ENERGY AND NATURAL RESOURCES

Current State Assessment Report on the Process and Forensic Review of the Nigerian National Petroleum Corporation (Project Anchor)

Federal Ministry of Finance

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Interim Report on the Process and Forensic Review of NNPC

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Glossary of Terms

Acronym	Definition
AGO	Automotive Gas Oil (Diesel)
CBN	Central Bank of Nigeria
CIP	Central Invoice Processing
COMD	NNPC's Crude Oil Marketing Department
DAPPMA	Depot and Petroleum Products Marketers Association
DEXCOM	Directorate Executive Committee
DPK	Dual Purpose Kerosene
DPR	Department of Petroleum Resources
DTB	Dated Brent
EMD	Electro Motive Diesel
EDO	Executive Director, Operations
ETD	Engineering and Technology Division
ETSD	Engineering and Technical Services Department
FAAC	Federation Accounts Allocation Committee
FAD	Finance and Accounts Division
FGN	Federal Government of Nigeria
FMF	Federal Ministry of Finance
FPO	Foreign Purchase Order
GED	NNPC's Group Executive Director
GED E&P	Group Executive Director, Exploration and Production

Acronym	Definition
GMD	NNPC's Group Managing Director
GNED	Group Non-Executive Director
IDSL	Integrated Data Services Limited
IOC	International Oil Company
IPMAN	Independent Petroleum Marketers Association of Nigeria
JOA	Joint Operating Agreement
JV	Joint Venture
JVCC	Joint Venture Cash Calls
KPMG	KPMG Professional Services
KRPC	Kaduna Refining and Petrochemical Company
LC	Letter of Credit
LIBOR	London Inter Bank Offered Rate
LNG	Liquefied Natural Gas
LPFO	Low Pour Fuel Oil
LPO	Local Purchase Order
MEXCOM	Management Executive Committee
MIS	Management Information Systems
MPN	Mobil Producing Nigeria Limited
MTC	Management Tender Committee
MT	Metric Tonnes
MTD	Marine Transportation Department

Acronym	Definition
MTU	Marine Transportation Unit
NAOC	Nigerian Agip Oil Company
NAPIMS	National Petroleum Investment Management Services
NGC	Nigerian Gas Company
NIBOR	Nigerian Inter Bank Offered Rate
NNPC	Nigerian National Petroleum Corporation
NOR	Notice of Readiness
NPA	Nigerian Port Authority
NPDC	Nigerian Petroleum Development Company
OECD	Organisation for Economic Co-operation and Development
OPCOM	Operating Committee
OSP	Official Selling Price
PEF	Petroleum Equalisation Fund
PMS	Premium Motor Spirit (Petrol)
POCNL	Phillips Oil Company Nigeria Limited
POOC	Pan Ocean Oil Corporation
PPMC	Pipelines and Products Marketing Company
PPPRA	Petroleum Products Pricing Regulatory Agency
PSC	Production Sharing Contract
PSF	Petroleum Support Fund
PV	Payment Voucher

Acronym	Definition
SBU	Strategic Business Unit
SSA	S. S. Afemikhe and Co.
SPDC	Shell Petroleum Development Company
SPM	Single Point Mooring
STS	Ship to Ship Charges
SUBCOM	Sub Committee
TECOM	Technical Committee
TEPNG	Total Exploration and Production Nigeria Limited
TOR	Terms of Reference
VAT	Value Added Tax
WRPC	Warri Refining and Petrochemical Company

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2 Introduction

2.1 Project Background and Approach

The Federal Government of Nigeria ("FGN") has noted recent reports of possible inaccuracies in the crude oil and gas revenues remitted to the Federation Account by the Nigerian National Petroleum Corporation ("NNPC"). The reports arose from allegations of wrongful deductions at source by the NNPC to fund its operations.

The FGN has also noted that despite the increase in international oil prices and Nigeria's export volumes, there has not been a commensurate improvement in the country's external reserves position. This has been further aggravated by allegations of unauthorised changes made in the management of the foreign bank accounts used for the receipt of the nation's crude oil and gas sales proceeds by the NNPC as these sales proceeds are said to be received into NNPC-managed foreign bank accounts

Furthermore, there are concerns that the procedures for managing and reporting the country's crude oil and gas revenues are opaque and characterised by gaps, overlaps and inconsistencies in the role of key parties responsible for the assessment, collection and reporting on these revenue streams.

Against the backdrop of these concerns, the FGH, through the Federal Ministry of Finance ("FMF" or "the Ministry"), engaged KPMG and SSA to carry out a process and forensic review of NNPC.

