

Nigeria Extractive Industry Transparency Initiative (NEITI) And Civil Society: The Audit Issues And Challenges

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Abstract

Opaqueness, criminal confidentiality, institutionalized stealing, corruption and outright revenue embezzlement has characterized our extractive industry to the extent that over the years, majority of Nigerians had no idea how much money companies pay to their government and how much government also receives from the companies for doing business in the extractive sector. This has become a matter of serious national concern hence the establishment of NEITI. The study examined NEITI and civil society, the audit issues and challenges. The study employed a content-analysis methodological approach while Elite theory was applied. This is justified because it is among the few theories that can conveniently match our topic. Elite theory is of the view that society is divided into the few, who have power and the many who do not, emphasizing that only a small number of persons allocate values for society and that the masses do not decide policies. The Elites are drawn disproportionately from the upper socio-economic strata of society where they lord on the masses for their own selfish interest. The work discovered gagging clauses in License agreements between Nigeria government and multinational companies in Extractive Industry business which prevented disclosure of key financial data as is required by law in every developed country which made the involvement of civil society in Extractive Industry business imperative. This is because unless and except Nigerians understand what NEITI is all about, how it works, the benefits, policy goals and what needs to be done to make the initiative grass-root-oriented and people-centred, it would be quite difficult to achieve the desired buy-in and institutional support. This is why the involvement of civil society in NEITI activities is seen as a development out of necessity. Finally, the study made some vital recommendations that will lead to, transparency and accountability in Extractive Industry business in Nigeria.

Key Words: Extractive Industry, Transparency, Initiative, Civil Society, Issues, Challenges

Introduction

Over the years, majority of Nigerians had no idea how much money companies pay to their government and how much government also receives from the companies for doing

business in the extractive sector. In most cases even some of those in government have little or no verifiable information on what companies pay or are expected to pay. They may also not know if what they receive is what they ought to receive from the companies. As Ahmed (2005) noted, it has been difficult for an average Nigerian to explain why revenue from abundant natural resources has not translated into sustainable development. Poor information flow in the extractive sector in Nigeria is believed to be one of the reasons for poor social infrastructure, poverty, and corruption. Consequently, in November 2003, the Federal Government signed up to the Extractive Industries Transparency Initiative (EITI). This laid the foundation for the birth of Nigeria Extractive Industries Transparency Initiatives (NEITI). As Asobie (2005) correctly noted NEITI was formed in order to ensure that huge revenues accruing to government from payments made by extractive industry companies are managed transparently to promote development, and reduce poverty.

The underlying philosophy of NEITI is the belief that strengthened transparency of natural resource revenue can reduce corruption, transform economics, reduce poverty, and raise the living standards of entire populations in resource countries. Nigeria's voluntary decision to embrace the Extractive Industry Transparency Initiative was in the context of the comprehensive socio-economic reform programme embarked upon by the federal government in 2003. The reform programmes embedded under the National Economic Empowerment Development Strategy (NEEDS) focused on four main areas. These are improving Nigeria's macroeconomic environment; pursuing structural reforms; strengthening public expenditure management and implementing institutional and governance reforms (FAN, 2003). Arising from the foregoing are therefore. The following questions which this study tends to raise and address:

1. What is NEITI all about?
2. What will Nigeria gain from NEITI implementations?
3. Has the impact of NEITI contributed in any noticeable manner to poverty reduction in Nigeria?
4. What are the roles of Civil Society in implementation of NEITI?
5. What are the challenges confronting NEITI?

Methodology

This work adopts a documentary approach because we are dealing with issues that concerns financial documentation. As an exploratory field research we assembled mass data from Nigeria National petroleum Cooperation; Central Bank of Nigeria; Department of Petroleum Resources; Petroleum Pricing Regulatory Agency; Nigeria Extractive Transparency initiative offices, etc distilled these data through content analysis. Through this analytic process we compared the information obtained with the reality on ground in order to ensure the validity and reliability of data accessed.

