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Revenue Generation and Transparecy in Nigeria Oil and Gas Industry:[Position of Nigeria Extractive Industries Transparency Initiative (Neiti)]

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Abstract
This study examines the impact of Nigeria Extractive Industries Transparency Initiative (NEITI) in promoting revenue transparency in the oil and gas industry. One of the earliest challenges with revenue generated from the oil and gas industry in Nigeria is how revenue is paid by oil companies and collected by regulatory bodies without misappropriating the funds, and since government spending is one of the major influences of the level of economic activity, as government survival is largely dependent on the revenue realized from oil and gas sector. This study perceives transparency as a means of ensuring accountability in revenue generation in the Nigeria oil and gas industry using Nigeria Extractive Industries Transparency Initiative (NEITI) as a case study. The study will serve as a useful document for a wide range of stakeholders including government (all tiers), policy makers, and civil society. The researcher concluded that the revenue collecting agents of government should be pragmatic and objective in their revenue drive to ensure sustainable revenue generation, also enjoying NEITI to double its effort to improve transparency in the oil and gas industries.
Keywords: NEITI, Transparency, Oil and gas, Revenue Generation, Audit and Accountability

INTRODUCTION

Petroleum is presently one of the most important and valuable natural resources of Nigeria. It is exploitedin many ways that maximizes its benefits to the nation. Nigeria receives a fair share of profits derived by the mineral companies while also offering stable and attractive terms to investors. (U.SEIA, 1997) According to Nigeria Extractive Industries Transparency Initiative (NEITI), in 2011, Nigeria is among the largest oil producers in Africa and among the top ten globally. Its effective pumping capacity is about 900 million barrels a year. Its recoverable reserves are estimated at about 34 billion barrels. In recent years, the oil sector has accounted for over 40% of GDP, 95% of export receipts, and over 80 percent of government revenue. The petroleum sector is dominated by Joint Venture operations between the Nigerian government and six (6) Major International Oil Companies – Shell, Mobil, Chevron, Agip, Elf, and Pan Ocean. Nigeria's reserves of natural gas – anestimated 159 trillion standard cubic feet of proven reserves – areamong the ten largest in the world, but gas production is less significant economically.(NEITI 2009).

The main activities that travail in the Petroleum industry are largely centred on exploration, production of hydrocarbon, refining, transportation and marketing of crude oil and its refined products.

The Nigerian Oil Industry is divided into two (2) main sectors

- The Upstream Sector
  a) Exploration and Field Development
  b) Production and Marketing of Crude Oil
- The Downstream Sector
  a) Refining
  b) Marketing and Distribution of Refined Product
  c) Retailing

Statement of Problem

The revenue from oil had been largely mismanaged by the successive governments, as the level of economic and social infrastructural development on ground does not reflect the revenue derived from the petroleum industry. This is evident in the absence of the kind of infrastructural facilities, health and education services that should befit the world's 14th largest oil producing country in 2010 instead the UN has ranked Nigeria 145th out of 172 countries in its human development index. Public opinion equally raised doubt on the accuracy of payments made by oil companies to the government of Nigeria with respect to tax and royalty payment etc. This is confirmed further by the lack of transparency and accountability by the International Oil Companies (IOCs) dealing with government in the sector.

Conflict in the Niger Delta, that had forced companies to suspend production periodically plus oil theft, which had caused thousands of barrels of crude to go missing had made it very difficult to measure production data accurately. Similarly, what transpired in the Niger Delta region also largely reflected in other sectors of economic the country. In essence, it has become apparent that the revenue from Oil and Gas had not been properly allocated, or better still,used adequately to the benefits of the country (NEITI, 2009). Thus the causes of this setback, its effect on the economy and the possible way out constitute a major problem that the study stands to investigate

Objectives of Study

The following are the objectives of the study

- To examine sources of revenue in the oil and gas industry.
- To examine revenue flow in the oil and gas industry.
- To examine the benefit oftransparency in management of revenue.
- To examine the impact of Nigeria Extractive Industries Transparency Initiative (NEITI) in promoting revenue transparency in the oil and gas industry.

Research Questions

The following are the questions this work seeks to answer

- What are the sources of revenue in the industry?
- What are the benefits of revenue transparency?
- What is the impact ofNigeria Extractive Industries Transparency Initiative (NEITI)?
- How has revenue transparency improved the oil industry?

Statement of Hypothesis

Ho: Nigeria Extractive Industries Transparency Initiative (NEITI) is not a means of ensuring transparency in revenue generation in the oil industry.

H1: Nigeria Extractive Industries Transparency Initiative (NEITI) is a means of ensuring transparency in revenue generation in the oil industry

The Variables in This Hypothesis Are;

- Transparency (independent variable).
- Revenue generation (dependent variable).

Justification of Study

This study intends to confirm whether or not Nigeria Extractive Industry Transparency Initiative (NEITI) is a necessary tool in ensuring that mismanagement of funds and corruption are minimized in the oil and gas industry in Nigeria. The output of this study will be useful to Nigerians as it will disclose the amount of revenue actually generated and the flow of revenue in the industry. The process of oil and tax revenue generation and how the inflows to government are accounted for and the current structures lay on ground for proper accountability by government. The NEITI audit, which is financial, physical and process audit, was introduced to check transparency in the management of revenue from the Oil and Gas Sector.

