NEITI

Nigeria Extractive Industries Transparency Initiative

THE PRESIDENCY

EXECUTIVE SUMMARY

2015 Oil & Gas Industry Audit Report

…promoting transparency, enabling prosperity

EXECUTIVE SUMMARY

1.1 Background

The Extractive Industries Transparency Initiative (EITI) is a global initiative that promotes transparency and accountability in the management of extractive resources through regular reconciliation of the payments by companies and the receipts by governments. The Nigeria Extractive Industries Transparency Initiative (NEITI) is the national subset of this global body. In compliance with the provision of Section 4 of NEITI Act 2007 and the EITI Standard, the National Stakeholders Working Group (NSWG) of NEITI appointed Messrs Haruna Yahaya & Co. (Chartered Accountants) to carry out the 2015 Oil and Gas audit for Nigeria.

1.2 Audit Objectives

The main objective of this assignment was to produce the 2015 NEITI Oil & Gas Industry Audit Report ("the Report") in compliance with the ToR and the 2016 EITI Standard. Other specific objectives were:

i. 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.
ii. Undertake special verification work on certain classes of transactions.
iii. Report on balances payable / receivable at the end of the audit period for certain financial flows.
iv. Reconcile the physical/financial transactions reported by payers and recipients as appropriate in line with the Terms of Reference (TOR).
v. Make observations on the assignment with appropriate recommendations that will aid policy making while considering recommendations from past reports.

This report was conducted based on International Standard on Related Services (ISRS) 4400 which relates to engagement to perform agreed-upon procedures regarding financial information. The following were also applied in executing the audit: ISA 505 relative to external confirmations; ISA

530 relative to audit sampling; ISA 500 relative to audit evidence; and ISRS 4410 relative to compilation engagements.

1.3. Summary of Financial Flows

The financial flows covered in this report are:

- Federation equity and profit oil
- Domestic crude allocation
- Gas sales
- Feedstock sales
- Petroleum Profits Tax (PPT)
- Royalty oil
- Royalty gas
- Company Income Tax (CIT) on Gas
- Education Tax (EDT)
- Signature bonus
- Nigeria Export Supervision Scheme (NESS) fee
- Niger Delta Development Commission (NDDC) levy
- Nigerian Content Development and Monitoring Board (NCDMB) payments
- Gas flare penalties
- License and acreage rental
- Pipeline transportation fee
- Dividend, interest and loan repayment by NLNG

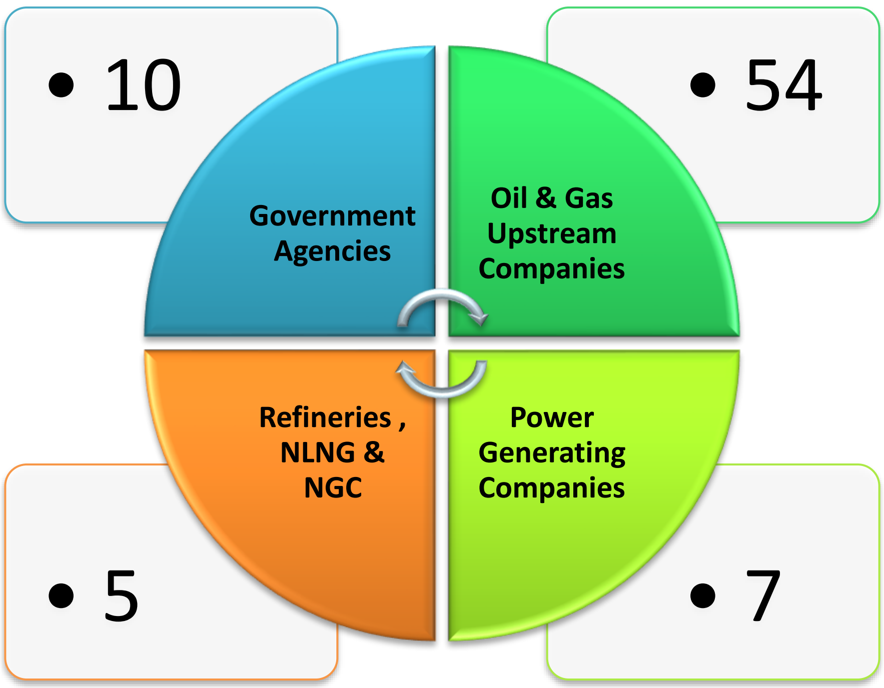
1.4 Summary of Physical Flows and Process Procedures

The physical flows and process procedures considered in this report are:

- Production and utilisation of gas
- Product importation and distribution
- Production and terminal balances
- Crude lifting and fiscal value
- Production arrangements and licensing
- Process for pricing of Federation equity crude oil
- Review of systems and procedures
- Review of remediation issues
- Recommendations on the review process

1.5 Covered Entities

A total of seventy-six entities, comprising government agencies, oil and gas companies and power generating companies were covered in this report. The breakdown is as illustrated below.



2. AGGREGATED FINANCIAL FLOWS

2.1 Aggregate Financial Flows from All Sources

The total revenue to government in 2015 was $ **24,791,173,000.** These are revenues that accrued to the Federation and sub-national entities from the oil and gas sector. These flows are as summarised below.

Table 2.1 Breakdown of Petroleum Revenues to Government in 2015

S/N		2015
		$'000
	Sale of Crude Oil and Gas	
	Federation Equity & Profit Oil	7,597,104
	Domestic Crude Sales	7,775,228
	Gas Sales	262,688
	Feedstock Sales	1,089,827
	Total Sales of Crude Oil and Gas (i)	**16,724,847**
	Less: PSCs/MCAs in Kind Payments[1]	
	Petroleum Profit Tax (PPT) - PSCs/MCAs	(2,956,542)
	Royalty (Oil) - PSCs/MCAs	(1,097,705)
	MCA Gas CIT/EDT	(16,831)
	MCA Royalty (Gas)	(3,649)
	Concession Rental	(138)
	Total PSCs/MCAs In-Kind Payments (ii)	**(4,074,865)**
	Sub-Total (A) = (i) - (ii)	**12,649,982**
	Other Specific Financial Flows	
	Petroleum Profit Tax (PPT)	5,436,235
	Royalty (Oil)	2,784,536
	Royalty (Gas)	107,160
	Signature Bonus	902,720
	Gas Flared Penalties	12,683
	License and Acreage Rental	1,006
	Total Confirmed Flows (iii)	**9,244,340**

	Other Flows to Federation	
	Company Income Tax	603,499
	Total Other Flows to Federation (iv)	603,499
	Sub-Total (B) (iv+iii)	**9,847,839**
	Total Flows to Federation C=(A+B)	**22,497,821**
	Other Flows	
	Dividends, Interest & Repayment of Loans by NLNG	1,076,012
	Total Other Flows (D)	**1,076,012**
	Flows to Other Entities	
	Contribution to NDDC	346,549
	Education Tax	667,770
	NCDMB 1% Levy	130,908
	NESS Fee[3]	47,504
	Pipeline- Transportation Fee	24,609
	Total Flows to Other Entities (E)	**1,217,340**
	Grand Total (C+D+E)	**24,791,173**

2.2 Petroleum Revenues in the Past Five Years

Table 2.2 below shows the trend analysis of petroleum revenues to government from 2011 to 2015. There was a steady decline in revenues from 2011 to 2014, with the sharpest drop of 55% from 2014 to 2015.

Table 2.2 Petroleum Government Revenue 2011-2015

YEAR	2011	2012	2013	2014	2015	TOTAL
	$'000	$'000	$'000	$'000	$'000	$'000
Grand Total	**68,442,328**	**62,944,356**	**58,079,681**	**54,555,279**	**24,791,173**	**268,812,817**
DIFFERENCE		(5,497,972)	(4,864,675)	(3,524,402)	(29,764,106)	
% CHANGE	0	-8%	-8%	-6%	-55%	

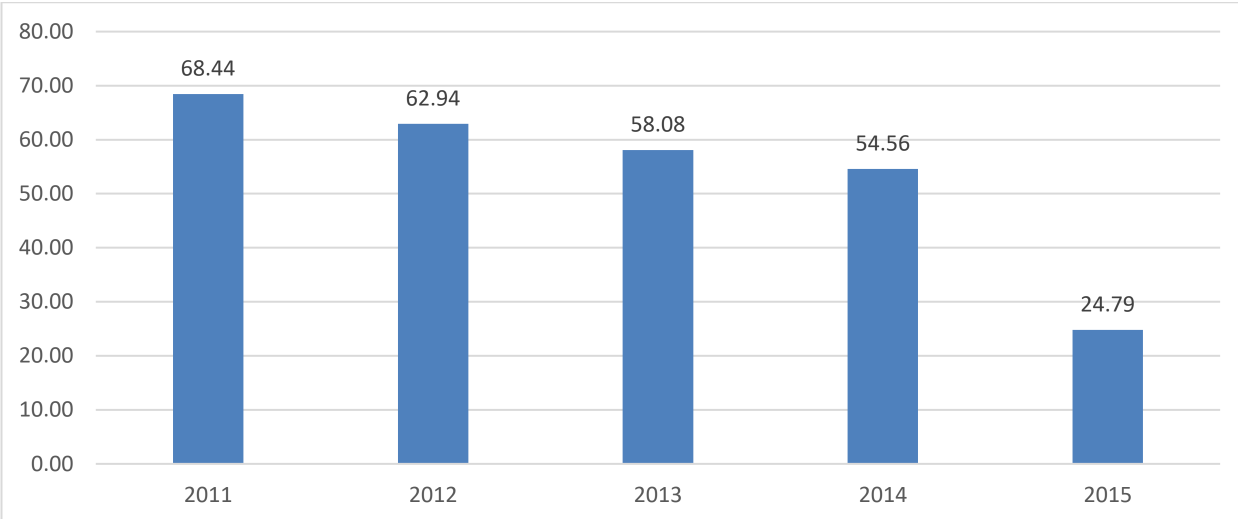


Figure 2.2: Summary of Financial Flows ($bill.)

This significant drop in revenue flows from the sector between 2014 and 2015 was largely due to the following reasons:

- Fall in global prices of crude oil in 2015
- Instability in the Niger Delta
- Deferred production and crude losses due to destruction of production facilities and pipeline breakages
- Crude oil theft and militancy.

2.3 Analysis of Proceeds from Sale of Federation Equity Crude Oil

The total revenue from sales of Federation equity crude oil and domestic crude sales was **$15.372 billion** in 2015. The Federation equity crude oil and gas revenue consists of export crude sales, FIRS crude (tax oil revenue), DPR crude oil (payment on royalties, licenses and acreage rent), Modified Carry Agreements (MCA), alternative funding arrangements with JV operators, reserve development projects and domestic crude allocation.

Table 2.3 Summary of Proceeds from the Sale of federation Equity Crude Oil

2015 AGGREGATED FLOW ON SALES OF FEDERATION CRUDE OIL AND GAS			
S/N		**Amount $'000**	**% of Contribution**
A	**Federation Equity & Profit Oil**		
I	Export Crude	3,163,685	**20.58%**

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Ii	FIRS Crude Oil	2,956,542	**19.23%**
Iii	DPR Crude Oil	356,472	**2.32%**
Iv	MCA (Alternative Funding)	761,851	**4.96%**
V	Reserve Development Project/QIT	358,554	**2.33%**
B	Domestic Crude Sales	7,775,228	50.58%
	TOTAL	**15,372,332**	**100%**

Source: Extracts from other tables in this report.

