

21 March
2012

NEITI: The Prospects, Issues and Challenges

By

Mrs. Zainab Ahmed
Executive Secretary, NEITI

Outline

- Background
- The NEITI Mandates (global and national)
- The Key Functions (Reporting, Dissemination, and Remediation)
- Relevance & Benefits of the Audits
- Overview Of Organisational Issues – what we met, where we are.
- Challenges and the way forward
- Conclusion

Background

- The EITI is a global initiative designed to improve resource revenue management through improved transparency.
- The EITI Goal: improved transparency is critical to better management of resource wealth in resource-rich nations.
- Principles/criteria built on multi-stakeholder framework
- The EITI requires implementing countries to reconcile and publicly disclose company payments and government receipts.
- NEITI was established in 2004 as the Nigerian chapter of the EITI and has since remained a pillar of anti-corruption in the sector in Nigeria and a trail blazer in EITI globally.

The NEITI Mandate

- **Global:** to regularly reconcile and publicly disclose company payments and government receipts from extractive industries transactions.
- **National:** to ensure due process, transparency, accountability and zero corruption in the determination, payments, and receipts of all government revenue accruing from the extractives sector, and in the application of the resources for national development.

The NEITI Key Functions

- NEITI carries out its mandates through the following key functions:
 - ❖ Reporting
 - ❖ Dissemination and
 - ❖ Remediation

Reporting

- NEITI conducts industry audits which are necessary to:
 - ❖ produce information and data that can stimulate public debate and influence policy on the management of the extractives industry;
 - ❖ ensure the validity and reliability of information so provided and;
 - ❖ identify lapses and issues for possible remediation.

Reporting Contd.

- **When NEITI embarked on its first industry audits, some unique decisions were taken – NEITI audits would**
 - ❖ cover past years from 1999 – 2004;
 - ❖ cover financial and physical flows as well as and the industry processes;
 - ❖ be presented in a disaggregated format – to show individual company payments.

The Audit Reports

- **The Audit Reports are in three (3) forms:**
 - ❖ The Financial Audit
 - ❖ The Physical Audit, and
 - ❖ The Process Audit

Overview of the NEITI Audit Process

- NEITI audits are carried out by independent auditors selected through competitive procurement processes.
- The 3 audits so far produced were conducted by a consortium of both international and local firms led by Hart Group, UK.
- The auditors design templates for data gathering and administer them to 'covered entities' after approval by the National Stakeholders Working Group (NSWG).

Audit Process (Cont'd)

- **NEITI auditors, companies and government agencies sit at a forum to reconcile the differences in the data collected:**
 - ❖ Auditors contact the government entities and visit them to investigate the differences revealed and request the completion of any missing information;
 - ❖ Re-verification and re-validation of data supplied through the templates by covered entities.
 - ❖ Production of the reports (both core EITI and comprehensive) after obtaining sign off from the covered entities.