Scope of Study

This study shall discuss revenue income in the oil and gas industry using the NEITI audit of the period 1999-2008 with regard to how they carry out operations and its management.This study will also attempt to ascertain if the NEITI audit promoted transparency in the oil and gas industry.

Nigeria Extractive Industries Transparency Initiatives (NEITI)

Extractive Industries Transparency Initiative (EITI) increases transparency over payments by companies to governments and to government-linked entities, as well as transparency over revenues by the host country governments. The EITI was announced by Tony Blair at the World Summit for Sustainable Development in Johannesburg, South Africa in October 2002. Ghana, Nigeria and Azerbaijan piloted the EITI approach. Since then, the initiative has attracted significant media attention worldwide and it has been widely praised as one of the centerpieces of global efforts to tackle the problem of lack of transparency and accountability in revenue generation drives in the oil sector.

The Nigeria Extractive Industries Transparency Initiative (NEITI) is the Nigerian subset of a global initiative aimed at following due process and achieving transparency in payments by Extractive Industry (EI) companies to governments and government-linked entities. Former President Olusegun Obasanjo committed to EITI in

November 2003 and launched Nigeria Extractive Industries Transparency Initiative (NEITI) in February 2004, when he set up the National Stakeholders Working Group (NSWG) under the leadership of Dr. Obiageli Ezekwesili. The NSWG oversees the activities of NEITI and is made up representatives of government, extractive industry companies and civil society.

To give legal backing to the work of NEITI, a bill was introduced to the National Assembly in December 2004. The NEITI Act was eventually passed and harmonized by the two chambers of the National Assembly and subsequently signed into law by former President Obasanjo on May 28, 2007. With this, Nigeria became the first EITI-implementing country with a statutory backing for its operations. NEITI Secretariat was established to implement decisions of the National Stakeholders Working Group (NSWG) – platform on which the Federal Government is implementing the NEITI.

The EITI Board designated Nigeria as EITI Compliant on 1 March 2011. Nigeria must be revalidated by 29 February 2016. Nigeria was accepted as an EITI Candidate country on 27 September 2007. Nigeria submitted its final Validation report to the EITI Board on 29 June 2010.

The National Stakeholders Working Group (NSWG) is the governing body of NEITI. The NSWG is responsible for the formulation of policies, programmes and strategies for effective implementation of NEITI's mandate. The NSWG as the name implies is made up representatives of extractive industry companies, civil society, labour unions and representatives of the geo-political zones and experts in the extractive industries. The Executive Secretary, who also serves as the secretary of NSWG, is responsible for the day-to-day administration of NEITI. Its aims are to "make natural resources benefit all" and it sets a global standard for companies "to publish what they pay and for governments to disclose what they receive (Nicholas 2009).

Since 2004, NEITI has been engaged in various activities in pursuit of its mandate. The major activities include the following:

- Commissioning of the Financial, Physical and Process Audits of Nigeria's Petroleum Industry for the period 1999 to 2004, 2005 and 2006 – 2008. This was the first comprehensive audit of this strategic industry since Nigeria struck oil in 1956;
- Communicating the findings of the audit in a comprehensive and comprehensible manner to all stakeholders;
- Working with government agencies and other stakeholders to remedy the lapses identified by the audit;
- Building the capacity of civil society organizations, government officials, parliamentarians and the media to understand and monitor extractive revenue transparency in Nigeria;
- Forging a national consensus on need for transparency extractive revenue in Nigeria through outreach and advocacy activities such as road-shows, consultative forums and town-hall meetings.

A first set of financial, physical and process audits for the period 1999 – 2004 was undertaken by a consortium led by the London-based Hart Group and S. S. Afemikhe & Co published their reports in 2006. The audits identified several weaknesses related to the management of oil revenues and oil and gas sector governance more broadly. Following the release of the audits, an Inter-Ministerial Task Team (IMTT) was asked to put together a comprehensive remediation action plan which was subsequently approved for implementation by the Nigerian government.

The remediation action plan covered five key areas: developing a revenue-flow interface among government agencies; improving Nigeria's oil and gas metering infrastructure; developing a uniform approach to cost determination; building human and physical capacities of critical government agencies; and improving overall governance of the oil and gas sector.

The second report covering 2005 was released on 11 August 2009. The report identified unprecedented financial discrepancies, mis paid taxes, and system inefficiencies. Over US$800m of unresolved differences between what companies said they paid in taxes (PPT, Royalties and signature bonuses), and what the governments said it received were identified. Of this amount, US$560m was identified as shortfalls in taxes and royalties owed to the government and around US$300m in payment discrepancies relating to signature bonuses, payments of dividends, interest and loan repayments. The largest amount owed to the government according to the report was an estimated US$4.7bn by the state-owned, Nigerian National Petroleum Corporation (NNPC), for payments of domestic crude. Counteracting this, however, the NNPC claims it is owed US$1.7bn in subsidies payment by the government.

This second NEITI Report has highlighted numerous issues that call for urgent attention and action by all stakeholders. NEITI has Presidential and Ministerial approval for the implementation of the audit report's key recommendations. The report notes that "NEITI will ensure that the benefits due to the Nigerian government, agencies and above all the people of Nigeria, from the petroleum industry duly accrue to them, in accordance with the principles of transparency, accountability, and sustainable development. NEITI will facilitate the process of remediation, working in collaboration with all stakeholders".