Theoretical Framework

The Elite Theory

The theoretical framework used in this work is the Elite theory. The Elite theory was made popular by scholars such as Pereto, Mosco, Michels and C. Wright Mills, to name just a few of them. Simply put, the elite theory posits that policies represent the preferences and values of the governing or political elites.

The basic proposition of the elite theory, according to Varma (1975), is that every society consists of two broad categories. The first category is the selected few, who are capable and therefore possess the right to leadership. The second category is the vast majority of people who are “mechanized” and “destined” to be ruled. The first class or category performs all political functions, monopolises power and enjoys all benefits associated with power, the second category is directed and controlled by the first in a manner that Bottomore (1964:9) said is “now more or less legal, more or less arbitrary and violent”.

The above submission is the basis of the postulations of Pareto (1939) in Varma (1975) that every society is ruled by a minority that possesses the quality necessary for its accession to full social and political power, Pareto simply emphasizes the inequality of individual endowment in every sphere of social life; as the basis of his definition of governing elite, defined in terms of individuals who directly or indirectly play key roles in government. As Bottomore (1964) cite in Ntete-Nna (2004) noted, Pareto is concerned with elites in the sense of groups of people who either exist directly or are in a position to influence in very strong terms, the exercise of political power. On the social scale, Pareto (1939) cited in Varma (1975) believe that the elites consists of those who rise to the top in every occupation or human endeavours, and therefore states that “there is elite of lawyers, an elite of mechanics and even elite of thieves and elites of prostitutes.

Application of the Theory

We use this theory because it is among the few theories that can conveniently match our topic of the study and also explain the realities on ground as regards the role of civil society in NEITI activities. Elite theory views society as closed, pyramidal and composed of the few who rules and the majority who are ruled (Ntete-Nna, 2004). The dominant argument is that the large masses of people are too disorganized, atomized, apathetic, mechanical, ill-informed and therefore are incapable of understanding the most rudimentary element of policy making and political process. This leadership is entrusted in the elites, who are cohesive, organized and has the capacity to exercise political power.

Therefore, political power resides in the hands of a few people who occupy the leading positions in the corporations, the professions, the armed forces, political parties and various branches of government. These constitute what is referred to as the power elites. The power elites, whether in developed or developing societies, tend to equate their beliefs and interests with those of the groups and communities to which they belong (Egonwan, 2000:70). The power elites insist that consensus of interests is represented by them. This is probably why Mosca (1939) cited in Varma (1975:147) believes that in every society, the governing elite tries to find moral and legal basis for its being in the citadel of power and represent it as the logical and necessary consequences of the doctrines and beliefs that are generally recognized and accepted.

In the final analysis the theory will help us to examine the role of civil society in implementation of NEITI activities because of the following issues which the theory explains, namely;

- ✓ Society is divided into the few, who have power and the many who do not. Only a small number of persons allocate values for society, the masses do not decide policies.
- ✓ The few who govern are not typical of the masses that are governed. Elites are drawn disproportionately from the upper socio-economic strata of society.
- ✓ They movement of non-elites to elite positions must be slow and continuous to maintain stability and avoid revolution Only non-elites who have accepted the basic elite consensus can be admitted to the governing circles;
- ✓ Elites share consensus on behalf of the basic values of the social system
- ✓ Policy does not reflect the demands of the masses but rather the prevailing values of the elite. Change in decision will be incremental rather than revolutionary and
- ✓ Active elites are subject to relatively little direct influence from apathetic masses. Elites influence masses more than masses influence elites.

What is NEITI all About

The Nigerian Extractive Industries transparency Initiative (NEITI) occupies an important place in Nigeria's socio-economic reform agenda. According to Asobie (2005) it represents a national domestication of the global extractive industries transparency initiative (EITI) aimed at people centred development. The NEITI, Ezekwesill (2005) noted, is the Nigerian subset of a global initiative aimed at following due process and achieving transparency in payments by Extractive Industry (EI) companies to government and government linked entities. The underlying principle of the NEITI is the belief that sustainable development which encapsulates eradication of poverty is possible in resource rich countries which are often victim of "resource curse" but it is only possible when the government of resource rich countries recognize that it is their sovereign duty to manage their country's resource wealth for the benefits of all their citizens.