The Financial Audits

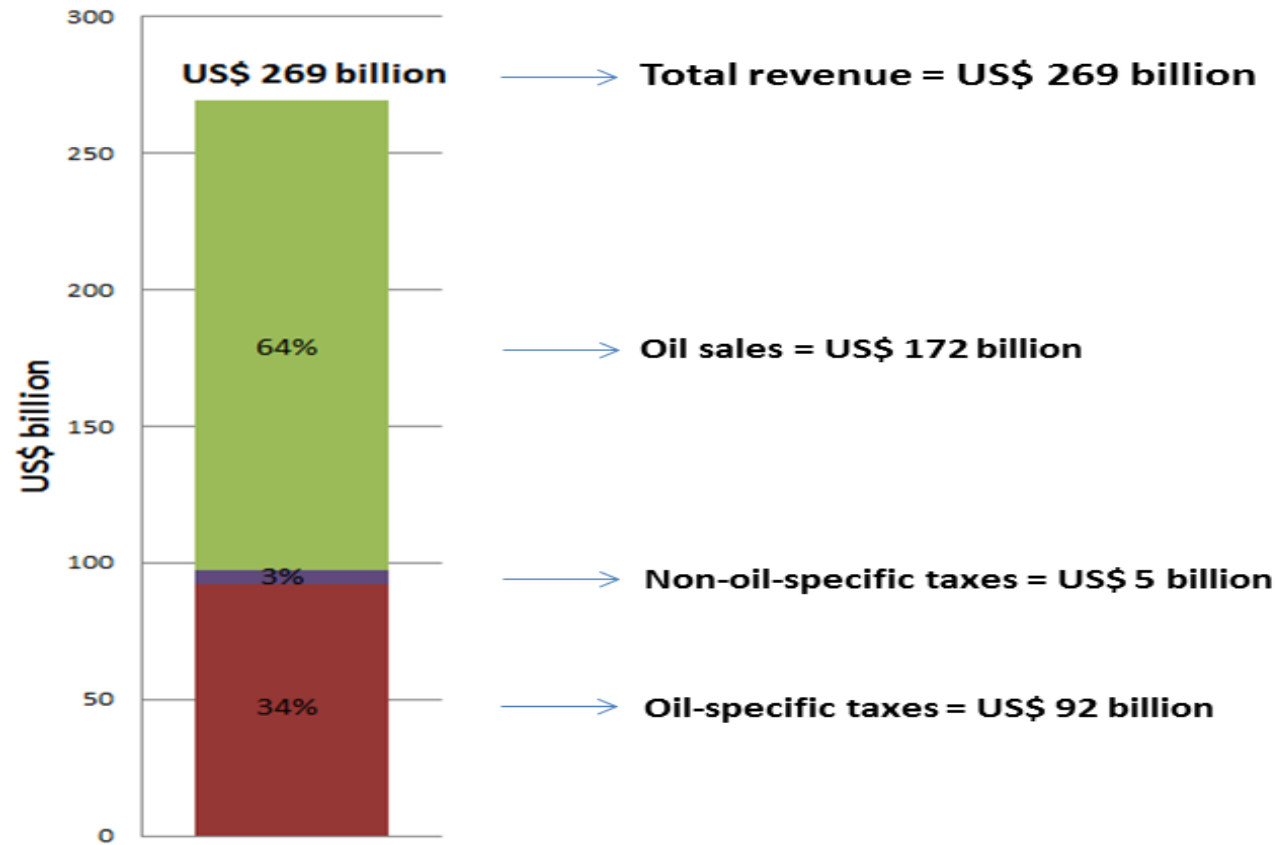
- The Financial audits report outline the *financial flows* in the industry and reconcile companies' reported payments with revenues reported as being received by government in order to see if the amounts 'match'.
- The objective is to discover discrepancies in the records of these financial flows and to also identify their chain of custody and the role and performance of specific players.

Financial Audits – Some Key Trends

- The 10 years of NEITI audit reports show that the Government of Nigeria has received a total of US\$ 269 billion from the oil sector between 1999 and 2008.
- Over the ten year period US\$ 92 billion has been received from oil-specific taxes, US\$ 5 billion from non-oil-specific taxes from oil companies and US\$ 172 billion has been received from the sale of government equity oil.

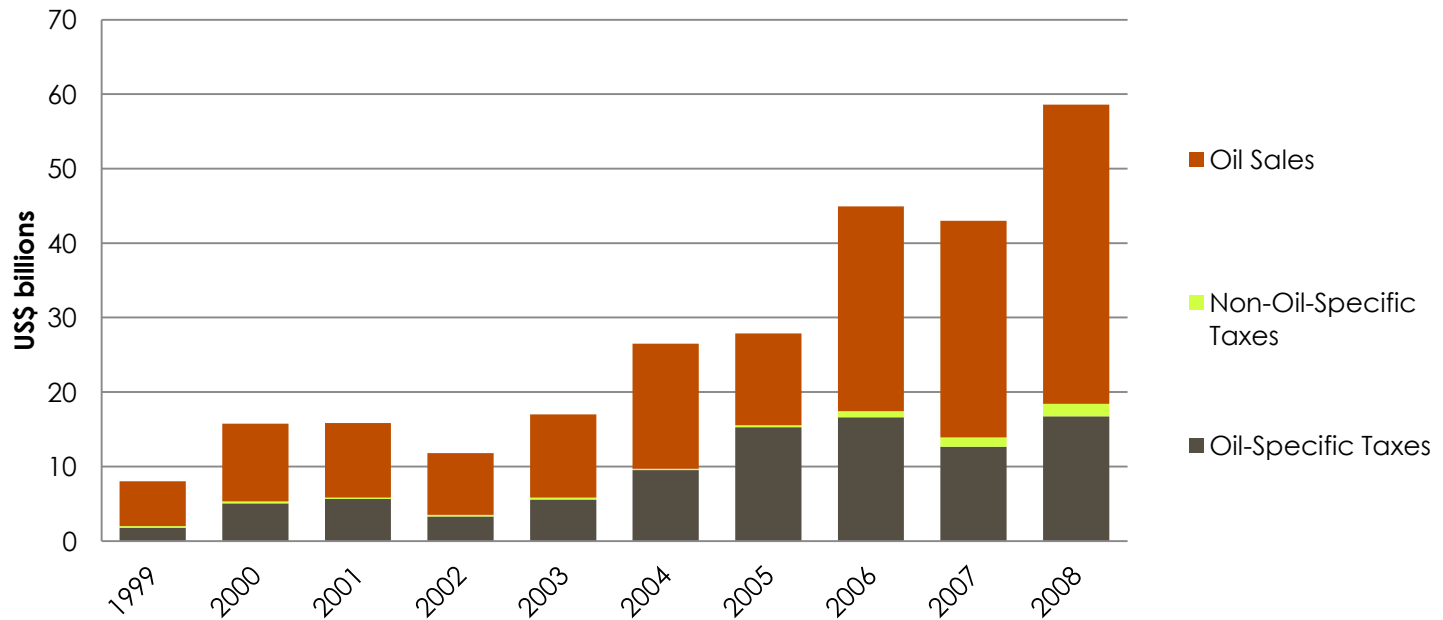
Key Trends (Cont'd)

