naira
- NESS Fee Paid in Naira
- Petroleum Subsidy Payment in Naira
- Export Crude Oil sales proceeds
- Export Gas Revenue Received
- FGN funding of Cash Calls to NNPC NAPIMS
- Cash Calls Monetization
- JV Royalties on Oil
- Royalty Received on Gas
- PSC Royalty Received
- Gas Flare Penalty Received
- Acreage/Concession Rentals Received
- Miscellaneous Oil Revenue
- Signature Bonus Received

The CBN international funds office act as treasurer to the nation, warehousing foreign revenue accruable from foreign accounts maintained with JP Morgan Chase. On a daily basis the accounts are analysed by the division for payments coming in from off-takers of crude; and at the end of the month a standing instruction by the OAGF is used to nil off and monetise the accounts, by way of exchanging dollar for Naira and then crediting the federation account. Before this is done CBN and the other revenue generating agencies (FIRS, DPR, NNPC, etc.) would meet 3 times for different levels of reconciliations on their accounts at the meetings they determine what is accruable to each revenue-bearing agency. The meetings are chaired by the OAGF and also held at the OAGF office. After the first level of reconciliation meeting a second one is done before the final level of reconciliation. The final level meeting happens after the FAAC after which revenue is shared.

The various oil and Gas accounts maintained at the CBN for the 2014 are listed below;

Table 8-18 CBN Oil & Gas Receiving Accounts

S/N	Account Head	Account Number
1	GAS ROYALTY	000000802906891
2	PSC ROYALTY	000000802906883
3	JV ROYALTY	000000802906875
4	GAS FLARED PENALTY	000000802906909
5	COMPANY INCOME TAX	000000400216620
6	VALUE ADDED TAX FIRS	000000400216698
7	WITHHOLDING TAX FIRS	000000400216639
8	EDUCATION TAX FIRS	000000400216728
9	SIGNATURE BONUS	000000400225220
10	CRUDE OIL REVENUE	000000400941775
11	GAS REVENUE	000000816296438
12	PPT	000000400216647
13	CONCESSION/ACCREAGE RENTALS	000000802906917
14	MISCELLANEOUS OIL REVENUE	000000802906925

Oil and Gas Companies makes payment into the various accounts for the various revenue flows

For any instruction carried to move these funds by CBN there exists an approval limit attached to values. Based on this before the funds are moved a schedule is done seeking management approval to move the fund and it goes through various levels of authorisation before it gets to the at it goes through the head of office to the head of division before it gets to the Director International Payment Division who gives the final Approval.

For the 2014 Audit year, we were able to establish from CBN that there was no changes with respects to paying accounts and arrangements compared with 2013.

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

Section 162(1) of the 1999 Constitution of the Federal Republic of Nigeria states that "The Federation shall maintain a special account to be called "the **Federation Account**" into which shall be paid all revenues collected by the Government of the Federation, except the proceeds from the personal income tax of the personnel of the armed forces of the Federation, the Nigeria Police Force, the Ministry or department of Government charged with responsibility for Foreign Affairs and the residents of the Federal Capital Territory, Abuja.

Further in the constitution, under section 162 (Public Revenue), the Federation Revenue is defined as any income or return accruing to or derived by the Government of the Federation from any source and includes:

- any receipt, however described, arising from the operation of any law;
- any return, however described, arising from or in respect of any property held by the Government of the Federation;
- any return by way of interest on loans and dividends in respect of shares or interest held by the Government of the Federation in any company or statutory body.

The agencies charged with the Assessment, Collection and Remittance of the Federation Revenue from the Oil and Gas sector are as follows:

I. Nigeria National Petroleum Commission
II. Department of Petroleum Resources (under the Ministry of Petroleum Resources)
III. Federal Inland Revenue Service and;
IV. Nigeria Custom Service (Out of Scope)

The table below shows the various vote heads, their corresponding Collection and Regulatory Agencies and the beneficiary.

Table 8-19 List of Oil and Gas Revenue Heads

Revenue Head	Collection Agency	Regulatory Agencies	Beneficiaries
Crude Sales	NNPC	OAGF/CBN/NNPC	Federation Account
Gas Sales	NNPC	OAGF/CBN/NNPC	Federation Account
Gas Flared Penalty	DPR	OAGF/CBN/DPR	Federation Account
Gas Royalty	DPR	OAGF/CBN/DPR	Federation Account
JV Royalty	DPR	OAGF/CBN/DPR	Federation Account
PSC Royalty	DPR	OAGF/CBN/DPR	Federation Account
Signature Bonus	DPR	OAGF/CBN/DPR	PTDF

Concession Rental	DPR	OAGF/CBN/DPR	Federation Account
Miscellaneous Oil Revenue	DPR	OAGF/CBN/DPR	Federation Account
Petroleum Profit Tax	FIRS	OAGF/CBN/FIRS	Federation Account
Companies Income Tax	FIRS	GF/CBN/FIRS	Federation Account
Withholding Tax	FIRS	GF/CBN/FIRS	Federation Account
Value Added Tax	FIRS	GF/CBN/FIRS	Federal, State and Local Govt.
Education Tax	FIRS	GF/CBN/FIRS	Tertiary Education Trust Fund

8.12 Framework for Growth in the Oil and Gas Sector

The Nigerian economy has relied on the oil and gas industry since the 1980s after a systematic and institutional carelessness resulting in its loss of a diversified economy. It has continued to play a vital role in shaping the economic and political destiny of the country. Revenue from this industry amounts on average to 70% - 90% of the total foreign earning from export activities annually (NNPC, 2014). This industry supports several layers of businesses and social welfare programmes, and generates the vast majority of Government revenues. Its major activities (acquisition, exploration, production and development) are characterised by huge capital expenditures, high technological expertise and the ability to manage investment risks.

Unfortunately, it is generally believed that funding for such activities cannot be undertaken by a developing country like Nigeria. Financial management was, and has remained lacking as exploration, development and production operation--s have remained a threat to quality of life and hence, command expenditures on health, safety and environment. However, like most oil rich developing countries, Nigeria lacked the resources, technical expertise and capabilities to manage the large investment risks. However, with the local content requirements of the country, labour union activity, and sustained suasion by Government, local investment especially in marginal fields has become more prevalent. Nigerians are also beginning to hold hitherto closed positions.

Nigeria's oil and gas industry has witness high amount of capital inflow from Foreign Direct Investment (FDI) over the years although the impact of such ventures has been almost negligible on the economic development of Nigeria as a result of lack of accountability, transparency and wide spread corruption. This is clearly reflected in the paradox of Nigeria as the world's seventh largest exporter of crude oil, the 10th biggest holder of process gas reserve, and the biggest economy in Africa being ranked among the poorest countries in the world. External debt as at the end of first quarter 2014 stood at US$9166.02million. Despite its massive earning from oil, about 70% of its estimated 150 million people live in abject poverty on less than $2 US per a day, with Nigeria consistently being ranked higher from year 1999 to 2007 corruption perception index reports.

The growth of the Nigerian Oil and Gas Industry

In 1962 the *Resolution on Permanent Sovereignty over Natural Resources* was adopted by a majority of the General Assembly of the United Nations. The Resolution asserted that the right of people to freely use and exploit their natural wealth and resources is inherent in their sovereignty. In this spirit, in 1969 the Petroleum Act was enacted which vested the entire ownership and control of all petroleum in, under or upon all land or Nigerian territorial waters in the Nigerian Government.

From Government being a fiscal and regulatory agent in the oil and gas industry, in 1971 it established the Nigerian National Oil Corporation, NNOC. Through this organization, the FGN started to take active interest and participate in the industry by acquiring participating interests in the operations of the multinationals in response to the policy of OPEC as per its Resolution XVI of 1968 regarding the control of each member country's oil and gas industry. By mid-1970s, the multiple role of the Corporation as an agent of Government in the management of its assets, as well as, a direct operator of its own venture was established. Apart from managing the assets of the Government in the JVs, the Corporation was also responsible for marketing Government equity crude while ensuring compliance with OPEC quota limitations. This multiple role of the Corporation was expanded as the industry became more complex and new entrants, as well as, novel relationships were entered into.

It is worthy of note that the oil and gas industry remains the most important income earner for all successive Governments in the federation though oil and gas contribution to the Gross Domestic Products (GDP) represents about 14%.

The Nigerian oil and gas industry in recent times, has been threatened by militancy after a period of lull in the scourge of militancy in the Niger-Delta when production was at a low of 1.6 million barrels per day in 2009 to current levels of about 2.4 million barrels per day mainly attributable to the Government's amnesty program. This current production comes from Joint Ventures (JVs) with International Oil Companies and Production Sharing Contracts (PSCs). Nigeria has also witnessed some asset transfer transactions largely from Shell, Total and ENI, which have seen the emergence of new largely indigenous led independent companies. This demonstrates a maturing oil and gas sector in which bigger players are re-aligning their asset portfolios to the benefit of newer non-major players.

Similarly, the Nigerian gas produced for sale has increased to a historic high level of 4.3 billion cubic feet per day in 2011 out of which 1.1 billion cubic feet per day is sold domestically. The midstream and downstream have witnessed significant challenges which is why Government has focused its reforms on liberalizing these sectors. Nigeria has three refineries with nameplate capacity of 445,000 barrels per day, 5,120 km of product and crude pipelines, 21 storage depots and one import terminal at Atlas Cove, all of which have suffered from vandalism and poor maintenance over the years because of the lack of a commercially viable framework for cost recovery. The huge cost of a non-commercial midstream and downstream oil sector has been borne by Government through various forms of subsidies. It is clear that for a viable oil and gas sector, these programs of Government support are no longer sustainable and that reforms in these and indeed the entire oil and gas sector of the Nigerian economy needs a revamp.

Threats to the Industry

Technological advancement in mining petroleum products and in renewable energy are clear indications of the need for a comprehensive and coordinated plan of action to reform and restructure the industry. The most important event in the horizon of the oil and gas industry is actually the direction the US shale oil and gas is likely to take in the medium to long term. In the US, tight oil, shale oil and gas resources are proving to be much larger than previously thought. Oil supply has a large price upside and break-even price of most tight oil are in the range of $40 - $60 per barrel. This production cost is economic in view of current $100/bbl oil prices. As a result the US has been cutting back on imports of light sweet crude and the rate of total imports has been on the decline. US dependence on oil imports is expected to continue declining over the next 10 years reaching a share of about 43% of total oil consumption by 2020 from 67% in 2005. This is still possible if there is an appreciable upswing in crude oil prices.

The short term response has been to actively find new markets and be largely domestically focused. This again is dependent on sustaining the current year on year GDP growth rate supported by a robust technology transfer to strengthen local manufacturing and production capacities. Between 2007 and 2011, US shale gas share of total gas supply increased from 8% to 32%; consequently pipeline & LNG import share of total gas supply declined from 16% and 3% in 2007 to 12% & 1% respectively. As a result of shale gas production, it is projected that U.S. will become a net exporter of natural gas in the year 2020. This is already evident in the decline of Nigeria's LNG exports to the US from 12% in 2007 to 1% in 2011.

Nigeria must ensure that its' planned export LNG projects which are in a reasonably more mature phase than many of the competing options achieve early market penetration. Focus is on the acceleration of FID of the Brass LNG project and the rapid maturation thereafter of the other LNG projects – OKLNG and NLNG T7. In addition, Nigeria's huge and rapidly growing domestic gas market must be optimally exploited. The domestic market is expected to grow rapidly to 5bcf/d and approach 10bcf/d in the next 10 – 15yrs. The country must ensure that the bankability of the evolving domestic market is assured, and must be supported by major infrastructure development to facilitate widespread penetration of gas across the country, and meet potential demand in the growing regional gas market in the West African sub-region, estimated to grow to about 1bcf/s by the end of the decade.

In addition, the following are also critical to the industries survival, sustenance and viability:

- Cost of environmental remediation from years of militancy and pipeline vandalism.
- Maintaining the level of Government investment in oil and gas while meeting pressing social needs.
- Funding required to achieve gas flare out is significant and grows with increased oil production.
- Ageing oil production facilities built in the early and mid-seventies requiring modernization.
- Building indigenous technology capability in complex deep water environments.
- Indigenous participation and the pace of human capacity development (Institutional development and organisational strengthening).
- Crude oil and petroleum product theft

In addition, achieving the objectives of the country's gas utilization policies in the following three strategic areas namely:

1. Gas to power to deliver at least three folds increase in power generating capacity by 2015.(12,000MW)
2. Deliver on the President's gas revolution agenda by
    a. creating industrial hubs for gas based industries (fertilizer and petrochemicals) and
    b. Establishing better linkages between the gas sector and the domestic economy.
3. Consolidating Nigeria's position and market share in the export markets through regional gas pipelines and LNG.

The above will require enabling policy interventions with respect to gas domestication including the following:

- Domestic supply obligation to jump start gas availability in the short and medium terms.
- The provision of bankable commercial framework reforms in pricing and revenue securitization to enable sustainable investment in domestic gas supply.
- The development of a national gas infrastructure blueprint for which supply flexibility through the use of open access rules will be encouraged.

In the case of oil development the policy interventions include:

- Amnesty programme
- Fiscal rules of general application for the upstream, midstream and downstream sectors (PIB).
- Deregulation of product prices and the opening up of the downstream petroleum sector.

The Reform Agenda of Government

Government has made the following pronouncement as its broad outline of the reform and revamping agenda with respect to the oil and gas industry. An important starting point will be the country's Energy Policy itself which has the following objectives:

1. To ensure the development of the nation's energy resources, with a diversified energy resources option, for the achievement of national energy security and an efficient delivery system with an optional energy resource mix
2. To guarantee increased contribution of energy productive activities to national income
3. To guarantee adequate, reliable and sustainable supply of energy at appropriate costs and in an environmentally friendly manner, to the various sectors of the economy, for national development
4. To guarantee an efficient and cost effective consumption pattern of energy resources
5. To accelerate the process of acquisition and diffusion of technology and managerial expertise in the energy sector and indigenous participation in energy sector industries, for stability and self-reliance

6. To promote increased investments and development of the energy sector industries with substantial private sector participation
7. To ensure a Comprehensive, integrated and well informed energy sector plan and programmes for effective development
8. To foster international co-operation in energy trade and projects development in both the African region and the world at large
9. To successfully use the nation's abundant energy resource to promote international cooperation

The reform agenda for the oil and gas industry is centered on the Petroleum Industry Bill (PIB) though not exclusively so. Others include National Content Act, the Amnesty Programme and Gas initiatives.

The PIB currently undergoing legislative processes at the National Assembly establishes the legal and regulatory framework, institutions and regulatory authorities for the Nigerian petroleum industry. It also stipulates guidelines for operations in the upstream and downstream sectors.

The objectives of the PIB are therefore as follows:

- To enhance exploration and exploitation of petroleum resources
- To significantly increase domestic gas supplies especially for power and industry
- To create competitive business environment for the exploitation of oil and gas
- To establish fiscal framework that is flexible, stable and competitively attractive
- To create commercially viable national oil company
- To create strong and effective regulatory institutions
- To promote Nigerian content and
- To promote and protect health safety and environment

The proposed reforms in the PIB can broadly be divided into two; non-fiscal and fiscal reforms. Non-fiscal reforms relate to institutional and policy re-orientation.

There is the need to review and reform for greater effectiveness and current legal and regulatory, investment, operational, and economic realities the structures currently applied and used in the oil and gas sector. This will include:

The seven (7) Joint Ventures operated by foreign oil companies in partnership with the Federal Government

- Production Sharing Contracts (PSC)
- Risk Service Contracts
- Indigenous Operations – Sole Risk Contracts
- Marginal Fields
- Gas utilization opportunities including:

a. Independent Power Projects (IPPs)
b. Liquefied Natural Gas (LNG)
c. Natural Gas Liquids (NGL)
d. Gas – to- Liquids (GTL)
e. West African Gas Pipeline
f. Domestic gas utilization.

- The Environment
- The Downstream including its supply and distribution sub-sectors

Following from the above, all action is to be taken whilst ensuring that the following are eliminated from the industry:

Policy Corruption: This involves corrupt influence on the design of sector policies, as well as the enactment of sector laws and taxes in a manner intended to provide political or personal gains at the public expense.

Administrative Corruption: This is the abuse of administrative office to extract illegal benefits in exchange for approval covering a wide range of commercial and operational activities.

Commercial Corruption: Under this heading are the broad areas of procurement abuse, including tender rigging, kickbacks, and cost inflation.

Grand Corruption: Direct theft of massive amounts of money through diversion of production; products, or revenues are cases of grand corruption. Specific risk areas include the awarding of licenses; the awarding of contracts; bottlenecks and inefficiencies; the role of bunkering; the exportation of crude and importing refined products.

8.13 Technical Assessment and Measurement

DPR is responsible for the quantity measurement of crude oil & petroleum products. The role of the Department can be summarized as follows:

- Supervising all petroleum industry operations being carried out under licenses and leases in the country in order to ensure compliance with the applicable laws and regulations in line with good oil field practices.
- Enforcing safety and environmental regulations and ensuring that those operations conform to national and international industry practices and standards.
- Keeping and updating records on petroleum industry operations particularly on matters relating to petroleum reserves, production and exports of crude oil, gas and condensate, licenses and leases as well as rendering regular reports on them to Government.
- Advising Government and relevant Agencies on technical matters and policies which may have impact on the administration and control of petroleum.

- Processing all applications for licenses so as to ensure compliance with laid-down guidelines before making recommendations to the Honourable Minister of Petroleum Resources.
- Ensuring timely and adequate payments of all rents and royalties as at when due.
- Monitors Government lndigenisation Policy to ensure that local content philosophy is achievable.

The specific functions of the DPR at the terminals are as follows:-

- Monitor and record crude oil/condensate and gas production from the fields into the terminals by metering and static measurement methods.
- Verify the vessels and the respective quantities of crude oil /condensate and gas nominated to he lifted by the vessels.
- Participate in the fiscalisation, defiscalisation exercises and dynamic metering to compute the quantity exported.
- Ensure that meters and prover loop volumes at lease automatic custody transfer points are calibrated as statutorily required.
- Participate in the calibration of storage tanks.
- Maintain both production and export figures data bank.

Measurements are carried out by the DPR Terminal or Depot operators or their representatives and representatives of the operating companies. The DPR Terminal or Depot representatives report to their various supervisors and Heads of Departments who in turn report to the Director of Petroleum Resources through the operations controller.

This fiscalisation exercise is carried out to ascertain the accurate volume of crude oil and petroleum products both at the production units and custody transfer points. The basic activities carried out during quantity determination using the dynamic method are flow metering and temperature measurement.

Flow Metering

This is the process of using a flow meter to measure the volume of liquid (i.e. crude oil or petroleum product) as it passes through the pipelines. A flow meter of the positive displacement type is essentially a piece of equipment designed to measure volume of liquid by separating it into measured quantities (i.e. displaced volume) and counting these quantities. Flow meters of this type can only measure liquid in one direction, hence it is impossible to reverse the flow through such meters. Also these meters fitted to test separators and flow stations have never been calibrated since they were installed where they do not have a prover loop to calibrate the meter in situ.

Temperature Measurement

The temperature effect can account for the largest part of total error in quantity determination of petroleum product and crude oil. It is always necessary to compensate for the effect of temperature of the product. The purpose of temperature measurement is to determine the temperature of the bulk liquid hydrocarbon (crude oil) in the storage tank. The temperature so determined is used to calculate the standard volume of the crude oil at 60 F and its weight in tonnes. The operator who measured the level of the crude oil also measures the temperature. The temperature measurement method approved by DPR is the average temperature of the crude oil. The average temperature is obtained from the average of three (3) level measurements of the crude stock. Samples of the crude taken from the stated levels are measured for temperature.

Necessary Checks

The temperature of the sample being measured must be at equilibrium with the temperature of the entire crude within that level. This is ensured by moving the sample can up and down in the crude column for about two minutes to allow for the can and its content to reach a temperature equilibrium within the crude in storage. The reading of the temperature is taken when the thermometer reading is constant. The temperature Reading obtained from the level(s) temperature measurement is compared with the temperature back-up devices installed by the side of the tank (at various levels). The temperature readings obtained together with the API (or S.G) is used to obtain the volume corrections factor (VCF), necessary for conversion of gross volume to standard volume at 60 F. Upon completion of these activities, all the parties (i.e the DPR representative, operating companies representatives nominated representatives from buyers of cargo) usually compile the figures they had already collected independently and thereafter come together to cross check each other figures in order's to eliminate errors where necessary.