The vision of NEITI is accountable, effective, well resourced and result-oriented economy while its mission is to cultivate a culture of transparency, accountability, due process and zero- tolerance for corruption in Nigeria's extractive industries, for the benefit of the citizenry (NEITI Handbook 2012). Consequently, the goal of NEITI is to empower the citizenry with information and data to hold government and extractive industry companies accountable and strengthen participatory democracy. Hence, the primary objectives of NEITI are:

1. To ensure due process and transparency in the payments made by all extractive industry companies to the federal government and statutory recipients.
2. To monitor and ensure accountability in the revenue receipts of the federal government from extractive industry companies.
3. To eliminate all forms of corrupt practices in the determination, payment, receipts and posting of revenue accruing to the federal government from extractive industry companies.
4. To ensure transparency and accountability by government in the application of resources from payments received from extractive industry companies.
5. To ensure conformity with the principles of extractive industries transparency initiative.

NEITI is founded on the faith that transparency in revenue management coupled with the principles and practice of accountability, by government to all citizens constitutes the hallmark of good governance. It is to ensure that hung revenues accruing to government from payment made by extractive industry companies are managed transparently to promote development and reduce poverty. More specifically, NEITI is to ensure that all payments due to the federal government from all extractive industry companies are duly made. It is also to ensure that all fiscal allocations and statutory disbursement due from the federal government to statutory recipients are duly made.

What are the Benefits of NEITI to Nigerians?

According to Ahmed (2012), there are several broad benefits that accrue to Nigeria for establishing NEITI. First, Nigeria benefits from the creation of a new consensual framework for reporting and disclosure of payments and receipts in the extractive industry sector.

Secondly, by introducing NEITI extractive industry, sector is now becoming open for public participation and scrutiny.

Thirdly, and as Ezekwili (2005) noted, there is widening acceptance of the necessity for due process, coupled with transparency in the payments made by the extractive industry companies to government and other recipients. In addition, there is growing acceptance of the imperative of promoting accountability and ending corruption in revenue payments and receipts in the extractive industry sector.

Fourthly, NEITI as part of overall government economic reforms agenda has clearly pointed the way on how to increase the revenue accruing to the federation account. As a follow up to the first NEITI audit, the NEITI secretariat, aided by the oil and Gas unit of the federal ministry of finance did some computations on its own and helped to recover a sum of about one US billion dollar that would have been lost.

Fifthly, following the audit findings on the governance and process lapses in the oil and gas sector, the federal government of Nigeria ordered a comprehensive remediation of strategic plan. NEITI was mandated by the government to prepare the remediation plan under the supervision of an inter-ministerial task team (IMTT). The IMTT include the Central Bank of Nigeria (CBN); the Nigeria National Petroleum Corporation (NNPC); the Federal Inland Revenue Service (FIRS); the Office of the Accountancy General of the Federation (OAGF); the Department of Petroleum resources (DPR); the revenue mobilization, Allocation and Fiscal Commission (RMAFC) etc. NEITI chairs the committee and their activities centres on accountability in revenue generation and utilization in Nigeria.

Seventhly and as Asobie (2011) noted, the establishment of NEITI helps governments to attract increased inflow of direct foreign investment and to secure the support and cooperation of global enterprises. Eddle Rich (2011), equally noted that through NEITI, Nigeria nation gain international recognition, improve their international credit rating and their collection systems. In the final analyses, NEITI promotes transparency and accountability around payments made by Extractive industry companies and revenues received by governments. NEITI is created basically to promote sustainable development and eradicate poverty in natural resources.

Has The Impact Of NEITI Contributed To Poverty Reduction In Nigeria?

Having seen the benefits Nigerians derive from establishing NEITI, the next question to ask is has the impact of NEITI contributed in any noticeable manner to poverty reduction in Nigeria? The impacts of NEITI in poverty reduction are as follows.

The first, is through the core function of disclosing and publishing company payments and government receipts of revenues from the oil and gas sector. As Asobie (2007) noted through NEITI, the government and people of Nigeria have been empowered to demand their rightful share from the federation account in accordance with the law.