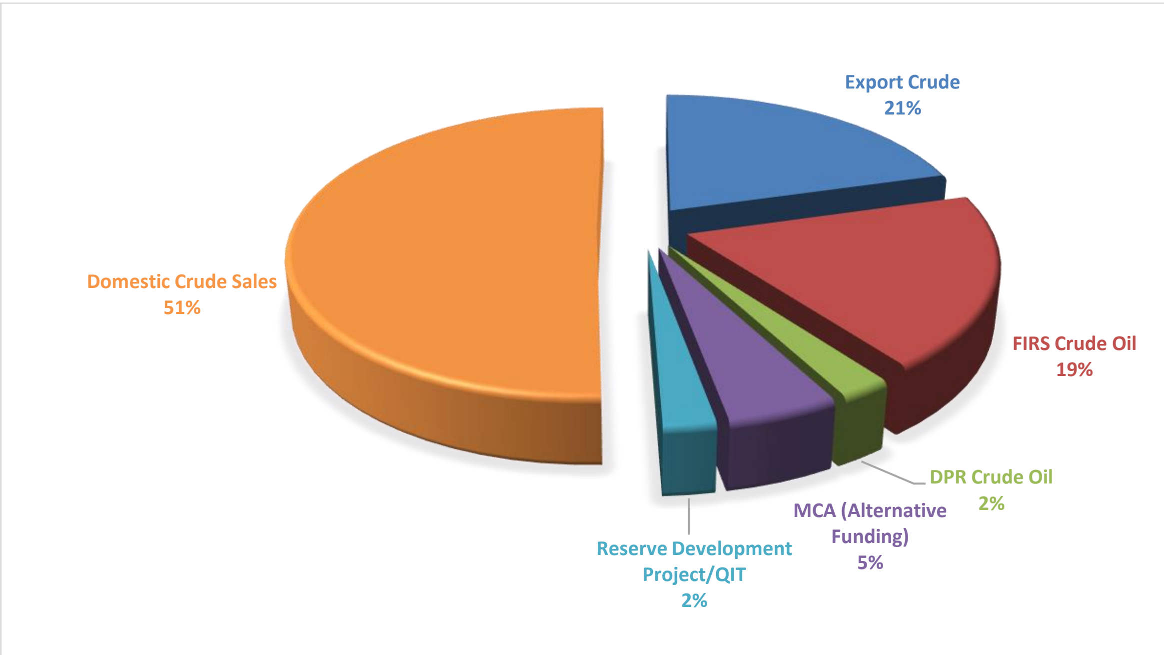


Figure 2.3: Summary of Proceeds from Sale of Federation Equity Crude Oil

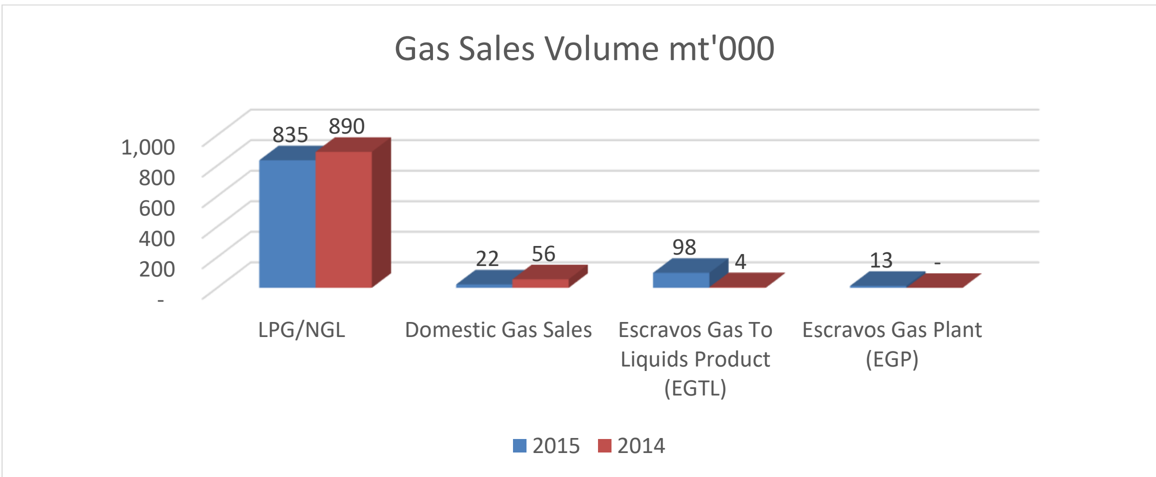
2.4 Summary of Volumetric Federation Exported Gas

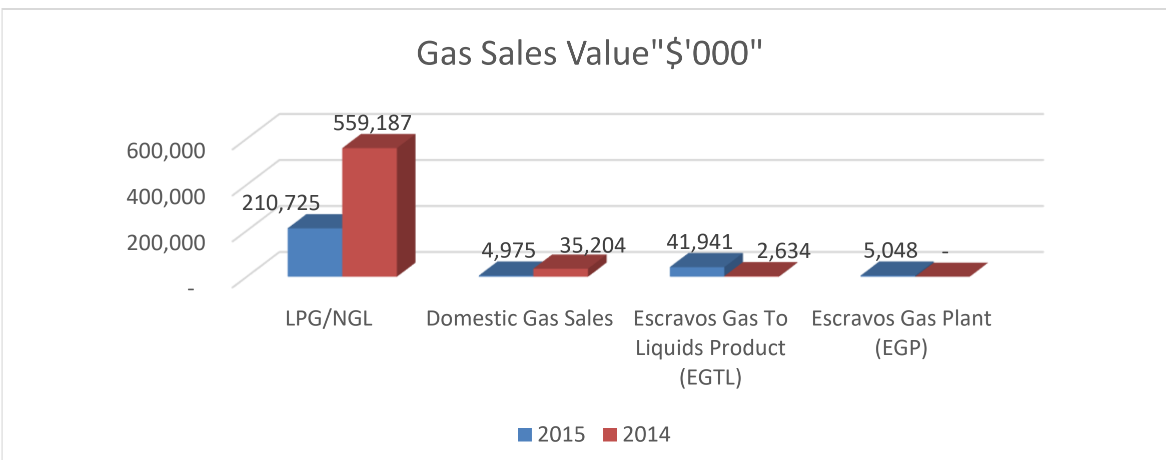
The total Federation exported gas in 2015 was **$263 million, as shown in table 2.4.**

Table 2.4 Summary of Volumetric Federation Exported Gas

		2014		**2015**	
S/N		**Volume mt'000**	**Value $'000**	**Volume mt'000**	**Value $'000**
1	LPG/NGL	890	559,187	835	210,725
2	Domestic Exported Gas	56	35,204	22	4,975

3	Escravos Gas to Liquids Product (EGTL)	4	2,634	98	41,941
4	Escravos Gas Plant (EGP)	-	-	13	5,048
	Total (A)	**950**	**597,025**	**968**	**262,688**





2.5 Summary of Federation Feedstock Sales

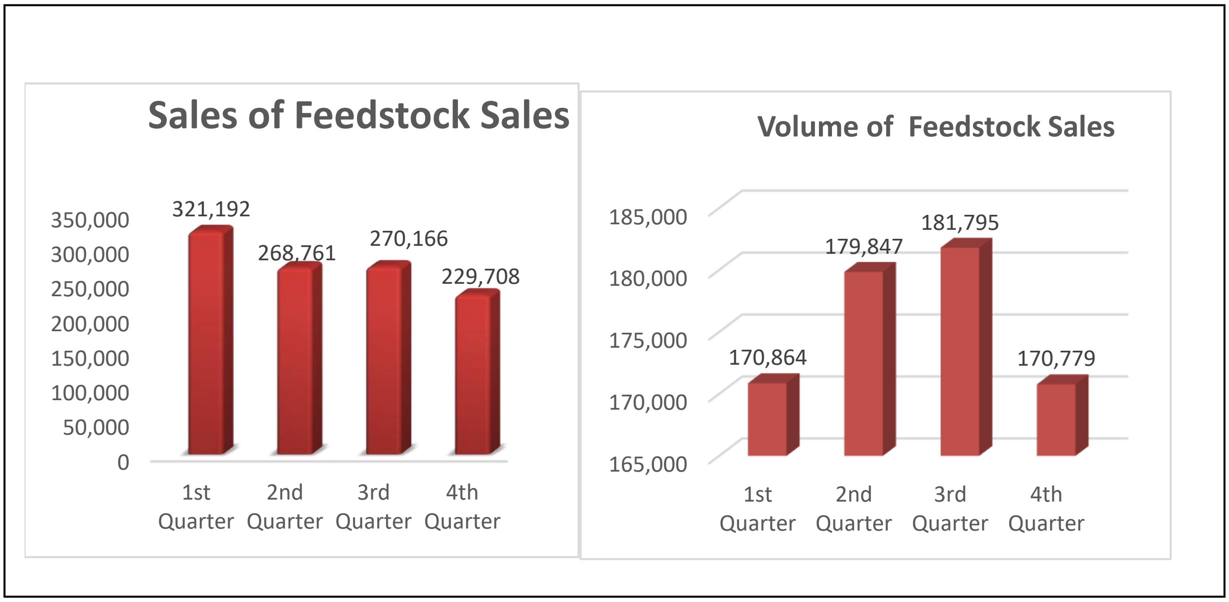
The total Federation Feedstock Sales in 2015 was **$1.090billion** as shown in table 2.5.

Table 2.5 Feedstock Sales

2015	**Feedstock Sales**	
	Volume	**Value**
	'000 mm btu	**US$'000**
1st Quarter	170,864	321,192
2nd Quarter	179,847	268,761

3rd Quarter	181,795	270,166
4th Quarter	170,779	229,708
Total	**703,286**	**1,089,827**

Figure 2.5: Summary of Feedstock



2.6 Summary of Company Level Financial Flows

The total reconciled flows show that government received **$12,116,680,514** while company's payments came to **$12,062,272,300,** producing an un-reconciled difference **of $27,500,166.** This variation came about as a result of reconciliation differences in Signature Bonus, Education Tax, Pipeline Transportation Fee and NDDC Levy. Government's record of **$12,116,680,514** includes unilateral disclosure of company's payment of **$ 82,808,380**.

Table 2.6 Summary of Reconciled Financial Flows

	REVENUE FLOW TO THE FEDERATION			
S/N	**FINANCIAL FLOW**		**AMOUNT**	
		GOVERNMENT	**COMPANY**	**DIFFRENCE**
		USD	**USD**	**USD**
1	CIT PAYMENT	602,809,616	602,809,616	-
	CIT PAYMENT (UNILATERAL DISCLOSURE)	689,219		
2	EDUCATIONAL TAX	667,615,657	667,515,657	1,000,000
	EDUCATIONAL TAX (UNILATERAL DISCLOSURE)	253,485		
3	GAS FLARED PENALTY	12,683,078	12,683,078	-

4	LICENSE AND ACREAGE RENTAL	919,423	919,423	-
	LICENSE AND ACREAGE RENTAL (UNILATERAL DISCLOSURE)	86,965		
5	NCDMB	130,908,301	130,908,301	-
6	NDDC	345,390,279	346,281,182	(890,902)
	NDDC (UNILATERAL DISCLOSURE)	1,158,319		
7	NESS FEE	47,503,586	47,503,586	-
8	NLNG DIVIDEND, LOAN REPAYMENT & INTEREST	1,076,011,598	1,076,011,598	-
9	PIPELINE TRANSPORT FEE		24,609,264	(24,609,264)
10	PPT PAYMENT	5,430,082,834	5,430,082,834	-
	PPT PAYMENT (UNILATERAL DISCLOSURE)	6,152,224		
11	ROYALTY GAS	107,160,103	107,160,103	-
12	ROYALTY OIL	2,766,897,658	2,766,897,658	-
	ROYALTY OIL (UNILATERAL DISCLOSURE)	17,637,919		
13	SIGNATURE BONUS	845,890,000	848,890,000	(3,000,000)
	SIGNATURE BONUS (UNILATERAL DISCLOSURE)	56,830,250		
	TOTAL	**12,116,680,514**	**12,062,272,300**	**(27,500,166)**