On 1 February 2011, NEITI published the 2006-2008 EITI Reconciliation report showing that total revenues for those years were US$45bn, US$43bn and US$59bn respectively. The report included useful observations and recommendations on improving the management of revenues from the extractive sector. These audits were carried out to produce a complete picture of the Oil & Gas sector's business over the years, track the funds the industry generated and measure them against production of oil and gas. The audit also looked into the process involved in carrying out the business, touched on relevant laws and regulations, and recommended measures to address the main areas of concerns. An anti-corruption drive launched by former president Olusegun Obasanjo's government, which set up the Economic and Financial Crimes Commission and the Independent Corrupt Practices Commission, got things started.

Nigeria Extractive Industries Transparency Initiative [NEITI], now provides a startup kit for the civil society organization. It calls on companies to disclose all payments to governments, ranging from signature bonuses for oil blocks to taxes, royalties and revenue from sales of government equity oil. It requires the data to be compared by independent Accountants who identify discrepancies and try to reconcile. This singular act made Nigeria to become one of the world's first few countries and the first in the West African sub-region to sign up to the Extractive Industries Transparency Initiative (EITI). Nigeria was the first country in the world to initiate a process that legalized the Extractive Industries Transparency Initiative (EITI) process globally.

The NEITI digs deeper to audit the underlying payments, verify physical production, and review how the key processes were conducted. This function is technically termed "Value for money audit",(Aderinnokun:2010) The subject matter of this study.

LITERATURE REVIEW

Ugolor (2009), in the past ten years there has been increased awareness that improved transparency in the management of revenue from natural resources, especially from oil, is important for poverty eradication. Nigeria which is an oil and gas producing nation is immersed in 'resource curse' phenomenon. Despite the huge revenue from oil and gas activities its citizens do not get any benefit accruing from such enormous resources.

Davis (2009) said: "Transparency in revenue is a forceful arrow in the quiver to combating corruption and fraud, improve productivity and output and also increase accountability in the oil industry". Furthermore Evoh (2004) also argued that: "Transparency is seen as a major tool for the creation of a favorable investment climate better management of public resources and poverty reduction. Progress on the transparency front can be expected to attract increased finance and investment".

According to El-Rufai (2003) "Revenue Transparency will act to increase accountability in both the executive and legislative branches of government at all levels (Federal, State, and Local Govt.), reducing opportunities for corruption and the potential for waste of public funds".

Aderinokun (2010) also concluded that: "Lack of transparency is seen as a major hindrance to the creation of a favorable investment climate, better management of public resources and poverty reduction".

In the words of Ugolor (2009), "Efficient, transparent governments, closely watched by citizens with access to accurate, timely information on state spending can help restore trust in public institutions and strengthen democracy". Transparency ensures that information available can be used to measure the authorities' performance and guard against any possible miss-use of power. In this sense transparency serves to achieve accountability. Without transparency trust will be lacking therefore, adequate transparency is critical to ensuring that resources\wealth is managed for the benefit of the whole population (Nicholas 2009)

In some nations, the lack of accountability and transparency in these revenues can exacerbate poor governance, leading to corruption and conflict and increasing inequality. Hence the argument that an abundance of natural resources more often becomes a "curse" than a "blessing" for developing nations (Katsouris: 2009). Strengthen transparency and accountability in the oil and gas sector in Nigeria is an opportunity to reduce revenue leakage and stem corruption, firming the governance of the sector and thereby reducing the many incentives for the abuse of power and capture of revenues which distort policy and politics in Nigeria and undermine the potential for oil revenues to be used to accelerate economic and social development. (Muller;2010).

The world over, it is generally accepted that greater transparency is needed in natural resource rich states to entrench accountability, curb corruption and strengthen good governance. (NEITI; 2009). The Principle of transparency which goes with openness requires government to provide the citizen with a right to know what is going on in the governance. With regards to fiscal transparency this includes clarity of roles and responsibilities; public availability of information; open budget preparation execution and report and independent assurances on integrity. (Ezeobi 2010) Furthermore according to Okonji (2009) revenue transparency calls for an improved investment climate by providing a clear signal to investors and international financial institutions. Nigerians have poor perception of the management of their oil and gas industry. It is a public knowledge that the state of information asymmetry, opaqueness, corruption and revenue embezzlement could not have happened if companies have been required to disclose publicly their disaggregated basic payments and receipts.

Revenue transparency is only the starting point, albeit, a very important one, for a broader campaign to improve governance. Once revenues collected are accurately known and reported focus can shift to a debate on how well they have been used.

Transparency on the Oil Industry

Revenues from extractive industries (oil, gas development and mining) are sources of income for governments of producing nations. When properly managed and developed with the participation of affected communities, these revenues should serve as a basis for poverty reduction and economic growth. Too often, though, these revenues are squandered, fueling corruption, conflict and social divisiveness. The petroleum industry is the most strategic industry all over the world. The role of oil and gas in the Nigerian economy cannot be over emphasized

Transparency calls for mandatory disclosure of the payments made by oil and gas companies to the government for the extraction of natural resources. Transparency is seen as a necessary step towards a more accountable system for management of natural resources in Nigeria. Furthermore according to (Ezekwesili 2010) transparency in revenue leads to proper management and financial accounting without which processes and cost cannot be mapped, reported, reviewed and benchmarked. In addition transparency in revenue generation reduces waste of resources by its insistence on the utilization of minimum input, cost reduction and process improvement. (El-Rufai 2003)