Gross government revenue from the oil sector (1999-2008)



Trend of FG Revenue over the 10 Years

Government Revenue from the Oil Sector



Key Trends (Cont'd)

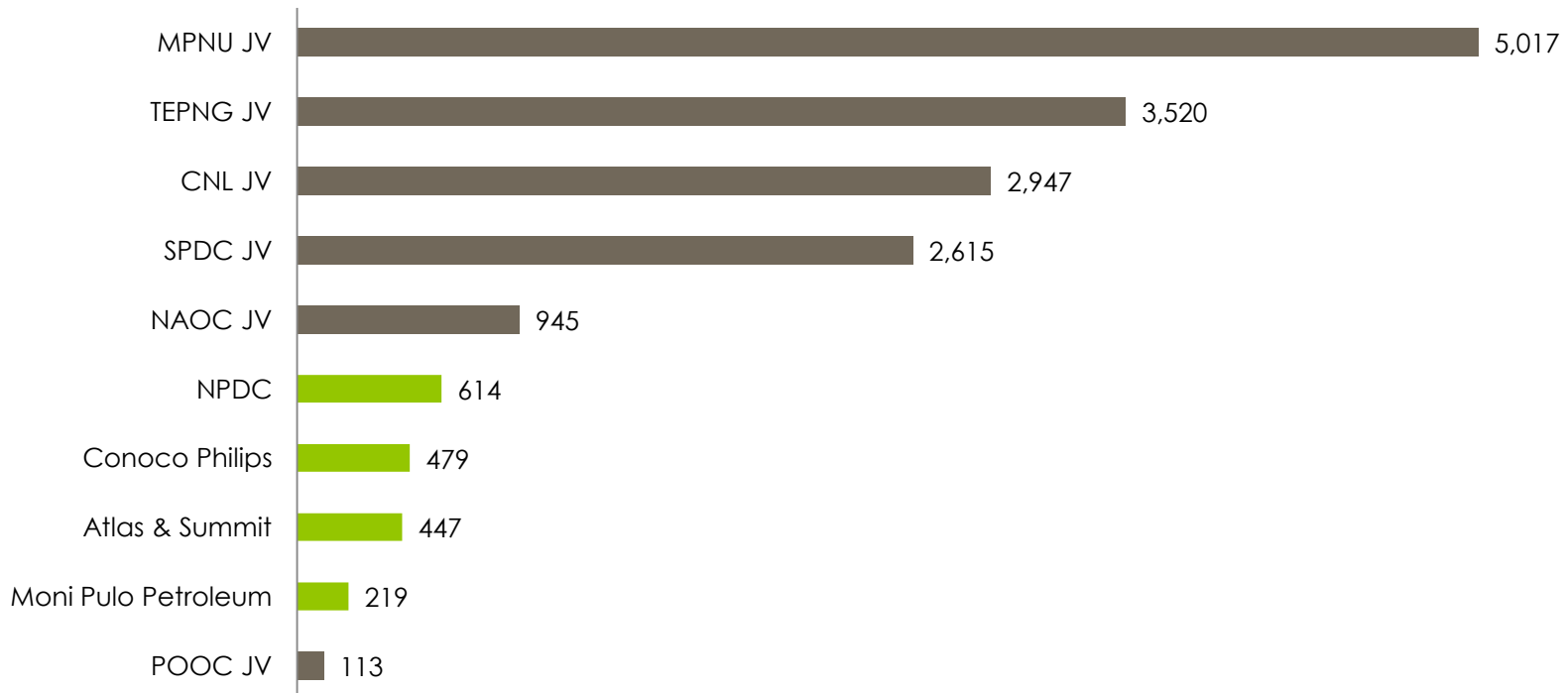
- Over the ten year period 95% of taxes paid by oil companies were oil-specific taxes. PPT payments make up the majority of oil-specific taxes (66% in 2008) with Royalties making up most of the rest of these taxes (33% in 2008).
- Other oil-specific taxes (gas flaring penalties, reserves additional bonus and signature bonuses) make up a small 1% of oil-specific tax payments.

