



Office of the Auditor General for the Federation

---

# **AUDIT OF EXTRACTIVE INDUSTRIES NIGERIA EXPERIENCE**

---

PRESENTED

*BY*

**BELLO YISA ADEOYE ADEWALE, B.Sc, MBA, FCA  
HASSANA A. FIKA, B.Sc, CNA  
DAMIAN C. NWANKWO, B.Sc, ACA**

## **ABBREVIATIONS**

BPD	- Barrels Per Day
CBN	- Central Bank of Nigeria
GDP	- Gross Domestic Product
LNG	- Liquified Natural Gas
NEITI	- Nigeria Extractive Industry Transparency Initiative
NNPC	-Nigeria National Petroleum Cooperation
PPT	-Petroleum Profit Tax
SCF	-Standard Cubic Feet

## **PRESENTATION OUTLINE**

### **BACKGROUND**

THE MANDATE OF THE AUDITOR GENERAL

NIGERIA EXPERIENCE

- Inadequacies in Nigeria Oil and Gas Industry
- Audit Experience
- Extracts of published 2010-2012 audit report

EXPECTATION

## BACKGROUND

Nigeria is well endowed with abundance human and material resources that can guarantee sustainable economic growth and development. The country has a land area of 923,773km<sup>2</sup>, with varied vegetation and soil types that are suitable for a variety of agricultural purposes.

The country has large reserves of solid minerals including bitumen, topaz, lignite, coal, tin, columbite, iron ore, gypsum, barite and talc. Mining activities which are largely informal are concentrated in particular areas of the country: metallic minerals are mostly found in the middle belt, coal is found in the South East and Middle Belt, and bitumen predominantly in the South West. Crude petroleum and natural gas are prevalent in the southern area of the country referred to as the Niger Delta region.



Niger Delta Region of Nigeria

The advent of the oil industry can be traced back to 1956 when Oil was discovered in Nigeria at Oloibiri in the Niger Delta after half a century of

exploration. The discovery was made by Shell-BP, at the time the sole concessionaire.

Nigeria joined the ranks of oil producers in 1958 when its first oil field came on stream Producing 5,100 bpd.at the early stage. Subsequently, the quantity doubled the following year and progressively as more players came onto the oil scene, the production rose to **2.5** million barrels per day. Nigeria has attained the status of the largest oil producer in Africa and has grown to become the sixth largest oil producing country in the world.

The proven reserves of crude petroleum as at 2013 are well over 28.2 billion barrels, while reserves of natural gas stand at over **188** trillion standard cubic feet<sup>1</sup>. It contributed the total sum of ₦ 6.823 Trillion in 2013

The petroleum sector in Nigeria has in the past few years typically (though this fluctuates) accounted for about 80% of fiscal revenues, 90-95% of export revenues, and 30-35% of GDP. As in all other oil-rich states in the region, the oil sector is an enclave that provides a tiny proportion of overall employment, and it has relatively few direct linkages with the rest of the economy. Much of Nigeria's oil is exported to Europe and the United States; Nigeria provided 362,000 bpd of crude oil to the United States in 2008, about 7.7% of total US oil imports.

---

<sup>1</sup> [www.nnpc.com](http://www.nnpc.com)