Administration of Transparency

The need to reverse the parlous state of the downstream sector, optimize the take of
Nigeria in the upstream sector and eradicate corruption in the sector led of President Olusegun Obasanjo to embark on some radical reforms from 1999 to 2007. These include:

- Increases in the pump prices of petroleum products;
- Purchase of crude at international market price by NNPC;
- Deregulation of the downstream sector;
- Liberalization;
- Privatization of the downstream sector of the NNPC, which saw Eleme Petrochemicals buy-over by Indorama (the PHRC and KRPC sales were later reversed)
- Creation of Petroleum Products Pricing and Regulatory Agency (PPPRA) to regulate the downstream sector;
- Extractive Industry Transparency Initiative (NEITI); and
- The creation economic and financial crimes; (Shaxson; 2009)

According to Charles (2009), the following are steps for ensuring transparency in the oil industry of Nigeria

- In order to maintain transparency into the future, it is important that the reconciliations of data held by different entities are performed on a regular and timely basis.
- New information structures are required to achieve this, including a wide-ranging review of the information and management systems of the key sources of revenue, namely: The sale of equity crude (COMD) ,the management of petroleum resources(DPR) the management of taxation (FIRS)
- The Accountant General of the Federation should have prompt access to current information, to enable him to timely perform his record keeping function. On the basis of our work on the 2004 records, there is ·a need for steps to be taken to streamline CBN and AGF processes and eliminate the gap between the parties.
- Generally there is scope to make much greater use of IT systems to improve controls, to eliminate inconsistencies arising from duplicated information and to improve transparency by making possible a wider sharing of data.
- A process review of the accounting and information systems at FIRS should be undertaken.
- FIRS should in future be proactive in securing correct volumes for the use in the calculation of PPT liabilities and should issue assessments on the companies.
- FIRS should follow up the crude volume differences and link in closely with the physical volume data to be prepared by DPR so that these outstanding issues are resolved.
- Each company should submit a statement to DPR and FIRS reconciling its annual PPT and royalty computations to its audited accounts.
- Arrangements for monitoring the entire hydrocarbon and liquids balance of the sector, from well head to terminal I refinery should be reinforced. We recommend that DPR should spearhead this.
- A suitable information system mainstreamed into the companies' information and reporting systems needs to be established to provide the mass balance data on a routine basis, without resorting to ad hoc exercises. We recommend that a dialogue be opened involving NSWG, DPR, NAPIMS and the companies (OPTS might facilitate this) to agree how to proceed.

- A reconciliation of export lifting's between DPR and companies should take place regularly in order to identify inconsistencies in the records and adjust them on a timely basis.
- Each company should submit an annual statement to DPR and FIRS reconciling its PPT and royalty self-assessments to the annual mass balance and DPR guidelines to be prepared.
- External auditors should be required to report annually on the hydrocarbon mass balance. The form of report requires discussion. A compilation report may be appropriate. This requires discussion with the industry and auditors.

Economic Importance of Oil

Petroleum is currently the most important and valuable natural resource in Nigeria. It is exploited in ways that maximized benefits to the nation through economic rents and a fair share of profits while offering stable and attractive terms for investors. For the producing nations, petroleum is an important source of foreign revenue and this is the reason why such an important resource should be properly accounted for to enable the government and citizens of oil producing nations maximize the benefits derivable from the natural endowment. (NEITI 2009)

According to (USA EID) Nigeria's petroleum is classified as "light" or "sweet", meaning the oil is largely free of sulphur. Nigerian grades have API gravities ranging from 35-45 degree ranking them among the lightest and sweetest in the world. Lighter sweeter crude tends to command higher prices than more sulphurous grades. This crude oil is known as "Bonny light". Names of other Nigerian crudes are named according to export terminal, are Qua lbo, Escravos blend, Brass river, Forcados, and Pennington Anfan production averages around 1.6 million barrels per day (Wikipedia free encyclopedia) .

How Revenue Payments Are Made

Private companies file tax returns and royalty statements respectively with the Federal Inland Revenue Service [FIRS] and the regulator, the Department of Petroleum Resources [DPR]. NNPC sells the crude from the government's share of joint venture production. Everyone sends payments to the Central Bank of Nigeria (CBN) via the Federal Reserve accounts in New York, which channel most of the funds to Nigerian's federation account, managed by the Accountant General of the Federation (AGF). The federation account is jointly owned by the three tiers of government; the Federal, State and Local Governments. The Federation Accounts Allocation Committee distributes the revenues to the three tiers of government. In theory, the CBN's receipt should agree with the companies' payment records and its data should be consistent with the advice sent and received by FIRS and DPR. The AGF should receive copies, to remain informed of the flow they should be managing on the government's behalf. (NEITI 2009)

Regulatory Bodies

1. Department of Petroleum Resources (DPR): DPR has been facilitating the growth of the oil industry in conformity with legislation affecting the oil industry by encouraging exploration and exploitation activities, which boost the national reserves and production level.

In this regard, the DPR is expected to perform and achieve the following amongst others:

- Monitor all petroleum industry operations being carried out under licenses and leases in the country in order to ensure compliance with the applicable laws and regulations.
- Maintain a database on petroleum industry operations particularly on matters relating to petroleum reserves, production, exports, licenses and rendering regular report to government.
- Oversee all activities of all the companies licensed to engage in any petroleum activity in the country for which it has a register to ensure compliances with the terms and regulations relating to the conditions of the license.
- Monitor production, lifting of the various company and ensures that this is in line with the Technical Producability in line with the OPEC quota
- Issue assessments to companies on Royalty and collects the Royalty due from the companies in production.