Secondly, NEITI encourage and assists the people of Nigeria to organize themselves in order to more effectively hold their governments to account through informal and constructive debates on revenue management of the extractive sector.

Again, through its financial, physical and process audits, the NEITI monitors and publicizes the extent to which gas penalties imposed as a result of flaring of gas indiscriminately are paid by oil and gas companies, and the degree to which the penalties serve as disincentive to continued gas flaring in the Niger Delta.

Peter Voser, Chief Executive officer Royal Dutch shell plc, in his address to the National conference of the NEITI, 2011 pointed out in unmistakable terms about the impact of NEITI in poverty reduction when he said what we like about NEITI is that it can drive positive changes in countries and help governments to serve their communities and citizens well. The reports published by the Nigerian NEITI have had a positive impact in terms of disclosure of payment data that had never been publicly disclosed before. They have also provided useful feedback to the government revenue agencies about the effectiveness of their revenue collection processes, allowing for improvement to be made.

In a goodwill message by the Nigeria's country partnership between the world bank and the UK Department for International Development (DFID) delivered by Charles McPherson of the world bank to NEITI conference in port-Harcourt, 27-28 July 2005 he x-rayed the potentials of NEITI in enthroning good governance and by extension in poverty reduction. According to him, NEITI has always had a very clear idea of the power of transparency to contribute to development through improved macro-economic management; improved access to finance; improved democratic debate on public participation in the setting of development priorities; and finally through enhanced accountability-a fundamental building block for good governance will be established. This will provide the enabling environment for poverty reduction.

Similarly, NEITI Executive Secretary, Zainab Ahmed brought out the benefits of NEITI more clearly when she said: the underlying philosophy of NEITI is the belief that strengthened transparency of natural resources revenue can reduce corruption, transform economics, reduce poverty, and raise the living standards of entire populations in resource-rich countries.

The Role of Civil Society in the Implementation of NIETI

According to NEITI (2012), the role of civil society is key and unique from the elementary stage of sign-up through preparation to the critical stage of disclosure through dissemination to the stage of validation. In each of these stages civil society roles are

critical, crucial, strategic and indispensable. As the eye of the larger society, the civil society can be described as the KAP agents in the society (Knowledge, attitude and practice). According to Asobia (2011) Civil Society represents the conscience of any society.

They serve as channels to concretize, create awareness and educate their various members and the society at large on relevant issues-prerequisites to fulfill the NEITI agenda. They serve as agents and tools for the sensitization and mobilization of their members as well as other stake holders in the society on the essence of accountability and probity and the demand for these attributes.

The civil society organizations would also serve as channels to promote positive attitudinal change towards the demand for probity, accountability and transparency in oil and gas transactions in Nigeria.

They constitute an invaluable tool to build the capacity of communities to hold leaders and the business community accountable in both the acquisition and disbursement of revenue from oil and Gas transactions. If adequately informed, educated and enabled they would serve as budget and system watchers to ensure compliance with prescribed norms and or procedures i.e. due process, transparency in transitions and utilizations of resources.

Most members of the civil society organizations are usually more educated than their peers in the community and therefore they can serve as effective communication channels between NEITI and the community members majority of whom may not have access to both print and electronic media and may be illiterate also.

Civil society groups constitute essential advocacy agents towards effective societal mobilization and participation. Ketebu-Nwokearfor (2005) had earlier argued that for NEITI to realize the mission, goals and objectives of transparency and accountability, civil society organization will be indispensable. This was admitted by the Executive Secretary of NEITI Zainab Ahmed who affirmed that NEITI has relied over years on aggressive but well informed civil society and support to engage government and companies in all of its activities.

These tallies with the views of Asobie (2011) that as result of civil society organizations, information in the oil and gas industry in Nigeria is gradually becoming available for debate, discussion and dialogue in the media, within the civil society circle, the legislature and the public domain.