Tank Gauging (Fiscalisation)

Tank gauging or fiscalisation is the measurement of the level of a liquid hydrocarbon in storage tank with approved steel tape in order to ascertain the level of the liquid hydrocarbon contained in the storage tank. (shore or offshore). The liquid hydrocarbon can be crude oil or petroleum product(s). The measured level of the crude oil or products (as the case may be) is converted into volume from certified tank calibration charts. Tanks are certified every 5 years after they have been cleaned and re-furbished. The tank to be fiscalised must meet the required conditions as approved by the Government regulatory agent (DPR).

Measurement of liquid hydrocarbon level (Fiscalisation) can be either by dipping (innage) or ullage method. The approved method by DPR is dipping in innage. The person that carries out the gauging exercise for custody transfer purposes can be either DPR representative or representative of the operating terminal while other (DPR or Terminal operator's representative) witnesses. Before the quantity could be accepted, the measured value (level) should repeat itself for at least 2 consecutive readings

Necessary Checks Include:

The tank content (crude oil / products) must be stabilised by allowing the content to settle for the minimum period specified for that grade of crude oil or products. For crude oil, minimum settling time is 6 hours after filling the tank.

The segregated free water in the tank is removed through draining of the tank. The storage tank should have been calibrated by a DPR accredited company. All equipment for gauging must meet the stipulated specifications. The crude oil surface in the tank should be free of foam or waves due to agitation.

Frequency of Measurement (Fiscalisation):

The frequency of crude oil tank fiscalisation can be classified into 5 frequencies:

- Fiscalisation after tank filling (production)
- Daily fiscalisation
- Biweekly fiscalisation
- Monthly fiscalisation
- Fiscalisation for Export.

The procedure for all fiscalisation exercise is identical

8.14 Crude Quality Determination

Quality determination refers to the processes involved in ascertaining the quality of the crude oil in terms of API / S.G at 60/60, base sediment and water (suspended). The first stage of quality determination is sampling, followed by laboratory analysis.

Sampling:

The purpose of sampling is to obtain a truly representative composite sample of the contents of a tank to be used in determining the quality of the crude in the storage tank.

API Determination

API refers to the density of the crude. The higher the API, the lighter the density and hence the higher the price of the crude oil. Apart from price index determination, API (or specific gravity, S.G) is used with the crude tank temperature to calculate the standard volume, and weight (Long ton) of the crude oil.

The API gravity is determined, using approved hydrometer and hence requires the sample to be representative.

Gathering / Flowstation Monitoring

Not all flowstations have meters especially those that empty their contents into LACT units and or other flowstations.

Not all the flowstations and or production platforms that have meters, get their meters calibrated forth-nightly because of logistics problem and shortage of staff.

However meters at Lease Automatic Custody Transfer (LACT) points are recalibrated every forth-night while the meters at the export loading terminals are calibrated or proved at every loading activity.

8.15 Production Arrangements

Alternative Production Arrangements

In 2010, PPMC initiated an arrangement to augment shortfall in supply of refined products called "Offshore Processing Arrangement (OPA)". According to PPMC, this was necessary as the local refineries production could not meet the daily local demands of white fuels. In 2011, PPMC further introduced SWAP arrangement to increase the availability of white fuels in the country. These contracts are carried out with the unrefined crude from the domestic allocation of 445,000 bpd and records over-the-years have shown that these arrangements are not beneficial. This audit requested explanation from PPMC for sustaining a contract that was clearly a "loss" to the federation and below is an extract of PPMC's explanation of the process involved in OPA and SWAP.

"…in order to mitigate the price vulnerability, shortages in products availability and guarantee of nationwide steady supply while at the same time freeing cash for other expenditures, NNPC sought and obtained approval to enter into Crude Oil Offshore Processing Arrangement (OPA) with Societe Ivoirienne de Raffinage (S.I.R.); and Crude Oil/Product Exchange Arrangement (SWAP) with Messrs Trafigura Beheer B.V and Duke Oil Company Incorporated (a fully owned subsidiary of NNPC). Under the OPA arrangement, NNPC delivers nominated Crude Oil grade to S.I.R. for processing and subsequent delivery of the products to NNPC. In the execution of the programme two sets of operational costs are incurred by NNPC, i.e. costs associated with the Crude Oil Supplies – processing fee, freight and demurrage; and costs associated with the Products Deliveries – freight and demurrage.

For the Products Deliveries, NNPC receives PMS, DPK and AGO (as required) in parcels of 30,000 to 60,000MT; while others - LPG, LPFO, VGO, Butane, Propane (referred to as Retained products in the contract) not required by NNPC are sold and proceeds remitted to NNPC's account.

Reconciliation meetings are held between NNPC and S.I.R. to determine the quantities of Crude Oil supplied, the Refined products received and also the value of the Retained products. Any position arrived at the end of each reconciliation meeting will be offset in the next cycle of transactions. The transaction therefore is an on-going account, i.e. until such a time that the contract is terminated and the final net positions ascertained.

NNPC made agreements with Societe Ivoirenne De Raffinage, (SIR) and Nigermed and others for processing some quantities of the crude oil offshore. Part of the refined products such as PMS, AGO and DPK are returned whilst LPG, VGO and Fuel Oil (LPFO and HPFO) are retained and paid for at a negotiated price.

Crude SWAP is a Value for Value arrangement where the operators deliver corresponding net product value, i.e. inclusive of demurrage cost, to the net value derived from the Crude Oil loaded, i.e. exclusive of associated costs - demurrage. Thus, the arrangement encompassed all costs (Crude Oil, Products and associated costs), thereby relieving NNPC of the burden of cash payment. Therefore, an over delivery means PPMC owes the party the value in Crude Oil, while an under delivery means the other party owes PPMC the value in refined products; thus, either party is under obligation to settle the over/under *delivery in subsequent transactions. Accordingly, any difference between the value of Crude Oil and that of refined products delivered are not construed as a net gain or loss, instead the balance is taken as either over delivery or under delivery.*

Keeping in line with the above, periodic account reconciliation is carried out to ascertain each Party's position and overall status of the programme. This is an on-going transaction and NOT a financial loss or gain to the Corporation."

Swap Arrangements

This arrangement and Offshore processing transaction entered into by Government including offshore processing were in place in 2014.

In order to avoid scarcity of petroleum products in the country, PPMC signed a barter (value-for value) contracts with Trafigura Beheer B.V and Duke Oil in 2011. The contract with Trafigura was initially signed on 1st October, 2010 and later renewed on 1st October 2011 to terminate on 31st December 2014. Basically, this is an arrangement for the exchange of crude oil for refined petroleum products. The following arrangements were in place during the period covered by this audit:

- Audit issue on Crude Allocation to Refineries
- PPMC/Duke Oil-AITEO Crude Oil – Refined Product Exchange Agreement; February – December 2011.
- PPMC/Duke Oil-Ontario-Crude Oil - Refined Products Exchange Agreement; February - December 2011
- PPMC/Trafigura Crude Oil-Refined Product Exchange Agreement - Liftings and Deliveries; October -December 2010.
- PPMC/Trafigura Crude Oil - Refined Product Agreement- Liftings and Deliveries; January – December

9. Production Measurement/Metering Infrastructure - Upstream

9.1 AGIP Terminal (Brass)

The Audit teams visited the Nigeria Agip Oil company Terminal in Brass, Bayelsa state on Thursday 24th November 2016. During the visit the audits physically identify Brass Meter Bank. Storage Tanks, Turbine Flow Meters and a visitation was made to their control room and laboratory.

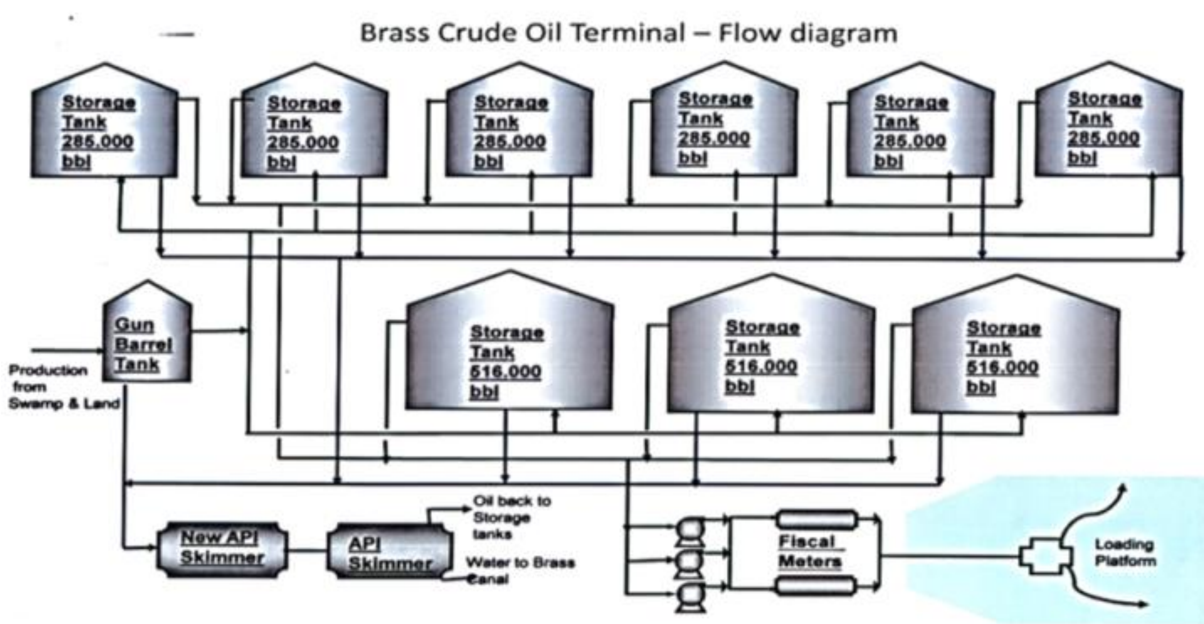


Figure 9-1 Brass Crude Oil Terminal – Flow diagram

Brass Crude Oil Terminal received Crude Oil from four (4) different Flow Stations. 1. Obama Station with a design capacity of 50,000bopd. 2. Tebidaba station with a design capacity of 50,000bopd. 3. Ogboinbiri station with a design capacity of 60,000bopd and 4. Clough- Creek station with a design capacity of 25,000bopd. On arrival at the terminal they received produced crude oil is dosed with demulsifies and channeled to the GUN BARREL unit for first stage separation (i.e. oil and water separation). The separated crude oil is channeled to a production tank while the water discharged from the GUN BARREL, is pumped to the API skimmers for effluent water treatment and recovering. On completion of production into a tank, the crude in the tank is allowed to settle for 8 hours and is dehydrated to the required specification.

During export, there are six (6) Turbine Flow Meters in the LACT unit that are used for export of crude oil at 12,000BPH. These Turbine Flow meters have a lifespan of five (5) years after which they are replaced. These meters has a proven loop used for health – checking the accuracy of the Turbine Flow Meters.

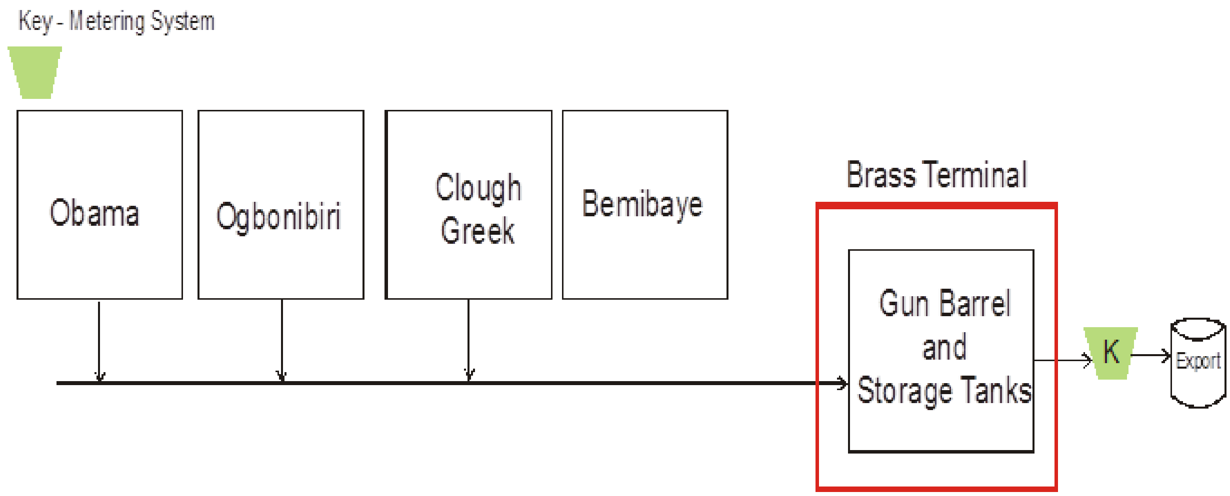


Figure 9-2 Brass Meter Bank - Measurement Practice

The oil and gas network related to Brass

Oil and gas Network diagram below shows received Crude Oil to Brass Terminal from four (4) different Flow Stations in the swamp. The fifth Flow Station BENIBOYE production goes to Forcados terminal. After Gas is separated at Flow stations, crude and water are received via Gunn Barrel at the Brass Terminal where it is subjected to water and oil treatment. The gas is sent to OB/OB where it is transferred to Bonny NLNG.

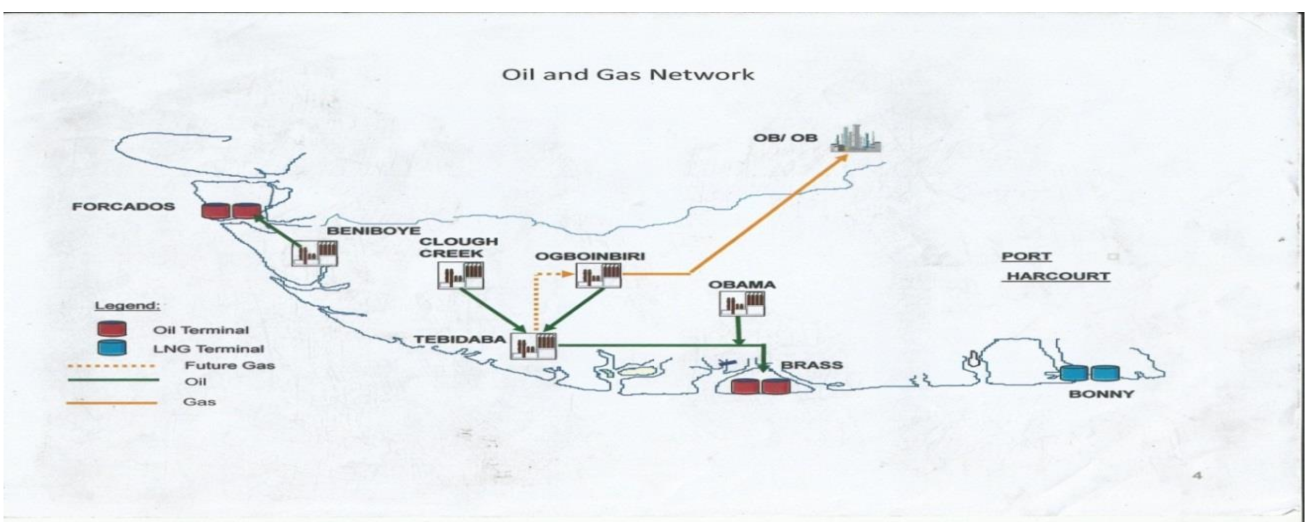


Figure 9-3 Oil and Gas Network

Flow station

Typical configuration diagram below shows crude oil from Inlet HP Manifold and Test Manifold pumped into a HP and Test Separators. Crude Oil and Gas separated at these facilities are transferred into MP Separator. Most of the gases from HP, TEST and MP separators are for LP flare, and some are utilizes for plant operations and community power generation. ATM separator receives crude oil and gas from MP separator. It is from ATM separator that crude is pumped to Export Tanks while the gas is flared, Atmospheric flare.

Most of the gases here are utilized while insignificant is flared.

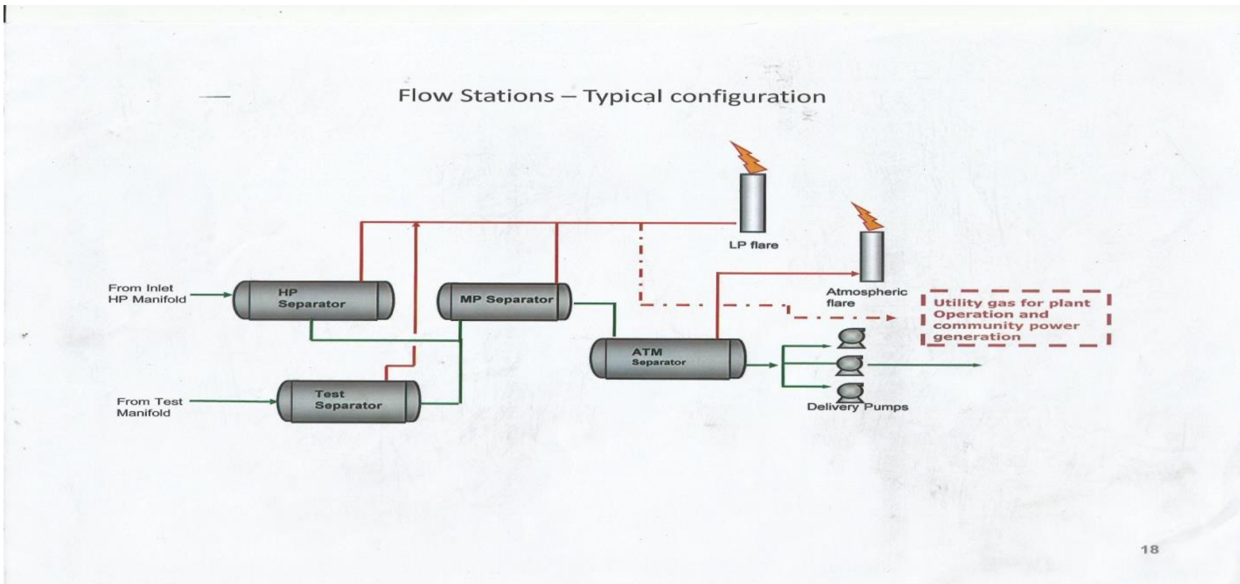


Figure 9-4 Flow Station Configuration

General assessment/discussion of users of the facility

The following are facilities at the Brass Terminal, a Buoy Operating Platform (BOP) for interconnection with vessel, Solar Turbine pumps, Booster pumps and storage tanks.

Third party injectors have meters installed at their ends right before injection into pipeline going to Brass Terminal. There is a facility where Metering is done for third parties before the individual production is comingled and production becomes one and custody transferred to NAOC .They are supervised by DPR.

General assessment of the facility

All the four Flow Stations have Meters that measure the products that come to Brass Terminal. At the Terminal the difference of products received is compared to the one sent from Flow Stations.

Pressure drop helps to identify where there is likely pipeline oil leakage, however they cannot identify where oil is being lost. They can however use what has left the stations and what has arrived to know the quantity lost.

A shutdown of production occurs when there is an explosion in the pipeline. An aerial surveillance on pipeline path by helicopter is normally used to monitor the line.

Pipeline vandals and oil bunkers are very common here. Their intension could be to sell the oil or to pollute the environment in other to settle scores with the Government.

A common observation is that entities do not understand how to fill the weight and measurement as well as the mass balance template.

New/planned projects

It was reported that in 2014 the PROVER LOOP system used at the terminal for export meter proving was faulty and was later replaced. A document to prove the replacement was presented.

Facility maintenance is done periodically based on pressure and transmitter feedback. There is a software maintenance system that notify on scheduled maintenance and action to be taken.