All information on Royalty and details of upstream companies are usually supplied by DPR.

2. Federal Inland Revenue Service (FIRS): The FIRS (Establishment) Act, 2007 made FIRS a body corporate that has its own board as a governing organ charged with overall supervision of the Service.

The Establishment Act Section 8 part 11 enumerates the functions of the Service to include:

- Assess persons including companies, enterprises chargeable with tax;
- Assess, collect account and enforce payment of taxes as may be due to Government or its agencies;
- Collect, recover, and pay to the designated accounts, any tax under any provisions of this Act or any other enactment or law;
- In collaboration with relevant ministries and agencies, review the tax regimes and promote the application of tax revenues to stimulate economic activities and development;
- In collaboration with relevant law enforcement agencies, carry out the examination and investigation of all

cases of tax fraud or evasion with a view to enforcing compliance with the provisions of the Act; etc

3. Central Bank of Nigeria (CBN): CBN is the depository for royalties, PPT and other direct taxes, and provides collection information for reconciliation with the tax assessments of the FIRS.

4. Crude Oil Marketing Division (COMD): The Crude Oil Marketing Division (COMD) is a division in the Nigerian National Petroleum Corporation (NNPC) which is responsible for the marketing of the Federation crude. For this NNPCCOMD issues Official Selling Price (recognized as Posted Price by PPTA). This OSP or PP is circulated by NNPCCOMD to producing companies which they use for the determination of Fiscal Value for PPT. NNPCCOMD supervises Commercial Producability which in conjunction with the Technical Producability determined by DPR enables compliance with OPEC quota

Nigeria crude is usually sold in relation to the marker crude which is the Brent crude produced in the North Sea, United Kingdom (UK). Customers are allowed to choose from any of the following options how their crude should be valued:

a) **Prompt:** Valuation is the average of five days consecutive price quotations days after BL date. BL dates being treated as day zero. The prompt option is the NNPC Adjusted Posted Price (APP).
b) **Advanced:** Valuation is the average of five (5) days consecutive price quotation days before the BL date, BL date as day six.
c) **Deferred:** Valuation is the average of five (5) days consecutive prices quotation from the sixth day after BL date, BL date as day zero. The choice must be received by COMD not later than six working days to the first day of the lay can. If no option is selected by any customer on or before six working days to the lay can, NNPC automatically use the prompt option to value the crude of such customer.

5. National Petroleum Investment Management Services (NAPIMS): The National Petroleum Investment Management Services (NAPIMS) in the Exploration and Production (E & P) Directorate is the upstream arm of NNPC that oversees the Federation investments in the Joint Venture Companies (JVCs), Production Sharing Companies (PSCs) and Service Contract Companies (SCC). NAPIMS is, therefore, set up to earn margin arising from investments in the JVCs, PSCs, SCC, with the multinationals and also protect the nation's strategic interest in the JVCs. In addition, NAPIMS engages in frontier exploration services in basins where the multinationals hesitate to venture like the Chad Basin.

As the entity that maintains the Federation upstream interests, it receives all JV and PSC accounts and audits the related costs. The FIRS auditor will find the accounts, cost information and audit reports on these companies generated by NAPIMS very useful in the review of upstream companies' tax activities.

6. Petroleum products sales reconciliation committee: This Committee is mainly concerned with the reconciliation of the revenues received in relation to petroleum products sales, which is not the direct concern of this note. It also, however, reconciles revenues received in relation to FGN's allocation of crude oil to NNPC for purposes of meeting domestic petroleum product market demand and in this capacity is a relevant agency. It is similarly constituted to the Crude Oil Reconciliation Committee.

7. Office of the accountant general of the federation (OAGF): Accountant to the Federal Government and 'owner'/ manager of the federal government accounts with the CBN.

The NEITI (1999 – 2008) Audit

The NSWG of the NEITI also engaged the service of an international audit company the Hart-Group with a mandate to execute an audit of the industry at 3 levies which are the financial audit, the physical audit and the process audit. The audit report came up with concrete recommendations for the improvement of oil extraction, marketing and record keeping. It mentioned point by point what needed be done by government, oil companies and civil societies

The audit reports carried out so far by NEITI, showed wide range discrepancies in the financial books of the stakeholders, improper record NEITI's put into the public domain financial data, information on volumes of oil produced, refined and exported and the legal framework of the petroleum sector. This encouraged tighter scrutiny of oil revenue flows for 2004 and 2005 which enabled the Government of Nigeria to recover additional revenues due to it from oil companies of about £500 million keeping and lack of adequate institutional framework to support the modernization of the Nigerian oil and gas sector. (Hart group 2009)

Main Reasons for Differences In The Accounts

1. Templates populated on accruals instead of cash basis
2. Timing differences.
3. Classification differences e.g. royalty payments as gas flare.
4. Omitted payments by companies, CBN and regulatory agencies.
5. Payments by company not traceable in CBN.

Main Effects of NEITI on the Economy

The IMF said in 2007:

- The most notable achievements include robust economic growth, especially in the non-oil sector,
- Significantly strengthened fiscal and external positions, improved confidence and reduced inflation.
- Prudent policies were pivotal to securing these gains: the political accord for the oil price fiscal rule was the key factor.67
- Revenues were still being saved in the excess crude account after the main reform period; at the time
- Official foreign exchange reserves stood at approximately US$63 billion.