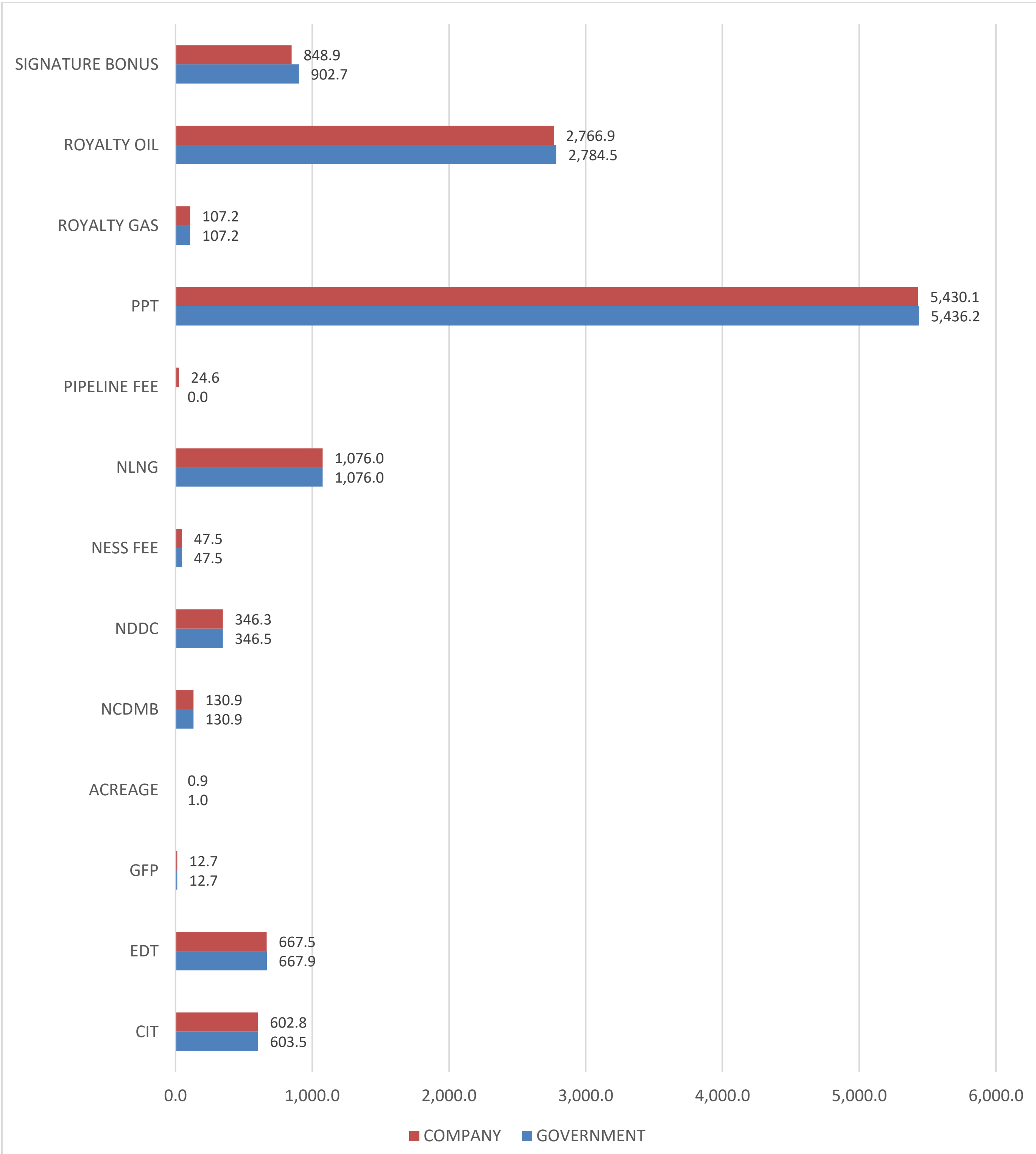


Figure 2.6: Company Level Financial Flow ($mill.)

2.7 Cash Call Budget and Actual Funding

The total cash call budget for 2015 was US$7.359billion. However, the total financial inflow was **US$6.152billion,** giving rise to a budget deficit of $1.207 billion or a 16.4% deficit as presented in table 2.7 below.

Table 2.7 Comparison of Budgeted Cash Call to Actual Funding

S/NO		2015
		$'000 Billion
A	National Budget Provisions	7.359
B	Cash Call Financial Funding	6.152
	Variance	1.207
	% of Variance	**16.40%**

Source: 2015 Validated NAPIMS Templates and Budget

2.8 Comparison of Cash Call Funding to Cash Call Expenditures

The audit revealed that cash call funding of **$6.152 billion** exceeded the total NAPIMS expenditure of $**5.067 billion** by **$1.084** billion, a difference of 17.62%.

Table 2.8 Comparison of Cash Call Funding to Cash Call Expenditures

S/NO	Item	2015	
		$'000	**$'Billion**
1	National Budget Provisions		7.359
	Cash Call Inflow for 2015		
	Government Funding of JP Morgan JVCC Accounts	6,151,628	
	Interest Earned	1,033	
	Total Inflow	6,152,661	6.152
3(A)	Cash Call Payments to JV Operators	**(4,370,647)**	
3(B)	Other Budgetary Expenditure	(99,000)	
3(C)	Non- Cash call payments	(597,861)	
	Total Payments (A+B+C)	**(5,067,508)**	
3	Variance (2-3)	1,085,153	
	Variance (1-3)		1.207
4	**% of Variance**	**17.64%**	**16.40%**

Source: JP Morgan NNPC/CBN JV Cash Call Account and National Approved Budget (2015)

2.9 Summary of Cash Call Payments

The total cash call paid to JV operators in 2015 dropped by 27% from $6.034billion in 2014 to $4.370billion. This decline was attributed to economic melt-down and low oil prices that resulted in the decline in oil revenues.

Table 2.9: Summary of Cash Call Payments

S/N	FIVE YEAR SUMMARY OF CASH CALL PAID TO JV OPERATORS						
	ENTITY	2011	2012	2013	2014	2015	% change 2014 & 2015
		US$	US$	US$	US$	US$	
		000	000	000	000	000	
1	NNPC/SPDC/TEPNG/NAOC	1,600,465	1,845,417	1,988,784	1,659,852	1,100,592	(33.69)
2	NNPC/MPN	760,479	1,155,964	1,036,133	1,326,960	795,389	(10.64)
3	NNPC/CNL	1,262,710	1,377,237	1,148,131	1,325,669	864,917	(34.76)
4	NNPC/TEPNG	787,547	898,543	832,346	891,002	796,213	(73.97)
5	NNPC/NAOC	565,575	710,840	652,468	638,055	680,797	(40.06)
6	NNPC/POOCN	194,262	196,646	186,835	192,804	50,181	6.70
7	NPDC/CNL	6,321	3,361	2,734		11,589	100
8	NPDC/SPDC	6,446	9,628	13,523		10,979	100
9	NNPC/FIRST E & P					7,525	100
10	NNPC/NEWCROSS E & P					52,313	100
	TOTAL	**5,183,805**	**6,197,636**	**5,860,954**	**6,034,342**	**4,370,495**	**(27)**

Source: JP Morgan NNPC/CBN JV Dollar Cash Call Account, NNPC/CBN JV Naira Cash Call Account and Cash Call Mandates

2.10 Non-Cash Call Expenditure

The total non-cash call expenditure in 2015 was **$597.86 million** as presented in table 2.10 below.

Table 2.10 Non-Cash Call Expenditure

NATURE OF PAYMENT	SOURCE CURRENCY		FUNCTIONAL CURRENCY
			Amount in US$
	$'000	**N'000**	**$'000**
NAPIMS ADINISTRATIVE FEES	238,058	-	238,058
PAYMENTS FOR SECURITY	292,571	2,997,206	307,829
TRAININGS	345	-	345
WHT AND VAT	2,139	673,378	5,567

TRAVELLING AND ACCOMMODATION	1,952	1,035,245	7,222
SURVEY AND SAND SEARCH	884	419,276	3,018
TRANSFER (NESS FEES)	-	6,073,572	30,920
COMPUTER ACCESSORIES	39		39
CONSULTANCY	34	948,321	4,862
Total	**536,022**	**12,146,998**	**597,861**

Findings

- The sum of $597.86 million was paid from the cash call account without appropriation
- The non-cash call transactions of $597.86million were funded from both the CBN/NNPC JP Morgan Chase Cash Call Dollar Account and CBN/NNPC JV Naira Cash Call Account.
- The sum of $238.06 million was collected as 3% Administrative Fee by NAPIMS

2.11. Summary of Federation Investment Profile in NLNG

As at December 2015, the total federation loan/investment in the NLNG project was **$2,672,926,309**, out of which $**2,606,710,093** had been liquidated, leaving an outstanding balance of **$66,216,216.**

Table 2.11: Federation Investment Profile in NLNG

	Principal Loan 1995-2005	***Interest Capitalized***	***Total Loan***	***Repayment to Date***	**Balance**
Total Shareholders, Loan	4,043,924,266	1,411,027,387	5,454,951,652	(5,319,816,516)	135,135,135
NNPC 49.00%	**1,981,522,890**	**691,403,419**	**2,672,926,309**	**(2,606,710,093)**	**66,216,216**

- Source: 2015 NLNG Validated Template

2.12 Summary of NLNG Dividend and Interest Payment

In 2015, NLNG paid a total of $1,076,011,598 to NNPC Depository Account with JP Morgan Chase. Dividend accrued to the Federation in 2015 was $1,043,764,965 representing 97% of the total revenue stream from NLNG, while interest and principal repayment were **$3,111,498(0.29%)** and **$29,135,135 (2.71%)** respectively. These payments were confirmed by NNPC but were not remitted to the Federation.

Table 2.12: Summary of Loan Repayment, Interest and Dividend Payments

	Amount $	% Contribution
DIVIDEND	1,043,764,965	97.00%
INTEREST	3,111,498	0.29%
PRINCIPAL	29,135,135	2.71%
Total	**1,076,011,598**	**100.00%**

2.13 Infrastructure Provision and Barter Arrangement

In line with Requirement 4.3 of the EITI Standard, the NSWG and the Independent Administrator are to consider whether there are agreements involving the procurement of goods and services including loans, grants, and infrastructure provision, in exchange for oil, gas or minerals and coal exploration.

The operating lease contract in the oil and gas sector complied with the terms of contract be it Joint Venture agreement or PSC. The infrastructure in production process is wholly owned by the operators and the partners.

In Nigeria oil and gas industry, barter arrangement is thus not applicable.

2. 14 Corporate Social Responsibility (CSR)

Companies undertake Corporate Social Responsibility (CSR) as commitment and responsibility to their operating community, environment and the various stakeholders. In Nigeria there are no definite operating guidelines on social spending by companies in the oil and gas sector. However, companies sign MOUs with their host communities on what social project (s) to embark on. In 2015, the total number of voluntary social expenditure projects was 371. These projects were executed by 30 out of the 54 entities covered in this audit. A total of $40,902,262 was spent as part of Corporate Social Responsibility. These social expenditures ranged from provision of social amenities (i.e. roads, hospital, borehole, infrastructures) to scholarship programmes, youth empowerment programmes, training, skills acquisition in the area of computer, welding, electrical and community empowerment as well as corporate gifts and donations.

2.15 Transportation

In consonant with Requirement 4.4 of the EITI Standard which relates to revenues accruing to state owned enterprises (SOEs) from extractive transportation services, the revenue to NNPC from pipeline transportation fee was $ 24,609,523. This represented 55% counterpart share of the Federation in the SPDC Joint Venture infrastructure. Pipeline transportation fees are paid by crude oil producers who due to economy of scale opt to use existing pipelines (instead of constructing new ones) for transporting crude oil to terminals for export.

2.16 Quasi Fiscal Expenditure

Quasi-fiscal expenditures are expenditures incurred by state owned enterprises that are not directly related to their core business as a state-owned petroleum company. In 2015, there was quasi fiscal expenditure carried out by NNPC in form of subsidy payments.