Measurement of crude level is taken using a fixed level gauge in the storage tanks. Thermometer is used to check the temperature when the sample of the product is taken at the top, middle and bottom of the floating roof tanks using a fiscal drop stick.

Reconciled readings are usually close with critical consideration for allowable variance which is communicated verbally by regulatory agencies.

Maintenance and Calibration in Measuring System

A Gathering Station including Gas Flare

Gauge/Meter Type and Calibration/Maintenance

The PD Meters are proved monthly using the Proved Loop by water draw system. The inner mechanisms are maintained two days before the actual Proving with the DPR representatives present to make sure that all processes are carried out accurately according to statutory regulations. The PROVER LOOP is calibrated annually using Master Meter.

B Tank F arm

Gauge/Meter Type and Calibration/Maintenance

The PD Meters are proved monthly using the Proved Loop by water draw system. The inner mechanisms are maintained two days before the actual Proving with the DPR representatives.

C Fiscal Metering and Sampling – Export Terminal

Gauge/Meter Type and Calibration/Maintenance

The PD Meters are proved monthly using the Proved Loop by water draw system. The inner mechanisms are maintained two days before the actual Proving with the DPR representatives present to make sure that all processes are carried out accurately according to the statutory regulations. The PROVER LOOP is calibrated annually using Master Meter.

Comments on the Enforcement of Guidelines, Law

NAOC has a dedicated department (Metering) responsible for monitoring of existing and new regulations, stewardship of compliance to Senior Company Management. Also NAOC has a dedicated Measurement Team to provide ongoing Technical support for compliance with local regulations. NAOC Corporate Measurement Standards is best in the Industry. Central to the company's overall compliance strategy is to follow the most stringent of the measurement standard where there is a conflict between company standard and local regulation. In addition, key aspects of the regulations have been included in company's measurement manual.

Comments on the operational practices and management procedures of Brass terminal and NAOC

NOAC has a corporate measurement standard very good in the industry. At Brass Terminal they have a dedicated metering department responsible for monitoring of existing and new regulations.

Also there is a maintenance system called a computerized maintenance management system. This is used to plan work orders for routine maintenance.

Table 9-1 Nigerian Agip Brass Terminal Mass Balance

NIGERIAN AGIP OIL COMPANY BRASS TERMINAL MASS BALANCE (Barrels @ 60F)

Month	Initial Stock	Naoc JV Gross Delivery	AENR Gross Delivery	Addax Gross Delivery	Platform Gross Delivery	Total Terminal Receipt (Gross)	Total Oil Receipt (Net)	Total Water Receipt (Bbls)	Terminal Adjustmt	Total Oil Net (Actual)	Total Export (Net Bbls)	Terminal Final Stock
Jan-14	1,419,396	4,913,299	645,115	179,097	534,490	6,272,001	2,605,637	3,666,364	-1,335	2,604,302	2,849,566	1,174,132
Feb-14	1,174,132	3,954,580	588,703	156,396	319,123	5,018,802	2,110,537	2,908,265	-41,236	2,069,301	1,820,137	1,423,296
Mar-14	1,423,296	4,631,439	654,719	224,110	571,177	6,081,445	2,588,001	3,493,444	-3,862	2,584,139	2,506,551	1,500,884
Apr-14	1,500,884	3,552,893	637,475	171,425	408,139	4,769,932	2,413,667	2,356,265	-3,386	2,410,281	2,964,108	947,057
May-14	947,057	4,027,561	656,300	194,266	541,225	5,419,352	2,905,257	2,514,095	-43,870	2,861,387	2,198,856	1,609,588
Jun-14	1,609,588	4,343,042	615,321	140,271	367,464	5,466,098	2,935,710	2,530,388	-38,608	2,897,102	2,673,538	1,833,152
Jul-14	1,833,152	5,300,496	526,445	202,093	380,561	6,409,595	3,456,185	2,953,410	-19,094	3,437,091	3,670,532	1,599,711
Aug-14	1,599,711	5,043,502	536,320	172,008	437,026	6,188,856	3,383,591	2,805,265	-30,451	3,353,140	3,047,762	1,905,089
Sep-14	1,905,089	4,864,491	503,459	197,298	361,491	5,926,739	3,431,668	2,495,071	-100,800	3,330,868	4,046,128	1,189,829
Oct-14	1,189,829	5,342,784	482,143	187,293	488,628	6,500,848	3,764,326	2,736,522	-7,950	3,756,376	3,559,855	1,386,350
Nov-14	1,386,350	5,117,680	396,157	191,790	521,685	6,227,312	3,500,612	2,726,700	-2,961	3,497,651	3,463,243	1,420,758
Dec-14	1,420,758	5,212,549	452,648	210,023	529,534	6,404,754	3,729,421	2,675,333	-36,129	3,693,292	3,599,968	1,514,082
Total		**56,304,316**	**6,694,805**	**2,226,070**	**5,460,543**	**70,685,734**	**36,824,612**	**33,861,122**	**-329,682**	**36,494,930**	**36,400,244**	

Note:
1. Total Oil Net (Actual) = Total Oil Receipt (Net)-Terminal Adjustment
2. Total Liquid Receipts = Total Terminal Inflow (Gun Barrel Water+Tanks Liquid Receipts)
3. De-Water/Shrinkage (Total Actual Oil Net) = Total Oil Receipt (Net)+Terminal Adjustment

Brass Terminal Balance sheet showing total Crude Oil received from Third Parties, (Naoc JV, AENR, Addax and Platform), Total Terminal Receipt (Gross), Total Oil Receipt (Net), Total Water Receipt (Bbls), Terminal Adjustment, Total Oil Net (Actual), Total Export (Net Bbls), and final stock for the period of January 2014 to December 2014.

Audit Findings on Maintenance and Calibration of Metering System

At Brass Terminal, there is a maintenance system called a Computerized Maintenance Management System (CMMS). This is used to plan work orders for routine maintenance. Not all planned maintenance and Calibration are captured in this CMMS.

Significance

Sub – Optimal utilization of the CMMS

Recommendation

Audit recommends that CMMS should be used to capture all Maintenance and Calibration schedules.

Audit Findings at Brass Gathering Station including Gas Flare

At Gathering Facility in Brass Terminal, Positive Displacement Meters are located in Brass Meter Bank. Dehydrated unit, Booster pumps and API Skimmers are in this Gathering Station.

Significance

Positive Displacement Meter in Gathering Facility measures the crude oil flow volumes; there are also thermometer and pressure gauges installed at different points in the facility to capture the temperature and pressure of crude oil.

Recommendation

This is a recommended practice.

Audit Findings at Brass Terminal Tank Farm

Brass Terminal Tanks has a gross storage capacity of 3,271,000 barrels. There are nine (9nos) storage tanks. Six (6nos) storage tanks have a storage capacity of 285,000bbls each and three (3nos) storage tanks have a capacity of 516,000bbls each. The operational capacity is 2,896,000bbls with a dead volume of 375,000bbls. It has a level gauge and they use a dipping tape to take measurement.

Significance

Dipping Tapes will not capture the temperature at different levels of the storage tank.

Recommendation

Audits recommend Ullage –Temperature Interface (UTI) for use because UTI is made to capture the reading of temperature at different levels inside the tank.

Audit Findings at Brass Terminal Fiscal Metering and Sampling – Export Terminal

Brass Terminal has **A Lease Automatic Custody Transfer (LACT** unit**);** six (6nos) Turbine Meters (12,000BPH each). A Proven Loop, Three (3) Sulzer Turbine Pump (20,000BPH each). The transfer and receiving crude oil volumes during export are calculated and compare with each other every one hour.

Significance

This method checkmates the crude oil from being diverted.

Recommendation

Audits recommend more surveillance by the security personnel along the water ways during crude oil pumping to the loading platform to check- mate oil theft.

Physical inspection of environment

Aerial inspection on approach and departure

The aerial inspection in Brass canal was neat, no oil spillage. However there is oil bunkering ships scattered everywhere in the canal that can obstruct the free movement of ships coming to the canal. They also constitute a safety and security risk, as they can be used to commit crimes.

Physical inspection on ground

The ground inspection on Brass Terminal was neat, no oil spillage. The grasses were well mowed. Storage Tanks neat to look on. However blown out vandal pipes and broken valves were heap at one place.

Recommendation

Vessels lying on the beach front, and around the terminal should be evacuated immediately to safe guard property, stock and lives.

9.2 Visitation to Qua Ibo Mobil Terminal (QIT)

The Audit teams visited the QIT Mobil in Ibeno, Akwa Ibom state on Thursday 30th November 2016. During the visit, the audits team met with the metering Engineers from Mobil Producing Nigeria. A visitation was made to their control room and laboratory.

Description of QIT

QIT Mobil Producing Nigeria (MPN) commenced in Nigeria in 1955 under the name Mobil Exploration Nigeria Incorporation (MEN). MPN operate a Joint Venture with Federal Government of Nigeria through the Nigerian National Petroleum Corporation (NNPC). The Federal Government of Nigeria has a 60 percent share with the remaining 40 percent by MPN. The company is located in Ibeno in Akwa Ibom State of Nigeria.

QIT Measurement Schematic DIAGRAM

QIT measurement schematic diagram below shows crude from offshore locations of EAP, UBIT, EDOP, IDOHO, INIM, UTUE, ETIM, ASABO, USARI, OSO and from FRONTIER, UNITY, NETWORK

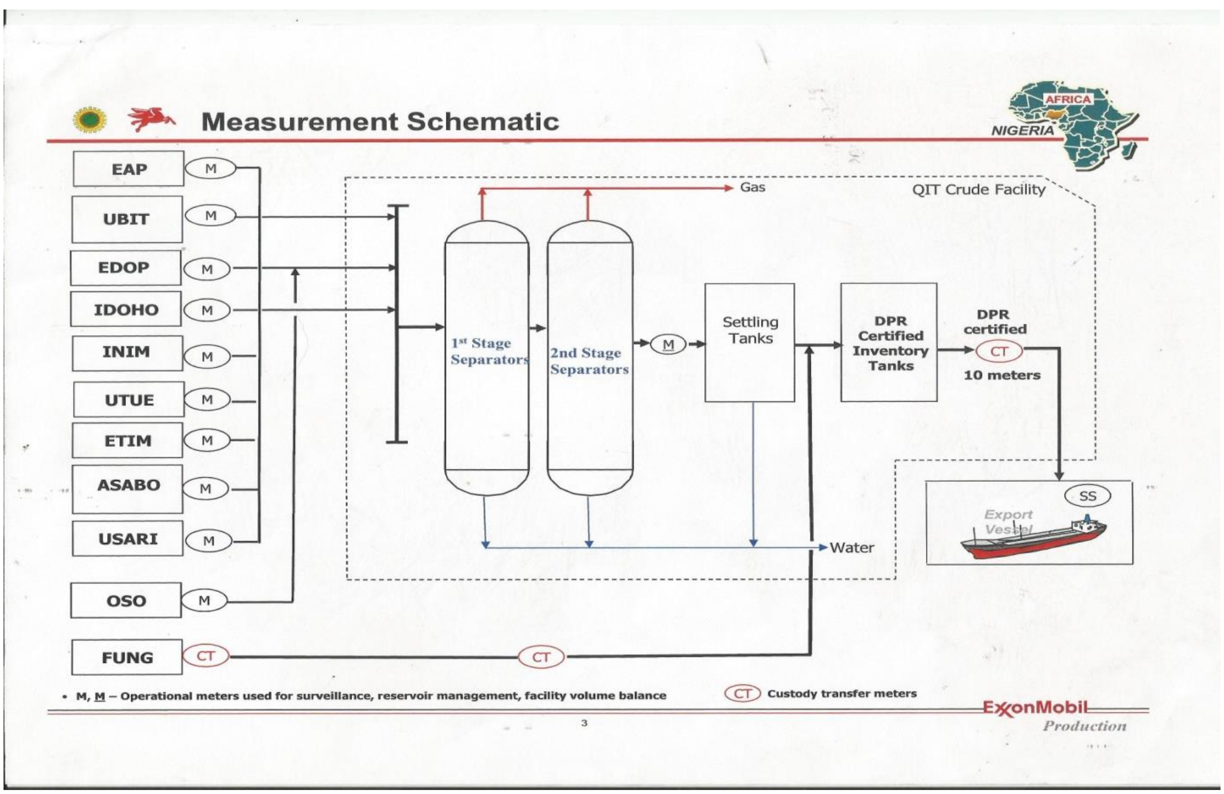


Figure 9-5 Measurement Schematics

groups (FUNG) are measured into first and second tank separators before being transferred through another metering device into settling tanks. Gas separated from other crude products in these first and second stage separators is utilized in the terminal and bulk is sold to NLNG Bonny. Crude oil from first and second stage separator is metered into setting tanks. QIT Terminal has fifteen (15) storage tanks in all but four (4) are no longer in use but there are plans to reconstruct them. Measurement control is very important in OIT and as such measurement is taken right from the well heads, to gathering station, to storage tanks and all the way to when oil is lifted. The net oil that ends in the tanks is measure at the end of every day. The sample of Crude oil is tested in the laboratory and is stabilized to export quality. All the measurement meters used in the terminal are certified by DPR. For every crude oil lifting, proving is done to check the accuracy of the volumes sent and received. For every loading there is an opening and closing inventory, the difference is what is loading. DPR witness all the ships loadings, they are always in custody with the key to the export line. DPR mandates meters to be calibrated periodically. There is on-going review on measurement performance, this is done on a monthly basis and involves all level of reviews. Where certain requirements are not met, that is a deviation process; some may be regulatory while others are internal, QIT follows the most stringent action.

QIT Crude Oil Balances

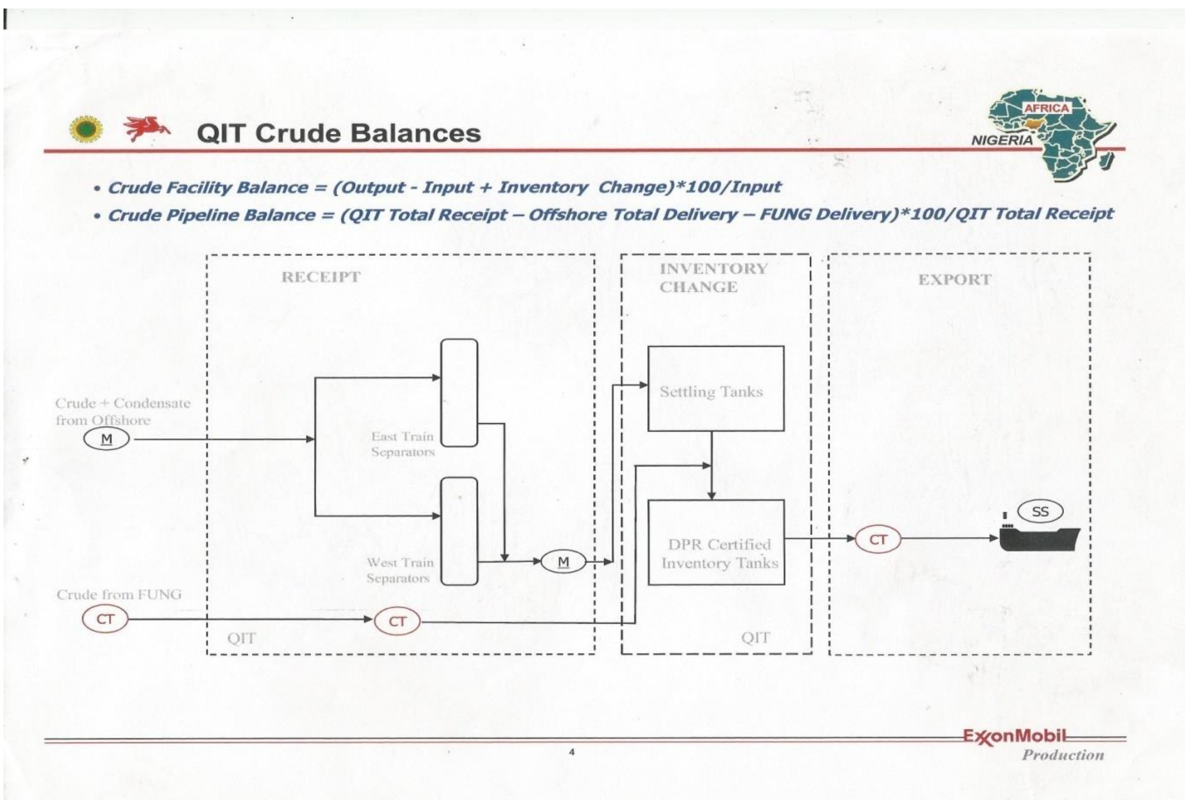


Figure 9-6 QIT Crude Oil Balances

QIT receives its Crude Oil and Condensate from Offshore Facilities. This received Crude Oil is stored in East Train and West Train Separators. Operational meters used for Surveillance, reservoir management, facility volume balance are installed at different units in the facilities. Crude oil from East and West Train Separators is metered and pump into Settling Tanks before being transferred to DPR Certified Inventory Tanks and loaded for export through Custody Transfer.

Crude Oil from Frontier, Unity and Network groups (FUNG) is metered and delivered into the DPR Certified Inventory Tanks. Water from first and second stage separators is discharged into QIT canal. Gas is utilizes internally and bulk is sent to LNG Bonny.

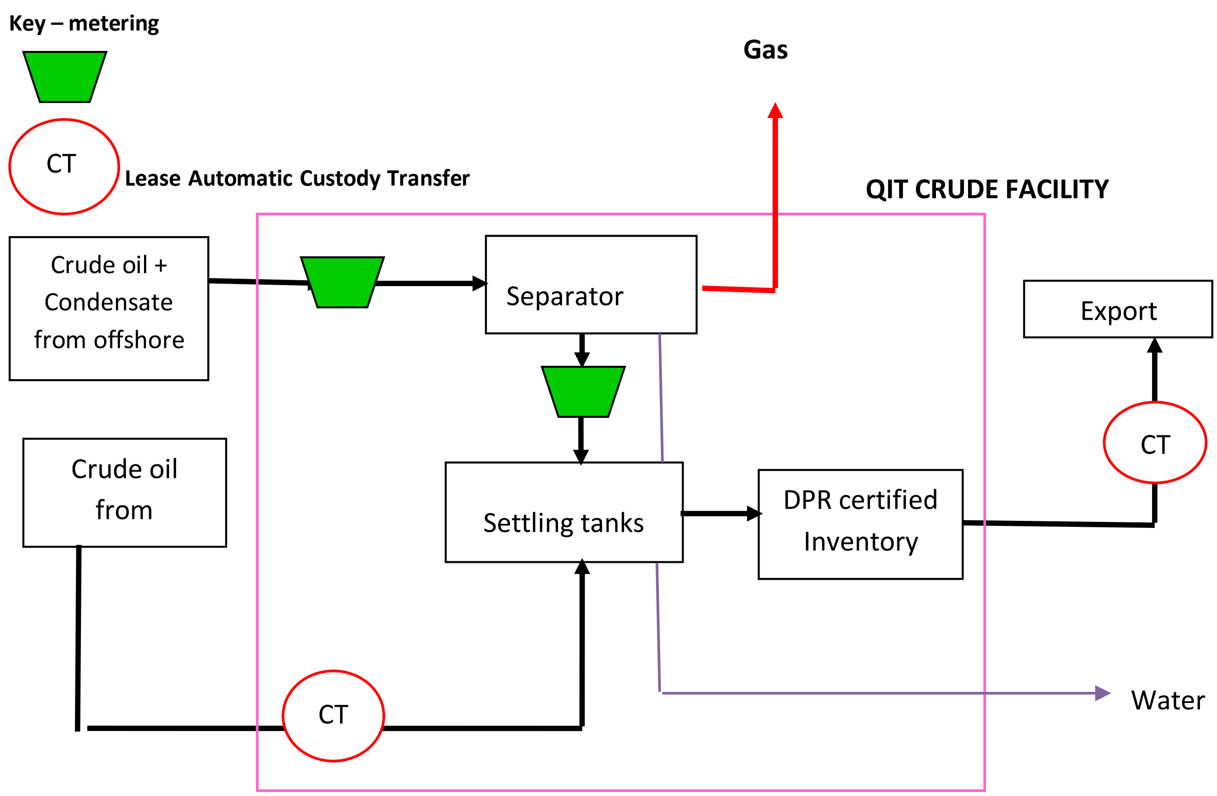


Figure 9-7 Process Schematic Metering System

The simplified process schematic above at the QIT shows that oil produced is metered and sold, while gases produced are metered and exported to LNG Bonny. Gases are also utilized in QIT as fuel gas. The main fiscal oil metering system is used for custody transfer during cargo off take and it is called the Lease Automated Custody Transfer Unit (LACT). The units are made up of;

i. Turbine Meters, Pressure Transmitters, Temperature Transmitters, Meter Prover, Automatic Sampling System, Flow Computers, Supervisory Control System, DPR'S Remote Terminal unit.