However, there has been some tension between state governments and the centre, with the former reluctant to save the money and keen to spend it; cautious negotiations since early 2007 have seen the states agreeing to save a minor portion and being allowed to spend the rest.

Main Achievements of The NEITI Audit.

The audit unearthed a number of administrative lapses by ·government agencies responsible for oil extraction, and marketing. The audit revealed poor record keeping on the part of the various subsidiaries of the (NNPC). The report came out with concrete recommendations for the improvement of oil extraction, marketing and record keeping. Since its inception, the NEITI have achieved a considerable feat attributable to the commitment of the NSWG.

It encouraged tighter scrutiny of oil revenue flows for 2004 and 2005 which enabled the Government of Nigeria to recover additional revenues due to it from oil companies of about £500 million. The audit revealed poor recording on the part of the various subsidiaries of the Nigerian National Petroleum Corporation (NNPC). Incidences of outright theft of Nigerian crude oil as a result of lapse in metering were reported.

RESEARCH METHODOLOGY

The survey population of this study is made up of staff of NEITI, Hart Group and a professional firm of SS Afemikhe & Co, the Central bank of Nigeria, Federal Ministry of Finance and Oil Companies who hold key positions and are well informed about the operations of NEITI. Both primary and secondary data were used. Questionnaire and personal interview were used in case of primary data collection. The sample consists of 100 staff of the bodies earlier mentioned. Secondary data was provided from already published data, which are related to this research study. The NEITI journals which will comprise of revenue of a particular source e.g. (PPT and royalty) from 1999- 2008

Method of Data Analysis

Data collected are analyzed using descriptive statistics. Regression analysis was employed to determine the relationship between the variables under consideration.

- **Regression Analysis**

$$\mathbf{b} = \frac{\sum x \sum y^2 - \sum y \sum xy}{N\sum y^2 - (\sum y)^2}$$

$$\mathbf{a} = \frac{N\sum xy - \sum x \sum y}{N\sum y_2 - (\sum y)^2}$$

Where **X**= Independent Variable = **Transparency**

Y= Dependent Variable = **Revenue Generation**

Decision Rule

If T calculated is greater than T tabulated, we accept H_1 and reject H_0

If T tabulated is greater than T calculated, accept H_0 and reject H_1

PRESENTATION OF DATA

Table 1: Response to question 1

Is transparency important for economic growth?

Response	Frequency	Percentage
Yes	87	87%
No	13	13%
Total	100	100%

Source: Field Survey, 2012.

Judging from the response pattern in the table above, 87% of the respondents testify that transparency was important for economic growth while 13% of the respondents were not in agreement with this. It can be concluded, therefore, that the transparency was an essential tool for economic growth.

Table 2: Response to question 2

Has the Nigeria Oil Industry improved positively since the introduction of revenue transparency?

Response	Frequency	Percentage
Yes	77	77%
No	23	23%
Total	100	100%

Source: Field Survey, 2012.

From the pattern of distribution, 77% of the respondents agreed that the Nigeria oil industry had improved positively while only 23% disagreed.

Table 3: Response to question 3

Nigeria before the introduction of transparency initiative had loss of oil revenue ever been uncovered?

Response	Frequency	Percentage
Yes	77	77%
No	23	23%
Total	100	100%

Source: Field Survey, 2012

This table shows that 77% of the respondents agreed that loss of revenue had been uncovered before the introduction of transparency initiative, but 23% of the respondents thought otherwise efforts to get more information on why such losses were not published did not succeed as the respondents said the information was confidential but disclosed only to NNPC.

Table 4: Response to question 4

Revenue transparency has improved the oil industry by the introduction of transparency initiatives

Response	Frequency	Percentage
Yes	83	83%
No	17	17%
Total	100	100%

Source: Field Survey, 2012.

The table shows that 83% agreed that revenue transparency had improved the oil industry by the introduction of transparency initiatives while 17% of the respondents disagreed.

Table 5: Response to question 5

Oil industry through revenue transparency was more reliable in its accountability?

Response	Frequency	Percentage
Yes	77	77%
No	23	23%
Total	100	100%

Source: Field Survey, 2012.

From the table above 77% were in support of the fact that the Nigerian oil industry through revenue transparency was more reliable in its accountability while 23% disagreed with this. This was an indication that revenue transparency had helped increase accountability in the industry.

Table 6: Response to question 6

Does revenue from oil and gas form a larger part of Nigeria income?

Response	Frequency	Percentage
Yes	90	90%
No	10	10%
Total	100	100%

Source: Field Survey, 2012.

90% of the respondent agreed that revenue from oil and gas formed a large part of Nigeria annual revenue earning, 10% disagreed it means that oil revenue form the largest part of Nigeria's annual revenue.

TABLE 7 Response to question 7

What is the contribution of oil and gas to Nigeria's income?

Response	Frequency	Percentage
20-30%	0	0
40-50%	0	0
60-70%	30	30%
70-80%	70	70%
Total	100	100%

Source: Field Survey, 2012.

The table shows 30% agreed that oil and gas contributed 60-70% to Nigeria's income while 70%agree that oil and gas contributedbetween 70-80% to Nigeria's income.

Table 8: Response to question 8

In your own opinion has there been any positive impact on the Nigeria economy since the introduction of transparency into the system?