This Inception Report articulates the methodology and framework adopted for the assignment. It sets out the project work plans, and other information relating to the project organisation and control procedures.

2.2 Project Scope

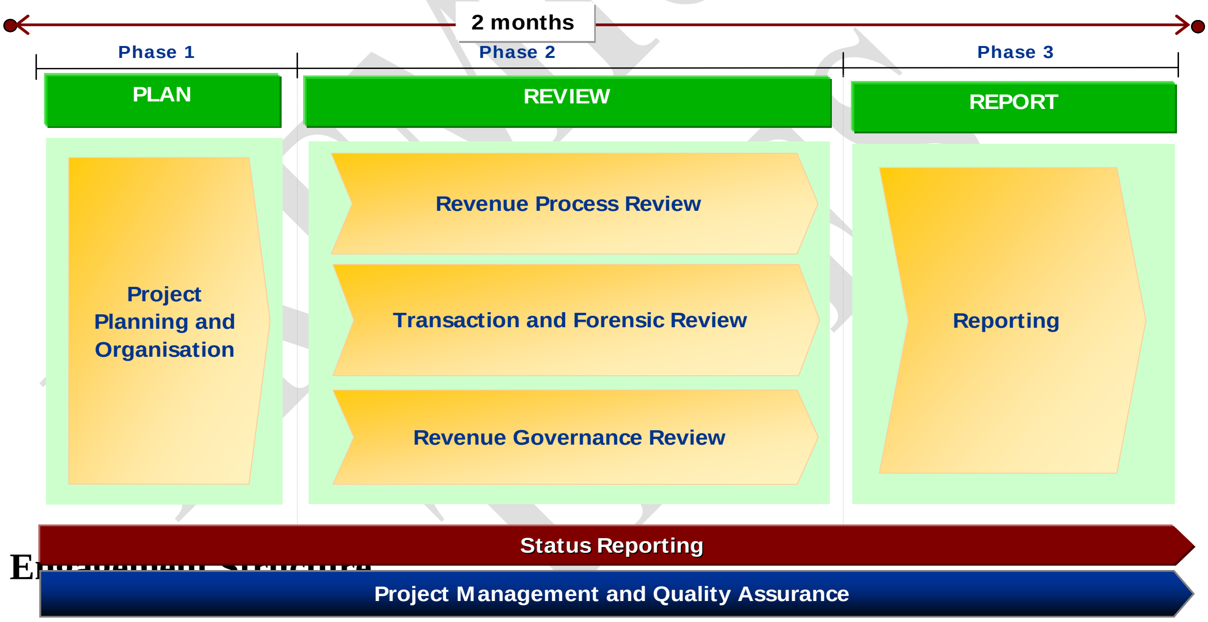
Based on the Terms of Reference (TOR), the specific scope of this review shall be:

- To determine the accuracy and completeness of reported crude oil and gas revenues accruing to the NNPC (both Federation and NNPC crude) during the period 2007 to 2009;
- To establish the underlining reasons for major inaccuracies and the NNPC officials involved in the irregularities;
- To review the existing governance and institutional arrangements for managing the country's crude oil and gas revenues (export and domestic) through NNPC;
- To carry out an assessment of deductions made by NNPC (including petroleum-product-related subsidy and joint venture cash calls) before remitting to the Federation Account;
- To examine other components of NNPC's operating and capital expenditure between 2007 and 2009;
- To establish, if any, discrepancies between reported and declared revenue receipts;

- To define and map out the processes and procedures by which the NNPC computes, determines, and remits revenues to government (including the process of marketing equity crude), by reviewing the existing procedures, flowcharting the current processes and evaluating the relevant controls, with a view to identifying existing strengths, inherent weaknesses, past errors and irregularities, and any practical prospects for improving the existing processes and procedures;
- To review the volumetric data involved in the computation of crude oil and gas revenues, that is, to validate the export and domestic crude oil volumes and values;
- To review a sample of past transactions for accuracy, validity, appropriateness and efficiency; and
- To summarise and report upon any exceptional issues noted during the engagement and which may have significant impact on the overall integrity of the system for remitting operating surpluses and other revenue receipts.