The sum of **₦145.515billion** was budgeted for kerosene and PMS (petrol) in 2015. However, subsidy payment approved for NNPC by PPPRA was **₦317.280billion**. The total quasi fiscal expenditure was **₦171.765 billion.**

2.17 Highlights of Key Findings

1. Total revenue flow in 2015 including non-financial flows was $**24.791**billion with crude sales accounting for **67.47%,** while company financial flows constituted 32.53%**.** However, the total revenue dropped by 55% from $54.55 billion in 2014 to $**24.791**billion in 2015. This is attributable largely to fall in the price of crude oil.
2. There was un-reconciled difference of $28,499,166 due to reconciliation differences in Signature Bonus, Education Tax, Pipeline Transportation Fee and NDDC Levy.
3. National cash-call budget for the year was $7.359billion while actual cash call funding for the year was $6.152billion.
4. Non-cash call expenses in 2015 was $**597.86m** representing 12% of the entire cash call expenditure.
5. NNPC received **$1,076,011,598** from NLNG as dividend, interest and loan repayment.
6. The audit established an outstanding liability of **$65,574,833.37** for Royalty Gas against eight companies.
7. The total liability established against covered entities as a result of under assessments, delay in payments or outright default was **$621,630,579** and **₦ 418,369,719.52**. The breakdown is as enumerated below:
    - The outstanding liability for Royalty Oil was **$393,756,482** which was as a result of under assessment or late payment;

- The total liability against entities for non-payment of the accurate NCDMB Levy was **$45,993,542** and **₦ 418,369,720**.
- Thirteen companies have total liability of **$100,778,109** for under-payment of NDDC levy.
- Twenty-Three companies have liability of **$11,536,597** for Gas Flared Penalty, while NESS Fee liability stood at **$576,616.**
- PPT (Crude oil fiscal value) was **$3,414,400.**

8. NPDC legacy liability as at 2015 after taking revaluation into consideration was $**1.954 billion.**
9. Inconsistent application of pricing methodology for Export Crude Oil and Domestic Crude Sales led to a revenue loss of **$735,724.68 and $90.176 million**.
10. There was an un-reconciled export sales receivable of $**586.01 million** against NNPC.
11. There was an un-reconciled sales receivable of N**317.476 billion** against NNPC.
12. NNPC deducted first line charge of **N60.997 billion** for "Crude and Product Oil losses"; **N112.818 billion** for "pipeline repairs & maintenance"; and **N316.72 billion** for "subsidy deduction"
13. The sum of **N316.72 billion** deducted as first line charge for "Subsidy deduction" contravenes the institutional framework of the Petroleum Support Fund (PSF) which requires, among other things, that all subsidy claims and payment should be drawn from the PSF.
14. NNPC did not remit to the Federation the sum **of $16,477,740.02 and ₦1,597,275,831.11** paid by IOCs as pipeline transportation fee.
15. The current gas flared penalty charge at 10/1000mscf has not served as a deterrent to gas flaring by companies. If the FEC approved rate of 3.5$ per 1000mscf had been applied in 2015, gas flared penalty would have been**$1,111,252,625** as against the actual collection of **$ 12,683,078**, meaning an extra **$1,098,569,547** would have accrued.

Eight entities namely, Shoreline Natural Resources, Neconde Energy, ND Western, Platform, Newcross, Elcrest, ORIENTAL and NDPR were granted tax holidays for five years straight instead of the normal three years at first instance, and thereafter additional two years after satisfying conditions set by the NIPC for the first grant in contravention of IDA Act **.**

3.0 VOLUMETRIC SUMMARY AND KEY FINDINGS

3.1 Total Crude Oil Production

The total crude oil production in 2015 was 776,668mbbls which was less than 2014 production figure of 798,542mbbls by **21,874 mbbls,** representing **2.74%** drop**,** as presented below.

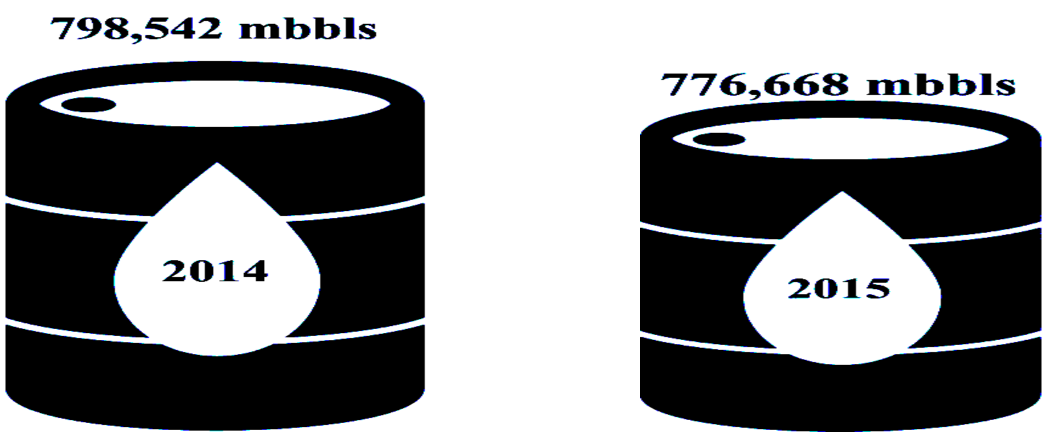


Figure 3.1 Crude Oil Production for 2015

3.2 Total Crude Oil Production by Contract Arrangements

The 2015 crude oil production by production arrangement shows that production by **Joint Venture** (**JV)** companies decreased from the 2014 level by **21,331 mbbls,** while production by **PSCs** marginally increased by **396 mbbls (0.12%).** Similarly, production by Service Contracts (SCs) decreased by 518 mbbls (17.24%), the one by Sole Risk companies by 4,148 mbbls (7.05%) and the one from Marginal Fields increased by 3,737 mbbls (18.99%).

Table 3.2: Schedule of Total Crude Oil Production by Arrangement

Production by Production Arrangements		
Total production	**2014**	**2015**
	mbbls	**mbbls**
Joint Ventures (JVs)	396,855	375,524
Production Sharing Contracts (PSCs)	320,200	320,596
Service Contracts (SCs)	3,005	2,487
Sole Risk (SR)	58,800	54,642
Marginal Fields	19,682	23,419
TOTAL	**798,542**	**776,668**

Source: NEITI 2014 Oil & Gas Audit Report - 2015 COMD PRODUCTION PROFILE

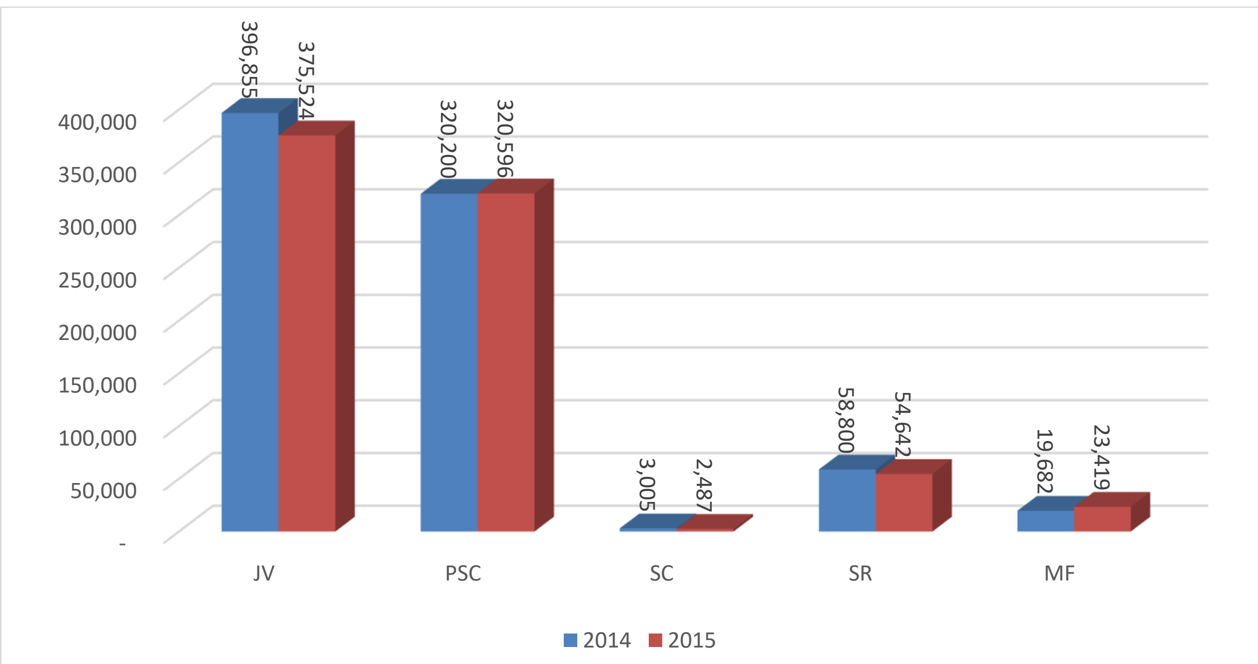


Figure 3.2 Crude Oil Production by Production Arrangements

3.3 Total Crude Oil Lifting By NNPC and the Companies

The total crude oil lifting by NNPC in 2015 was 313,336 mbbls (inclusive of NPDC lifting of 15.31mmbls) which was less than the 2014 lifting of 349,622 mbbls, representing 10.38% drop. NNPC lifted 40.15% while the companies lifted 467,093 mbbls representing 49.85% of total volume of crude oil lifted in 2015.

Table 3.3: Total Lifting of Crude Oil by NNPC and Other Companies

TOTAL LIFTING OF CRUDE OIL BY NNPC AND OTHER COMPANIES				
Total Liftings	**2014 (mbbls)**	**% of Lifting**	**2015 (mbbls)**	**% of Lifting**
NNPC	349,622	43.89%	313,336	40.15%
Other Companies	446,933	56.10%	467,093	59.85%
TOTAL	**796,555**	**100%**	**780,429**	**100%**

Source: NEITI 2014 Oil & Gas Audit Report - 2015 COMD Production Profile

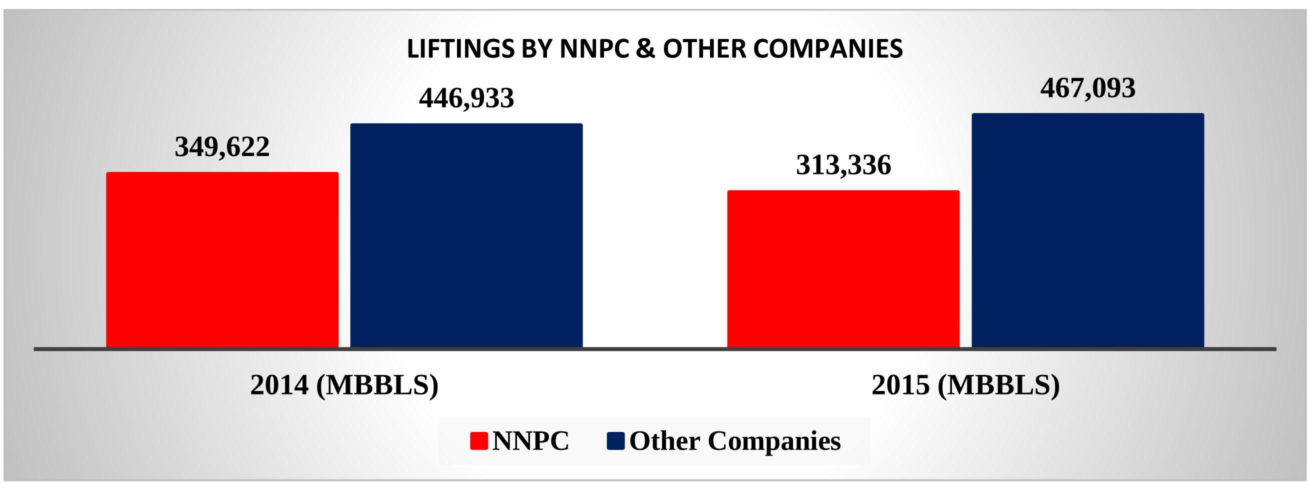


Figure 3.3: Liftings by NNPC & Other Companies

3.4 Allocation of Federation Lifting

Table 3.4: Allocation of Federation Lifting (mmbbls)

ALLOCATION OF FEDERATION LIFTING (MMBBLS)		
	2014	2015
FEDERATION EXPORT	189,421	159,421
DOMESTIC (REFINERIES & EXPORT)	160,201	153,918
TOTAL FEDERATION LIFTING	**349,622**	**313,339**

SOURCE: NEITI 2009-2014 Oil & Gas Audit Reports/ COMD 2015 Crude Production Profile

Findings:

1. Federation export crude consists of equity oil from JV operations, profit oil, tax oil from PSCs, MCAs, Reserve Development Projects and Concession rentals.
2. From the federation equity, a daily allocation of 445,000 barrels/day is made to PPMC for domestic use.
3. Federation export in 2015 dropped compared to 2014 by 29,220 mbbls (15.43%). This was due to the fall in total production within 2015.