Ii. 42'' bi-directional prover loop with four way diverter valves, used to test the accuracy of the turbine meters. This is a key metering system and is calibrated annually by an independent metering expert.

Once calibrated, the Department of Petroleum Resources (DPR) has to approve the certificate. Certificate of calibration for 2014 was shown.

iii. An auto sampling system is used for automated grabbing of oil sample during cargo off take for oil analysis such as BS&W.

iv. Three stream flow computers and one prover flow computer – used to monitor the pressure, temperature and flow rate of the turbine meters.

General assessment/discussion of users of the Facility

At QIT, The primary measurement methods which determine the fiscal quantities of petroleum and petroleum products at the gathering station and tank farm facilities are by dynamic measurement method. These facilities are equipped with functional meters which are installed and maintained in accordance with the relevant section of the guides issued by the Department of Petroleum Resources. However, manual tank gauging which is static measurement is a secondary method of measurement.

General assessment of the facility

At QIT, in all production and custody transfer points, including third party injection points, the primary measurement device used are meters with tank gauging as back up whenever possible and as specified by DPR. All such points are equipped with certified meters that includes; Positive Displacement meters, Turbine meters, Ultrasonic flow meters, Corolis meters, Differential Pressure meters etc as approved by DPR. At custody transfer points from which export of petroleum and petroleum products take place, an export line valve with a lock system on the main loading line valve is installed. The valve is the main gate of all petroleum and petroleum products leaving the facility.

New/Planned Projects

QIT management plans to remove the spheroids from the prover loops using prover loops isolating and sphere Extraction procedures. The management of QIT plans to provide procedure to contractor otherwise the spheroid shall be extracted by filling the loop with water and use of a vacuum extraction tool. The management also plans to inspect the spheroid removed from the loop for wears, cuts, corrosion deposits and other signs of physical deterioration. The company plans to provide a new spheroid to replace the old one if found to be defective based on inspection. The company also plans internal inspection of the prover loop to check if there is any significant damage on it. It also plans to inspect the spheroid for wears, cuts, corrosion and other signs of physical deterioration. The company instrument Engineers will also inspects the detector switches for corrosion, wears and any other physical defects. The company will confirms the integrity and functionality by manually actuating the switches and replaces the defective ones. The company plans to perform integrity checks on the 4-way diverter valve.

Description on How to MAINTAIN AND CALIBRATE the Measuring Systems to achieve accuracy required in the Measurement of Mass Balance in the various Facilities

A Gathering Station including Gas Flare

Gauge/Meter Type and Calibration/Maintenance

The dynamic metering is proved monthly using the Proved Loop by water draw system. The inner mechanisms are maintained two days before the actual Proving with the DPR representatives present to make sure that all processes are carried out accurately according to statutory regulations. The PROVER LOOP is calibrated annually using Master Meter.

B Tank F arm

Gauge/Meter Type and Calibration/Maintenance

The dynamic metering, tank gauging is proved daily/monthly using the Proved Loop by water draw system. The inner mechanisms are maintained two days before the actual Proving with the DPR and NAPIMS representatives.

C Fiscal Metering and Sampling – Export Terminal

Gauge/Meter Type and Calibration/Maintenance

The dynamic Metering, automatic sampling is proved each time the product is loaded for export using the Proved Loop by water draw system. The inner mechanisms are maintained two days before the actual Proving with the DPR and NAPIMS representatives present to make sure that all processes are carried out accurately according to the statutory regulations.

Comments on the Enforcement of Guidelines, Law, etc

This procedure guides apply to measurement of quantities and qualities of petroleum and petroleum products at all approved facilities which include *all export terminals (Onshore and Offshore), special purpose vessel storage (SPVs), third party injection and supply points, loading and discharge jetties, refinery tank farms/product depots, production facilities and flow stations*

In case where the counter of a meter is found stuck, the volume/quantity of the petroleum and petroleum product that has passed through shall be established by the material balance between the estimated quantity based on the pumping rate and the gross receipt at the tank farm downstream the meter, or for cases where the meter is installed between two tankages, the material balance of petroleum and petroleum product quantities are compared in the two tankages over the period concerned.

Comments on the operational practices and management procedures of QIT Mobil terminal

The operational practice and management procedures in QIT in case when the meter fails during measurement operations, an average meter factors established during the three preceding proving shall be used to estimate the quantity of petroleum and petroleum product passed through during the operations. However, if the meter failure persists after 30 days, the department's approval shall be sought for further guidance. In case where critical instrument/part of the metering system such as four way valve, flow computer etc fails to function, then only static measurement shall be used and out-turn of such export shall be verified by DPR.

Table 9-2 QIT crude Year-End Inventory of 2014

MOBIL PRODUCING NIGERIA
QIT CRUDE YEAR-END INVENTORY @ 0800 HRS DATE: January 1, 2015
EXXONMOBIL USE ONLY

TANK	E M.mm	TEMP °F	@ 60°F	BS&W %	FRD	BBL FACTOR	TK TABLE	BBLS @ TK	VCF	BBLS@ 60 °F	LONG TONS	BBLS @ 60°F	LONG TONS	NET BBLS @ 60 °F	LONG TONS	REMARKS
5001								0		0	0	0	0	0	0	OUT OF SERVICE
5002								0		0	0	0	0	0	0	OUT OF SERVICE
5003	2.804	91.0	37.6	0.025		0.13064		96721	0.9848	95251	12444	24	4	95227	12440	
5004	0.650	82.8	35.3	0.100		0.13244		31835	0.9890	31485	4170	31	5	31454	4165	STATIC FOR MAINTENANCE
5005	15.032	107.7	37.0	0.025		0.13110		473935	0.9768	462940	60691	116	18	462824	60673	
5006	14.956	105.0	36.9	0.050		0.13118		467862	0.9781	457616	60030	229	36	457387	59994	
5007	6.345	106.0	37.1	0.100		0.13102		204939	0.9776	200348	26250	200	31	200148	26219	
5008	9.095	100.0	37.4	0.050		0.13079		282424	0.9804	276888	36214	138	22	276750	36192	
5009										0	0	0	0	0	0	OUT OF SERVICE
6701	0.210	87.0	36.1	0.050		0.13181		20821	0.9870	20550	2709	10	2	20540	2707	STATIC FOR MAINTENANCE
6702	0.220	84.0	36.6	0.050		0.13142		21821	0.9884	21568	2834	11	2	21557	2832	STATIC FOR MAINTENANCE
6703										0	0	0	0	0	0	OUT OF SERVICE
6704	15.188	108.7	36.9	0.200		0.13118		632531	0.9763	617540	81009	1235	193	616305	80816	
6705	14.915	106.7	36.9	0.100		0.13118		620991	0.9773	606895	79612	607	95	606288	79517	
6706	14.550	109.2	36.8	0.300		0.13126		607360	0.9761	592844	77817	1779	278	591065	77539	
TOTAL EXPORT TANKS										3383925	443780	4380	686	3379545	443094	

TANKS 5004, 6701 AND 6702 WERE NOT FISCALISED BECAUSE THE TANKS ARE STANDING FOR MAINTENANCE.

MOBIL PRODUCING NIGERIA
QIT CRUDE YEAR-END INVENTORY @ 0800 HRS DATE: January 1, 2015
EXXONMOBIL USE ONLY

SIGNATURE PAGE

	NAME	COMPANY	SIGNATURE
1)	RICHARD S. DAUDA	NNPC - NAPIMS	
2)	RASAK HAZEEZ-AGBAJE	ERNST & YOUNG	
3)	ODIEGWU CHINENYE	MUHTARI DANGANA & CO	
4)	OLORUNTOBI ADELOKUN	PRICEWATERHOUSECOOPERS	
5)	OMOSEGBON OLABODE S.	DPR	
6)	ORINIOWO DIMEJI	DPR	
7)	RICHARD TARI	DPR	
8)	AIYEPEKU S.O.	MPN	
9)	IDONGESIT R. EKPO	MPN	AIYEPEKU-S.O
10)	MOSES E. AKPUBAK	MPN	
11)	OWEN AZUBUIKE	MPN	
12)	IKOKWU ERIC	NNPC-COMD	

PREPARED BY: LAAkpan

Table above shows QIT crude Year-End Inventory of 2014

The table above shows a number of storage tanks used in Mobil Producing Nigeria QIT crude. Tanks 5004, 6701 and 6702 were not fiscalised because the tanks are standing for maintenance. Total export tanks of BBLS@60 degree Fahrenheit, = 3383925,; LONG (TONS) = 443780; NET BBLS@60 degree Fahrenheit = 3379545; LONG (TONS) = 443094. Tanks 5001, 5002, 5009 and 6703 were out of service when the readings were taken.

Audit Findings on Maintenance and Calibration of Metering System

QIT has an electronic system for maintenance management to ensure all requirements are met; it is triggered by human interference. The system is called IPES as of 2014, what used to be computerized operation maintenance systems (COMS).

When they system is triggered, it has a space of time to close by a way of start and has an expected completion date, unless this is done it will remain open. At the end of the month a report is generated. There is also a built in escalation report.

Significance

Optimal utilization of the COMS

Recommendation

Audit recommends that COMS should always be used to capture all Maintenance and Calibration schedules.

Audit Findings at QIT

QIT management takes Measurement control very seriously. All measurements are taken from the well heads to where crude oil is lifted. The net oil that ends in the tank is measure at the end of the day. What is exported is stabilized to export quality after being tested in the company laboratory witness by representative from DPR, NAPIMs, and buyer's. All the meters are certified by DPR and for every export lifting proving are done. There is an opening and closing inventory for every loading. The difference is what is loaded. DPR, buyer representatives QIT metering officials witness all ship loadings, key to custody line is kept with DPR. DPR mandates that calibration of meters be done periodically.

Significance

Volume of crude oil in each facility is monitored

Audit findings at QIT

QIT managements apart from their regular internal assessments carry out for improvement opportunities; they also carry out external audit every three years to ensure that standard is met in their operations. There exist segregated responsibilities so that anomalies can easily be detected. Electronic systems used in QIT are password. QIT receives crude from multiple locations, third parties injection also comes to the facility and they all end up in the tanks after ensuring that all measurement requirements are met.

Significance

There is a proper accountability of petroleum or petroleum products receive or sent out in each facility.

Recommendation

Audit welcome the practice

Physical inspection of environment

Aerial inspection on approach and departure
An inspection in QIT canal was neat, no oil spillage. There is no oil bunkering ships seen anywhere in the canal that can obstruct the free movement of ships coming to the canal.

Physical inspection on ground
The ground inspection on QIT Terminal was neat, no oil spillage but grasses were not mowed. Some Storage Tanks were not neat to look upon. Some tanks need to be reconstructed and re painting.

9.3 Visitation of Shell Bonga FPSO Facility

SPDC/SNEPCO Bonga FPSO

The audit teams visited the Bonga FPSO on Friday, 02 December, 2016. The team was received on arrival by their Offshore Installation Manager (OIM) on board. The Bonga FPSO vessel is designed to handle 225,000bpd, gas lift of 65MMscf/g. Gas export of 170 mmcf/d and 300 barrels of injected water per day. The giant Bonga Floating Production, Storage and Offloading (FPSO) vessel is in use at Shell's Bonga oilfield (discovered in 1993 and with a life of 20 years), Which lies 120 km off the coast of Niger Delta, covering an area of 60 sq.km. The vessel, which became operational in 2004, is permanently installed in water depths ranging from 1,000 m to 1,125 m. First oil production was made in November 2005.
The Bonga FPSO was built by Samsung Heavy Industries in Korea for the owner operator, Shell Nigeria Exploration and Production Limited (SNEPCo) and the Nigerian National Petroleum Corporation (NNPC). The hull has a length of 305.1 m or 295 m between perpendiculars. It has a moulded breadth of 58 m. The design drought is 23.4 m and it has a scantling draught of 23.9 m.

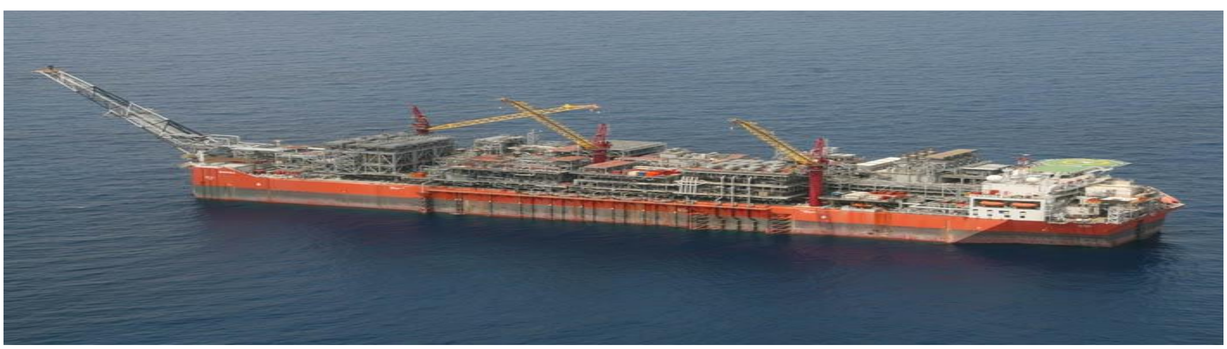


Figure 9-8 Bonga FPSO

Description of Bonga Field

The Bonga Field diagram below is an oilfield in Nigeria. It was located in License block OPL 212 off the Nigerian coast, which was renamed OML 118 in February 2000. The field covers approximately 60 km^2 in an average water depth of 1,000 metres (3,300 ft). The field was discovered in 1993, with Government approval for its development given in 2002. The field began first production in November 2005. The field is produced via a FPSO vessel above. The field produces both petroleum and natural gas; the petroleum is offloaded to tankers while the gas is piped back to Nigeria where it is exported via an LNG Bonny plant. The field contains approximately 6,000 mm barrels of oil

The field is operated by Shell Nigeria who own 55% of the license. The other partners in the field development are Exxon (20%), Nigerian AGIP (12.5%) and Elf Petroleum Nigeria Limited (12.5%)

Bonga is the first deepwater project for Shell Nigeria Exploration and Production Company (SNEPCO) and for Nigeria. Bonga field is a subsea well development. As at January 2014, 500 million barrels have been exported from Bonga FPSO. The first oil date was achieved in November 25, 2005. The production rate for oil and gas were 225k Bbl/d and gas export of 170k mscf/day. There are 23 production wells and 19 water injectors.

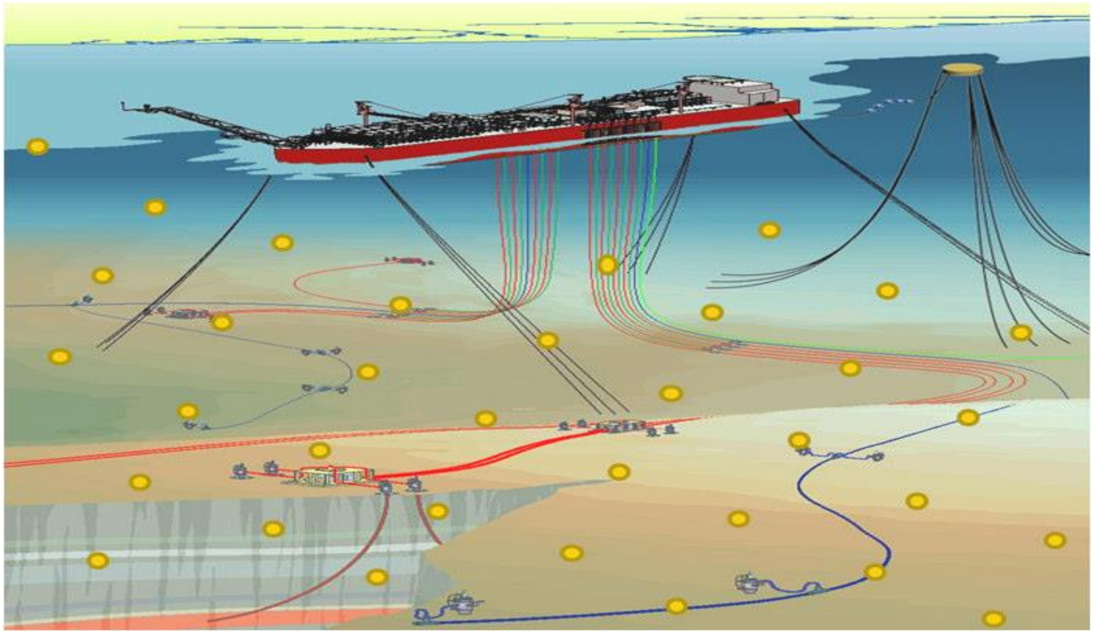
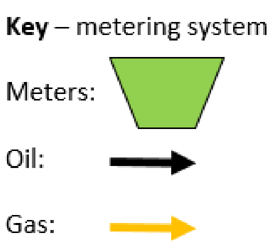
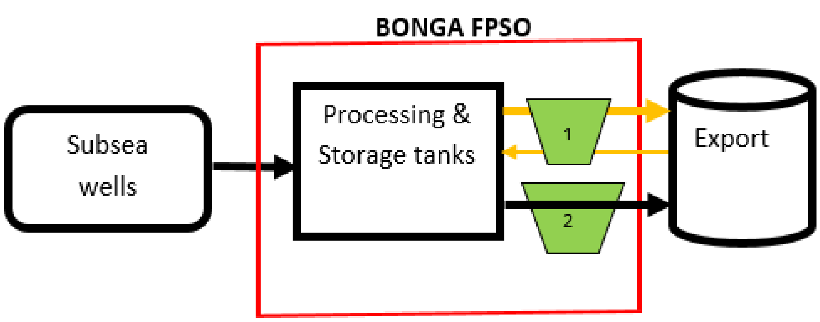


Figure 9-9 Process Schematic





The simplified process schematic diagram above at the Bonga FPSO shows that oil produced is metered and sold, whilst gases produced are metered and exported to LNG Bonny and gas is also bought back from Bonny to Bonga as fuel gas. The main fiscal oil metering system thick **BLACK LINE** used for custody transfer during cargo off take is called the Lease Automatic Custody Transfer Unit (LACT). The LACT units is made up of:

- Three 16” turbine flow meters of which two are in use for every export and one as spare.

- 42" bi-directional prover loop with four way diveter valves, used to test the accuracy of the turbine meters. This is a key metering systems and this is calibatraed annualy by an independent metering expert. Once calibrated, the Department of Petroleum Resources (DPR) has to approve the certificate. 2014 calibration certificate was shown.
- Auto sampling system used for automated grabbing of oil sample during cargo offtake for oil analysis such as BS&W
- Three steam flow computers and one prover flow computer – used to monitor the pressure, temperation and flow rate of the turbine meters.

The Bonga Fisca Sales of Gas Export systems as above is comprised of two gas export streams and one gas buy-back stream, comprising of:

- An orifice carrier per stream
- One gas sample fast loop and two sample conditioning systems
- Two gas chromatographs and one dew point analyser

Two flow computers, gas density transducers, pressure transmitters and temperature elements per stream.

General assessment/discussion of users of the facility

At Bonga FPSO Facility, there are Ultrasonic Flow Meters, V Cone Meter, Senior Daniel Orifice. These are all use in the gathering station. Tank Gauging Tapes are used in tank farm to measure the petroleum products. In Fiscal Metering and Sampling – Export Terminal, TZN 400 Turbine Meters is in use. All these Meters are certified by DPR to be standard before they are used for any measurement. Secondary instrumentataion called MMC are also used to measure tanks before and after each cargo offtake. There are 6 MMC on board the FPSO with valid calibration certificates.