2.3 General Work Approach

Our overall approach is depicted schematically below:



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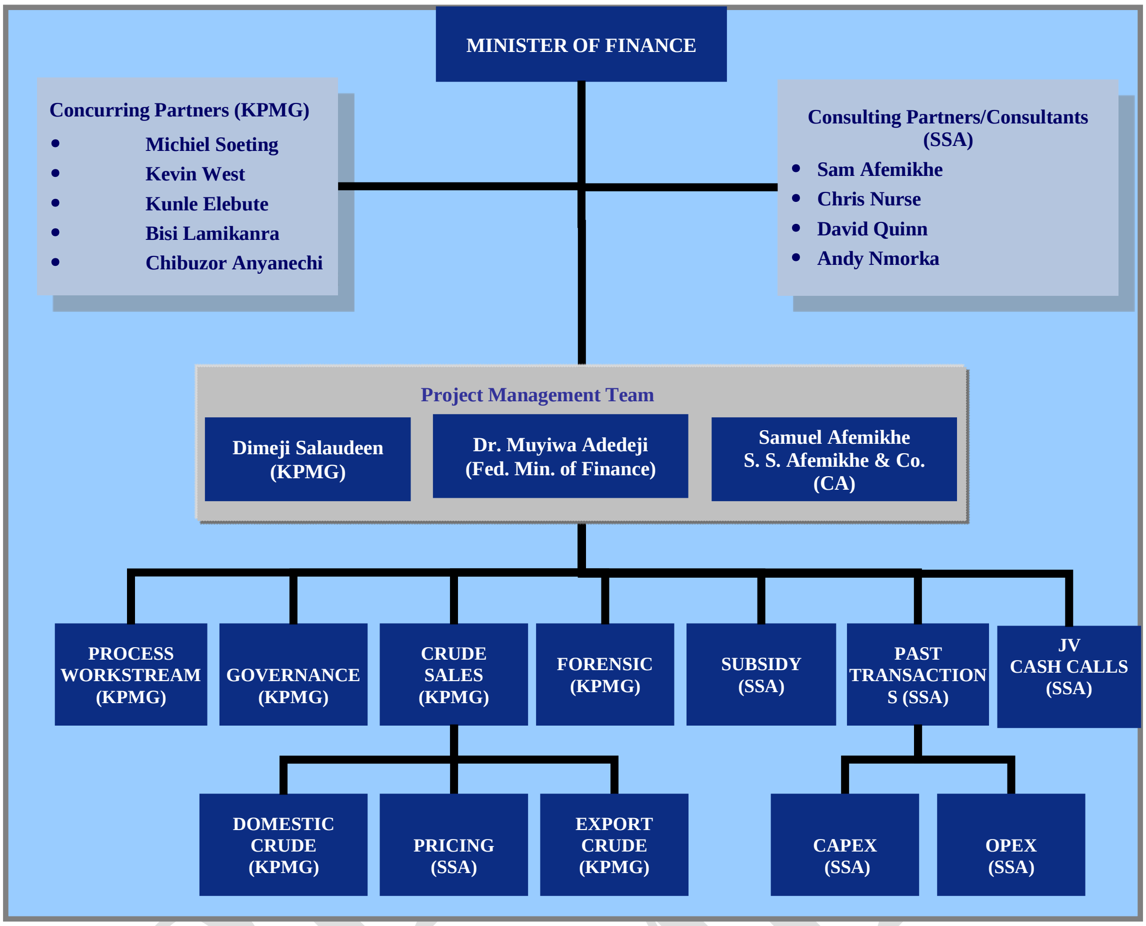

Figure 2.1: Project Team Structure

3 Process Workstream

This section of the report details our findings with regards the process review of NNPC's revenue processes. The objective of the process review was to analyse existing processes as well as identify gaps/ issues in the processes and proffer recommendations to bridge identified gaps. The process review covered the following processes:

- Crude Sales
  - Crude Sales Allocation
  - Crude Oil Pricing
  - Renewal/ Issuance of Crude Sales Contract
  - Crude Oil Lifting and Sales
  - Crude Sales Invoicing, Collection and Remittance
- Product Sales
  - Renewal/Issuance of Importation Supply Contracts
  - Crude Oil Refining
  - Product Reception
  - Transportation and Distribution of Products
  - Product Sales
  - Product Sales Invoicing, Collection and Remittance
  - Processing of Subsidy

3.1 Objectives

The revenue process review of NNPC was carried out to analyse the above processes with regards the following amongst others:

- Adequacy of existing controls to mitigate inherent risks;
- Adherence to laid down policies as well as the provisions of relevant laws, rules and regulations;
- Alignment with leading practices in the Oil and Gas industry;
- Adequacy of, and security over the accounting and other financial records maintained in respect of key transactions;
- Adequacy of the forms in use, checklists and templates, key reports generated, etc; and
- Utilisation of technology for increased effectiveness and efficiency.