## **10 YEARS CRUDE OIL EXPORT BY NIGERIA TO REGIONS (BARRELS)**

<b>YEAR</b>	<b>NORTH AMERICA</b>	<b>SOUTH AMERICA</b>	<b>CENTRAL AMERICA</b>	<b>EUROPE</b>	<b>OCENIA/PECFIFIC</b>	<b>ASIA &amp; FAR EAST</b>	<b>AFRICA</b>	<b>TOTAL</b>
2004	408,856,070	102,778,610	0	114,977,451	0	176,284,313	68,390,150	871,286,594
2005	427,662,710	50,575,726	0	148,046,980	0	147,967,459	69,280,456	843,533,331
2006	401,040,785	68,081,235	0	162,917,829	0	116,166,923	69,181,185	817,387,957
2007	432,051,483	73,848,033	0	120,741,036	0	99,067,734	68,061,569	793,769,855
2008	342,566,123	61,582,276	2,190,566	172,126,638	0	77,096,968	68,917,225	724,479,796
2009	276,990,009	78,963,074	300,828	163,627,724	0	111,371,037	137,942,533	769,195,205
2010	352,265,421	77,012,515	0	172,875,067	9,453,755	147,376,118	105,719,225	864,702,101
2011	271,462,697	79,579,804	0	246,626,085	18,092,657	136,032,999	70,287,982	822,082,224
2012	173,496,781	86,831,358	0	333,895,453	20,915,856	140,121,668	75,510,932	830,772,048
2013	87,702,197	93,389,441	0	326,477,293	16,964,284	152,977,481	84,696,505	762,207,201
<b>TOTAL</b>	<b>3,174,094,276</b>	<b>772,642,072</b>	<b>249,1394</b>	<b>1,962,311,556</b>	<b>65,426,552</b>	<b>1,304,462,700</b>	<b>817,987,762</b>	8,099,416,312

Source: 2013 NNPC Annual Statistical Bulletin

## **2.0 THE MANDATE OF THE AUDITOR GENERAL**

The Auditor General for the Federation is mandated by section 85(2) of Nigerian Constitution to audit the” public accounts of the Federation and of all offices and courts of the Federation and report to the National Assembly; and for that purpose, the Auditor-General or any person authorised by him on is behalf shall have access to all the books, records, returns and other documents relating to those accounts”<sup>2</sup>.

This includes mandate to audit the Extractive Industry which has contributed the major chunk of the Nigeria’s revenue.

Also, section 86(3) of the same Constitution provides that “ Nothing in subsection (2) of this section shall be construed as authorizing the Auditor-General to audit the accounts of or appoint auditors for government statutory corporations, commissions, authorities, agencies, including all persons and bodies established by an Act of the National Assembly” of which Nigerian National Petroleum Cooperation (NNPC) and other agencies under the Ministry of Petroleum Resource happens to fall within it .

Finally, section 86(4) only provide that “The Auditor-General shall have power to conduct checks of all government statutory corporations, commissions, authorities, agencies, including all persons and bodies established by an Act of the National Assembly<sup>3</sup>.

---

<sup>2</sup> 1999 Nigerian Constitution as amended

<sup>3</sup> 1999 Nigerian Constitution as amended

## **3.0 NIGERIA EXPERIENCE**

### **3.1 Inadequacies in Nigeria Oil and Gas Industry**

Nigeria has attracted billions of dollars of investment from the world top oil companies, yet poverty in African's second biggest economy is rising with about 100 million living in less than \$1 per day.

An article in Financial Times highlighted a challenge that the Nigerian treasury and petroleum companies lose 1 billion dollars a month due to petroleum theft. This has a major impact given that Nigeria depends on petroleum for more than 75 % of its hard currency earnings and more than 90% of state revenues. There is much uncertainty of how much crude petroleum is being pumped up from the wells, and how much benefits the population of Nigeria. The problem stems from the fact that production figures are measured only at the export well. This may provide an accurate picture of exports quantities, but it does not reflect losses incurred through leakage or theft over hundreds of kilometers of pipes. Companies hardly ever measure their petroleum at different points of the journey from wellhead to terminal and even when they do it is with varying degrees of accuracy<sup>4</sup>

In a bid to ensure transparency in the Extractive Industry in Nigeria, the Government set up the Nigerian Extractive Industry Transparency Initiative (NEITI) in 2007

---

<sup>4</sup> Source: Financial Times 27.06.2012: "Nigeria loses \$1bn a month to petroleum theft"



Nigeria National Petroleum Corporation (NNPC) does not measure its output. The Government estimate that average output is 2 million to 2.6 million barrels per day<sup>5</sup>. According to Orji Ogbonaya Orji a member of Board of Trustees of NEITI posted that “as at today, no one can tell exactly how much of crude is extracted from our soil”.