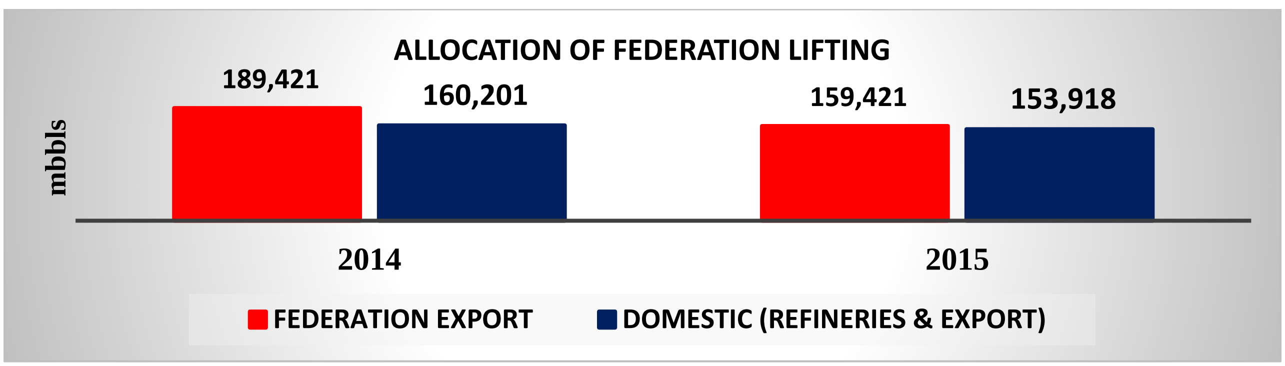


Figure 3.4: Allocation of Federation Lifting

3.5 Summary of Crude Oil Losses (Theft & Sabotage)

The total volume of crude oil loss in 2015 as a result of sabotage and theft from the operators' facilities was 27,121,454 bbls. While loss as a result of deferment was 87,502,901 bbls as shown below:

Table 3.5: 2015 Crude Oil Losses and Sabotage

2015 CRUDE OIL LOSSES AND SABOTAGE			
	LOSSES		
COMPANY	THEFT	SABOTAGE	DEFERRED PRODUCTION
MOBIL	–		
SPDC	7,843,559		69,749,906
CHEVRON	–		
NAOC	1,092,571		
TEPNG	–		
PANOCEAN	–		
AITEO	1,095,207		121,348
EROTON	875,754		3,785,000
NEWCROSS	893,243		
AENR	69,424		
SNEPCO	–		4,560,578
ADDAX	51,135		1,416,581
TUPNI	–		
STARDEEP	–		
ESSO	–		
USAN	–		
NAE	–		
SEEPCO	–		
AMNI	–		310,540
NPDC			
NPDC-SEPLAT	9,137,939		7,224,884
NPDC-FHN	233,515		–
NPDC-SHORELINE	919,722		
NPDC-ND WESTERN	1,849,558		
NPDC-ELCREST	164,896		
NPDC-NECONDE	1,475,042		
ATLAS	–		
CONTINENTAL	–		
CONOIL	–		
DUBRI	–		
MONIPULO	–		
SHEBA/EXPRESS	–		
ALLIED/CAMAC	–		
BRITANIA-U	–		
WALTERSMITH	134,888		
ORIENTAL	–		334,064
UNIVERSAL	–		
ENERGIA	245,663		
FRONTIER	–		
MIDWESTERN	923,713		
NETWORK	–		
NDPR	–		
PILLAR	69,250		
PRIME	–		
PLATFORM	46,375		
TOTAL	**27,121,454**		**87,502,901**

SOURCE: COMPANY CRUDE LOSS/DEFERRED TEMPLATE

3.5.1 Percentage of Crude Oil Lost (Theft and Sabotage) To Total Production

The total crude oil loss as a result of sabotage and theft (27,121,454 bbls) constituted 3.49% of the total production of 776,667,954 bbls) in 2015.

Table 3.5.1: Percentage of Crude Oil Lost (Theft and Sabotage) To Total Production

TOTAL CRUDE OIL PRODUCTION (BBLS)	776,667,945
TOTAL LOSSES (THEFT & SABOTAGE) (BBLS)	27,121,454
% LOSS	**3.49**

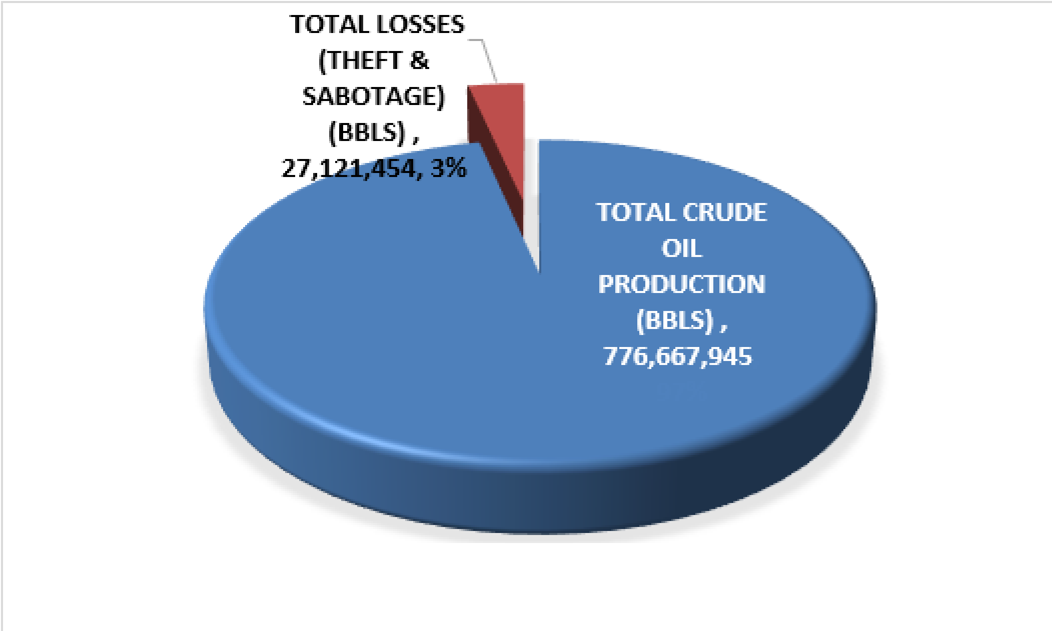


Figure 3.5.1: production and loss

3.5.2 NNPC Share of Crude Oil Losses (Theft and Sabotage)

The total federation NNPC share of the crude oil loss in 2015 was 6,544,812bbl, with a value of $344,605,963.00.

Table 3.5.2: NNPC share of the Oil Loss

NNPC SHARE OF LOSSES ($)			
	NNPC EQUITY (BBLS)	Avg. YEARLY RATE ($)	VALUE ($)
NNPC-SPDC	4,313,957	52.6533	227,144,095.80
NNPC-NAOC	655,543	52.6533	34,516,481.18
NNPC-AITEO	602,364	52.6533	31,716,444.50
NNPC-EROTON	481,665	52.6533	25,361,235.95
NNPC-NEWCROSS	491,284	52.6533	25,867,705.41
TOTAL JV LOSSES	**6,544,812**		**344,605,963**

SOURCE: https://www.cbn.gov.ng/rates/crudeoil.asp?year=2015

3.6 Schedule of 2014 and 2015 Total Gas Production and Utilisation

The total volume of gas produced in 2015 was 3,250,667.66 mmscf, which was higher than 2014 production of 2,593,090.51 mmscf by 657,577.15 mmscf, an increase of 20.23%. While total volume of gas sales in 2015 was 1,631,309.64 mmscf representing 50.18% of total production.

Total gas flared in 2015 was 317,505.59mmscf which was 9.77% of total production; while re-injected gas to support crude oil production was 835,898.99mmscf.

Table 3.6: 2015 & 2015 Gas Production and Utilisation

Usage (mmscf)	2014	2015
A. Total Gas Production	2,593,090.51	3,250,667.66
Gas Sales	2,015,096.05	1,631,309.64
Gas Flared	281,713.06	317,505.59
Utilised/Fuel Gas	175,547.66	160,144.64
B. Total (Sales, Flared, Utilised/Fuel)	**2,472,356.77**	**2,108,959.87**
C. Gas Re-injected	798,027.73	835,898.99
D. Total (B+ C)	3,270,384.50	2,944,858.86
E. Difference (A-D)	**-677,293.99**	**305,808.80**

SOURCE: NEITI 2014 AUDIT & 2015 COMPANIES GAS PROFILE

3.7 Domestic Crude Allocation

The total Domestic Crude Allocation to PPMC in 2015 was **153.918 mbls** which was lower than 2014 allocation of 160,201mbls by 8,507 mbbls (or by 5.23%). Refinery allocation in 2015 was 8,740 mbbls or 5.68% of the 153.918mbls for domestic crude allocation. Allocation for Off-shore Processing Arrangement (OPA) was 89,067 mbbls or 57.87% of DCA.

Table 3.7: Schedule of PPMC Allocation In 2015

PPMC LIFTING (mbls)	2015
Actual Supply to Refineries	8,740
PPMC Crude Oil Exchange	-
Offshore Processing	89,067
Export as Unprocessed PPMC Crude	56,111
A. Total PPMC Lifting	**153,918**
B. PPMC Yearly Allocation of 445 kbpd	**162,425**
Difference (B-A)	**(8,507)**

SOURCE: 2015 COMD – COSM

3.8 Schedule of Off-Shore Processing Arrangement (OPA) 2015

NNPC initiated the Offshore Alternative Processing Arrangement called "Offshore Processing Arrangement (OPA) and Crude-Product Exchange (SWAP)" in 2010 to mitigate price vulnerability and product shortages and to guarantee steady supply and free up cash for other expenditures. The resultant effect of this arrangement was an economic loss of **$723,285,929.70** in 2015. However, OPA has been discontinued.

Table 3.8: Offshore Processing Arrangement

OFF-SHORE PROCESSING ARRANGEMENT (OPA) 2015	
CONTRACT	**NET LOSS/GAIN ($)**
OPA SAHARA	(323,129,180.50)
OPA AITEO	(221,095,575.24)
OPA DUKE OIL	(91,728,715.46)
OPA NAPOIL	(44,553,458.59)
OPA CALSON	26,150,579.70
OPA DUKE OIL (STOP-GAP)	(68,929,579.61)
GRAND TOTAL	**(723,285,929.70)**

Source: PPMC 2015 Offshore Processing Template

3.9 Depot Balances

An audit of the material balance for PMS, AGO, and DPK showed that there was variance between the depot reported closing stock and audit closing stock. The audit revealed the following:

- PMS depot balance showed that Ilorin depot had the highest volume of unaccounted losses (6,828.22 mt), followed by Calabar 2,623.28mt, Port Harcourt 1,190.02 mt, Kaduna 459.00 mt, Enugu 290.00 mt, Benin 285.00 mt, Suleija 239.00 mt and Gusau 172.00 mt. Total unaccounted losses recorded came to12,271.41 mt which is equivalent to 16,645,519.655 liters. At the regulated PMS pump price of N86.50, the total unaccounted losses amounted to **N1,439,837,450.16**
- AGO depot balance showed that Aba depot recorded the highest loss of 1338.68 mt, followed by Enugu 526.00 mt, Port Harcourt 234.29 mt, Calabar 175.01 mt, Kaduna 84.00 mt and Suleja 67.00 mt. Total unaccounted losses recorded added up to 2,571.07 mt which is equivalent to 2,905,163.84 liters. At the regulated AGO pump price of N130, the total unaccounted losses amounted to **N377,671,299.20**

- Total unaccounted losses for DPK added up to 461.24 mt which is equivalent to 564,449.61 liters. At the regulated DPK pump price of N50.00, the total unaccounted loss amounted to **N28,222,480.50**

3.10 Total Pipeline Loses in 2015

The total liters and monetary value of PMS, AGO and DPK lost due to pipeline breakages and product theft were 632,528,960 liters (**N52,499,903,692**), 32,179,661 (**N3,861,559,322)** and **2,632,320** liters, (**N123,719,023**.) respectively. There was a total 2832 pipeline breakage in 2015.