3.2 Work Approach

Our overall work approach for execution of the process review is presented in the schematic below:

In order to achieve the objectives of the engagement, we performed the following key tasks:

- Defined data/ information requirements and gathered relevant background materials.
- Reviewed background materials to understand NNPC's organisational context and define revenue process hierarchy (i.e. process and sub-processes).
- Conducted one-on-one interviews with relevant process owners/operators to validate understanding of NNPC's revenue management and reporting processes and obtained relevant supporting documents.
- Documented and validated "as-is" processes.
- Conducted research and collated leading practices in the revenue cycle for the oil and gas industry
- Conducted detailed analysis of "as-is" processes to identify gaps, issues and improvement opportunities.
- Conducted a test of operating effectiveness of key controls within the revenue process.
- Analysed the revenue reporting practices of NNPC for compliance with the provisions of relevant laws, rules and regulations.
- Analysed the adequacy of, and security over the accounting and other financial records maintained in respect of key transactions.
- Benchmarked the revenue accounting and reporting practices of NNPC against leading practices and determined the gaps/ improvements.
- Documented key findings and their implications.
- Proffered recommendations to bridge identified issues.

3.3 Limitations

As at the time of compiling this report, detailed review and analysis of some processes have not been performed. This can be attributed to NNPC process owner's inability to provide supporting documents required for the process validation/ analysis. The outstanding process and supporting documents are highlighted below:

- Issue/ Renew Importation Supply Contracts.
  - Evaluation criteria for commercial bids submitted in respect of petroleum products importation.

- Criteria for allocation of product(s) and product volumes to importers/ suppliers.
- Periodic prequalification list of approved products importers/ suppliers. (2007-2009).

4 Detailed Findings

4.1 Crude Oil Revenue

Monthly Production Quota		
Findings	**Implications**	**Recommendations**
• Production /Commercial Allowable volumes have been observed to consistently exceed OPEC quota of 1,673,000 BBL/D for the six month period (April to September 2010).	• Non-compliance with OPEC quotas by OPEC countries could exert a downward pull on crude oil prices which results in reduced revenues for the government. • Nigeria may be fined for exceeding OPEC quota.	Proactively initiate steps with OPEC to review and agree/ update current quota.
• Technical Allowable (TA) is defined by DPR to preserve the country oil/gas reserves. Thus, monthly production estimates should not exceed TA. However, instances have been observed where technical allowable was exceeded: - Total and Chevron JVs – April 2010 - NAE and Esso (ERHA) PSCs – May 2010	• Non adherence to TA has a potential to negatively impact on the country's oil/gas reserves projections and plans.	• Appropriate justification and approval for exceeding TA should be duly documented. • Implement additional controls to mitigate non-compliance to TA: - Review of compliance to TA before approval of production. - Monitoring and reporting on non-compliance.

Monthly Production Quota		
Findings	**Implications**	**Recommendations**
• Poor data management - No centralized location for storing electronic copies of historical production and allocation data. These information are stored on personnel (individual) workstations.	• Potential loss of historical production information in event of staff turnover or system failure. • Difficulty in retrieving prior documents/ reports.	• Documents should be maintained in a central location. • Implement procedures for ensuring effective and timely filing/storage and back up of documents • Ensure periodic system back-up to minimize data losses

Pricing		
Findings	**Implications**	**Recommendations**
• Review of Official Selling Price (OSP) computation by GED C&I in addition to review by GED E&P. This appears to be a legacy issue as GED C&I was formerly the GGM of COMD.	• Duplication of review could result in long process cycle.	• Review existing crude oil pricing process to eliminate duplication of tasks/ bottlenecks. • Cycle times should be defined for the process of determining crude oil pricing.
• Currently, determination of Official Selling Price (OSP) is performed by using different variables (dated brent - DB, differentials - D and premium - P) i.e. OSP= DTB+D+P. A model was developed but is currently not being utilized based on its lack of robustness.	• Lack of a standard model could result in an incomplete evaluation of OSP variables such as freight costs, seasonal influences and operational challenges.	• Implementation of a robust and scalable pricing model to ensure a complete, consistent and systematic approach for determining OSP.
• We observed variances in crude sales price especially with regards to domestic sales to PPMC. Crude sales to NNPC were at lower prices (lower than approved OSP) than to other off-takers which is not in compliance with Government's directive. - It appears that there is no formal documentation to support this decision/ practice.	• Sub-optimisation of crude sales revenue/ potential revenue loss by the Federation. • Non-compliance with laid down policies and procedures. • Potential conflict of interest with COMD acting as agent to Government and being under NNPC who is also its customer.	• Review and update policies on crude sales to ensure that external off-takers and PPMC are invoiced at a uniform price.