Also there is 3.1 million barrels of oil missing from NNPC declaration of their joint venture compared with the figures released by NNPC’s international partner that equate to 0.25% of the output. NNPC also received \$3.789 billion in dividends from liquidified Natural Gas (LNG) venture for 2006-2008 periods which were not remitted to the Federation account<sup>6</sup>.

---

<sup>5</sup> [www.reuters.com](http://www.reuters.com) January 10, 2012

<sup>6</sup> [www.reuters.com](http://www.reuters.com) January 10, 2012

### **3.2 Audit Experience**

Extractive industry is important to government auditors because it is an endowment of natural resources that can have a significant impact on a country and requires a lot of regulations and a highly skilled bureaucracy to manage those regulations. Due to the combination of scarcity and high demand for the resources extracted, a great deal of economic rent is produced through these industries. Economic rent, or resource rent in the context of natural resources, is the excess profit, or supernormal profit that occurs, not from the production process, but from the inherent value of the resource being exploited. This excess profit is not tied to the production process of the producer, which can extract a normal rate of return from a fraction of the market price. The value of these resources is therefore inherent, and because they occur on the land or continental shelves of countries, they belong to the people of those countries.

Recently, IDI and AFROSAI-E came up with a programme on co-operative audit of Extractive Industries of which SAI-Nigeria participated and is currently working on the implementation of local content (Oil and Gas) in Nigeria

The previous audit of Extractive Industry was relatively carried out on ad hoc basis using existing audit guide. Also, the provision of section 86(3 and 4) of the constitution to so extent limit the Auditor General to carry out only periodic check on audited account of the agencies within the extractive industry.

Faced with the above mentioned constraints, the Auditor General was able to publish the following audit reports:

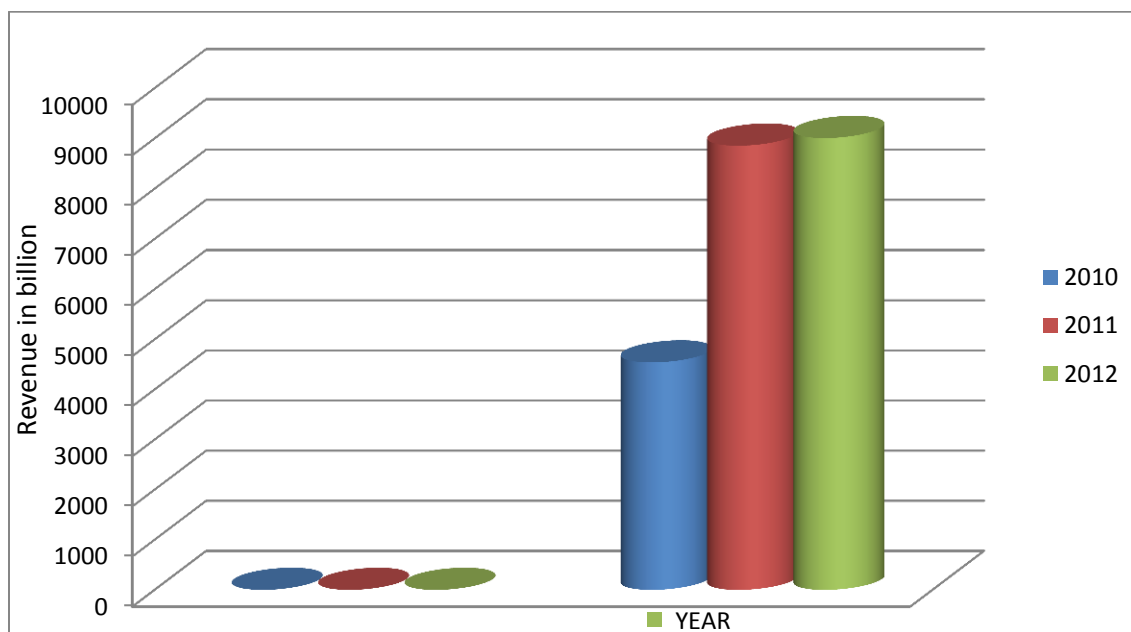
### 3.1 EXTRACTS OF PUBLISHED 2010-2012 AUDIT REPORT