Response	Frequency	Percentage
Yes	90	90%
No	10	10%
Total	100	100%

Source: Field Survey, 2012.

From the table above 77% agreed with this while 23% disagreed.

Table 9: Response to question 9
Are you familiar with NEITI as a transparency initiative?

Response	Frequency	Percentage
Yes	100	100%
No	0	0%
Total	100	100%

Source: Field Survey, 2012.
From the table above 100% responded that they are familiar with NEITI which means that NEITIis known to the respondents.

Table 10: Response to question 10
Do you think NEITI is an important initiative to scrutinize the sector's flow of revenue?

Response	Frequency	Percentage
Yes	73	73%
No	27	27%
Total	100	100%

Source: Field Survey, 2012.
From the table above 73% were in support that NEITI was an important initiative to scrutinize the sector's flow of revenue while 27% are not in support.

Table 11: Response to question 11
Has NEITI experienced a level of achievement since its introduction?

Response	Frequency	Percentage
Yes	67	67%
No	33	33%
Total	100	100%

Source: Field Survey, 2012.
The table above shows that 67% support that NEITI had experienced a level of achievementsince its introduction and 33% do not support it

Table 11: Response to question 11
Has NEITI helped improve transparency?

Response	Frequency	Percentage
Yes	63	63%
No	37	37%
Total	100	100%

Source: Field Survey, 2012.
The table shows that 63% of the respondents testify that NETTI had helped to improve transparency while 37% were not in support

Table 12: Response to question 12
How would you rate the importance of NEITI to transparency and accountability?

Response	Frequency	Percentage
20-30%	4	4%
40-50%	20	20%
60-70%	50	50%
70-80%	26	26%
Total	100	100%

Source: Field Survey, 2012.
The table shows the rate of importance of NEITI to accountability and transparency 4% went for 20-30%, 20% went for 40-50%, 50% went for 60-70% and 26% went for 70-80%

Table 13: Response to question 13
What source of revenue is most beneficial to the industry?

Response	Frequency	Percentage
Export Crude	50	50%
Domestic Crude	24	24%
Petroleum Profit Tax	16	16%
Royalties	10	10%
Total	100	100%

Source: Field Survey, 2012.
The table shows that 50% of the respondents testify that export crude is more beneficial to the nation's economy followed by domestic crude which had 24% and petroleum profit tax which had 16% followed by royalty which had the least which was 10%

Table 14: Response to question 14
How often does revenue flow into the industry through this source?

Response	Frequency	Percentage
Daily	100	100%
Weekly	0	0
Monthly	0	0
Quarterly	0	0
Total	100	100%

Source: Field Survey, 2012.
The table shows that 100% respondent testify that revenue flows into the industry daily

Table 15: Response to question 15
Do you think a level of reliability by Nigerians on revenue reported from oil has increased?

Response	Frequency	Percentage
Yes	67	67%
No	33	33%
Total	100	100%

Source: Field Survey, 2012.

The table shows that 67% of respondents thought that there was a level of reliability by Nigerians on revenue reported from oil had increased while 33% were not in agreement with this.

Analysis of Questionnaire Using Statistical Package for Social Scientist (SPSS)

Table 16:Q2 for Transparency

Variable	Frequency	Percentage
Yes	77	77%
No	23	23%
Total	100	100%

Table 17a: Q2 for Rev. Gen.

Variable	Frequency	Percentage
20-30%	0	0
40-50%	0	0
60-70%	30	30%
70-80%	70	70%
Total	100	100%

Variables Entered/Removed (b)

Table: 17b

Model	Variables Entered	Variables Removed	Method
1	Transparency(a)		Enter

a) All requested variables entered.
b) Dependent Variable: revenue generation

Table:18a Model Summary

Model	R	R. Square	Adjusted R Square	Std. Error of the Estimate
1	.634(a)	.401956	.399	.38782

a) Predictors: (Constant), transparency

Table: 18b ANOVA (b)

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression Residual Total	15.000 22.260 37.260	1 148 149	15.000 .15	99.730	.000(a)

a) Predictors: (Constant), transparency
b) Dependent Variable: revenue generation

Table:18c Coefficients (a)

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.557	.096		5.806	.000
	Transparency	.710	.071	.634	9.987	.000

a) Dependent Variable: revenue generation

The tables above are analyzed and explained below under the following statistical leading:

1. CO-EFFICIENT OF CORRELATION (R)

The value was used to show the strength of the model, the closer it was to 1, the stronger the model. This was shown on table 2a of the SPSS output. In this case the value of coefficient of correlation, R, is 0.634 which shows a positive correlation.

2. CO-EFFICIENT OF DETERMINATION (R^2)

This value implies the proportion dependent variable that may be predicted or explained in the dependent variable. This is also shown in table 2a of SPSS output as R^2.

In this case, the value ofR^2 is 0.4019(40%) which means that 40% of the total variation of transparency is responsible for increase in revenue generation.

T-TEST

$T_{cal} = 9.987$
$R^2 = 0.4019$
Using t-test at 5% level of significance, we obtain T-tabulate with the degree of freedom (d.f)
Where d.f = n-k
n = number of observations
k= number of parameters
d.f= 100-1 = 99

DECISION RULE

If T calculated is greater than T tabulated, we accept H_1 and reject H_0
IfT tabulated is greater than T calculated, accept H_0 and reject H_1
At 5% level of significance on the T distribution table, T tabulated =1.699
Thus, from the result obtained $T_{cal} > T_{tab}$ at 5% level of significance, hence we accept the H_1 and reject H_0. This implies that transparency is statistically significant in explaining variations in Revenue generation.