It was through the activities of the civil society that the following audit was carried out

1999-2004 NEITI Audit Report at a Glance

Table 1: Aggregate Financial Flows

Items	Amount U\$\$	%
Crude Oil Sales	27,345	66.5
Petroleum Profit Tax	9,349	22.7
Royalty	4,374	10.7
Penalty for Gas flaring	31	0.01
Total	41,099	100

Source: NEITI Handbook P. 39

Table: 2 Financial Flows-Differences by Source

Items	Payment by Oil Companies A	Received by CBN B	Differences C=B-A
Crude Oil Sales			
Petroleum profit Tax	8,925	9,349	424
Royalty	4,376	4,374	(2)
Penalty for Gas flaring	32	31	(1)
Total	13,333	13,754	421

Source: NEITI Handbook P. 39

Two revenue agencies of government namely, the Department of Petroleum resources and the Federal Inland Revenue Service (FIRS) respectively assess the PPT and Royalties/Gas Flaring penalty. However, our investigation reveals that the yardsticks/criteria being employed by both agencies are quite at variance with that used by the operators. The cumulative effects of these differences are outlined in table 3 below.

Table 3: Cumulative Effects of Differences

Items	Amount US\$ Payment by Oil Companies	Amount US\$ Received by CBN	Amount US\$ Differences
Petroleum Profit Tax	170,5	5,975	5804,5
Royalty	4,375	4374	2.0

Source: NEITI Handbook P. 39

Despite significant difficulties, Central Bank of Nigeria's tax and royalty receipts were largely reconciled with producers' payments. Discrepancies totaled less than \$16 million, around 0.02% of total flows over the seven years.

2005 NEITI Audit Report at a Glance

FINANCIAL FLOWS TO THE FEDERATION ACCOUNT			
Table 1: Aggregated Oil-Related Financial Flows To The Federation			
The amount received in 2005 by the Federation from the specified companies and in respect of the identified classes of financial flows were as follows:			
	Reported by Companies	Reported by CBN	Difference
	U\$000	U\$000	U\$000
Petroleum Profits Tax	10,638,047	10,396,176	241,871
Reserves Additional Bonus	-	65,292	65,292
Royalty	4,357,491	4,679,468	-321,977
Gas Flare Penalty	18,605	28,909	-10,304
Sub-Total	15,014,143	15,169,845	155,702

Signature Bonus	90,025	-	90,025
Company Income Tax	55,595		
Total	15,159,763	15,169,845	65,677
Analysis			
IOC-Companies	14,526,960	14,519,150	7,810
Other Companies	577,208	585,403	-8,195

Source: NEITI Handbook P. 40

Our investigations from the documents we assessed reveals that the Company Income Tax receipt could not be confirmed by CBN due to the way in which the system of tax collection operates, without distinguishing oil and gas payments from other payments. Accordingly, we do not identify any 'difference' against CIT.

TABLE 2: NEITI 2005 FINANCIAL AUDIT SHOWING ROYALTY

The Royalty payments recorded by CBN and the royalty payments recorded by the companies are shown in the table below, together with the net difference from CBN records

Royalty-IOC Owned Companies	Reported by Companies	Reported by CBN	Difference
	U\$000	U\$000	U\$000
Chevron Nigeria Limited	542,614	547,509	(4895)
ConocoPhillips	129,897	132,330	(2433)
ELF petroleum Nigeria Limited	735,900	997,455	(261555)
ELF Petroleum Nigeria Limited(gas)	2,807	2,773	34
Mobil Producing Nigeria Limited	964,573	964,573	-
Nigerian Agip Oil Co. Ltd	327,598	334,801	(7203)
Pan Ocean Oil corporation	36,225	40,077	(3852)
Shell Petroleum Development Co. Ltd	1,179,735	1,179,834	(99)
Total	3,919,349	4,199,352	(1280003)
Royalty-other Companies	Reported by Companies	Reported by CBN	Difference
	U\$000	U\$000	U\$000
Amni International Petroleum Ltd	3,654	3,779	(125)
Atlas petroleum International	608	608	
Cavendish petroleum Nigeria Ltd			
Conoil Producing Ltd	9,611	201,826	(192215)
Continental Oil & Gas	170,600	95,482	74118
Dubri Oil Co Ltd	1,492	1,352	140
Express Petroleum & Gas Co. Ltd			
Moni Pulo Ltd	49,843	63,882	-14,039
Nigeria Petroleum Development Company	202,334	112,187	90147
Brass Exploration Unlimited			
Total	438,142	480,116	(41974)
Analysis			
IOC Owned Companies	3,919,349	4,199,352	(280003)
Other Companies	438,142	480,116	(41979)

Source: NEITI official documents.