The LACT unit as a whole has to be approved annually by DPR before it can be used as a custody transfer system during cargo offtake.

During cargo offtake representative from DPR, NNPC representative, independent inspectors and cargo surveys have to be present during any cargo offtake.

Maintenance and Calibration of Measurement Systems

On board the Bonga FPSO, the following maintenance regime is in place:

Three-monthly validity of oil export and sampling instrumentation performed by the in-house metering specialist technicians

- Annual validation of all the oil export intruments including the proover loop performed by a specialist third party company
- Three monthly validity of the gas export and sampling instruments performed by the in-house metering specialist technicians and witness by representative of DPR and NLNG
- Annual recertification of the flow transmitters and gas density tranducers by a standard calibration body

Comments on the Enforcement Guidelines/Law etc.

The DPR Procedure guide for the Determination of the Quantity and Quality of Crude Oil and Petroleum Products at Custody Transfer point specifically provides guidance for the maintenance and proving of Positive Displacement Meters and Turbine Meters. The procedures does not provide guidance for the maintenance calibration of other meters such as Ultrasonis Meters, carilois Meters, Ventury Meters or Gas Chromat, etc. Also the procedure does not provide guidance and criteria for the measurement of gas.

Recommendation

The audit adviced that guidance should be updated to define the maintenance records to be kept, frequency of calibration and the certainty level for oil and gas.

Comments on the Operational Practice and Management Procedures of Bonga FPSO

There is a maintenance management system called Kelton Instrument Management System (KIMS) which is used at the Bonga FPSO to track metering maintenance. Also there are metering log books maintained for each line of streams.

New/Planned Projects at Bonga FPSO

At Bonga FPSO Facility, the management newly acquired Orifice Meters for gas measurement, Corolis or Rotron meters for crude oil at the outlet of the test separator at their Wellheads. They also acquired Orifice Meters for gas, Corolis and Positive Displacement for crude measurements. There are also Ultrasonic Meters for gas flare all in their Gathering Station. At their Tank Farm, they newly acquired Tape/Tank Gauging. In their Fiscal Metering and Sampling – Export Terminal, they newly acquired Orifice Metering system, Turbine Meters for their projects. All these Meters before install for use are duly certified to be of standard by DPR Engineers.

Physical inspection of environment

Aerial inspection on approach and departure

The aerial inspection in Bonga FPSO Facility was neat, no oil spillage. There is no oil bunkering ship found anywhere around the facility to obstruct the free movement of ships coming to the platform.

Physical inspection on ground

The ground inspection on Bonga FPSO was neat and tidy; they have high regards on housekeeping, no oil spillage. Underground Storage Tank surfaces, is neat to look on. The anchor lines support on Bonga FPSO vessel is firmed. The tidal waves because of firm anchor lines support have no effects on Bonga FPSO vessel.

9.4 Total Akpo Terminal (FSO Unity)

Visitation to FSO Unity Offshore

The Audit teams visited the FSO Unity on Monday 21st November 2016. During the visit, the audits team met with the metering Engineers, operational manager and departmental heads from FSO Unity Offshore. A visitation was made to their control room and laboratory.

The FSO Donny was replaced by the FSO Unity. Built in Usan, South Korea, FSO Unity receives crude at a rate of 230,000 bpd from the Amenam – Kporo Field as well as Afia, Ime, Edikan, Ofon and Odudu Fields. Amenam – Kpono Field provide the largest amount of input to FSO Unity, some 125,000 bpd during the first phase of its development. The Field is linked to the vessel via a 38km pipeline. The FSO Unity has a storage capacity of 2.2 million barrel of crude oil. It has an overall length of 300m, 62m wide and 32m deep. FSO Unity has a dead weight of 341,000t divided among 15 cargo tanks and settling tanks for 200,000 barrels of oil.

Figure 9-10 FSO Unity

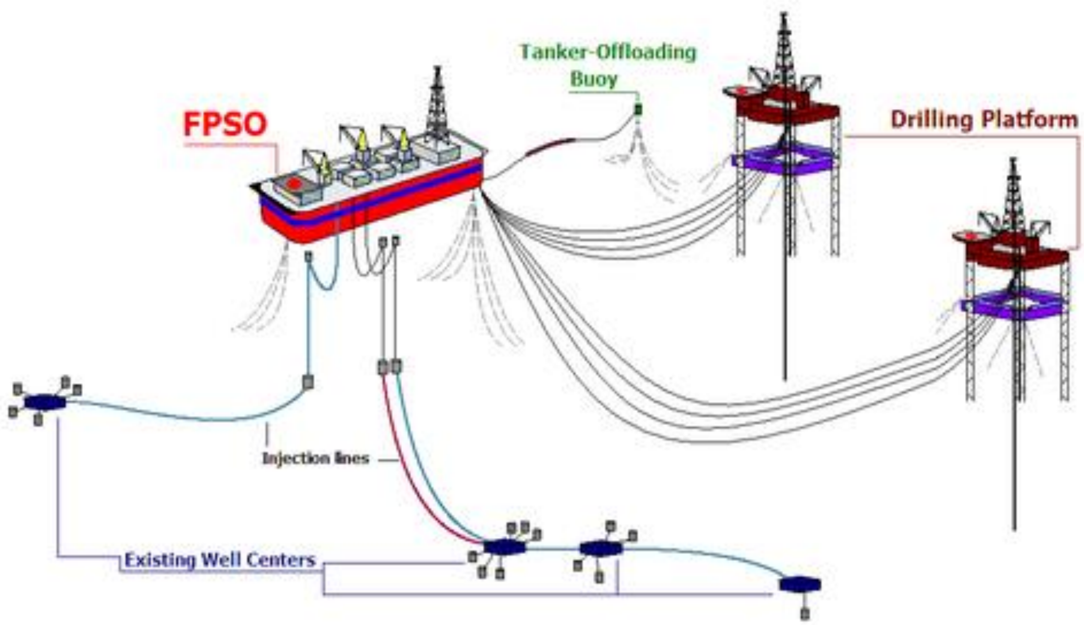


Figure 9-11 FSO Process Flow

Figure above shows how different Drilling Platforms, Existing Well centers are linked to the FSO Unity vessel via pipelines. It also shows Injection Line and Tanker offloading through the Buoy.

Akpo Process Flow Diagram

The diagram below shows an Akpo Process Flow, a deep water development Fields which is a subsidiary of Total Upstream. The Fields were discovered in 2000, it is located in Ultra deepwater of Nigeria. Akpo Fields are situated on OML 130 approximately 200km (124m) from Port Harcourt. This is gas and condensate field. In 2005, the Akpo development include 44 wells – 22 production wells, 20 water injection wells and two gas injection – of which 22 have been drilled.

The process flow shows Two Well Fluids measured into Test Separator and 2 x 1st stage separators. Condensates from these separators are measured through 2nd stage separator, 3rd stage separator into Electrostatic Dehydrator. The condensates from Electrostatic Dehydrator are measured through 4th stage separator before being sent to Cargo Tanks.

Gases from 2 x 1st stage separators, 2nd stage separator, 3rd stage separator, Electrostatic Dehydrator and 4th stage separator are measured through LP Compressor, MP Compressor, 2 x HP Compressors through Glycol Dehydration before being use as Fuel Gas. Some gases from Glycol Dehydration are measured through 2 x Export Compressors for Gas Export to Amenam. Some passes through Injection Compressor for Gas Injection into the Wells.

Water is produced from 2 x 1st stage separator, 2nd stage separator, and 3rd stage separator and from Dehydrator.

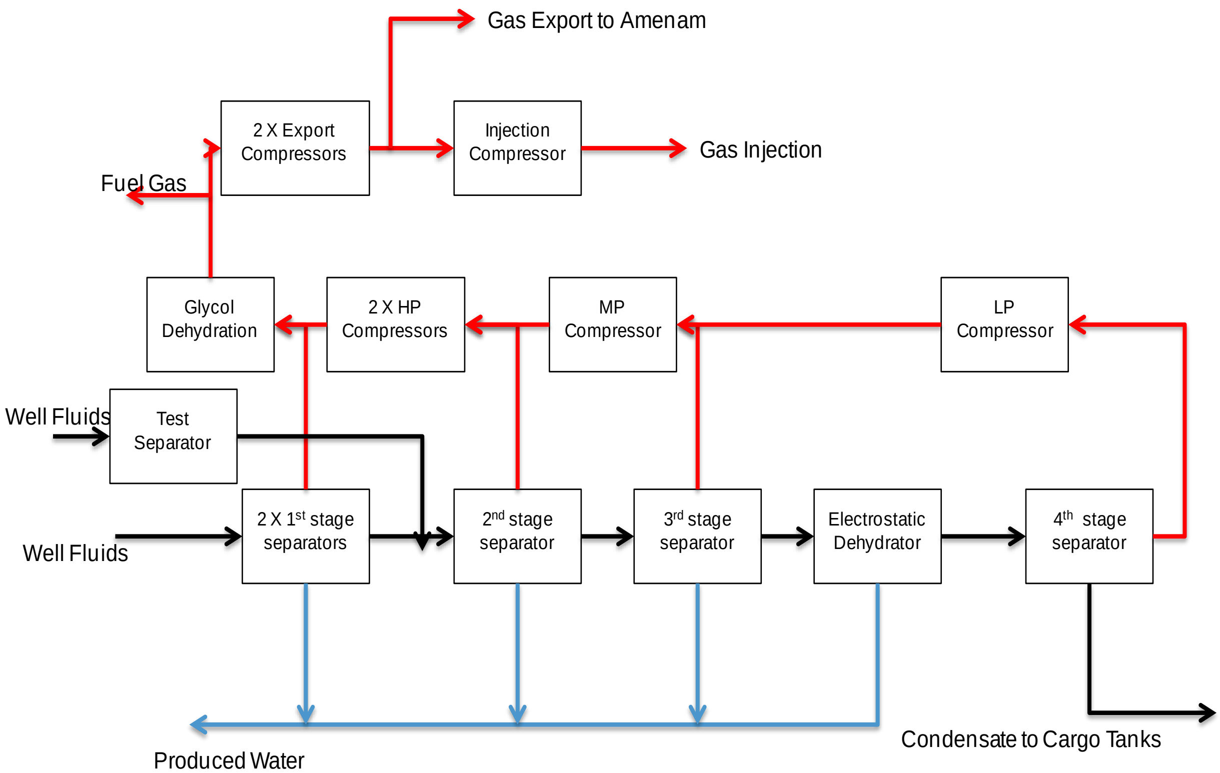


Figure 9-12 Akpo Process Flow Diagram

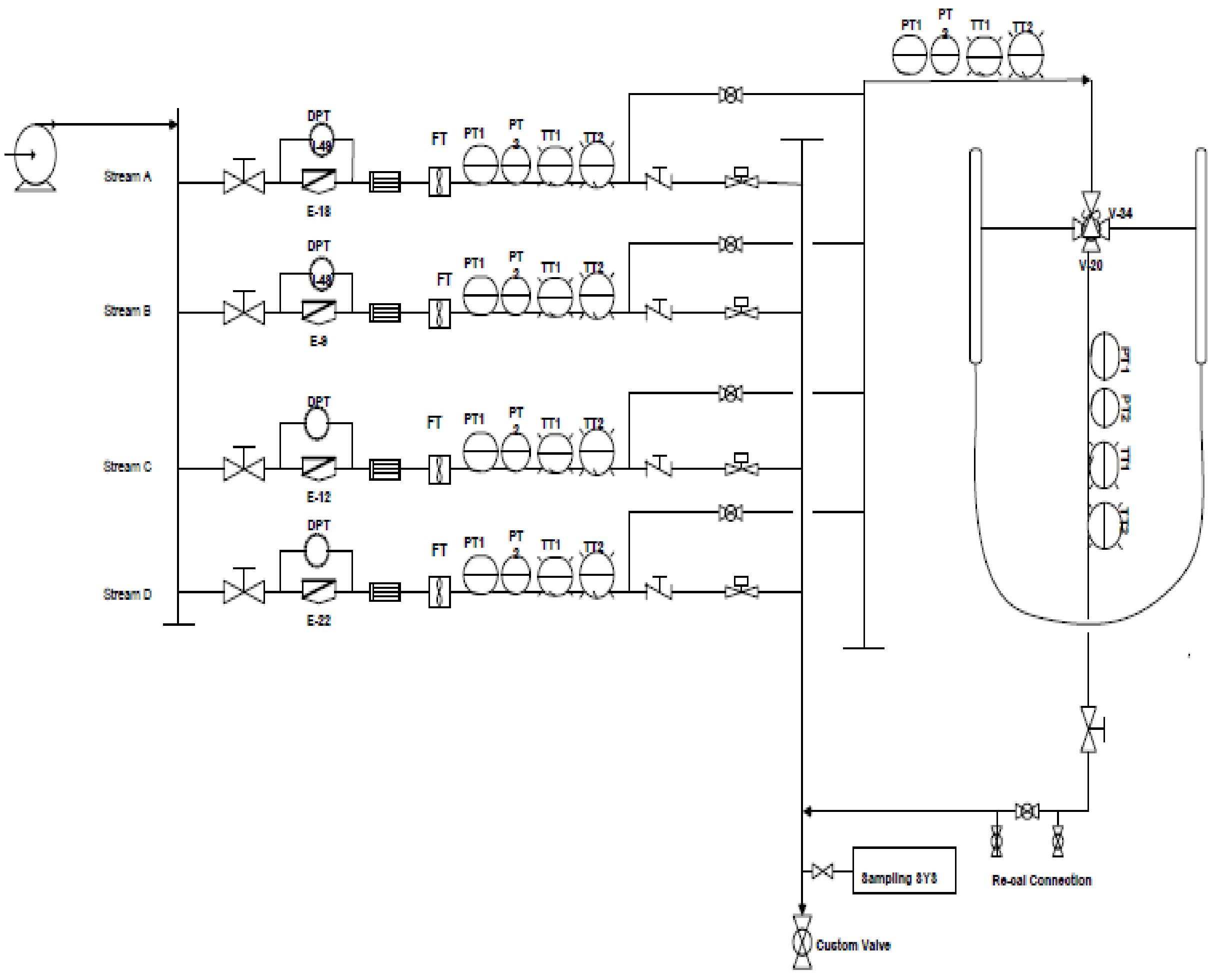


Figure 9-13 FSO Oil Custody Transfer Metering Above

Description of FSO Oil Custody Transfer Metering Above

- Four (4) 6" meter streams with a Faure Herman Turbine Meter and a Daniel Spectra S600 flow computer on each stream
- An in-line auto sampler from Jiskoot
- A proving system consisting of a 30" Jordan-Kent prover loop, a Daniel 4-way diverter valve and a Daniel Spectra flow computer
- Two (2) Meteor Supervisory Computers running Realflex Version 6 in a Duty-Standby configuration with Report and Screen printers. Four (4) 6" meter streams with a Faure Herman Turbine Meter and a Daniel Spectra S600 flow computer on each stream
- An in-line auto sampler from Jiskoots

- A proving system consisting of a 30" Jordan-Kent prover loop, a Daniel 4-way diverter valve and a Daniel Spectra flow computer

Two (2) Meteor Supervisory Computers running Realflex Version 6 in a Duty-Standby configuration with Report and Screen printers.

General assessment/discussion of users of the Facility

Metering Skid: They are Situated in the field and consists of:

- Meter Streams
- Prover Loop
- 4-Way Diverter Valve
- Flow Control Valves
- Pressure and Température Transmitters
- Flow Computers:

Situated in the control room and with one dedicated flow computer to each stream and the prover. It performs the following functions:

- Calculâtes flow accros Stream mètres
- Perform pressure, temperature and density correction according to programmed algorithm (usually based on API CH 12)
- Controls stream outlet and prover inlet valves

Initiates and regulates meter proving to establish meter factor.

General assessment of the facility

Sampling Device:

- Situated in the field and samples the batch on-line real time
-

Supervisory Computer:

Situated in the control room. It performs the following control functions:

- Creates a graphic interface between the operator and the flow computers.
- Integrates the control of the individual Flow Computers
- Grosses flow as fetched from Flow Computers
- Generates and prints reports on batches
- Converts metric units to commercial units
- Handles alarms

Archives data on batches

New/Planned Projects

Challenges on current system:

- Non fault tolerant , too centralized
- Limited availability
- Flow computers and MSC communicate using slow serial interface
- Not easy to maintain in time of problem, especially during offloading operations
- Spot screen reports not available

With the Upgrade which started in 2015 – Improvements will be on:

- Full fault tolerance
- 99.99% availability
- Faster Ethernet interface for communication between Flow computers and MSC
- Color printing of spot reports for batches, improve reports formatting
- Improved communication with ICSS
- Better Graphics User Interface
- Easy maintenance even during offloads

Sampling System Upgrade

Challenges with existing sampling system:

- Not remotely monitorable
- Non fault tolerant
- Limited availability
- Does not fully conform to international standards
- Not easy to manage
- Relies on level signal for sample measurement with its inherent errors.

Audits Recommendation

Meters Improvement with upgraded sampling system should cover;

- Full fault tolerance
- Improved availability
- Full compliance with API and ISO standards on Performance Monitoring
- Full integration with Metering Supervisory Computer
- Remote Monitoring from Control Room
- Inclusion of Sampler Performance in Batch Reports

Description on How to MAINTAIN AND CALIBRATE the Measuring Systems to achieve accuracy required in the Measurement of Mass Balance in the various Facilities

A Wellheads

Gauge/Meter Type and Calibration/Maintenance

For Gas Injection; Orifice meter is use for measurements while in Gas Lift, Vortex meters are used for measurements. Calibration is done annually and supervised by DPR. DCS is used for monitor.

B Fiscal Metering and Sampling – Export Terminal

Gauge/Meter Type and Calibration/Maintenance

Turbine meters or PD meters which are used Oil measurements are calibrated after every offload while Orifice plates used for gas measurements are calibrated every quarter of the year. Calibrations are certified by DPR. For automation of the process, they use Flow Computers/DCS.

Metering system is used only for totalizing and batch control

Total gross indicated volume is a sum of the gross indicated volumes of each dedicated stream flow computer

Conversion from m^3 to Bbl is done before applying the correction factors

Temperature and pressure corrections are done at 60 degF using the appropriate API tables

TEPNG Volumes calculated are compared to DPR Volumes calculated before validation

Comments on the Enforcement of Guidelines, Law, etc

Two methods are used to determine official figures:

- The nominal method of calculating volumes in dynamic measurement mode using the fiscal metering units.
- The backup method is performed by measuring FSO tank parameters with (1), portable UTI probes (2), before and after offloading and (3) functions UTI probe: Ullage Temperature Interface and sample probe).

Tanks parameters and tanks samples are always collected with portable UTI

Probe before each tanker loading, even if the Metering Unit is available

This enables calculation of exported condensate quantity by Ullage Method, if

Metering Unit fails during offloading operation.

Comments on the operational practices and management procedures of FSO Unity

- The Oil Fiscal Metering System integrates four meter runs and a prover loop to check the turbine meter integrity.
- Each Meter Run is designed for a third of global system capacity (2 400 m3/h) allowing to maintain one of them as a spare part.
- The pressure drop through the complete system at 7 200 m3/h is 1.6 barg during meter proving (prover loop in series) and 0.9 barg during normal operations.

- Each Meter Run is equipped with one dedicated Flow Computer in charge of quantities calculations. To perform these calculations the flow computer receives signals from turbine meter (pulses), Temperature and Pressure Transmitters. This line Flow Computer is also in charge of Flow Control Valve control through an internal controller.
- The Oil Fiscal Metering installation can be bypassed using a spool piece held by DPR representative and open padlocks of the manual bypass valves to allow operation of pigging in the offloading lines.
- The complete Oil Fiscal Metering System is managed from a Flow Metering Supervisory located in the contol room and consists of the following components:

4 Emerson FloBoss flow computers dedicated to each metering stream.
1 flow computer is dedicated to metering prover.
2 Flow metering Supervisory computers, with dual communication links to the flow computers.
1 Oil metering OPC server, with dual communication links to ICSS.