Key Trends (Contd.)

- The six (6) Joint Ventures operating in the country dominate contributions made by oil companies in terms of oil-specific taxes paid.
- These 6 Joint Ventures contribute 88.6% of oil-specific taxes paid by oil companies in 2008.
- Mobil has been the largest tax contributor all of the years from 1999-2008, apart from 2004 and 2005 when SPDC made the largest tax contributions.

Key Trends (Contd.)

Ten Largest Contributors of PPT, Royalty and NDDC Payments in 2008 (US\$millions)



The Physical Audits

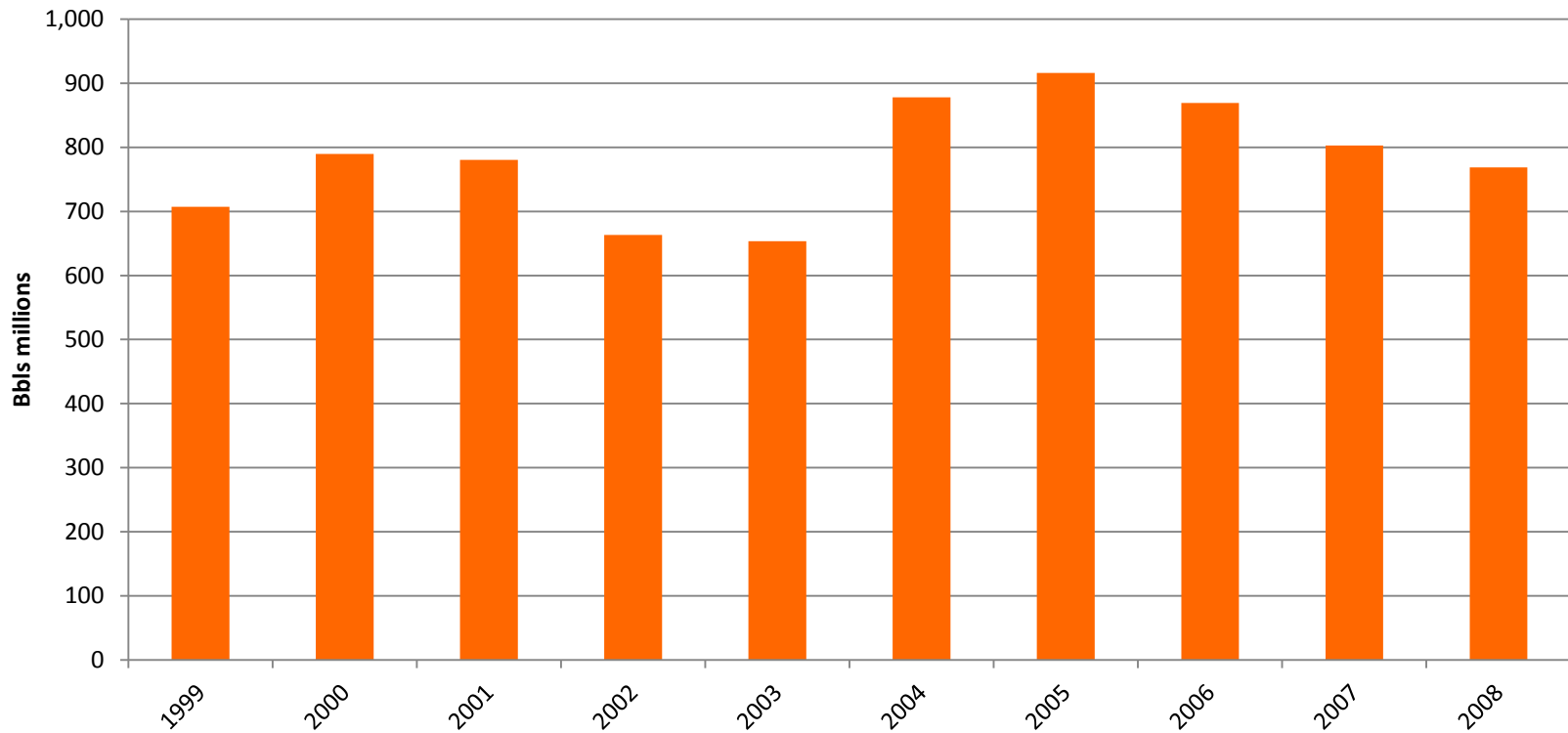
- The Physical Audit report outlines the *physical flows* of oil, gas and refined products to check that extracted volumes are accurately reported and that each company's reported production tallies with the numbers the government uses for tax and royalty calculations.
- The Physical Audits are aimed at examining the management of hydrocarbons (crude oil and gas) flows from extraction to sale.