TABLE 3: AGGREGATED OIL-RELATED FINANCIAL FLOWS TO THE FEDERATION ACCOUNT

The amount received in 2005 by the federation from the specified companies and in respect of the identified classes of financial flows were as follows:			
	Reported by Companies	Reported by CBN	Difference
	U\$000	U\$000	U\$000
Petroleum Profits Tax	10,638,047	10,396,176	241,871
Reserves additional Bonus	-	65,292	65,292
Royalty	4,357,491	4,679,468	321,977
Gas Flare Penalty	18,605	28,909	10,304
Sub-Total	15,014,143	15,169,845	155,702
Signature Bonus	90,025	-	90,025
Company Income Tax	55,595		
Total	15,159,763	15,169,845	65,677
Analysis			
IOC-owned companies	14,526,960	14,519,150	7,810
Other Companies	577,208	585,403	8,195

Source: NEITI official documents

Despite all efforts we made, it is important to point out that the Company Income Tax receipt could not be confirmed by CBN due to the way in which the system of tax collection operates, without distinguishing oil and gas payments from other payments. Accordingly, we do not identify any 'difference' against CIT.

PHYSICAL AND FINANCIAL FLOWS:**1. Physical Flows****Table 1:** Average daily Production during the period 2006-2008

Year (mbbls)	2006	2007	2008
Average daily production	2.35	2.20	2.09

Table 2: Total Lifting reported by lifting companies

Year (mbbls)	2006	2007	2008
NNPC	417.89	381.82	406.18
Other companies	443.00	427.45	358.15
Total lifting	860.89	809.27	764.33
Total Production	858.20	801.87	765.25

Source: NEITI open Audit book P. 23

Table 3: Federation share utilization

Year (mbbls)	2006	2007	2008
Exported by the Federation	263.04	224.51	242.53
NNPC Domestic crude allocation	154.85	157.31	163.66
Total	417.89	381.82	406.18

Source: NEITI open Audit P.23

During the period, total annual production fell by about 100 million barrels, but the proportion of production coming from the new contractual arrangements (PSC) increased, while the proportion from joint venture operations declined. The refineries utilized only 101.36 million barrels (21%) of the domestic allocation for the period 2006-2008, and the balance (374.46 million barrels 79%) was exported. Yet there was little evidence to show.

2. Physical Flows

Table 4: Financial inflows to the Federation from the Oil Industry

Year (US\$m)	2006	2007	2008	Total
Federation	44,314.60	43,301.30	59,773.30	147,389.20
States	111.50	183.00	258.20	552.70
Contributions to NDDC	261.00	297.00	333.00	891.00
Total	44,687.10	43,781.30	60,364.50	148,832.90

Source: NEITI open Audit P. 24

Table 5: Cash Calls:

Year (US\$m)	2006	2007	2008	Total
Financed from oil receipts	4,175.00	4,451.00	4,955.00	13,581.00
From BIS	213.00	1,300.00	26.00	1,539.00
Total	4,388.00	5,751.00	4,981.00	15,120.00

NEITI open Audit P. 24

The above tables show that in addition to amounts taken from oil receipts during 2006-2008, cash calls were settled by direct funding totaling \$1, 539m from the Bank of International Settlement, Switzerland during the period 2006-2008.

The Issues arising From the Audit carried out by NEITI on NNPC.