Audit Findings on Maintenance and Calibration of Metering System

Well heads
Fluid calibration verification of Gamma counts, Rontine parameter verification.

Mass Coroids Flow meter (Separator and Expedition)
Zero calibration, Density of anhydrous oil and produced water verification

Ultra Flow meter (Gas meters)
Transducers strapping, couplant application, verification of prog parameter and comparison
Verification with a portable US meter

Fiscal Meters – (Export) Turbine Meters
Meter Proving (meter factor) and verification of the pulses and K – Factor, Prover Loop calibration by third party, DPR certified vendor

Orifice (Differential Pressure Flow Meter)
Verification of the ancillary instrumentation

Senior Daniel
Orifice plate inspiration, etc by third party, DPR certified vendor

Physical inspection of environment

Aerial inspection on approach and departure
An inspection in FSO Unity was neat, no oil spillage. There is no oil bunkering ships seen anywhere in the Ocean that can obstruct the free movement of ships in the water.

Physical inspection on ground

The ground inspection on FSO Unity was neat, no oil spillage anywhere in the facility. However the tidal waves disturb the balance of the vessel that makes it to be oscillating. Maybe the vessel is not well anchored or that spot was a rough area in the ocean.

10. Findings on Company Level Financial Flows

10.1 Findings on Oil Royalty

Late Payments of Oil Royalty:

We observed that Oil Royalty indebted to the Federation by Dubri Oil was to tune of $693,035 Company since 1990 was paid in 2014; and there was no evidence of a Sanction by the regulatory agencies for such delayed indebtedness to the Federation.
Waltersmith Petroman Oil Limited had an outstanding $2,703,161.99 Royalty Oil payment for 2014 year as at December 31, 2014.

Implications

I. Late payment of statutory dues results in the reduction of Government revenues.
II. Where regulatory agencies fail to sanction payment defaulters, they create the enabling environment for continuous delayed payments by Oil Companies, which in turn reduces the Government revenues.
III. It calls to question the efficacy and transparency of the regulatory agencies established to carry out oversight functions on the Oil Companies

Recommendations

I. Statutory dues should be paid as at when due by Oil companies.
II. Regulatory agencies should ensure the appropriate sanctions or penalties are meted out to defaulting companies at all times.

Variations in the Computation of Royalty Oil Payable:

SEEPCO
We observed that SEEPCO computed its fiscal value of crude oil produced using the Realisable Price (RP), against the NNPC advised Official Selling Price (OSP), thereby resulting in an underpayment of its Royalty Dues.
CHEVRON
It was established from our validation exercise that the Official Selling Price (OSP) used by Chevron in the computation of its Royalty liabilities was yet to be confirmed from NNPC.
SNEPCO

In computing Royalty liabilities, SNEPCO used 1% royalty rate while the regulatory agency uses 1.75% as royalty rate (this issue is however under dispute and has been taken to court).
Oriental Energy Resources Limited
Oriental Energy Resources Limited likewise used a graduated scale for Royalty computation as opposed to a flat rate of 18.5%.

Implication

Variations in royalty computation could lead to reduction in Government revenues.

Recommendations

I. The average monthly price stipulated by NNPC-COMD and adjusted by the API gravity of the crude should be used in computing Royalty.
II. SEEPCO is also advised to utilize the pricing mechanism advised by NNPC-COMD in her fiscalization of production volume and consequently in the computation of Royalty.

Entity's Response

10.2 Findings on Gas Sales Royalty

Late Payments of Gas Royalty:

ND WESTERN

Gas royalty of over 6 Million Naira was not paid by ND Western in 2014. According to the Company, gas sales were made in Nigerian Naira, hence it expects the equivalent royalty to be denominated in the same currency. The account details were however not collected until 2016, thereby delaying payments until 2016.
AGIP Oil

As at December 31, 2014, Nigerian Agip Oil Company had $3,757,412.28 as Gas Sales Royalty outstanding for the period January to December 2014. (Based on DPR's computation extracted from the reconciliation report between DPR and NAOC, dated April 15, 2015)

Implications

I. The delayed reconciliation between Nigerian Agip Oil Company and DPR resulted in the reduction of Gas Sales Royalty revenue of the Government in 2014

II. Over 6 million naira was being owed to the Government because of delay in responding to correspondence requesting that details of a naira royalty account be sent

Recommendations

I. All required reconciliations between Government agencies and IOCs should be carried out quarterly to enable IOCs pay their dues to the Government as at when due, and avoid delays in revenue collection by the Government.

II. Issues regarding account details should be sorted out quickly to enable IOCs make payments as quickly as possible. This also will reduce the likelihood of the entity attributing the blame of late payment to the Government.

Response from Entities

Nigerian Agip Oil Company

- "NAOC has reiterated the fact that there are no outstanding liabilities with respect to Gas Sales Royalty for 2014. As stated during the DPR/NAOC Reconciliation Meeting conducted on the 27th and 28th April 2015, the purported outstanding liability of $3,757,412.28 is as a result of the inappropriate inclusion of gas volumes utilized in Okpai Independent Power Plant (IPP) by DPR in its Gas Sales Royalty calculation. Note that the power plant is an NNPC/NAOC/OANDO Joint Venture asset.
- It is expedient to state that the gas utilized in Okpai (IPP) is required for the generation of power/energy from the gas turbines. This is performed via internal transfer and does not constitute a gas sale.
- To further buttress our point, see relevant excerpts from the Petroleum Act:

Section 61

(1(c)) all natural gas liquids extracted from natural gas and spiked into the oil stream shall be treated as oil ***so however that all natural gas extracted and sold shall attract royalty*** *at a rate per centum of the price received equivalent to the applicable rate per centum of the natural gas from which it was extracted.*

- As stated above, royalty is applicable on gas produced/extracted and sold. We reiterate that the gas supplied to the Okpai IPP is not sold rather it is transferred from our gas production facilities via an internal mechanism to our power plant noting that the transferred gas is crucial to the generation of power/energy to the national grid".

Computation of Gas Royalty:

The signed off evidence of gas sale at Chevron was not provided to ascertain the actual gas sold but the excel computation was made available and the re-computation was based on total gas sales in the schedule provided. There was no evidence to confirm that the price used in the computation was an approved price.

Implications

I. Possibility of shortfall in the revenue accrue to the Government.
II. Total gas sale may not be accurately disclose.

Recommendation

Henceforth, the signed off gas sales record should be made available to NEITI auditor in order to ascertain the correctness of gas sales during the year.

10.3 Findings on Gas Flared Penalty

Non-remittance of Gas Flared Penalty Fees

During the course of our validation exercise, we observed a very disturbing trend in some IOCs where gas flared penalty fees were not paid for over a decade and sanctions or fines were neither imposed on them by the respective regulatory agencies.

DUBRI Oil Company recorded Gas Flared Penalty outstanding liabilities of **2002 to 2014** paid in 2014.

We observed that between **2003 and 2013**, Nigerian Agip Exploration did not pay gas flared penalty fees to the Federation on OML 125 (abo field). The total gas flared penalty payable by Nigerian Agip Exploration between 2003 and 2014 amounted to **$2,250,444.93** of which **$500,000.00** was paid in November 2014, leaving an outstanding of **$1,750,444.93** as at December 31, 2014. We also observed that there was no sanction taken against the company during the lengthy period of its indebtedness. The outstanding liabilities were paid in 2015.

In 2014, Agip Energy and Natural Resources did not pay gas flared penalty fees to the Federation. The total gas flared penalty payable by Agip Energy and Natural Resources in 2014 and outstanding as at December 31, 2014, was **$469,359.**

Nigerian Agip Oil Company had an outstanding $88,872.46 gas flared penalty for the period January to December 2014. (Based on DPR’s computation extracted from the reconciliation report between DPR and NAOC, dated April 15, 2015. Payments were however made by Nigerian Agip Oil Company in 2015).

Implications

I. Late payment of statutory dues results in the reduction of Government revenues.
II. Where regulatory agencies fail to sanction payment defaulters, they create the enabling environment for continuous delayed payments by Oil Companies, which in turn reduces the Government revenues. It calls to question the efficacy and transparency of the regulatory agencies established to carry out oversight functions on the Oil Companies.
III. The delayed reconciliation between Nigerian Agip Oil Company and DPR resulted in the reduction of revenue from Gas Flared Penalty to the Government in 2014 .

Recommendations

I. Statutory dues should be paid as at when due by Oil companies, whereas regulatory agencies should ensure the appropriate sanctions or penalties are given to defaulting companies .
II. Regulatory agencies should ensure that these debts to the Federation are collected as soon as possible.
III. The relevant regulations should be reviewed to introduce interest charges payable by IOCs to the Government for such long-term indebtedness to the Government.

Response from Entities

Nigerian Agip Oil Company
"NAOC has reiterated the fact that there are no outstanding liabilities in respect of Gas Flared Fees for 2014. The 2014 Annual Reconciliation Exercise took place on April 27 & 28 2015, the established shortfall computed by NAOC amounted to $93,605 which was remitted on 28th of May 2015. NAOC has therefore fully discharged its obligation with respect to Gas Flared Fees for year 2014".

Nigerian Agip Exploration

Based on agreements reached between NAE and DPR planning division at a meeting held on the 5th of November 2014, NAE was advised to reconcile Gas flared volumes from inception to date with DPR Gas division and also instructed to pay all outstanding, based on computation on or before the 31st December 2014. To which NAE requested that the deadline for payment be extended to on or before the end of the first quarter 2015.

The balance of $1, 750,444.92 was eventually paid on the 3rd of March 2015.

10.4 Findings on WHT, VAT and EDT

Late payment of Tax Liabilities

The major issue observed during the course of the validation exercise with respect to taxation is the delayed remittances of tax liabilities by IOCs.

We observed that WHT payments made in 2014 by Nigerian Agip Oil Company included liabilities due for the years 2010, 2011, 2012 and 2013, as well as interest incurred on late payment of WHT. We also observed that VAT payments made in 2014 included liabilities due for the years 2011, 2012, 2013, and interest on late payment of VAT. This is an indication that the Nigerian Agip Oil Company has not been remitting WHT and VAT as and when due. Incurring interests on late payment of WHT and VAT also buttresses the fact that the Company does not remit the said taxes as at when due.

Dubri Oil Company had outstanding liabilities of 2006 to 2014 were paid in 2014.

Education Tax paid by Platform Petroleum Limited during the year related to 2011 to 2012, whereas Value Added Tax paid during the year related to 2011 to 2014.

The amounts populated in the VAT template of Waltersmith Petroman Oil Limited were only Input VAT which means that no VAT output and no payment was made during the year.

Implications

I. Late payments of tax liabilities to the Government lead to a reduction in the revenue of the Government.
II. It also leads to losses in the value of money to the Government.

Recommendations

I. Periodic Tax audit should be carried out by FIRS to ensure regular payment of tax liabilities by IOCs at all times.
II. The Government should ensure that penalties as stipulated in the laws are imposed on defaulting companies early, to enable the timely collection of the dues.

Response from Entities

Nigerian Agip Oil Company:

"We wish to reiterate that NAOC JV's inability to promptly remit the transaction taxes is due largely to the critical funding situation. NAOC JV operation has been passing through in recent years. The cash crunch position is due to delays in receiving the monthly JV cash calls and non-payment of outstanding performance by Nigerian National Petroleum Corporation (NNPC), our partner with 60% participating interest in the JV. As a result of the scenario above where our major JV Partner is not providing the funding as required under the Joint Operating Agreement,

NAOC JV is facing extreme difficulties in settling obligations to Government (transaction taxes) as well as contractors on a timely basis".

10.5 Findings on Petroleum Profit Tax

No Evidence of payment of PPT and Royalty

As required by section 11(2) of Deep Offshore and Inland Basin Production Sharing Contract Act 1999 The Corporation (NNPC/NAPIMS) is expected to pay all royalty, concession rentals and petroleum profit tax on behalf of itself and the contractor out of the allocated royalty oil and tax oil.

During our validation exercise, we observed that revenue receipts from FIRS for PPT were not provided by SNEPCO and Nigerian Agip Exploration. Also, revenue from DPR for Royalty Oil and Concession rentals payments were not provided by Nigerian Agip Exploration; NAE claimed that it had consistently requested from NNPC/NAPIMS to provide payment receipts for PPT and royalty payments made on her behalf, however, they were never provided to NAE by NNPC/NAPIMS.

Implications

I. Where evidence of payments are not provided to the contractors by the Corporation (NNPC/NAPIMS) for payments made on its behalf, this hampers transparency and accountability between the parties to the contract.
II. Secondly, under this circumstance, the corporation is in breach of Clause 15(6) of the Production Sharing Contract with Nigerian Agip Exploration.

Recommendation

NNPC/NAPIMS should ensure that copies of all receipts of payments on behalf of the contractors are given to them, while copies receipts collected from subsequent payments are also given to them as at when due.

Response from Entities

Nigerian Agip Exploration

NAE had consistently requested from NNPC/NAPIMS to provide payment receipts for PPT and royalty payments made on her behalf. This has never been provided to NAE by NNPC/NAPIMS.

10.6 Findings on NDDC Levy

Delayed Approval of Annual Budgets and Payment of NDDC Levies

We observed a major issue regarding the timing of approval for annual budgets and payments of NDDC levies by some oil companies. The three percent NDDC levy is charged on the total approved annual budgets of oil companies and gas processing companies, however, there is no stated time lines for the companies to prepare and approve their budgets.

Although the levies cannot be evaded by the affected companies but where a delay in the approval of budgets arises, payments of NDDC levies for a proposed year will inevitably be delayed to subsequent years. We discovered that many companies had their annual budgets of 2014 approved in 2015 which in turn hindered the complete payment of NDDC levies in 2014.

Nigerian Agip Exploration's approved annual budget for the period January to December 2014, and the total NDDC levies payable in 2014 were **$13,781,000.00** and **N1,360,055,174.76** respectively**;** of which **$2,890,500.00** and **N389,602,000.00** were paid in July 2014 leaving outstanding liabilities of **$10,890,500.00** and **N970,453,174.76** as at December 31, 2014, as NDDC levies for 2014. The outstanding liabilities were thereafter paid in 2015.

Pillar Oil Limited made no payment for NDDC levy in 2014; NDDC levies paid by Platform Petroleum Limited in 2014 related to 2009 and 2010 liabilities, while SEEPCO had outstanding NDDC liabilities of $13,635,282 as at December 31, 2014.

We observed from Nigerian Agip Oil Company's approved annual budget for the period January to December 2014, that the total NDDC levies due to the Government in 2014 were **$14,983,000.00** and **N3,592,445,000.00** respectively**.** However, as at December 31, 2014, no amount was paid by Nigerian Agip Oil Company as NDDC levy for 2014.

Implications

I. Delayed payments of NDDC levies reduce the Government revenues for the years to which they relate.
II. Unregulated timing for the approval of annual budgets by companies meant to pay NDDC levies could create avenues for delayed payments of the levies.

Recommendations

I. A timeline should be stipulated for the approval of annual budgeted for companies eligible to NDDC levies in the oil and gas industry to enhance the timely payments of the NDDC levies by the affected companies.
II. All parties involved in the approval of the annual budgets should work towards the timely approval of the budget annually.

Response from Entities

Nigerian Agip Oil Company:

“The budget approval process takes a lot of meetings that run through sometimes to the last quarter of the year, hence the payment of the levy is based on the final approved budget received, that is why you will observe that 2014 NDDC levies were paid in 2015. The unremitted portion of 2014 NDDC levy is attributable to the critical underfunding of NAOC JV operations during the period”.

Nigerian Agip Exploration:

As explained to you during the audit, the payment made in July 2014 represents 50% of the initial MACOM approved budget for the year. NAE requested for a revision of the 2014 budget in June 2014 due to change in scope of work and operational requirements but the revised budget approval process was not completed until 2015. There was no way NAE could pay the “outstanding” amount until the definitive 2014 full budget was known, so as to avoid under or over payment.

10.7 Findings on Audited Accounts and Documentations

During the course of the validation exercise, we observed that SNEPCO did not have financial statements for 2014 financial year.

Oriental Energy Resources Limited on the other hand claimed not to have documentation for the period under review as Afren Resources (their Operator during the period under review) had the custody of all required documents.

The Joint agreement between Pillar oil & Newton energy does not exist officially.

Implications

I. The non-existence of an official joint agreement simply denotes all business activities between the two parties is null and void.
II. The absence of financial statements did not enable us to adequately substantiate certain balances populated in the template.

Recommendation

I. NEITI should ensure the submission of all financial reports prior to the commencement of the audit exercise.

10.8 Findings on Template Validation

I. Evidence of payment for NESS were not provided by Esso Exploration and Production Nigeria Limited

II. Schedules provided by Mobil Producing Nigeria Unlimited for NESS fees do not have the FOB values on them and the template does not have a column showing the amount due. No document was given to validate the FOB values on the NESS template. This made it difficult to re-compute the NESS liability and match payments against it.

III. At Neconde: no schedule or template was provided for royalty; PAYE template was not filled; only a handful of evidence of payments was provided for WTH and VAT; and we were referred to NPDC for information on several templates because Neconde claimed they do not receive reports from NPDC.

IV. At oando, most of the NEITI templates were populated by operator (NAOC) and returned to them. Some templates were populated and sent by O and O after the completion of the validation exercise, this resulted in the non-validation of some payments. Adequate supporting documents were not provided to substantiate the amount populated in the template. Some templates were not populated in an acceptable format.

V. Expenditures relating to corporate social responsibility were not filled in the social expenditure template of Pillar Oil.

VI. SEEPCO did not provide evidence of payment for 1% NCDF, although ₦13,915,282 was reported in the completed template

VII. We observed that a substantial number of the covered entities did not populate the opening balances in some templates

Implications

I. The figures populated in the template may not be relied on. It is essential for supporting documents backing up payments to be available at all times.

II. Liabilities for WTH, VAT and PAYE in the affected company could not be established as a result, the amounts of WTH and VAT paid and outstanding may be inaccurate.

III. The absence of communication between NPDC and Neconde made it impossible to determine amounts paid on behalf of Neconde and also establish outstanding liability.

IV. Shortfalls in the revenue payment to the federation accounts may not be noticed.

V. Royalty and other payments computation may not be accurate.

VI. The absence of opening balances may hinder the ability of the auditor to verify prior year audit balances.

Recommendations

I. Copies of receipts of payments should be kept properly in a file and made available when necessary.

II. There is need for Neconde Energy Limited to provide further information to clarify their liabilities as previous attempts made to obtain such information did not yield result.

III. NPDC should keep Neconde informed on its interest in the JV.
IV. NEITI should introduce a quarterly or bi-annually submission of the templates by all entities; and a committee should be set up to scrutinize the templates submitted by all entities.

10.9 Findings on Government Entities

The Nigerian Petroleum Development Company Limited (NPDC)

Findings on Crude Oil Lifted by COMD on Behalf of NPDC

The total volume of hydrocarbon produced by the Company could not be verified due to unavailability of data from the Company. However, 6,678,966 barrels of crude oil valued at about $680,682,812.51was observed to be lifted by COMD on behalf of NPDC. Proceed of the lifted crude oil could not be traced to the Federation Account. Though, this was included in the schedule of liftings in federation crude as supplied by Crude Oil Sales Marketing (COSM) Unit, the actual volume of Crude Oil liftings for the Federation Account in 2014 did not include the NPDC liftings.

Findings on Royalty Payment on Crude Oil and Gas Production

The Company reported a total payment of $327,395,955.86 during the year. However, DPR reported $492,386,321.22 as total Royalty received during the year. Royalty accrued as payable by NPDC on production during the year was $633,819,717.10. With an outstanding balance of $144,949,351.2 as at the beginning of the year. This brings total outstanding as at year end to $451,373,112.44. Payments were not verified to supporting documents as documents were not made available.

Based on the populated template, there was no royalty accrued for gas production during the year. There was also no remittance of Gas Royalty during the year. The outstanding balance of $15,228,040.77 at the beginning of the period remained the same as at the end of the period.