Some Key Findings of the Physical Audits

- In 2008, Nigeria produced (or 'lifted') 769 million Bbls of crude oil (about 2.3% of total world production).
- Although the amount of crude oil produced in the country has only increased by 8% over the ten year period, in terms of revenue the government and economy have become increasingly dependent on the sector.

Oil Production for the 10-Year Period

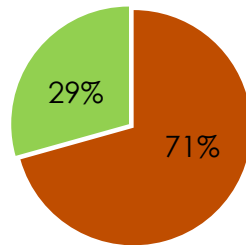
Crude Oil Produced (1999-2008)



Increasing Dependence on Oil (based on 2008 figures)

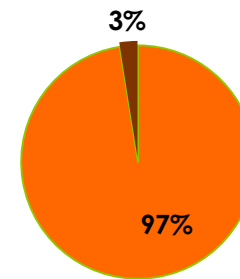
Net Government Revenue in 2008

Oil Revenue Non-Oil Revenue



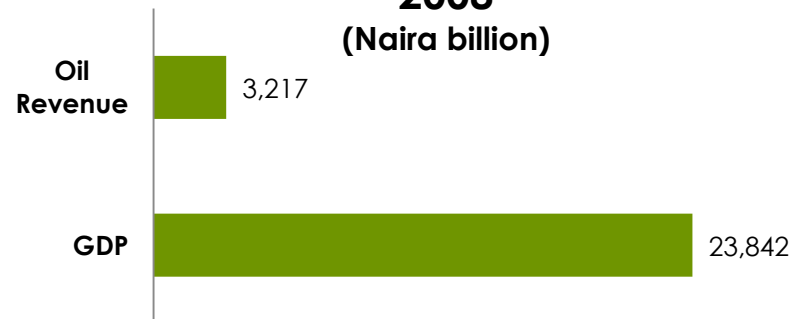
Oil and Non-Oil Exports in 2008

Oil Non-Oil



Net Oil Revenue and GDP in 2008

(Naira billion)



The Process Audits

- **The Process Audit reports** outline *how key agencies in the sector manage the sector*, including how licensing is managed, how government equity oil is priced, how the government's interest in joint ventures is managed and how refineries are run and oil is imported.
- Sector policies and procedures are examined and compared to international best practices to ascertain their suitability.

Some Key Process Audit Findings

- The actual amount of oil produced in Nigeria is not known.
- Some aspects of Petroleum Profit Tax legislation in Nigeria are unclear and The tax regime of the sector is one characterised by 'unregulated self-assessment'.
- There are interpretation differences between NNPC and PSC contractors regarding how the PSC agreements and legal incentives should be applied which is now in arbitration.
- In the absence of complete records being kept by the OAGF, the reconcilers rely on the records of The Central Bank of Nigeria's (CBN) whose records are not strictly maintained for the purpose of the EITI reconciliation.