Pricing		
Findings	**Implications**	**Recommendations**
• NNPC is invoiced in US$ for domestic crude allocations but is expected to remit the equivalent Naira value to the Federation Account. However we observed that exchange rates used by NNPC were lower than the average exchange rates published by the CBN during the review period. - Exchange rate variances for 2007, 2008 and 2009 were estimated at N25.7 bn, N33.8 bn and N26.7 bn respectively. (using CBN rates for the month of transaction) - NNPC claimed they obtained the exchange rates from CBN via phone but there was no document to substantiate the claim.	• Significant underpayment of domestic crude cost to the Federation Account.	• Enforce policy to ensure NNPC’s exchange rates are consistent with CBN’s published rates. • Supporting documents regarding applicable exchange rates should be obtained from CBN and filed appropriately for record purpose.

Issue/ Renew Term Contracts		
Findings	**Implications**	**Recommendations**
• The practice of renewing crude sales contracts on an annual basis is not in line with leading practices.	• This practice could result in discretionary renewal of contracts.	• Extend contract duration and implement process of evaluation Supplier's performance on an annual basis.
• Evaluation criteria for renewal of contracts are not clearly stated in the contract document: - Renewal of contract was said to be based on performance of off-takers. However, the basis and process for determining performance is not clearly defined. - In 2009, when there was a need to reduce the number of off-takers from 28 to 21 due to supply constraints, the basis for shortlisting the offtakers appears to be based on discretion as we were not provided with any documentation to support the selection process.	• Selection of off-takers might not be transparent and objective. • The selection exercise could be based on individual discretion and wrong assumptions/ criteria.	• Evaluation criteria and key performance measures should be clearly defined and documented in crude sales contact. • Standard forms should be used for evaluation of off-takers performance with inputs from all relevant parties – Finance, Operations, COMD e.t.c.

Issue/ Renew Term Contracts		
Findings	**Implications**	**Recommendations**
• We observed some instances where crude oil was allocated to off-takers who were not on the approved list: - Ovlas Trading (2,852,316 barrels and 906,269 barrels in 2007 and 2008 respectively) - Petrojam (2,818,914 barrels in 2007) - Oil Fields (950,166 barrels in 2007) - Zenon (906,000 barrels in 2008)	• Crude might be sold to non-credible off-takers. • Relevant guarantees (e.g. LCs) and safeguards might not implemented.	• Implement additional controls to ensure adherence to policy. - List of approved off-takers should be reviewed before the execution of crude oil sales agreement/ contract by relevant officers in NNPC. - Off-takers should be certified to be on the approved list before loading clearance is processed and approved for off-takers' vessels.

Monitor Production		
Findings	**Implications**	**Recommendations**
• NNPC and JV operators do not perform reconciliation for gas/ feedstock sold to NLNG.	• Potential for misstatement of NNPC's entitlement/ revenue from the sales of gas/ feedstock to NLNG.	• Periodic reconciliations should be conducted between NNPC and JV operators to detect and resolve errors / exceptions from the sales of NLNG feedstock.

Lift and Ship Hydrocarbons		
Findings	**Implications**	**Recommendations**
• Late processing of marketing clearance to load vessels due to delays in the receipt of Letters of Credit (LCs) from Off-takers. - Delayed receipt of LCs was attributed to both Off-takers and NNPC.	• This causes delays in the lifting of crude oil by vessels at the loading terminal.	• A clear penalty must be defined and enforced for all lifters. • Enforce compliance of Off-takers to the stipulated timelines: - LCs: 5 days before laycan date - Marketing Clearance: 3 days before laycan date

Process Customer Invoice		
Findings	**Implications**	**Recommendations**
• Long cycle time for billing of off-takers due to delays in receipt of relevant documentation from zonal office. However, off-takers are expected to remit payment irrespective of receipt of bill.	• Unauthorised extension of credit resulting in undue exposure to off-taker	• Review billing process to drive prompt billing of off-takers and explore alternative medium for receipt of invoice documentation e.g. faxing, scanning ,etc • Define KPIs for processing and dispatch of bills.
• Non compliance with guidelines relating to defined margin of error on LC value (+/-5%): - Variance between the invoice value and LC value exceeds the defined 5% error margin. Examples include invoice number COS/02/PPMC/026/08 (Difference of 10.8% i.e. Cargo valuation and LC value are $95,396,587 and $85,000,000 respectively).	• The risk exists that quantity of crude lifted by off-takers would exceed the contractual volumes.	• Update and enforce lifting policies to ensure actual lifting volume and value do not exceed defined LC margin of error. • Conduct periodic review of LCs against cargo valuation to proactively identify need to update LC value.