Findings on NDDC Levy and Gas Flaring Penalty

NPDC reported total payment of NDDC levy of N1,000,000,000, during reconciliation we observed that NDDC received N1,208,539,794 on behalf of NPDC. NPDC defended this by saying the difference is payment made by them on OMLs operated by them on behalf of NAPIMs. Opening liabilities reported by NPDC N20,911,683,751.51. Accrued liabilities for the year is N8, 424,150,000 and $81,080,000 respectively. This brings the total liabilities as the end of 2014 to N28,335,833,752 and $81,080,000.

The Company did not report any payment regarding gas flaring penalty during the year. However, $394,364,890.00 was accrued as gas flaring penalty in the year. Outstanding penalty as at the beginning of the year was $1,425,324,195.38 based on the completed template. Accordingly, computed outstanding liability as at year end was $1,819,689,085.38 as against $1,580,240,080.65 reported on the template.

Findings on Payments of Tax Liabilities

Outstanding PPT balance at the beginning of the year was $1,179,804,438.95 and the calculated closing balance is $910,937,132.55 as against $1,127,491,745.35 shown on the template. However, this could not be validated because NPDC could not provide financials to substantiate this claim.

PAYE outstanding liability as at 31 December 2014 was ₦42,330,334.09.

The total unremitted WHT at the end of the period was ₦17,095,101,913.3.

The Company did not report any education tax for the year. Also, there was no payment on the outstanding balance of ₦15,692,422,800 of WHT as at the beginning of the year which remain the same as the end of the period.

The total outstanding VAT liability as at beginning of the year was ₦5,933,808,729.18 while the balance at year end was ₦7,029,211,381.68

In summary the total outstanding liabilities of NPDC as at December 31, 2014 were **N68,194,900,180.9** and **$3,278,307,371.14** respectively.

Table 10-1 Outstanding Liabilities of NPDC

	NGN	USD
PAYE	42,330,334.09	
WHT	17,095,101,913.3	
EDT	15,692,422,800	
VAT	7,029,211,381.68	
Royalty on Oil		451,373,112.44
Royalty on Gas		15,228,040.77
PPT		910,937,132.55
NDDC Levy	28,335,833,752	81,080,000
Gas Flaring Penalty		1,819,689,085.38
Total	**68,194,900,180.9**	**3,278,307,371.14**

Implications

I. Loss of revenue to the federation which has hampered developmental programs of the Federation .
II. Loss in value of the fund due to delayed remittance.

Recommendations

IV. The company should disclose all production data from all the OMLs being operated and also disclose financial obligation to stakeholders arising therefrom.

V. High level investigation on NPDC from inception to date should be carried out

VI. NPDC should remit outstanding liabilities with appropriate penalties without further delay.

The Crude Oil Marketing Division (COMD)

Discrepancies between Unit Prices of Invoices and Populated Templates

During the validation exercise, we observed a few discrepancies in the PPMC template. The unit price in the template differed from that which was recorded in the supporting document. Apart from a few other transactions that had similar issue, specifically under PPMC Template, all other sampling were quite in order. The cases where different prices were used are:

Table 10-2 Discrepancies PPMC Template

Customer	B/L DATE	QTY LIFTED	UNIT PRICE AS PER TEMPLATE	UNIT PRICE AS PER INVOICE	CRUDE VALUE	L/C NUMBER
A-Z Petroleum	10/10/2014	912,820	86.057	91.234	78,554,550.74	SBO11999140063
NORTHWEST PETROLEUM	3/10/2014	949,967	86.557	91.269	82,226,293.62	ZU14ILC00949

Implications:

The discrepancies noticed in the use of different pricing options in the marketing of crude may result in loss of revenue to the Federation.

Recommendation:

We recommend that NEITI should sponsor a legislative Bill seeking to restrain **NNPC** from adopting different pricing regimes/options in the discharge of its statutory mandate of selling the Federation Crude through **COMD**.

NNPC's Response:

- ✓ Prior to October 2003, NNPC was receiving volume of 445,000 barrels per day as domestic crude oil allocation for refineries at fixed price. This was largely operated outside the terrains and conditions for purchase and sale of Nigerian crude Oil.
- ✓ From October 2003, the Government directed that allocation should be paid at international price. NNPC who has hitherto been an Agent of Government for sale of Federation Crude Oil on behalf of the Federation Government became a Customer.
- ✓ The conflicting position of NNPC being a Customer and an Agent of the Government was not a design or any deliberate action by NNPC. As a Customer, NNPC has operated under the same terms and condition for the purchase of Nigerian Crude Oil without exceptions. Since October 2003 NNPC has adhered to the provision of the General Terms and Conditions for lifting of

Nigerian Crude Oil and as a Customer exercise its rights and obligations as offered by the contract for sale and purchase of Nigerian Crude Oil.

- ✓ While it remains NNPC's right by the contract to exercise its pricing options, the current management has decided to apply single valuation which is based on the price option elected by the customer.
- ✓ A-Z Petroleum was rightly invoiced for the 912,820 barrels lifted with BL Date of 10/10/2014 at the price of $86.057. The proceeds for this transaction was paid into the designated Domestic crude account.
- ✓ Northwest Petroleum was rightly invoiced for the 949,967 barrels lifted with BL Date of 03/10/2014 at the price of $86.557. The proceeds for this transaction was paid into the designated Domestic crude account.
- ✓ A-Z Petroleum was rightly invoiced for the 949,852 barrels lifted with BL Date of 7/11/2014 at the price of $74.896.

Other Discrepancies between Unit Prices of Invoices and Populated Templates

Table 10-3and template Discrepancies in Invoice Price

S/N	Date	Vessel	Crude type	Producer	Invoice number	Quantity in BBLS	Unit Price	Sales Value US$
1	7/11/2014	Front Symphony	QIL	A-Z Petroleum	COS/11/PPMC/058/2014	949,852.00	78.851	74,896,780.05

In the above table, unit price was recorded as $78.851 in the template as against $84.5500 found in the supporting document (invoice). This gave rise to a difference of $5.699 for A-Z petroleum. Furthermore, sales value in the template was recorded as $74,896,780.05 while in the supporting document (invoice); it was recorded as $80,309,986.60

Implications:
The discrepancies noticed in the use of different pricing options in the marketing of crude could result in loss of revenue to the Federation.

Recommendation:
We recommend that NEITI should sponsor a legislative Bill seeking to restrain NNPC from adopting different pricing regimes/options in the discharge of its statutory mandate of selling the Federation Crude through COMD.

NNPC's Response:

Same as in observation (a) above

Differences in Crude Oil Lifting for Federation Account

The total crude oil liftings in 2014 was 796,554,693 barrels (bbls) as per Crude Oil Stock Marketing (COSM) Unit's record while the Finance & Accounts (F & A) Unit's records showed the quantity of Crude Oil liftings during the year as 789,471,245 bbls. This resulted in a difference of 7,083,448 bbls. This difference is made up of 6,678,966 bbls liftings on behalf of NPDC during the year and an outstanding volume of 404,482 bbls unaccounted for.

Implications

The total quantity of Crude Oil liftings carried out by NNPC on behalf of the Federation and other Agencies such as DPR, FIRS, PPMC (NPMC), Joint Venture projects, Third Party Financing (MCAs), NPDC and Pan Ocean may have been understated during the year under review.

Recommendation

The COMD should provide NEITI and/or SIAO with information regarding the closing balance of inventory as at December 31, 2014 as contained in their year-end physicalization report sheet.

NNPC's Response:

> *The difference in barrels lifted between COSM and F &A records is due to inclusion of Ughelli blend lifting and NPDC OML 60-63 lifting in COSM report which was not reported by F&A. It was not reported by F&A as the documents for Ughelli blend were not invoiced because shipping documents were not received until 2015 and some NPDC oml 60-63 lifting was not invoiced* by *F&A as the proceeds were not paid into federation account.*

Loss to the Federation arising from COMD Lifting for NPDC:

The observed difference of 6,678,966 barrels representing COMD's liftings of Crude Oil on behalf of NPDC in 2014 could not be traced to the Federation Account. Though, this was included in the schedule of liftings on Federation crude as supplied by Crude Oil Sales Marketing (COSM) Unit, the actual volume of Crude Oil liftings for the Federation Account in 2014 does not Include the NPDC liftings. This translates in a loss of $680,682,812.51.

Implications:

I. The records of Federation Export Crude liftings carried out by NNPC as supplied by COMD are distorted and may be unreliable.
II. The nation may be losing money as a result of non-remittance of revenues accruing to the Federation Account.

Recommendations:

I. The difference of 6,678,966 barrels of Crude Oil purported to have been erroneously included as part of Federation Account liftings by COMD should be investigated to determine actual loss to Federation Account. The Sum of $680,682,812.51 stated in this report was derived using the average yearly price of $101.9144 per barrel.
II. NNPC should intensify efforts to have the Department for Petroleum Resources (DPR) to revalue the assets surrendered to NPDC.

NNPC's Response:

NNPC has fully divested from NPDC and as such no longer required to remit the proceeds of NNPC liftings on their behalf to the Federation Account. The five OMLs surrendered to NPDC, 26,30,34,40 and 42 were initially valued at $ 1.8 billion for which payment of $100 million has been made to the Federation Account.

Shortfall in Remittance to Federation Account:

The sum of $15,674,817,401 translated to ₦2,435,169, 771,190.35 represents total domestic crude oil sales in 2014 while the sum of ₦1,437,144,588,973.83 was received in the year 2014 in respect of domestic crude oil. The difference of ₦998,025,182,216.52 needs to be reconciled with the opening and closing Receivable balances for 2014 domestic crude sales figures respectively.

Implication

I. The receipts from domestic crude sales were not matched with the sales by observing cut off procedures in the recording of collections on cash basis.

Recommendations:

I. In addition to recording sales on cash basis, there should be a reconciliation of the amount recorded on cash basis properly matched with the sales figures relating to the period of sales.
II. The sum of ₦243,639,192,873.47 shortfall in collection should be collected and remitted into the Federation Account.

NNPC's Response:

The sum of ₦1,437,144,588,973.83 represents the actual collection during the year on cash basis, which includes the collection for the last three months in 2013. The receipt of 2014 from domestic crude matched with the period of sales was ₦ 1,359,806,256,761.06 while total deductions from the domestic crude sales amounted to ₦ 831,724,321,555.79

The Nigerian Maritime Administration and Safety Agency (NIMASA)

We observed that the schedule of Cabotage fee sent to NEITI by NIMASA is different from the schedule we received from NIMASA during the field validation. We also observed that there was no proper record of Cabotage payments received from the entities covered by us.

During the validation of Cabotage fee received in 2014, we observed that the sources of revenue generated and reported were not given same balances. However, reasons were given that not all the revenues raised by the shipping department were collected. They have debtors which are yet to pay up their debts and which have been accumulated in the books.

We were limited as to the information and documents given to us during the Audit review process. We could not achieve some certain audit objectives based on their financial records. For example, only the total revenue generated each year were obtainable from the Shipping Unit (that was reported to us). We could not get the breakdown of the revenue on monthly basis. We also experienced difficulty in tracing revenue collected to the various bank statements (not all the bank statements were made available)

Implications

I. A poor system of record keeping by NIMASA may allow some oil companies to underpay cabotage fee.
II. Where there is a difference in the schedule of Cabotage fee sent to NEITI by NIMASA and the schedule we received from NIMASA, it is probable that the amounts populated in the template were understated.
III. Reconciliation of marine transport revenue to ascertain amount accruing from those companies that engaged in Oil and Gas export could be difficult as a result of inadequate records

Recommendations

I. Proper reconciliation of records should be carried out frequently
II. Adequate record should be maintained and tailored towards information required by EITI standards on marine transport related revenue from the Oil and Gas Companies.
III. There is need for further review of the activities of NIMASA.

Pipelines and Products Marketing Company Limited (PPMC)

Findings on OPA and SWAP Arrangement

NNPC-PPMC had SWAP arrangement which is an arrangement for the exchange of crude oil for refined petroleum products with DUKE-OIL AITEO, ONTARIO, TRAFIGURA and TELEVERAS. Analysis showed that NNPC-PPMC only gained from the deals it had with TRAFIGURA while others resulted to loss of $118,350,379.86.

The total quantity of crude oil for OPA in 2014 was 23,056,025 bbls valued at $2,207,846,804.75; when freight of $51,959,094.73, Demurrage $1,137,926.63 and processing fee of $57,640,062.50, were added, the total value amounts to $2,318,583,888.61.The values of retained products and returned products of $2,238,174,947.76 were deducted, it resulted to a total loss of $80,408,940.85. This shows that OPA is not profitable to NNPC Group.

Implication:

I. OPA and SWAP arrangement are not cost efficient to NNPC as the two arrangements resulted to loss of **$198,759,320.71**
II. The huge loss reduces total revenue to NNPC

Recommendation:

The contract agreement with offshore processing and SWAP partners could be modified or NNPC should seek for lucrative alternative that will boost domestic products without resulting to loss.

Findings on Crude Losses

We observed that 1,000,796 bbls of crude oil valued at estimated amount of $100,008,600.00 were lost by PPMC in 2014.This huge loss has been attributable to pipeline vandalisation, theft and sabotage

Implications:

I. PPMC revenue for 2014 has been reduced by $100,008,600.00 which represent estimated crude oil loss for the year
II. The sabotage will increase total cost of maintaining pipelines because PPMC will have to spend more in fixing damaged pipe and equipment

Recommendation:

It will do PPMC a lot of good by organizing orientation programme educating the public on dangers involved in vandalising oil pipelines

Findings on PPMC Product Depot Balances

There were variances observed in the PMS stock balance. Some of the reasons for such variations provided were:

- Passing of valves in PHRC during transfer to depot PMS
- Obsolete loading meters causing over/under delivery at PH depot to Aba depot
- Line packing and line breaks in Kaduna
- Defective loading meters in Kaduna

There were also variances observed in the DPK stock balance. Some of the reasons for such variations provided were:

- Long-time sludges in Port Harcourt depot tanks resulting to inaccurate dipping levels
- Defective loading meters in Kaduna

There were also variances observed in the AGO stock balance. Some of the reasons for such variations provided were:

- Defective loading meters which we could not verify
- Line packing and line breaks

Implication

The reliability and integrity of information generated may not be guaranty

Recommendation:

Obsolete and defective electronic measuring equipment, pipelines and all other malfunctioning gadgets should be revamped as this will enable PPMC to generate a more accurate and reliable data.

The Nigeria Liquefied Natural Gas (NLNG)

NLNG Dividend, Interest and Loan Repayment

The receipt of NLNG payments of dividends, loan and interest repayments for 2014 of $1.42 billion could not be traced to the Federation Account. There was also, non- remittance of NLNG dividends, interest and loan repayment in the sum of $12.92 as contained in NEITI 2013 Oil and Gas Report. This brings the sum of unremitted NLNG dividend, interest and loan repayment to $14.34 Billion as shown in the table below:

NLNG Dividends, Interest and Loan Repayment

	USD'000
Balance B/F from 2013 NEITI Oil and Gas Audit Report (2005 - 2013)	12,920,000.00
Dividend, Interest and Loan Repayment in 2014	1,420,000.00
Total	**14,340,000.00**

However, SIAO review of previous NEITI Oil and Gas reports from 2000 to 2013 showed that total NLNG dividend, interest and loan repayments was $14.402 billion as against $12.92 reported in the 2013 audit report. Addition of 2014 dividend, interest and loan repayments will bring the total payments from NLNG to $15.823 billion as shown in the table below:

NLNG dividend, interest and loan repayments from 2000 to 2014

Table 10-4 NLNG dividend, interest and loan repayment

Year	USD'000
2000	211,341.00
2001	322,077.00
2002	226,562.00
2003	436,272.00
2004	280,095.00
2005	207,282.00
2006	332,980.00
2007	842,957.00
2008	2,613,170.00
2009	879,839.00
2010	1,427,512.00
2011	2,537,503.00
2012	2,795,531.00
2013	1,289,592.00
2014	1,420,000.00
Total	**15,822,713.00**

Implication

I. Loss of revenue to the federation account which has hampered developmental projects.

Recommendation

I. We recommend that high level investigation should be carried out from 2000 to date on management of income from NLNG.

10.10 Findings on Physical Audit

Granting of Pioneer Status

Granting Pioneer Status to Oil and Gas Companies has greatly undermined the optimal collection of revenue due from PPT. Twenty-two (22) companies have been granted pioneer status, as at 2014 and all the companies are operators in the marginal field segment of the Nigerian oil and gas industry.

The legal framework governing the operations of the pioneer status is the Industrial Development (Income Tax Relief) Act of 1971 (IDITRA), a subsidiary legislation of the Companies Income Act (CITA), which is the legal basis of taxing non-oil and gas companies in Nigeria. The pioneer status is a form of tax waiver issued by the Nigeria Investment Promotion Council (NIPC) as an incentive granted to companies that have been considered to be engaged in "pioneer businesses" or simply as a means of encouraging the development of certain type of businesses.

The first pioneer status in the oil sector was granted in 2009 and as at 2014, the sum of **US$ 2.1 billion** was established by Federal Ministry of Finance to have been waived by the FGN through tax holidays to the beneficiary companies.

There is also the issue of whether the granting of tax waivers is appropriately located within the NIPC and also the applicability of pioneer status to oil and gas companies, given the fact that the IDITRA is a subsidiary legislation of CITA, whereas oil and gas companies are taxed under the PPT.

Implication

I. Loss of revenue to the federation which will hamper developmental projects.

Recommendations

I. Pioneer status should not be granted to any company in the Oil & Gas Sector unless it is evidently clear that the company is actually pioneering an aspect of the industry in the country.

II. Regular review of the pioneer status to discover some of the companies granted tax waivers that had outgrown pioneer status.

III. A coordinating desk should be established in the FMF for all the agencies that process tax incentives while the final approval for tax waivers should be issued by the Minister of Finance.

Key Findings in the reconciliation of Production data in the records of NNPC to that of DPR

During the course of our audit, we discovered that several reconciliations have been carried out by DPR and the reporting entities. Hence an agreed production level had been reached. It was however discovered that the reconciliation of most of these volumes were carried out in the year 2016.

Implication

Had the Audit been carried out in 2014, harmonized volume balances would not have been used. This has resulted in a lot of unreconcilled differences in the book of the regulator and the IOCs.

Recommendation

We recommend that reconciliation should be carried out on or before 2nd quarter proceeding the year ended so as to enhance smooth flow of the audit and for disclosure purposes

Key Findings on optimal Gas Utilisation

There was a slight drop in the production of gas from the year 2013-2014 by 19.37% after an increase had been recorded between 2012-2013.

However, the volume of gas being flared has been dropping gradually over the 5 year period comparison which is good for the industry though the objective is to attain a nil volume of gas to be flared.

Observations

In the course of our audit exercise, the following challenges were identified among others.

I. Some of the entities did not fill the Gas production and volumetric flows
II. Some entities paid Gas flare penalty but did not document the Gas production and volumetric flows.
III. Inadequacy of information supplied by covered entities.

Implication

This shows that Nigeria is still far from achieving optimal gas utilization and there is the need to identify and address some of the challenges.

Recommendation

1. Government to create an enabling environment for investments in the gas exploitation and development by ensuring the competitive pricing of gas, attractive fiscal regimes and provision of adequate security for gas infrastructures to prevent vandalism and sabotage.
2. Government to encourage investment in domestic gas utilization infrastructures that will meet increasing demand of gas for power, feedstock industries and other local uses.
3. The National Assembly should pass the PIB to ensure regulatory certainties.
4. Government to ensure an adequate and effective metering system in gas operations.

5. Government to review the current trend in the divestment of Federal Government equity holdings in oil and gas operations. The assignment of some gas revenue yielding OMLs lacked transparency and this has greatly reduced gas and feedstock revenue accruable to the federation.

Audit issue on Crude Allocation to Refineries

The capacity utilisation of the refineries was put at 16.53%. This means that in 2014, out of a total allocation of 160.201 million barrels, only 26.474 million barrels were processed in the country. The balance of 83.47% was either processed outside the country or exported by NNPC.

Implication
These arrangements, has so far not been profitable to the Nigeria Government even though the corporation (NNPC) insisted it was the best option.