Key Process Audit Findings (Cont'd)

- Tax assessments submitted by two companies do not match their own internal audited financial statements.
- Information management and IT systems in government are not sophisticated enough to deal with financial information flows from the sector.
- The NNPC is both the buyer and seller of oil which creates a conflict of interest and results in lost revenue for the Government.
- Government agencies suffer from a lack of skills and capacity particularly in comparison to international oil companies.
- Accounting for Signature bonuses receipts are not transparent
- The Accountant General of the Federation (AGF) can act only reactively and does not have the power to proactively address problems in the revenue collection system.

Relevance and Benefits of the Audits

- Beyond fulfilling the requirements of the global EITI:
 - ❖ NEITI audits play an important role in serving the public interest in providing oversight of oil sector financial reporting.
 - ❖ The reports and their annexes provide a comprehensive and well-documented overview of the petroleum sector covering the 10 years.
 - ❖ The reports have produced a wealth of information on the oil sector, very little of which was previously available. They have raised awareness of the goings on in the oil and gas sector – no longer a ‘black box’ as was the case in years before the inception of NEITI.

Dissemination

- Simplification of the Reports and wide distribution to the public, the media and the civil society.
- Other publications and effective engagement with CSO
- Coordinated media engagements, activities on the Report through staged events.
- Legislative/ government attention using the media and CSO advocacy.
- Use of NEITI Website and the social media.

Remediation

- ❖ The audit reports contain recommendations on fixing identified gaps and lapses in sector management framework and processes, in order to prevent future leakages.
- ❖ An Inter-Ministerial Task Team (IMTT) made up of representatives of the core government agencies within the sector is charged with the responsibility of devising and implementing strategies for the remediation of the audit findings.

Organisational Issues

- The NEITI we inherited in 2010 lacked the requisite capacity to adequately deliver on both its global and national mandates.
- But since September 2010, we have recorded a number of improvements:
 - Overhauled the Secretariat and equipped same with skilled human capacity
 - Pursued and achieved the EITI compliant status
 - Developed a 5-Year strategic plan
 - Commissioned industry audits for the oil and gas sector that will bring the Audits up to date
 - Commissioned the first solid minerals audit for the period 2007-2010

Organisational Issues Contd.

- Reviewed NEITI Comprehensive Communication Strategy.
- Public adverts on Radio. TV and Bill Boards.
- Initiated series of publications on NEITI activities/programmes
- Held the first ever NEITI National Conference
- Revived NEITI-Donors Relations
- Revived NEITI – Legislative Relations
- Opened engagements with States and local governments.

Challenges and Way Forward

o **Dealing with backlog of Audits**

- ❖ Currently there is a backlog of 3 years outstanding – for which contract has been awarded for the 2009-2011 audits, to clear the backlog.
- ❖ The current 10 years of audit reports fail to attract the desired public attention because they are sometimes viewed as stale (1999- 2008).
- ❖ It also makes it difficult to assess the impact of the remediation of the audit findings done so far.

Challenges... (Cont'd)

- **Complexity of the audit reports:**

- In order to meet required international standards, the audit reports are usually presented in forms that are hardly digestible by majority of the target audience.
- They contain complex accounting jargons that would make little or no meaning to non-accountants.
- NEITI undertakes the task of simplifying the audits but the best of these simplified versions do not make great difference because of the need to avoid the risk of misinterpreting the original contents of the audits.

Challenges Contd.

- Automation of data gathering and the entire audit process.
- Institutional resistance.
- Poor sectorial linkages (for instance with the Ministry of Information, the Budget Office, etc.)
- Enforcement Challenges.
- Weak capacity of CSOs to adequately carry out advocacy for reforms based on the NEITI audit findings.
- Remediation is slow because it is essentially dependent on peer pressure.
- Extending the EITI to sub-national levels.
- Aggressive public education and enlightenment

Conclusion

- NEITI has the potential of driving sector reform and providing support to other MDAs to improve sector governance.
- The NEITI audits are key policy instruments and will be more so as the audits become more up to date.
- The current momentum created by the fuel subsidy debates is an opportunity for NEITI and its audits to become more relevant in policy dialogue.
- NEITI would require support from all stakeholders in dealing with its challenges especially global institutions like the IMF.

Thank you.