Petroleum Profit Tax (PPT) Validation
1999 – 2008 Audit

	1999 – 2004	2005	2006 - 2008
	\$'m	**\$'m**	**\$'m**
Excess Assessment/Under Claim/Over payment	(127)	(333)	(80)
Under Assessment/Over Claim/Under payment	51,031	26,580	769
Total	50,904	26,247	689

Source: NEITI Audit report

For the purpose of this study in order to know the effectiveness of transparency on PPT which is one of the sources of revenue for the industries, revenue was checked to access if there was a positive or negative impact of transparency through an audit on the revenue of the industry

As shown in the above table, PPT validation was carried out to ensure transparency was concluded. It was noticed that there were some discrepancies in the account between what companies claimed they had paid was different from what they would have actually paid for, it was noticed furthermore, that there were differences of $127m for 1999-2004, $333m for 2005 and $80m for 2006-2008 respectivelywhich is subject to further investigation. NEITI audit of 2009-2011 is ongoing.

Royalty Validation

1999 – 2008 Audit

	1999 – 2004	2005	2006 - 2008
	$'m	$'m	$'m
Excess Assessment/Under Claim/Over payment	(200)	(327)	(108)
Under Assessment/Over Claim/Under payment	10,132	4,942	2,333
Total	9,932	4,615	2,225

Source: NEITI Audit report

Furthermore royalty which is another revenue generated by the industry was used for the purpose of this study. According to the table above, it was noticed that there were differences in the account of the companies' and what the audit reported. There were discrepancies on amounts claimable of $200m for 1999-2004, $327m for 2005 and $108m for 2006-2008 respectively.Therefore further increasing revenue and reducing corruption.

From the data above it can be seen that NEITI has enhanced transparency in the oil industry and that transparency has increased revenue in the industry and reduced revenue mismanagement and manipulation

SUMMARY OF FINDINGS

1) The success of an industry like the oil industry depends largely on the effectiveness of its authority and governance and control tool. Revenue transparency can be said to be an effective tool especially in the industry were corruption has eaten deep to enhance productivity, improve accountability, reduce mismanagement of fund and increase accountability to the public on revenue generated from it.
2) It was noticed that there was poor record keeping on the part of the various subsidiaries of the (NNPC) Nigerian National Petroleum Corporation (NNPC). Incidences of outright theft of Nigerian crude oil as a result of lapse in metering were reported.
3) It was noticed that the oil forms the largest part ofNigerians' income accounting for70-80% ofthe country's income
4) It was noticed that from this study and from the questionnaires administered that transparency is increasingly demanded not by only the citizens buts also by international financial institution , investors, banks, donor organizations and international civil society.
5) During the course of the study it was discovered that the accounting procedure employed by the regulatory bodies was poor in terms of accurate record of revenue generated in the industry especially the CBN
6) Furthermore it was noticed that the level of corruption in the industry was very high as thiswas achieved through cost manipulation lack of disclosure of account, not publishing correct financial report and not submitting proper details of sales and production.
7) The tax base of assessing companies was on a self-assessment basis which therefore allow companies to run away from paying their taxes and reducing the flow of revenue
8) Also from the analysis the researcher noticed that the industries transparency was important inother to increase government revenue, enhance economic growth in general and make the oil and gas industry more cost efficient

CONCLUSION

It can be concluded that this study has revealed the importance of improving the oil industry through the introduction of the Nigeria Extractive Industries transparency initiative (NEITI) and other possible ways of eradicating corruption in the collectionand payment of oil revenue and its financial flow.

It can be affirmed that NEITI as an initiative for transparency has helped to reduce corruption and also encouraged tighter scrutiny of oil revenue flows which enabled the Government of Nigeria to recover additional revenues due to it from oil companies of about £500million

From the data analysis of questionnaires which shows a positive and the table of Petroleum Profit Tax (PPT) validation and Royalty validation between (1999-2004) show that there were discrepancies in accounts of oil companies revenue which are being followed up to ensure that remittance is made to the government. This has been made possible through the activities of NEITI.

RECOMMENDATIONS

1) There should be reconciliation of data held by different entities on a regular and timely basis.
2) A law should be passed for adequate record keeping in the oil industry especially amongst the oil companies in the industry.
3) The FIRS in charge of the PPT should carry out their work effectively, companies should not be asked to assess their tax liability by themselves (self-assessment) this has been in the system.
4) Petroleum Products pricing and Regulatory Agency (PPPRA) should improve in the regulation of the downstream sector
5) The NEITI audit should be carried out regularly Regular audit of the oil industry andcompanies in the industry by independent auditors
6) Each company should submit a statement to DPR and FIRS reconciling its annual PPT and royalty computations to its audited accounts.
7) CBN should improve drastically on its record keeping
8) The FIRS and the DPR should improve on tax and royalty calculations.
9) Guidelines/Standards should be established for the preparation of formal mass balance statements
10) New Acts and laws which are very strict should be passed in the industry to ensure consistency in revenue and records.
11) Regular publication of information is important for purposes of maintaining transparency and to provide assurance to the public that the institutional system is functioning well.
12) There is a basic need for government, the regulators and the industry to take a holistic view of the industry and to ensure good lines of communication and sharing of information between different parties in the industry, whether government bodies or private companies.

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