1. The audit established that NNPC owed the Federation for domestic crude oil the sum of N842.7 billion as at 31st December 2008 which comprised 389.4 billion for domestic crude oil sales from September 2008 to December 2008. This is a net of total subsidy which NNPC withheld during 2006-2008 period. The procedure for subsidy payments is for the Central Bank of Nigeria (CBN) to make payments through petroleum Support Fund (PSF) on the approval of the Accountant General of the Federation (OAGF) based on claims approved by the PPPRA. However, the audit observed that NNPC deducted the subsidy claims of N816.55 billion directly from the domestic crude oil proceeds before remitting the balance to the Federation Account. Our study discovered that no evidence of documentary authority from the deductions was traced by the auditors. This is improper.
2. From the records we assessed, NNPC confirmed receiving dividends from Nigeria Liquefied Natural Gas for 2006-2008 totaling \$3.789 billion. However,

NNPC did not confirm whether payments were made to the Federation account. Secondly the Audit recalculations of royalty for the years 2006-2008 gave estimate of underpayment of \$2.33billion arising from subjective interpretation of volume, pricing and American Petroleum Institute's grading variation. Again due to confusion about the pricing mechanism used (Realizable Price instead of Official Selling Price), there has been a direct underassessment of \$690 million in the determination of PPT payable to the Federation. Due to discrepancies between annual PPT returns and Annual Financial Statements there has been an underassessment of \$424.6 million in the determination of PPT value.

3. Our investigation reveals that Production and lifting data reported by Department of Petroleum Resources, other companies (including NNPC) and terminal operators were inconsistent and therefore could not be fully reconciled. This prevented a in coherent mass balance being presented by the audit. DPR reported 1.2 million barrels less in 2006, 0.08 million barrels more in 2007 and 1.4 million barrels more in 2008, than was reported by companies.
4. Fourthly, we discovered that there is a long-running dispute between NNPC and PSC operators as to the calculation of cost oil, tax oil and royalty oil. This meant that the parties cannot agree on the entitlement and the amounts being lifted by NNPC and the Contractors. Amount reported for this reconciliation revealed different interpretations of the same lifting transaction by the parties involved.
5. Fifthly, our investigations further revealed that the PSCs signed do not make any provision for how the parties should treat gas available for commercial exploitation, except to require that the parties define a separate agreement. No such agreements have been concluded. Where gas is already used in commercial production, such as in Bonga, the absence of an agreement may result in a misstatement of the Federation's income.
6. We equally discovered that Crude Oil from newly producing fields is subject to marketing. Cargoes are lifted by both NNPC and the operator. After the trail marketing, NNPC and the operators meet to agree on the pricing formula for the crude oil. As there appear to be different practices between the PSCs on how the proceeds of sale during the Trial Marketing Period are managed, it is advised that NNPC should specify a uniform methodology for managing crude oil sales proceeds during any trial marketing period. Investigation further revealed that NNPC and PPMC provided data on importation and inland distribution but it was not possible to confirm that overall mass balance because of a number of inadequacies in that data.

Table 6: Royalty

Year (US\$m)	Govt	Companies	Difference
2006	4,418.5	4,457.9	39.4
2007	3,895.9	3,905.9	10.0
2008	5,478.0	5,454.8	-23.2

Source: NEITI open Audit Pg. 27

Table 7: Signature Bonus

Year (US\$m)	Govt	Companies	Difference
2006	985.1	955.0	-30.1
2007	510.0	487.7	-22.3
2008	28.2	28.1	-0.1

Source: NEITI open Audit Pg. 27

Government reported higher figures than companies because some companies did not report the signature bonuses they paid. NEITI will continue to ensure that these differences are reconciled.

Table 8: Reported Company Payments to NDDC (Dollars)

Year US\$m	NDDC	Companies	Difference
2006	167.6	162.0	5.6
2007	186.8	178.5	8.3
2008	187.5	187.5	0

Source: NEITI open Audit Pg. 28

Table 9: Reported Company Payments to NDDC (Naira)

Year ₦m	NDDC	Companies	Difference
2006	11,546.5	11,186.7	359.8
2007	13,658.8	12,612.6	1,046.2
2008	18,043.7	16,147.7	1,896.0

Source: NEITI open Audit Pg. 28

From the above tables, we discovered that NDDC figures are higher because some payments were not reported by the companies which NDDC has reported.