Process and Reconcile Collections		
Findings	**Implications**	**Recommendations**
• We observed that crude oil sales and collections are not promptly captured on the accounting system. Typically, these transactions are captured in the accounting system after the transaction have been approved at FAAC meeting which is typically two (2) months in arrears.	• Inaccurate sales and collection information on the financial systems and multiple data sources as data is predominantly managed outside the system. • Tracking and ageing of receivables would be performed manually. • Late detection of errors and absence of relevant audit trail. • Root cause analysis of adjustment not adequately determined/resolved.	• Review billing and revenue accounting processes to enable real time processing of transactions. • Explore possibility of system generated invoices.

Remit Funds into Federation Account		
Findings	**Implications**	**Recommendations**
• From our review of the cycle time for the remittance of domestic crude cost into the Federation Account, sweeping of funds took an average of 110 – 120 days as against the 90 day credit line offered to NNPC.	• Federation might be deprived of timely utilisation of funds. • Non compliance with contractual agreements. • Unauthorised extension of credit to NNPC.	• Review and update remittance process to ensure timely remittance of funds. • Define KPIs for sweeping of funds into the Federation Account.

4.2 Product Sales

Issue/ Renew Importation Supply Contracts		
Findings	**Implications**	**Recommendations**
• The process of selecting Suppliers for importation of products is documented but the documented procedures are not adhered to. We observed that the Evaluation Committee only recommends prices for the importation of petroleum products while actual allocation of importation contracts (especially volumes) appear to be at Management's discretion.	• The risk exists that the product importation process could be prone to abuse. • The limited role of the Committee in the contracting/ bid process for products import hampers the transparency and objectivity of the process.	• Management needs to empower Evaluation Committee to evaluate and determine shortlist for approval based on predefined and approved criteria. • Review and update policies and procedures for issuance of importation supply contracts. - Clearly define criteria for allocation to ensure transparency and objectivity. - Selection should be based on defined criteria.
• Evaluation of quotes/ bids from suppliers appears to be a redundant process because agreed product import prices are based on projected in-house estimate irrespective of prices quoted by suppliers.	• Credible suppliers might decline to supply petroleum products if import prices are not competitive. • There is increased possibility that suppliers might bring in adulterated petroleum products based on uncompetitive prices.	• Review process for determining product import prices and utilize a more robust/ flexible model to ensure prices are competitive and enable Supplier recover investment.

Issue/ Renew Importation Supply Contracts		
Findings	**Implications**	**Recommendations**
• Non compliance with approved policies/ procedures. We observed that contracts for the importation of petroleum products were awarded to companies/ suppliers not listed in the approved prequalification list used for the fourth quarter 2008 importation tender. - Astana Oil Corporation Limited - Natural Energy - Oando	• Potential risk that contract could be awarded to Suppliers who do not meet defined requirements. • Inability of Suppliers to meet contractual obligations.	• Review process and implement relevant mitigating controls - Only Suppliers on approved list should be invited to tender. - Evaluation Committee should review bids received and only evaluate bids from approved Suppliers. - Approval of importation supply contracts and payments should include a compliance review to ensure only approved Suppliers are utilised. Any exception should be duly documented and approved by the GMD. - Conduct of periodic independent reviews by Audit to ensure adherence to policies and procedures.

Monitor and Receive Product Imports

Findings	Implications	Recommendations
• Delays in discharge of product results in significant demurrage payments. - Based on our analysis of product importation profiles between January 2008 and June 2010, average demurrage days were estimated at 31 days.	• Demurrage payments are made by NNPC; - We observed that NNPC was liable to pay an aggregate demurrage of $198 million during the review period translating to an average of $6.6 million per month.	• Review and update planning process for receipt of product imports to enable more efficient planning of cargoes and minimise delays. • Explore long term solutions to resolve jetty facilities constraints: - Upgrade of jetty facilities products specifically with regards drafts. - Improved local production of petroleum products.
• Late payment to Suppliers of imported petroleum products: - The importation contract stipulates the settlement of supplier's invoice 45 days after submission of Notice of Readiness (NOR) to NNPC. However, actual payment to Suppliers ranges between 220 and 240 days after the receipt of NOR. - The late payment was attributed to cash flow issues as a result of the Corporation's inability to recover costs incurred on product importation.	• NNPC is liable to pay interest charges as a result of late settlement of invoices from suppliers. The current interest charges from 45 days after NOR is LIBOR + 1%. - This increases cost of sales and negatively impacts NNPC's ability to recover cost under the current pricing regime.	• Ensure proactive capture of invoices on the system to recognise obligation and enable effective payment planning. • Ensure aggressive and complete collection of crude oil sales to improve cash flow. • Review import process and pricing to ensure products are imported in a cost effective manner and costs are fully recovered by crude sales revenue.