Table 3.10: Overall Pipeline losses in 2015

OVERALL PIPELINE LOSSES IN 2015				
PRODUCT	**(MT)**	**Ltrs**	**Unit Price (N)**	**Value (N)**
PMS	(466,313)	632,528,960	83	52,499,903,692
AGO	(28,479)	32,179,661	120	3,861,559,322
DPK	(2,151)	2,632,320	47	123,719,023
TOTAL				**56,485,182,038**

3.11 Highlight of Findings

1. Total crude production in 2015 dropped to 776.668 million barrels from 798.542 million barrels in 2014 (reduced by 2.74%). This implies that average daily production was 2.127 million barrels . The Joint Venture arrangements (including Alternative Funding) had the highest production of 375.52 million barrels (48.35%). The JV production dropped by 21.331 million barrels (5.38%) from 2014 due to theft and sabotage. However, production of Marginal Field operators increased by 18.99% as a result of new entrants into the industry.
2. The total crude oil lifting by NNPC in 2015 was **313,336 mbbls (**inclusive of NPDC lifting of 15.31mmbls**)** which was less than the 2014 lifting of **349,622 mbbls, representing 10.38%** drop. NNPC lifted **40.15%** while the companies lifted **467,093 mbbls** representing **49.85%** of total volume of crude oil lifted in 2015**.**
3. Out of the Federation lifting, 159.421 million barrels were exported while 153,915 million were allocated for domestic consumption.

4. In 2015, the refineries utilized only 5.68% of the domestic allocation while the rest was either exported or sent for offshore processing.
5. Gas production increased by 662,217.59 mmscf representing 20.34% increase. The percentage of total gas produced to total gas flared dropped in 2015 to 9.77% from 10.86% in 2014.
6. Total value of crude oil lost in 2015 as a result of theft and sabotage from upstream operation was $1.428 billion while the total Federation/NNPC share of the crude oil loss from JVs in 2015 was 6,544,812bbl, with a value of **$344,605,963.00.**
7. The total volume of crude oil loss in 2015 as a result of sabotage and theft from the Operators' facilities was **27,121,454 bbls** while loss as a result of deferment was **87,502,901 bbls**
8. The total volume of gas produced in 2015 was **3,250,667.66 mmscf,** which was higher by 20.23% than 2014 production of 2,593,090.51 mmscf**.**
9. Total volume of gas sales in 2015 was **1,631,309.64 mmscf** representing **50.18%** of total production.
10. Total gas flared in 2015 was 317,505.59mmscf which was **9.77%** of total production
11. The total Domestic Crude Allocation to PPMC in 2015 was **153,918 mbls** which was 5.23% lower than 2014 allocation of 160,201mbbls.
12. Refinery allocation in 2015 was 8,740 mbbls or 5.68% of total domestic allocation of 153,918 mbbls.
13. NNPC recorded a revenue loss of **$723,285,929.70** due to Offshore Processing Arrangement with companies. These arrangements have been discontinued.
14. PMS depot balance showed unaccounted losses of 12,271.41 mt which is equivalent to 16,645,519.655 liters. At the regulated PMS pump price of N86.50, the value of the total unaccounted loss was **N1,439,837,450.16.**
15. AGO depot balance showed unaccounted losses of 2,571.07 mt which is equivalent to 2,905,163.84 liters. At the regulated AGO pump price of N130, the total unaccounted loss was value at **N377,671,299.20.**

16. Total unaccounted losses for DPK came to 461.24 mt which is equivalent to 564,449.61 liters. At the regulated DPK pump price of N50.00, the total value of unaccounted loss was **N28,222,480.50.**
17. The OPA reconciliation showed a reconciled liability against OPA companies totaling $**498,611,970.89** which arose due to under-delivery of imported fuel by the participating companies.
18. The total loss due to vandalisation and theft of domestic fuel was **N56,485,182,038**
19. NNPC claimed **N316.721 billion** as subsidy payment.
20. **N536.371 billion** was claimed as subsidy on **19.271 billion litres** of PMS and **N117.145 billion** on **1.752 billion litres** of HHK.
21. A total of **56** marketers and NNPC participated in the subsidy regime in 2015.
22. Ineffective and inefficient National Pipeline Grid.
23. NNPC acted as a player and regulator in the oil and gas sector, which led to the inefficient management of the sector.

4. RECONCILIATION OF FINANCIAL AND PHYSICAL FLOWS

The summary of findings on validated financial flows is as presented below.

(1) Royalty Gas.

In 2015, the total revenue from royalty gas was $107,160,103.00 while there was an outstanding liability of $ 65,574,833.37 as shown below:

Table 4.1: Total Revenue from Royalty Gas

			2015 NEITI OIL & GAS AUDIT		
			Computation by I. A	**Computation by Entity**	**Under Assessment**
		mmscf	**USD$**	**USD$**	**USD$**
1	Eroton	9,556.56	19,455,862	-	19,455,862
2	CHEVRON	189,803.24	20,796,521	16,983,447	3,813,074
3	AITEO	45,936.87	90,520.92	-	90,521
4	SNEPCO	422.60	7,028,341.11	-	7,028,341
5	NPDC	142,233.57	20,319,081.43	-	20,319,081
6	Frontier	25,610.42	3,658,631.43	-	3,658,631
7	Pan-ocean	8,565.49	1,223,641.43	-	1,223,641
8	Seplat	69,899.77	9,985,681.43	-	9,985,681
	TOTAL	**492,028.52**	**82,558,280.37**	**16,983,447.00**	**65,574,833.37**

2. Royalty Oil

In 2015, the total revenue from royalty oil was $2,784,535,577.19, while there was an outstanding liability of $393,756,482 as shown below:

Table 4.2: Total Revenue from Royalty Oil

		2015 NEITI OIL & GAS AUDIT		
		Computation by IA	**Computation by Entity**	**Under Assessment**
		USD$	**USD$**	**USD$**
1	AMNI	12,154,277	12,134,471	19,806
2	ENERGIA	1,889,749	1,879,351	10,398
3	NPDC	298,592,159	26,409,022	272,183,137
4	Universal Energy	808,500	319,279	489,221
5	AITEO	33,364,516	17,243,109	16,121,407
7	BRITTANIA –U NIG. LTD	689,486	300,000	389,486
8	Eroton	30,698,103		30,698,103
9	First Hydrocarbon	4,904,887	2,293,132	2,611,755
11	PRIME	693,147	293,027	400,120
12	SEPLAT	81,062,458	60,053,950	21,008,508
14	CHEVRON NIGERIA LTD	278,214,764	230,881,075	47,333,689
15	MONI PULO LIMITED	8,507,793	6,016,941	2,490,852
	TOTAL	**751,579,839**	**357,823,357**	**393,756,482**

3. NCDMB Levy

Total NCDMB Levy in 2015 was $ 130,908,301, while liability of $45,993,542 and N 418,369,720 was established against the under-listed entities for non-payment of the accurate NCDMB Levy of 1% on contracts.

Table 4.3: NCDMB Levy

		2015 NEITI OIL & GAS AUDIT					
		Computation by IA		**Computation by Entity**		**Under/(Over) Assessment**	
		USD$	**N**	**USD$**	**N**	**USD$**	**N**
1	EEPNL	15,835,650		9,195,425		6,640,225	
2	EESO(OE)	7,248,679	727,755,613	5,370,341	324,138,554	1,878,337	403,617,059
3	FRONTIER	168,352	14,752,661	168,352			14,752,661
4	MIDWESTERN	645,329		236,387		408,942	
5	MOBIL	43,274,430	2,441,140,320	6,208,393	643,004,259	37,066,037	
		67,172,440	**3,183,648,594**	**21,178,899**	**967,142,813**	**45,993,542**	**418,369,720**

4. NDDC LEVY

The total financial flow for NDDC was $346,548,598. However thirteen companies as enumerated below have total liability of $100,778,109.

Table 4.4: NDDC Levy

2015 NEITI OIL & GAS AUDIT				
		Computation by IA	**Computation by Entity**	**Under/(Over) Assessment**
		USD$	**USD$**	**USD$**
1	ENERGIA	674,525		674,525
2	EEPNL	35,216,160	17,131,340	18,084,820
3	EESO(OE)	25,387,380	22,316,805	3,070,575
4	MOBIL	24,743,540	6,370,983	18,372,556.86
5	ORIENTAL	3,617,656	1,831,556	1,786,100.00
6	AITEO	226,330	-	226,330
7	BRITTANIA –U	82,500	-	82,500
8	PILLAR OIL LTD	487,146	-	487,146
9	SEPLAT	14,582,981	-	14,582,981
10	STAR DEEPWATER	30,250,471	25,624,323	4,626,149
11	CHEVRON	48,764,596	24,708,729	24,055,867
12	MONI PULO	1,703,582	-	1,703,582
13	STATOIL	18,179,806	5,154,828	13,024,978
	TOTAL	**203,916,673**	**103,138,564**	**100,778,109**

5. Gas Flared Penalty

The total gas flared liability was $11,536,597 while the total income received in 2015 was $12,683,078.

Table 4.5: Gas Flare Penalty

2015 NEITI OIL & GAS AUDIT				
		Computation by IA	**Computation by Entity**	**Under/(Over) Assessment**
		USD$	**USD$**	**USD$**
1	NPDC	1,023,174	-	1,023,174
2	Oando Hydrocarbon	193,637	49,679	143,957
3	ORIENTAL	120,166	-	120,166
4	AMIN	2,916,817	-	2,916,817
5	ENERGIA	381,605	144,418	237,187
6	MOBIL	2,598,762	930,628	1,668,134
7	MID WESTERN	102,621	86,400	16,221
8	ESSO(OE)	757,288	692,682	64,607
9	EEPNL	3,573,588	-	3,573,588
10	TEPNG	229,573	45,995	183,578
11	AITEO	267,837	-	267,837
12	ATLAS	151,023	-	151,023
13	BRITTANIA –U	6,012	-	6,012
14	Eroton	90,623	-	90,623
15	PILLAR OIL LTD	14,557	-	14,557
16	PRIME	20,450	-	20,450
17	SEPLAT	411,042	-	411,042
18	STAR DEEPWATER	891,656	682,352	209,304
19	CHEVRON	965,098	806,998	158,100
20	MONI PULO	16,867	11,855	5,012
21	Pan Ocean	1,866	-	1,866
22	Frontier	3,297	-	3,297
23	AENR	250,044	-	250,044
	TOTAL	**14,987,603**	**3,451,006**	**11,536,597**

6. NESS Fee

The total revenue from NESS Fee which is 0.12% of the FOB value of export (crude oil and gas) was $ 47,503,586, while NESS Fee liability stood at $576,616.

Table 4.6: NESS Fee

2015 NEITI OIL & GAS AUDIT				
		Computation by IA	Computation by Entity	Under/(Over) Assessment
		USD$	USD$	USD$
1	ORIENTAL	427,074	379,129	47,942
2	ENERGIA	96,118	58,055	38,063
3	First Hydrocarbon	21,120	18,332	2,788
4	PRIME	103,284	89,881	13,403
	STAR DEEPWATER	2,886,643	2,412,223	474,420
	Total	**3,534,239**	**2,957,620**	**576,616**

7. PPT (crude oil fiscal value)

The total PPT (crude oil fiscal value) liability was $3,414,400.