7. Our investigations reveal the method of measuring refined products used by PPMC and DPR are not in accordance with the best practice. The systems for recording the movement through the PPMC pipeline systems and marine transfers are fragmented and outdated, paper based and subject to error.
8. We discovered that the industry has no consistent practice regarding the point at which production is measured for royalty purpose. The law is unclear and the Department of Petroleum Resources has not provided a standard interpretation.
9. Our facts revealed that computation of Petroleum Profit Tax liabilities prepared by Chevron Nigeria Limited and Mobil Nigeria Unlimited could not be reconciled to their Annual Financial statements (AFS). The two companies do not have their JV AFS in dollars but in naira, whereas their PPT returns is filed in dollars. The audit has observed that the budgets and performance of the companies as approved by NAPIMS are prepared in both currencies. Consequently, their gross JV costs could not reconcile with the AFS when expressed into dollars.

Challenges Confronting NEITI

One of the major challenges confronting NEITI is poor public awareness. Many Nigerians are yet to understand the functions of NEITI, the objectives, methods, principles, processes and procedure. NEITI has also to contend with the issue dissemination and use of audit reports to hold government and companies to account. Experience has shown that government agencies, ministries, departments and extra-ministerial departments find it very difficult to give reliable, acceptable and authentic account of their transactions.

Again, the NEITI reports appear quite technical and difficult to understand, interpret and disseminate. The civil society, professional associations, and the media require support in the area of capacity building in this direction. The NEITI also needs to receive user-friendly structure for audit reports by evolving simple and uniform standards which Nigerians can easily adopt. This has not been achieved.

Another big challenge is the desire to extend the reform programme to the states and local governments in Nigeria through sub-national reporting. Asobie (2011) noted that in Nigeria, the NEITI is still seen as a federal initiative. Translating the benefits of reform into citizen's welfare has not been achieved. Another challenge confronting NEITI is how to conduct audit of solid minerals sector. Ever since its creation, NEITI has concentrated its audit activities on oil and gas industry. This was even admitted by Oscar (2010) when in his assessment of NEITI, lamented that NEITI has not been able to set a scoping study that will provide report on the terrain resources available and opportunities.

The Civil society organizations and community groups require training and knowledge of the extractive industry to enable them understand the jargon of this industry as mere availability of information may not be enough to those who are engaged in Extractive Industry business who always avoid disclosure and publication, showcased by their continued insistence on confidentiality clauses.

Perhaps, one of the biggest challenges confronting NEITI is that there is no precise, clear and workable basis for determining production volumes for royalty purposes and reliable fiscal regime. Other challenges include tackling poor records keeping, culture of secrecy and confidentiality, understanding the complexity of the industry. All this has posed considerable constraints to NEITI's efforts towards poverty reduction in Nigeria.

Concussion

The Nigeria Extractive Industry Transparency Initiative (NEITI) is the Nigerian subset of a global initiative aimed at following due process and achieving transparency in payments by Extractive Industry companies to governments and government linked entities. NEITI intends to publish all information and data about Extractive Industries through a grass-root based communication strategy and the engagement of rural communities and civil society groups.

It is the conviction of NEITI that the state of information asymmetry, opaqueness, corruption and revenue embezzlement that has characterized our Extractive Industry could not have happened if multinational companies and previous governments had been required to disclose publicly their disaggregated basic payments and receipts for extractive resources. These huge financial improprieties show that business elites have a vested interest in avoiding disclosure and publication, showcased by their continued

insistence on confidentiality clauses on dated exploration and production contracts. This necessitated the engagement of the civil society in NEITI business. It is hoped that with the involvement of civil society in NEITI activities the Nigerian public (the real owners of those resources) will have basic information to call their governments (and partners) to account over the management of resource revenue part of which will be used to fight poverty; provide basic infrastructural facilities and create employment opportunities for the teaming impoverished Nigerians. Through the activities of civil society, NEITI has become a powerful instrument of poverty reduction in Nigeria.

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