Refine Crude Oil		
Findings	**Implications**	**Recommendations**
• Low capacity utilization of the refineries: - Capacity utilization for the four refineries in 2008 and 2009 are estimated at 25.3% and 11.2% respectively. - The low capacity utilisation was attributed to partial/ complete shutdown of processing plants at the refineries as well as pipeline vandalism.	• Continued dependence on imported petroleum products to supplement local production. • High refinery overheads with low profitability.	• Turn-around-maintenance of refinery processing plants to improve capacity. • Ensure continuous monitoring/ surveillance of pipelines to reduce the frequency of occurrence of pipeline vandalism.
• Non-integration of inventory, procurement and accounting systems: - Currently, crude oil receipt as well as the production, verification and evacuation of refined petroleum products are managed on MS Excel.	• Lack of end-to-end reconciliation of inventory to product sales. • Increased possibility of manual errors. • Late or non detection of inventory losses/ reconciliation issues. • Inaccurate inventory records resulting in misstatement of financial records.	• Deploy an inventory management system that supports the refineries' supply chain processes. - Currently, NNPC is in the process of implementing an ERP solution (SAP) which is expected to address the challenges being faced with non-integrated/ stand-alone systems. - There is a need to ensure that functional requirements meet and address the issues currently faced before the implementation can be successful.

Refine Crude Oil		
Findings	**Implications**	**Recommendations**
• The processing fee currently earned by the refineries for processing crude oil into petroleum products is not sufficient to meet the total operating cost of the refineries. - Our analysis of the financials of WRPC and KRPC between 2006 and 2008 revealed that the revenue earned from processing fee was significantly lower than the operating costs resulting in losses for the two refineries during the review period. - We also observed that the processing fee is determined by a committee constituted by the GED, Finance and Accounts and the last review was carried out in 2005. However, the basis for determining the processing fee rates does not appear to be in line with current realities.	• Inability of refineries to generate sufficient revenues to meet financial obligations and operating cost. • The refineries are not autonomous as they continue to depend on the Corporate Headquarters for funding. However, long term funding by Corporate Headquarters is not sustainable.	• Need to conduct a detailed review of the refineries operations to determine solutions to boost capacity, improve operating efficiency/ effectiveness and reduce operating cost and non-performing assets. • Review processing fee to ensure optimal pricing and enable better recovery of operating cost.

Determine and Process Subsidy		
Findings	**Implications**	**Recommendations**
• We observed that NNPC's subsidy claims and PPPRA's verification are based on volume of petroleum products available for sale (volume of products imported and actual production from the refineries) as against duly verified volume of products lifted out of the depots (volume of petroleum products sold) as stipulated in the subsidy guidelines.	• Potential risk of subsidy payment on products not consumed by end users due to losses from pipeline vandalism, theft e.t.c. - A rough estimation of subsidy payment on product losses for the period under review (2007 – 2009) is estimated at N 11.8 billion. • Risk of payment of subsidy on locally refined products which is not the intent of subsidy may encourage inefficiencies in the refinery process.	• Ensure more clarity with regards interpretation and application of subsidy to achieve the intent of the law. • Enforce compliance with the provision of the approved guidelines for the administration of PSF.

Determine and Process Subsidy		
Findings	**Implications**	**Recommendations**
• Subsidy claims should be remitted to NNPC from PSF by the Federal Ministry of Finance (FMF) based on claims approved by PPPRA. However, NNPC's practice is to remit to the Federation Account, amount payable for domestic crude less subsidy claims. It then requests the FMF to pay the subsidy amount due to it (from PSF) into the Federation Account being the balance of the cost of domestic crude.	• Actual remittance of proceeds of domestic crude sales to the Federation Account might be less than expected.	• Regularise and formalise guidelines for the administration of PSF. • The Federal Government should formally communicate approval of remittance of crude sales net of subsidy to NNPC, PPPRA, FMF and CBN.

Determine and Process Subsidy		
Findings	**Implications**	**Recommendations**
• There are instances of delays in receipt of subsidy advice from PPPRA resulting in the estimation of subsidy claims by NNPC which results in over/ under-deduction from proceeds of domestic crude sales. - For example, N25bn was deducted as subsidy estimate for September 2009 from domestic crude sales proceeds while PPPRA approved a subsidy of N23.8bn. - N35bn was also deducted as subsidy estimate for November 2009 but PPPRA approved a subsidy of N21.3bn. - Over-deduction for these two months amounted to N14.9bn. However, only N4.2bn was swept into the Federation Account by NNPC as adjustment for subsidy claimable in the two months.	• Under-remittance of domestic crude sales proceeds into the Federation Account. - Based on our analysis, subsidy over-deduction for 2007, 2008 and 2009 was estimated at N2.0bn, N10.3bn and 16.2 bn respectively. • High risk of loss of subsidy adjustments trail specifically in instances of under-remittance.	• Define and re-enforce deadlines for submission of subsidy advice by PPPRA. • Deduction from the proceeds of domestic crude sales by NNPC should be solely based on amount advised by PPPRA.