The audit conducted in the Office of the Accountant General during the period revealed the following:

### 3.2 REVENUE GENERATED FROM OIL AND GAS

YEAR	REVENUE GENERATED(₦)
2010	4,541,282,169,309.82
2011	8,856,716,681,024.24
2012	9,007,786,539,187.33
<b>TOTAL</b>	<b>22,405,785,389,521.40</b>

*Source: schedule to Auditor General Published Audited Report*



With the above table and graph, it is obvious that the oil and gas revenue is the major source of Nigeria's revenue.

## **Other observations**

### **3.3.1 Maintenance of Excess Crude Oil/PPT/Royalty Account without Legal Authority**

Paragraph **3.19 of the Published report states that;** During the examination of records and documents presented to the Audit Team in respect of the above stated account, it was observed that a total sum of ₦2,308,749,174,308.54 summarized below and classified as Excess Crude Oil/PPT/Royalty was deducted from total Oil and Gas revenue collected before the balance was paid to the Federation Account. These deductions would appear to contravene the provisions of section 162 (1) of the Constitution of the Federal Republic of Nigeria, 1999 which states that "The Federation shall maintain a special account to be called "The Federation Account" into which shall be paid **all** revenues collected by the Government of the Federation, except the proceeds from the personal income tax of the personnel of the Armed Forces of the Federation, the Nigeria Police Force, the Ministry or Department of Government charged with responsibility for Foreign Affairs and the residents of the Federal Capital Territory Abuja". Efforts made by the audit team to obtain legal authority for the creation of Excess Crude Oil/PPT/Royalty Account proved abortive. This observation has been consistently mentioned in my previous reports since the year 2007 without any positive response.<sup>7</sup>

---

<sup>7</sup> Auditor General Annual Report

### **3.3.2. Placements of Funds on Deposits**

Paragraph 3.21 of the 2012 report states that in the year under review, sums totaling USD219,247,398.77 and USD443,844,581.47 were credited to the FGN Excess Proceeds of Crude Oil Sales Account and PPT/Royalty Account respectively as interest on Fixed Term Deposits. Also sums totalling USD221,219.79 and USD453,803.13 were credited to the FGN Excess Proceeds of Crude Oil Sales Account and PPT/Royalty Account respectively as interest on Ordinary Deposits. The authority for placing the funds which yielded the above interests in deposit account was not made available as requested. The banks where the deposits were made, principal sums deposited, tenor and rate of interest were also not made available for audit verification as requested.<sup>8</sup>

### **3.2.3 Ministry Of Solid Minerals Development Mines Division, Lokoja**

An audit examination of Revenue Account for the year 2009 revealed that the sum of ₦111,913,204.00 collected on mining fee and royalties between January and December 2009 could not be ascertained to have been properly receipted into Federation Account as no acknowledgement of treasury receipt from the Ministry's headquarters and CBN was produced for audit verification.<sup>9</sup>

---

<sup>8</sup> Auditor General Annual Report

<sup>9</sup> Auditor General Annual Report

## **4.0 EXPECTATION**

It is envisaged that at the end of this meeting, the team will:

- Gain valuable knowledge in the area of extractive industries.
- Share experiences among participating countries
- Be able to carry out audit in extractive industries in line with ITOSAI requirements.
- Understand the technicalities involved in auditing the extractive industry and
- know the way forward for the working group