Recommendations

i. As a matter of urgency, the Federal Government should privatize the refineries
ii. The restiveness in the Niger delta should be addressed
iii. The crude oil allocation to the NNPC for the refineries should be limited to their current capacity utilization.
iv. The allocation to the old and moribund Port Harcourt Refinery should be stopped forthwith.

Key finding on NGL 2 project

The revenue sharing structure of 51% and 49% for MPN and NNPC respectively does not confer commercial fairness to the Federation whose interest in MPN JV is 60%. There is no evidence to suggest that MPNU is bearing additional costs to warrant a change from the original JV participation ratio.

Implication

The net cash flow to the Federation from third party financed projects is very insignificant when compared to the project gross revenue flows and also not in accordance with the equity participation of the JV partners.

Recommendation

NNPC should always ensure that there is commercial fairness to the Federation whenever loan agreements are entered with third parties.

NNPC's Response

The structure of 51% to MPNU and 41% to NNPC is as requested by the Guarantor to the loan deal – Overseas Private Investment Corporation (OPIC)

Key findings relating to production Sharing Contract (PSC)

NNPC-COMD could not provide a copy of production allocation entitlement model to enable audit test procedure on it application.

It was observed that Royalty oil (for Royalty liability) was not lifted by NNPC-COMD from statoil (OML128) and TUPNI (OML 130) in the year under review despite record of crude oil production by the companies. On an audit enquiry, we were informed that Royalty rate is 0% for Statoil and TUPNI as the two assets are beyond 1,000m water depth.

Implication

I. The Federation may be shortchanged from entitlement model or its inappropriate application.
II. Loss of revenue to the Federation as a result of 0% royalty consideration to some companies.

***Recommendation*s**

I. NNPC should make available all information relevant to the NEITI Oil and Gas industry audit for audit purposes while Auditors should sign relevant confidentiality and data protection agreements.
II. The non-payment of Royalty for water depth above 1000m should be reviewed as companies operating in such water depths are already making huge profits as technology to exploit in such water depths are now readily available unlike the past.

NNPC Response:

NNPC entitlement computation models are available for review and evaluation to any interested party should the need arise. The templates are encrypted and resident on selected workstations in order to maintain security, propriety and integrity of our data

Key findings on Modify Carry Agreement

The Modify Carry Agreement allows the recovery of the Carry Capital Cost and Compensation by the Carrying Party through tax offsets of 85% of the Carry Capital Cost; however, the Federation may be losing revenue through overstatement of capital cost by the carrying company.

Recommendation

NNPC-NAPIMS to ensure periodic and timely verification of capital cost claimed by the company and also conducts value for money audit in order to assess the benefit accruable from MCAs. NNPC and the IOCs should also ensure full and periodic reconciliation of Gas Volumes in order to avoid reporting different Volumes and Values.

10.11 Findings on Process

Challenges in conducting the Process Audit

In the course of the audit, the points raised below are the hindrances that were faced with the Entities:

- Most of the Entities were not prepared for the process and physical audit.
- A lot of Entities stalled on providing the required information.
- Obstacles arose from claim that the past Audits did not include Physical and Process Audits and so most of the Entities were unprepared even though the letter written to them stated this.
- There was an excessive use and application of confidentiality by some of the Entities which unnecessarily frustrated the exercise.
- Due to the Indemnity Contract provided by some of the Entities, the Consultants were unable to conduct site visits to some terminals.
- Industry operators responded primarily through the Finance departments/units. This created excessive delays and feedback processes leading to long loops and erroneous communication on issues.
- It was noticed during reviews of filled templates that the worksheets contained in P1.05 (Template for Weights and Measures) were already contained in the P1.06 (Upstream Mass Balance Template) file. P1.06 was more detailed and comprehensive. As a result, there was a lot of confusion and noncompliance with filling P1.05 as it was already represented in P1.06.
- The Nigerian oil and gas industry remains static in its lack of any local value addition processes and procedures. This also remains applicable to metering systems which are manufactured outside the country and controlled by specialists, and conversion factors which are largely determined by systems which are opaque to supervisory and compliance agencies. As a result, the local content policy seems to be selective in its application and monitoring, with a high reliance on foreign support by companies.

General findings

Observation 1:

- The exercise conducted indicates that the overall objective for accurate recording and reporting of operations includes:
    - Production monitoring and control (optimisation)
    - Commercial reasons
    - Calculate entitlements for JVs, PSCs, 3rd parties, etc.
    - Calculate company revenues and 'worth'
    - Reservoir reserves, shareholder payments, fiscal accounts
    - Statutory requirements to calculate tax and royalty payments
    - To meet government regulatory reporting requirements
    - Reservoir management reasons
    - Field development decisions
    - Technical integrity reasons.
    - To decide the distribution of revenue and costs in a complex hydrocarbon evacuation system where the ownership and/or the operating responsibility of the system is divided amongst several companies.

Observation 2:

- The continuous reduction of waste streams and emissions was not confirmed to be a generally adopted practice, though it was a general best practice among the IOCs. It is only possible to measure single fluid phases accurately (oil, water and gas) after it has been separated and conditioned, such as sales gas and oil, and the stock in the terminal.

Observation 3:

- Reconciliation to volumes pumped from wells is generally stated to be based on total volumes produced from each well and reservoir, the total production (delivered from the accurately measured sales and stock changes) are allocated to the wells and reservoirs based on the well production. Multiple reconciliation processes and checks along metering and measurement processes are utilized for reconciling and eliminating imbalances.

Observation 4:

- It was recognized that the majority of the marginal field operators and sub parties in PSC arrangements did not have, or provide, or maintain the following documents and controls:
    - Control register of business risks and controls.
    - Ownership.
    - Documented process that supports data integrity.
    - Segregation of duties (review and approval by a person other than the one responsible for the activity).
    - Review and audit of supporting processes.

- Routine reviews to identify gaps, ensure corrective action is taken, record corrective action and then approve.

Implication:

The lack of the aforementioned documents (for the non-compliant companies) is important as they are a set of standards that should outline what, and the basis of what they consider critical to their business and what they do to assure their business and its environment, financial impact monitoring and assessment in key controls, and an operations review procedure to ensure continuous improvement and attainment of high ratings and standards.

Observation 5:

A general lack of appreciation and understanding of the templates (weights and measures, and volumetric mass balance) was prevalent across the industry. Attempts at review with each Entity required a rework and resubmission.

Observation 6:

Metering and allocation philosophy across the industry was varied and had no consistency in the process of taking into account future maintenance, contingency plans for meter failure and potential future developments (should more fields be found and produced via the same platform). The IOCs were more compliant in the development of a proving system that reduced this risk.

Observation 7:

It was noticed that there was high uncertainty with regard to the volume changes that hydrocarbon fluids undergo in operations relating to third party contributions/injections into terminals. Parties to such contracts either did not have agreements setting out terms, or did not appropriately apply provisions of such agreements relating to the quantification of agreed potential losses in the overall system due to mixture of different grades of light oil and differing API condensates.

Observation 8:

The punitive and detrimental use of legal documents which are released or circulated or demanded as a form of Indemnity which obviates Operators from any liability was found to be in use in the industry. This reduces the constitution of the Federal Republic of Nigeria, the Local Content Law, Labour Law, all the Oil and Gas Industry Statutes and Regulations, other extant laws, and the NEITI law and responsibilities to nullity. **See attached sample issued by Chevron to the 2014 NEITI Audit Physical and Process Team**, and which was indicated as a standard practice by the company. Such practices are very likely causing the extreme lack of transparency and reduction in professionalism and oversight within the industry.

Observation 9:

Funding technicalities and requirements in the industry require especially for an operator in a PSC, to support/enhance its investment in a project by allowing one or more investment contributor additions to its portfolio. Such parties are not indicated or provided in the PSC documents. The result is that such sub parties/operators are debarred by statute/regulation to lift their share of crude/product. However, it was observed that they were able to lift from the facilities directly and in their names. DPR was unable to provide comfort/clarification on this practice. This practice casts a level of doubt on the reconciliations of the joint curtailment meetings, and in which such sub operators/parties who have no direct participatory access to the operations of the PSC do not also attend.

Observation 10:

Most companies/agencies presented challenges and difficulties in the provision of information requested for the exercise attributing reasons to/bearing on confidentiality/limitation of authority. Most of the IOCs and DPR had this issue which largely impacted timely collection of required information for the exercise. In some cases, no response has been received to date even with the intervention of the NEITI team, and multiple reminder requests.

Observation 11:

The periodic curtailment meetings to reconcile hydrocarbon mass balances were understood to be in arrears, and only addressed historical data. As a result, annual and periodic balances which should be confirmed and enable certification of reported balances for each transaction arrangement are not available to indicate confirmed status of participating parties. Additionally, this also impacts the veracity and reliability of mass balance reports in each facility, including carried forward/brought forward balances as the case may be, and where they are available.

Observation 12:

The Weights and Measures Department (WMD) of the Federal Ministry of Industry, Trade and Investment operates through its Consultant, Nigerco Nigeria Limited (NNL), its Technical and Management Consultant for the development of Legal Metrology Infrastructure for Weights and Measures Services in the Federal Republic of Nigeria. Legal metrology is focused on the protection of public safety, the environment, consumers, and traders and is critical to fair trade. The Department is not enabled to enforce its pronouncements and relies on agencies or other bodies to ensure compliance.

Observation 13:

There were no set minimum standards of measurement for the Oil and Gas Industry that was applicable by Entities. Each investment was run according to operational policies and requirements set by the company. Such policies and practices were usually adopted by DPR and assured thereon. The result was that there were no clear plans and strategies toward a convergence to a single industry standard across most operations.

Observation 14:

Vandalism was ascribed to be one of the major causes of losses especially along the pipelines. This menace is considered to be critical and should be addressed with urgency via much needed investments in related technology solutions supported by improved security and monitoring of oil and gas facilities in the country. It should be noted that vandalism related to theft is very likely to become more threatening if the situation remains unchecked.

Recommendations

1. A proper framework is to be designed with a joint collaboration between the Government and other stakeholders to address the "uncertainty" requirements that may be specified by:

- Governments
- Production sharing agreements and/or other contracts
- The needs of the business processes such as Well and Reservoir Management.

2. It must be required that DPR and other rules setting bodies should with immediate effect roll out standards of industry practice relating to metering frameworks to guide:

- Reporting requirements
- Contracts dealing with custody transfer, sales and product allocation and taxation of products.
- Business decision making

3. The Nigerian Government is expected to commence the requirement of setting accuracy standards for allocations. This should ensure the approach of best practice of +/- 0.25%.

4. The DPR should ensure that all arrangements have the following including a related review process during the projected life cycle of each project:

- Detailed design of the metering and allocation structure
- Data requirements inventory
- Organisational structure, roles and responsibilities, job descriptions and work instructions
- Plans and routines for maintenance and calibration of metering and measurement devices
- Equipment and it systems
- Configuration of data acquisition and transfer systems
- Selection and configuration of the HCA application
- Access control to the HCA application including cleared staff of the Agency

5. NEITI is to ensure that the total disrespect to its powers and responsibilities, and the obviation of the rights of its contractors/agents or even other persons in the oil and gas industry are discontinued with immediate effect. Adequate measures must be put in place to ensure that the process requirements of

the industry review are adequately met be all the players. A special review is required to determine the extent of such practices and to address the impacts.

6. DPR guidelines for determination of crude and gas quality and quantity are to be reviewed, updated and made openly available for use by stakeholders in the industry. Such documents must take into consideration other statutory and regulatory provisions for investment, operational, maintenance and reporting requirements for the industry.

7. Industry curtailment and reconciliation meetings must be taken seriously, and conducted as close to real time, or the transaction as possible. This should afford a more reliable and consistent confirmation of hydro carbon balances for the Nigerian Oil and Gas industry.

8. The WMD should remain without enforcement powers and should immediately agree an industry plan to arriving at a common applicable standard for measurement, and measurement assurance including those for the deployment of related technology in line with international best practices. The process should also include agreement on a transition period, and required investment to achieve the objective with all relevant agencies and the Federal Government of Nigeria.

11. Status of Remediation Issues from Previous Audits

NPDC/Group Treasury Related Issues

1. **Outstanding balance of $1.7 billion out $1.8 billion consideration receivable from eight (8) OML assigned to NPDC from Shell JV between 2010 and 2011 {See page 4, Paragraph 1}.**

NNPC Response:

NPDC recognizes that:

a) A balance of $1.7 billion is outstanding for payment on OMLs 4, 38, 41 and OMLs 26, 30, 34, 40 & 42 out of the 'Good and Valuable Consideration' of US$1.847 billion as advised by the Department of Petroleum Resources (DPR);
b) The obligation to pay the balance in the future has not been waived; and
c) The balance as payable to the Federation is recognized in NPDC's books and commitment to make good the deficiency as soon as the financial position improves is sacrosanct.

2. **Consideration not received from four (4) OMLs assigned to NPDC in NAOC JV in December 2012 {See page 4, paragraph 3}.**

NNPC Response:

The Good & Valuable Consideration in respect of the above divested OMLs (60, 61, 62 & 63 was received from DPR in the 3rd quarter of 2016 valued at **US$2.225 billion**. NNPC has accordingly written to DPR requesting further engagement to ascertain the basis and assumptions that went into the valuation as to the reasonableness of the amount taking cognizance of all associated risks and assess its impact on the NNPC bottom line.

While waiting for the determination of the Good and Value Consideration NNPC has already remitted about **US$1.3 billion** straight to the Federation Account from the gas revenue derived from the assigned assets from January 2013 to date *(Please see Appendix 1 attached)*.

3. **$35.127m refund by NPDC into JP Morgan Chase Cash Call Dollar account not transferred to Federation Account and outstanding refund request made by NAPIMS on OML 26 and OML 46 {See page 5, paragraph 3}.**

NNPC Response

The $35,127M was cash call obligation paid by NAPIMS on behalf of NPDC with respect to the Assets above. Traditionally it should be refunded back to NAPIMS, which was done.

Based on this further explanation we suggest that the issue be expunged.

4. The Joint Operating Agreements (JOA) for the OMLs (60, 61, 62 & 63) did not show any agreement from NNPC/NAPIMS to NPDC and showed no interface with NPDC and NAOC as a partner in the OMLs {See page 5, paragraph 3}.

NNPC Response:

The Honorable Minister of Petroleum Resources granted consent to the assignment of NNPC 60% equity interest in OMLs 60, 61, 62 & 63 to NPDC vide the Ministry of Petroleum Resources letter dated November 15, 2012. Consequent upon the assignment, the equity participation in OMLs 60, 61, 62 & 63 now became:

Nigerian Petroleum Development Company (NPDC) – 60%

Nigeria Agip Oil Company Limited (Operator) – 20%

Phillips Oil Company Nigeria Limited – 20%

On completion of requisite Agreements thereto, NPDC will become party to the Joint Operating Agreement (JOA) of the OMLs and contribute its portion of Cash Calls as appropriate. Part of the agreement yet to be executed by the parties that will enable NPDC become bona fide Party to the JOA, is the Novation Agreement.

While it is intended that the effective date of the assignment of the assets and of the DPR's valuation shall be 1st January 2013, NPDC shall take over operatorship and assume direct responsibilities for budget and cash calls upon the execution of the Novation Agreement. Nonetheless, it has equity interest in the crude oil productions from the assets and obligations from the related cash calls effective 1st January 2013.

The said Novation Agreement has not been executed by NAOC, NPDC shall become party to the Joint Operating Agreement (JOA) upon the execution of this agreement by the relevant JV Partners. Notwithstanding the above situation, NPDC has continued to settle its cash call obligations emanating therefrom.

5. Amount outstanding of $2.274bn (N351.886Billion) as shortfall in Federation Account remittance from total domestic crude sales valued at $17.436 Billion (N2.698 Trillion) {See page 7, paragraph 2}.

NNPC Response:

- As at December 2013, total Domestic Crude Oil purchased by NNPC amounted to N2,657,209,731,508.19, out of which N1,551,935,625,000 was remitted to Federation Account leaving gross outstanding balance of N1,105,274,106,508 (See FAAC report).
- Of the balance of N1,105,274,106,508, PPPRA approved and certified N792,961,142,799.52 for 2013 subsidy (See 2013 PPRA subsidy certificates) and balance of N312,312,963,708.67 relate to expenses incurred by NNPC on behalf of the Federation Account. These expenses include:
    - Crude oil and Product losses;
    - Pipeline repairs and Management costs; and
    - Products Strategic Reserve holding costs
- The difference of N39.57billion may be due to exchange rate used by NEITI.

6. The sum of $389.058m refunded by NPDC to NAPIMS which should have gone into the Federation account was not accounted {See page 5, summary point 6}.

NNPC Response:

The $389.058M was cash call obligation paid by NAPIMS on behalf of NPDC with respect to the SPDC JV divested Assets. Traditionally it should be refunded back to NAPIMS, which was done.

Based on this further explanation NNPC suggests that the issue be expunged.

7. The sum of $1,743,400.58 shortfall in remittance by NPDC from in crude lifted by NNPC in MPN JV (Qua-Iboe Crude Type) {See page 6, paragraph 3}.

NNPC Response:

This variance arose as a result of a 'barrel to barrel' compensation and not from a financial shortfall to the Federation. This refund has been made by NPDC vide a payment of $1,721,800.00 on 16/12/2015 by NPDC (Duke Oil Company Inc. payment for 40,000 barrels of NPDC FB Crude).
Document evidencing payment (FAAC Report December 2015) is attached herewith. Schedule of FAAC payment for December 2015 evidencing payment to Federation Account. The issue has been closed out.

8. 7m barrels valued at $763.405m lifted from NAOC JV (Brass crude type) was traced to NPDC account but the value was not received in Federation Account {See page 6, paragraph 1}.

NNPC Response:

NNPC submits that NPDC's obligation to Federation in respect of the divested **60 series assets** is NOT remittance of the gross proceeds of crude oil lifted therefrom but:

i) Payment of the agreed Good and Valuable Consideration for the assigned assets to DPR (Federation); and

ii) Payment of applicable Royalty and Petroleum Profits Tax.

This position is derivable from Para 14-16 of the First Schedule of the Petroleum Act, CAP P.10.LFN.2004 (NNPC Act) and Regulation 4 of the Petroleum (Drilling and Productions) Regulations 1969 as amended.

The Act provides that a holder of an Oil Mining Lease (OML) or Oil Prospecting License (OPL) can assign its interest provided the *consent of the Honorable Minister Petroleum Resources is obtained*, and the Honorable Minister of Petroleum so consented to the assignment of these assets to NPDC. This position is further supported by the legal opinion of the Attorney-General of the Federation to the Distinguished Senator Ahmed Makarfi Finance Committee of the Senate that investigated dwindling oil revenue to the Government.

9 An aggregate of 1.037m barrels lifted from SPDC JV (Forcados crude type) and valued at $33.209m was traced to NPDC's account but not remitted to the Federation account {See page 6, summary point 2}.

<u>**NNPC Response**</u>

Aggregate lifting of 1,037,619 barrels from SPDC JV (Forcados crude type) valued at $33,209,100 was traced to NPDC account. The proceeds were rightly in NPDC account because 55% equity in the assets in reference were divested and transferred to NPDC by the NNPC and was duly accented to by the Honorable Minister of Petroleum Resources.

NPDC obligation to the Federation Account therefrom is in respect of applicable Royalty and Petroleum Profit Tax

10. N3.981bn of debts as a result of over-recovery under Petroleum Support Fund Scheme (PSPF) in 2012 was outstanding {See page 11, summary point 2}.

NNPC Response:

NNPC has been in contact with PPPRA on the issue and acknowledge the amount as being due for payment, it has remained outstanding due to challenges with the Corporation's liquidity. NNPC management has also informed the PPPRA of its commitment to settle the said amount.

11. $1.289bn received from NLNG in 2013 as well cumulative dividend receipt from 2005 to 2013 of $12.92 billion was not remitted to the Federation account by NNPC as at the end of 2013 {See page 12, paragraph}.

NNPC Response:

All receipts in respect of the NLNG Dividend by NNPC are being held in trust for the Government and administered as directed by the Government. The Government and relevant agencies are periodically provided with updated reports showing full details of the funds and the bank accounts where they are domiciled upon request.