Table 4.7: PPT Liability

		Computation by IA	Computation by ENTITY	variance
	Entities	**USD$**	**USD$**	**USD$**
1	AITEO	157,538,834.69	156,942,000.00	596,835
2	BRITTANIA –U	27,924,643	26,649,611	1,275,032
3	First Hydrocarbon	18,356,698.70	17,639,755.00	716,944
4	PILLAR OIL LTD	29,957,003	29,131,413	825,590
	TOTAL	**233,777,179.39**	**230,362,779.00**	**3,414,400**

SUMMARY OF FINDINGS

<table>
<tr><th>S/ No.</th><th>Issue</th><th>Findings</th><th>Implications</th><th>Recommendations</th><th>Entity's Response</th><th>Further audit comments</th></tr>
<tr><td colspan="7">NNPC</td></tr>
<tr><td>1</td><td>Unaccounted Export Sales</td><td>$586.011 million accounted for un-reconciled export sales receivables in the year under review. This is as a result of previous year unexplained / unreconciled difference.</td><td>The difference may continuously be carried forward.</td><td>There should be proper reconciliation of unexplained / unreconciled difference of previous audit years</td><td>NNPC is ready to collaborate with NEITI to arrest the situation.</td><td>NNPC to reconcile with the age-old analysis of export debtors.</td></tr>
<tr><td>2</td><td>Lifting arrangement model by NPDC</td><td>NNPC lifted, marketed and sold on behalf of NPDC based on the following business models:
Model 1- NPDC direct assets (i.e. 100% NPDC owned assets) - this relates to OML 64, 65, 66, 111 and 119. NNPC Lifting and Sales under this category belongs to NPDC.
Model 2- NPDC jointly owned assets operated by NPDC through JV with First Hydrocarbon, Shoreline, ND Western, El Crest and Neconde- this relates to OML 26, 30, 34, 40 and 42. NNPC Lifting and Sales under this category belongs to NPDC. But the value of the divested OMLs must be paid.
Model 3- NPDC jointly owned assets and not operated by NPDC but Seplat. This relates to OML 4, 38 and 41. NNPC Lifting and Sales</td><td>Non-segregation of production and lifting profiles relating to federation from NPDC in line with the business models implies non-disclosure and transparency. It may lead to product diversion and huge revenue loss to the federation</td><td>NNPC should always track production and lifting profiles relating to federation from NPDC and make adequate disclosure in line with the approved business models.</td><td>For model 4, NNPC response was that NEITI should confirm the figures from NPDC and also note that Aroh field productions are taken as JV Chevron crude injections and lifted as part of Forcados crude while Egbema productions are lifted as part of Bonny JV crude .</td><td>NNPC should always track production and lifting profiles relating to federation from NPDC based on the four (4) models.</td></tr>
</table>

		under this category belongs to NPDC. But the value of the divested OMLs must be paid. • Model 4 - Non-Equity Assets operated by NPDC on behalf of NNPC for transfer of knowledge/ technical capacity building of NPDC personnel. This relates to OML 11, 20, 49 and 51. NNPC Lifting and Sales under this category **do not** belong to NPDC but NNPC. Based on four models above relating to NNPC, neither NNPC nor NPDC provided production and lifting profiles for each model.				
3	**Unaccounted ₦317.476 billion**	**₦317.476 billion** accounted for unreconciled sales receivables in the year under review. This is as a result of un-explained receivables.	This imply shortfall in amount to be remitted by NNPC as domestic sales proceeds to the federation account.	NNPC should account for **₦317.476 billion** and remit the said amount to the federation without delay.	No Response	NNPC to ensure refund of the **₦317.476 billion** to federation account.
4	**Pan Ocean Long Outstanding Debt**	Pan Ocean had a participating agreement with NNPC to explore and produce oil from **OML98** as operator for itself and on behalf of NNPC. This agreement was dated August 1st, 1979 and the distribution of the participating interests is as follows: **NNPC 60% and PAN OCEAN 40%.** There is an outstanding debt of $135,793,096.28 due from Pan Ocean to NNPC	Recovery of only the principal debt amount put at **$135,793,096.28** without consideration of interest, results to loss in time value of money.	There should be an independent valuation of Panocean indebtedness with a view to determining true fair value of interest thereon from 1985.	With the approval of the **GMD,** a committee has been constituted on recovery of interest accrued on the indebtedness.	The Federal Government of Nigeria to recover outstanding interest.

		<u>GENESIS OF INDEBTEDNESS:</u> In 1984, Pan Ocean signed a crude oil Sales contract with NNPC. Unlike the other third parties lifting Nigerian crude oil, Pan Ocean, being a producing oil company in Nigeria, **was exempted in establishing Letters** of Credit for the purpose of paying for the crude oil lifted. This was a general concession given to all oil producing companies operating in the country that signed a crude oil sales contract. Payments for the shipments were made 30 days from the bill of lading date. The contract with Pan Ocean was effectively performed until 1985 when there was a general glut in world oil market and crude oil prices collapsed to below $10 per barrel. Between January and February 1985, some cargoes were lifted by Pan Ocean with payments due in February and March 1985 respectively. The total outstanding payment from those cargoes was put at **$135,757,342.97.** Further lifting was disallowed as a result of its inability to pay for those cargoes. After an in-house reconciliation by Crude Oil Marketing Division	Delay in recovery of principal amount of $135,793,096.28 since 1985 has denied the Federal Government of Nigeria the needed revenue to embark on developmental projects for its citizens.	Intensive recovery efforts should be instituted by the Federal Government of Nigeria to recover both principal and interest.		

		(COMD), the net principal indebtedness of Pan Ocean was put at **$135,793,096.28.** N**NPC has recovered the indebtedness.**				
5	**Inconsistency in Pricing Methodology**	At the point of remittance into the CBN-NNPC domestic crude oil (Naira) accounts by NNPC, NNPC based remittance on another valuation report using a revised pricing option which is usually lower than the initial valuation. Pricing methodology was not consistently applied for domestic crude sales leading to a revenue loss of $90.176 million.	Inconsistencies in pricing methodology by NNPC is causing huge revenue loss to the Federal Government of Nigeria.	NNPC should discontinue double valuation practice and apply agreed pricing methodology consistently NNPC should account for the shortfall of $90.176 million due to inconsistent pricing methodology	The practice is to make margin for NNPC. However, it has been discontinued.	Extent of discontinuation of double valuation will be established in the subsequent oil & gas audit. However, NNPC should account for the shortfall.
6		**NNPC deducted first line charge of N60.997 billion** for "Crude and Product Oil losses"; **N112.818 billion** for "Pipeline repairs & maintenance"; and **N316.721 billion** for "Subsidy deduction".	Deduction of subsidy as first line charge from domestic crude sales proceeds contradicts the provisions in the Petroleum Support Fund. Also, other deductions are contrary to section 80(1) of the Constitution of the Federal Republic of Nigeria 1999.	NNPC should adhere to the institutional framework of the Petroleum Support Fund (PSF) which requires, among other things, that all subsidy claims and payment should be drawn from the PSF. Also, first-line deduction should be as appropriated. Also, NNPC should strictly adhere to the	NNPC has special consideration from the Government thereby allowing it to consider first line charge.	NNPC should adhere to prevailing guidelines on subsidy and the Constitution of the Federal Republic of Nigeria as no special consideration or arrangement is above the constitution.

				provision of the constitution of the Federal Republic of Nigeria 1999.		
7	NLNG Loan repayment and interest payment	NNPC received from NLNG, Loan repayment, interest and dividend totaling **$1,076,011,598** which was not paid into the federation account.	Lack of documentary evidence makes verification and reconciliation exercise difficult.	NNPC transferred the sum of **$1,076,011,598** into the federation account.	N/A	All receipts from NLNG should be paid directly into the Federation account and not NNPC Account.
8	Pipeline Transportation Fee	a. NNPC did not populate templates nor confirm receipt of payments made on behalf of other IOCs for Pipeline Transportation Fee by SPDC. There was no trace of such payment in the JV Morgan bank statement either b. The total Pipeline Transportation Fee was $24,609,523, this represented 55% counterpart share of Federation (NNPC) in the SPDC/NNPC Joint Venture infrastructural development of Oil Pipeline. c. These fees were paid directly to NNPC as part of its share of the JV arrangements. d. NNPC did not populate the Pipeline Transportation Fee Template and did not account for the income.	Non population of template by NNPC on Transport Fee makes the validation and reconciliation of payment difficult for the auditors	i. NNPC should reconfirm receipt of $16,477,740.02 and ₦1,597,275,831.11 with documentary evidence. ii. NNPC should populate the template as required by NEITI	N/A	NNPC should take the audit exercise more seriously
COMD						
9	NNPC Pricing of Export Crude Oil	a. The Federation export crude oil monthly Average Selling Price ($) per barrel was	Non-application of pricing methodology for Ebok Crude Type is inconsistent	Consistent pricing methodology should be	a. The case of inconsistency in the pricing methodology relates to	For proper transparency and accountability

		computed using the monthly total of sales and monthly total of quantity (barrels). Therefore, the annual average selling price was **$52.16 per barrel** in 2015 (2014: **$101.91 per barrel**) b. The pricing methodology was consistently applied on the export crude sales except for Ebok crude type lifted by Messrs. Dans Global (one of the NNPC crude oil off-takers) resulting to revenue loss of **$735,724.68 (Schedule of pricing shortfall- Export Crude).**	with other pricing methodology used for others. This is capable of causing revenue loss to Federation.	used for all Export Crude Sales.	Ebok crude type lifted by Messrs. Dans Global (one of the NNPC crude oil off-takers). Considering the crude oil price valuation carried-out, the unit price was **$53.776 while t**he Bill of lading quantity of the cargo was **624,189 barrels** and total value of **$33,566,387.66**. However, the company had remitted **$32,830,731.98** to the Federation account at an out turn quantity of **610,609 barrels** based on the out turn report[1] from the independent inspectors and the GMD approval to use net out turn volumes. COMD thereafter issued a valuation after receiving DPR position on the out turn.	consistent pricing methodology should be used for all Export Crude Sales.
10	NNPC Pricing of Domestic Crude Oil	**a. 153.24 million barrels** of domestic crude oil was sold in 2015 and NNPC delivered 37% to PPMC as unprocessed crude being exported; 57% as offshore processing; and 6% as Refineries deliveries. NNPC treated this as 100% Sales to itself- hence acting	Inconsistent pricing methodology is capable of causing huge revenue loss to the federation	i. Consistent pricing Methodology should be used ii. NNPC should account for the revenue shortfall of **N4.024 million**	a. The practice of double valuation vis-à-vis retaining margin has been stopped based on the disposition of the current administration.	This will be confirmed in the next audit. NNPC should account for **N4.024 million** in term of revenue loss

[1] Detailed report prepared by the discharging terminal to record discrepancies in the form of over, short and damaged cargo as manifested and cargo checked at a time and place of discharge from ship.

		as both Seller and Buyer of the Federation Crude. **b.** NNPC is expected to pay for domestic crude lifted into CBN-Crude Oil & Gas Revenue – Naira Account. **c.** On monthly basis, NNPC transfers into the bank account a lump sum which CBN typically describes as ***"Multi Credit Entry - Transfer of NNPC Fund from pool account to Oil & Gas Account".*** **d.** On aggregate, the total dollar equivalent for the year under review was **$7.775 billion (i.e. N1.505 trillion)** based on exchange rate of **N167** in January, **N195.58** in February **(as against N197 CBN buying rate)**, **N196 in** March to June**, N195.95 in** July **(as against N196 CBN buying rate)**, **N196** in August, **N196 in** September, **N195.95 in** October **(as against N195.98 CBN buying rate)**, **N196** in November and **N195.97 in** December **(as against N196 CBN buying rate).** The inconsistent application of CBN exchange rate, owing to NNPC not converting on the date of invoice but aggregating all Dollar invoices for the month and converting at an average exchange rate, led to under payment of **N4.024 million** ***(Schedule of converting***				for 2015 Oil and Gas Audit.

		aggregated monthly dollar invoices into naira) **e.** All transfers into CBN NNPC Domestic Crude Oil Revenue (Naira) Account are made net of Crude & Product oil losses, pipeline repairs & maintenance; and subsidy deduction. **N60.997 billion** accounted for "Crude and Product Oil losses"; **N112.818 billion** accounted for "Pipeline repairs & maintenance"; and **N316.721 billion** accounted for "Subsidy deduction". **f.** At the point of remittance into the CBN-NNPC domestic crude oil (Naira) accounts by NNPC, NNPC based remittance on another valuation report that used a revised pricing option which was often lower than the initial valuation. By implication, the pricing methodology was not consistently applied leading to a revenue loss of **$90.176 million**. Therefore, Nigeria failed to realize revenues from crude sales in a manner consistent with market conditions with respect to sales to NNPC and its subsidiaries.				
11	Federation Export Crude Sales i. Total crude oil lifting volume	The total lifting profile for the federation for the period under review 2015 was **780.429 million barrels** out of which **40.15% (i.e. 313.336 million barrels)** was NNPC entitled lifting. NNPC under lifted	Under lifting of Export Crude Sale by NNPC is capable of causing huge financial loss to the Federation as un-lifted barrels may be	NNPC should lift fully the allocated barrels and any under-lifted should be adequately declared with full documentation.	NNPC did not under lift its equity by 15.317 million barrels, this is the volume lifted by NNPC on behalf of NPDC from Brass Terminal	NNPC, in its submission, did not indicate that the 15.317 million barrels included in federation lifting profile belongs to

		15.317 million barrels (i.e. 313.336 million barrels indicated by 2015 NNPC-COMD lifting profile from aggregated streams indicated what NNPC lifting was as against 298.018 million barrels indicated in the COMD lifting profile by beneficiary accounts). See Section 6.2 of the Report for more details.	diverted and unaccounted for.		as its equity from the divested NAOC JV.	NPDC. However, NNPC should always reconcile the NNPC COMD lifting profile from aggregated streams with the NNPC COMD lifting profile by beneficiary accounts, and disclose the reasons for discrepancies. Furthermore, there was inconsistency between the COMD lifting profile by beneficiary accounts and the COMD actual lifting/sales profile. See Section 6.2 of the Report for more details.
CBN						
12	NESS FEES	a. CBN used PIA and MEA's Report to populate NESS template b. Based on CBN available record, a total of 88 oil companies with Nigerian Export Proceeds Form Number (**NXP Number**) exported 544,871,473 bbl. of crude oil with FOB value of $28,707,865,543. The concerned companies paid a NESS fee of ₦4,220,387,234	• Non-availability of Bank Statement by CBN has made validation and reconciliation difficult for the Auditors • The non-availability of NXP number hinders efficient tracking of payments.	i. For subsequent Audit, CBN should populate NESS Fee Template using the bank statements. ii. New Ness Fee templates should be designed for other stakeholders in the NESS scheme chain such as Department of Trade, Federal Ministry of Finance,	N/A	The outstanding amount should be recovered from the concerned companies

		as against ₦ 6,690,155,992 payable, leaving an outstanding liability of ₦ 2,469,768,758 payable by these companies. Appendix 16 A contain list of companies with NXP Number alongside their liability. c. A further review of CBN available record showed that, a total of 39 oil companies have no NXP Number. The 39 companies exported 231,712,199 bbls of crude oil with a FOB value of $**11,885,814,632**. They paid a NESS fee of **₦587,396** against **₦2,793,767,675** payable, leaving an outstanding liabilityof ₦ **2,793,180,279**. Appendix 16 B contains list of companies without NXP No alongside their liability. d. NESS fee payment status.		Pre-Shipment Inspection Agents (PIA) and Monitoring and Evaluation Agents (MEA). iii. Collecting Banks should ensure that no exporter's form is processed without NXP Number. iv. Future audit should cover transactional cost for running the NESS Scheme.		
13	Unclassified entries	a. There were numerous unclassified payments in CBN templates which could not be substantiated by CBN, due to incomplete narrations i.e Gas revenue **$22,555,946.58,** PPT **$1,524,579,941.00**	Non-or wrong classification of payments by CBN has made reconciliation difficult and it is capable of causing financial loss to the Federation.	Efforts should be made by CBN to direct banks to ensure that when payments are to be transferred there should be adequate narration. Similarly, monthly reconciliation should be carried out by the bank and relevant agencies.	N/A	CBN should ensure proper classification and regular reconciliation of payments with covered entities.
NAPIMS						

14	Non-Cash Call Expenditure	• $**597,861 million** being non-cash call expenditures were not budgeted for nor were they tied to any specific JV operator or projects. • The non-Cash Call transactions of $597.86million were funded from both the CBN/NNPC JP Morgan Chase Cash Call Dollar Account and CBN/NNPC JV Naira Cash Call account. • The sum of $238.058 million was collected as 3% Administrative Fee by NAPIMS.	Incurring Non-Cash Call expenditure from Cash Call Account may lead to double payments and fund diversion by the operators of the account	i. Subsequent expenditures should be funded from NNPC overhead budgets and not the cash call budget. ii. Payment for security expenditure amounting to US$307.83million made to Nigerian Intelligence Agency and Nigerian Navy should be discontinued forthwith and future request for security funding for oil and gas facilities should be funded from the National Defense budget so as not to put unnecessary pressure on cash call cash flows.	N/A	Cash Call account should be strictly used for Cash Call Expenditure and all other expenditure should come from NNPC normal operational expenses as per the budget.
15	NAOC and SPDC Divestment of Assets to NPDC	• There is an outstanding liability of $**1.954billion** to be paid by NPDC	This has led to loss of revenue to the federation	The outstanding amount should be paid, within the time frame given.		
NDDC						
16	NDDC Levy	a. The total contribution from the covered entities for the year under review was $ **345,390,279** b. There was an unreconciled sum of **₦175,000,000 ($890,902)** being payment made by Sterling Oil Exploration. The audit revealed that Sterling paid the naira equivalent of	Lack of regular reconciliation of NDDC Levy payments with companies may lead to huge financial loss to the Federation	i. Sterling and NDDC should reconcile the identified difference of **$890,902** ii. NDDC should embark on an aggressive revenue recovery drive to recover outstanding levies from	N/A	Regular reconciliation, aggressive recovery of outstanding levies is absolutely necessary.

		$890,902, which was not traceable to NDDC bank account		entities in line with its establishment Act.		
DPR						
17	Signature Bonus	i. For the period under review, payments totaling $902,722,250 which were made by companies as premium for license renewals were credited into the signature bonus account. ii. An unreconciled difference of $**3,000,000** was observed from payments made by Mobil Esso and Atlas.	Lack of regular reconciliation of Signature Bonus payments is capable of causing huge financial loss to the Federation	i. there should be proper classification of payments. ii. The next audit should follow up on reconciling the difference in signature bonus	N/A	Atlas should Reconcile all outstanding payment
18	Royalty Gas	I. The audit established an outstanding liability of **$65,574,833.37** for Royalty Gas against 8 companies namely; Eroton, Chevron, AITEO, SNEPCO, NPDC, Frontier, Pan-Ocean and SEPLAT	This has led to revenue loss	DPR should recover this outstanding amount.		
19	Royalty Oil	a. Differences in oil royalty computation by AITEO and MONI PULO b. The outstanding liability for Royalty Oil was **$393,756,482** which was as a result of under assessment or late payment	If the differences are not promptly reconciled, the Government may loserevenue	It is recommended that an approved "automated royalty computation template" be used by both the DPR and the auditor at all times. In addition, the DPR should always disclose the price used in the computation	N/A	Regular reconciliation is necessary

		c. Unresolved operational depth of SNEPCO which result to variance in royalty calculation by the entity and DPR		of royalty in the royalty reconciliation sheet signed with the entity • This issue should be resolved, whereby both party hold a tripartite meeting to address the lingering issue.		
20	Gas Flare Penalty	I. the following entities; Allied Energy, Atlas, Britannia U, New Cross, Prime E&P and Sheba E&P did not provide gas production data II. The current gas flared penalty charge at 10/1000mscf has not served as a deterrent to gas flaring by companies. If the FEC approved rate of 3.5$ per 1000mscf had been applied in 2015, gas flared penalty would have been III. **$1,111,252,625** as against the actual collection of **$ 12,683,078**, meaning an extra **$1,098,569,547** would have accrued.	- The gas flaring penalty is not sufficient deterrent to the companies to stop flaring Gas - The Federal Government is losing huge revenue on the Gas Flared	i. The new policy on minimal flaring as approved by the Federal Executive Council should be fully implemented, this will lead to a reduction in pollution rate and enhance government revenue from increased utilization of gas hitherto flared. ii. The new policy on minimal flaring as approved by the Federal Executive Council should be fully implemented, this will lead to a reduction in pollution rate and enhance government revenue from increased utilization of gas hitherto flared.	N/A	

		IV. The outstanding gas flared liability was **$11,536,597**		ii. Covered entities should be encouraged to provide relevant data as at when due to ease reconciliation. v. DPR should ensure that all applicable gas flared liabilities are paid by the operating companies v. Government should enforce the new gas flared regime to deter gas flared on the one hand and promote investment in gas utilization and infrastructure development		
FIRS							
21	Pioneering Status for: Shoreline Natural Resources, Neconde Energy, ND Western, Platform, Newcross, Elcrest, ORIENTAL, NDPR	• 8 entities were granted tax holidays for five (5) years straight instead of the normal three (3) years at first instance, and thereafter additional two (2) years after satisfying conditions set by the NIPC for the first grant.	This will lead to revenue loss	i. In order not to abuse the process, NIPC should adhere to the rules and guidelines on granting companies pioneer status. ii. NIPC should collaborate with	N/A	There should be strict adherence to the IDA Act

				FIRS on the update of companies granted pioneer status. iii. Only qualifying companies should be granted pioneer status relief and not bought over companies.		
22	PPT Fiscal Pricing Liability by 4 Entities	• the Crude oil fiscal value shows a liability of **$3,414,400**	This will lead to revenue loss	i.All associated liability should be recovered	N/A	
23	Non-Payment of PPT by indigenous oil and gas companies	• Most of the indigenous operating companies default in the payment of PPT payments	This will lead to revenue loss	i. FIRS should carry out tax audit of these defaulting companies	N/A	
24	Lack of Effective and Efficient National Pipeline Grid.	i. Vandalization of oil pipeline (both Crude and Refined Oil) at trans-forcados,, Brass, Membe creek, Bonny and Escravos. ii. Rampant oil theft. iii. Incessant disruptions of oil production. iv. Non-functional refineries. v. Congestion of oil tankers at Apapa tank farm and attendant risks.	Lost of revenue and environmental degradation	i. The national pipeline grid should be upgraded and policed adequately using state of the art technology such as Distributed Acoustic Sensing (DAS) and miniature drones.	N/A	
25	NNPC acting as a player and regulator in the oil and gas sector.	i. NNPC not asserting its position with JVs especially in profit sharing thereby	i. This has led to revenue loss and	i. Unbundling and restructuring NNPC	N/A	

		causing huge loss for the Federation ii. Discrepancy in COMD and DPR Records iii. NNPC not asserting its position with JVs especially in profit sharing thereby causing huge loss for the Federation. This is evident with NNPC not signing off production records bearing in mind the are expected to protect government interest.	inefficient resource management ii.	into a more accountable and transparent organization. ii. There should be delineation of function of regulatory and commercial activities of NNPC. iii. The Federal Government should establish a new organization that will be saddled with the responsibility of monitoring stakeholders in oil and gas industry. iv. There should be replacement of OPAs/SWAPs with direct-sales and direct-purchase.		

				v. Replace cash call with introduction of 3rd party financing.		
26	Petroleum Industry Bill (PIB) 2017	The PIB was passed by the Senate on 26th May 2017 and yet to be passed by the lower chamber. A review of the bill shows the following findings: i. Issue of Health, Safety and Environment is conspicuously missing. ii. Petroleum Equalization fund was provided for in the bill but the Management of the Fund was not adequately discussed. iii. The responsibility of regulating both Upstream and Downstream was combined and given to Nigeria Petroleum Regulatory Commission	The passage of the bill without taking into considerations these salient issues will result to future agitation by the Niger Delta.	**i.** Before the Bill is finally passed in to law by both legislative chambers, the issues of environment should be adequately addressed in view of recent happenings in Niger Delta and other oil producing areas. **ii.** The Management of Petroleum Equalization Fund should be given to private sector as done with pension fund. **iii.** There should be separate regulatory authorities for Upstream and Downstream as it is done in Ghana	N/A	

	Inconsistent production, lifting records by DPR, COMD and Companies	i. The audit revealed that there are inconsistencies in the record maintained by COMD, DPR and the Companies. A review of NNPC, DPR and Company records shows a variance in the production record by stream. While NNPC record indicate that the total production in 2015 was to 780,368,299 bbls, DPR record indicate a total of 780,830,568 bbls and company's record indicate 771,197,855 bbbls. ii. The company's position is the sign off position which is in most cases less that their internal production records as used in their filling with FIRS.	This is an indication of inefficient system and loss of revenue.	**i.** DPR should carry out real time monitoring of the system. **ii.** COMD should be involve in reconciliation sign off **iii.** Reconciliation should be done timely	N/A	