Transport Products from Refinery/ Atlas Cove to Depots

Findings	Implications	Recommendations
• Sub optimal utilisation of depot storage facilities. - DPK tanks (storage capacity of 18,000 cubic meters) at the various PPMC Depots within System 2B (Mosimi Area) have not been utilised for the past three years as DPK has not been supplied through this system. However, the tanks are said to be in good condition.	• Risk of ineffective distribution of products. • Possibility of incurring additional cost from leasing of third party storage facilities.	• Review existing facilities and explore opportunities to ensure full optimisation of storage facilities. • Implement procedures for ensuring the periodic review of facilities with a view to ensure optimal utilisation
• Product losses due to incessant pipeline vandalism continue to hinder the transportation of petroleum products. - Petroleum products losses through pipeline vandalism stood at 110.38 metric tones in 2009 and the monetary value was estimated at N8.1 bn.	• Delays in product distribution due to pipeline shutdown/ downtime which could impact product availability. • Additional cost will be incurred on pipeline repair. • Increased cost of transportation of products using trucks.	• Ensure continuous monitoring/ surveillance of pipelines to reduce the frequency of occurrence of pipeline vandalism. • Deploy technology to ensure proactive detection of pipeline leakages.

Transport Products from Refinery/ Atlas Cove to Depots		
Findings	**Implications**	**Recommendations**
• Lack of an integrated inventory management system to capture and monitor inventory across all depot locations. - Data on product transfer, reception and discharge across the various depot/ jetties are captured on MS Excel.	• Increased possibility of manual errors. • Late or non detection of inventory losses/ reconciliation issues. • Inaccurate inventory records resulting in misstatement of financial records.	• Ensure timely reconciliation of product receipt to discharge and physical balance. This should also include reconciliation to original letter of award/ contract. • Deploy an integrated inventory management system to minimise errors and enable easy reconciliation of inventory data. - Currently, NNPC is in the process of implementing an ERP solution (SAP) which is expected to address the challenges being faced with non-integrated/ stand-alone systems. - There is a need to ensure that functional requirements meet and address the issues currently faced before the implementation can be successful.

Transport Products from Refinery/ Atlas Cove to Depots		
Findings	**Implications**	**Recommendations**
• We observed discrepancies in the volume of petroleum product import receipt at Atlas Cove Jetty in June 2010. While MTD reported a volume of 193,160 MT, Mosimi Area Office quoted a volume of 184,989 MT for the same transaction. - Further evaluation of reports presented by MTD and Mosimi Area Office revealed that MTD's figures were misstated.	• Incomplete and inaccurate recording/ reporting of product receipts.	• Ensure inventory receipts are reviewed by appropriate level of staff before reports are forwarded to Management. • Deploy an integrated inventory management system to minimise errors and enable easy reconciliation of inventory data.

Market and Sell Products		
Findings	**Implications**	**Recommendations**
• Basis for allocation of products to coastal Marketers is not clearly defined and appears to be at Management's discretion.	• Lack of objectivity and transparency in the allocation process. • The risk exists that product allocation to coastal marketers could be prone to abuse.	• Review coastal sales process and ensure allocation criteria are clearly defined.
• Sub-optimal utilisation of Management's time: - Allocation of products to various coastal marketers is currently being handled by the MD, PPMC.	• Ineffective utilisation of Management's time.	• Review process and implement relevant controls to mitigate inherent risks arising from execution of tasks by other personnel. • Redefine responsibilities to free up Management's time for more strategic activities. • Define and document basis for allocation of products to coastal Marketers.

Market and Sell Products		
Findings	**Implications**	**Recommendations**
• Ineffective implementation of credit management procedures resulting in outstanding receivables from credit marketers. - Based on our review of consolidated debtors' age analysis report for Marketers, overdue debts as at 22nd August 2010 are estimated at N1.36 bn and N5.5bn for Independents and Major Marketers respectively.	• Increased likelihood of dispute over receivables. • Increased risk of bad debt resulting in lost revenue. • Delays in collection negatively impacts cash flow and ability to meet financial obligations.	• Review and update guidelines with regards credit management: - Evaluation of credit marketers. - Establishment and periodic review of credit limits. - Monitoring of credit limit. • Implement aggressive debt collection methods to collect outstanding debts.
• We observed that there are no defined guidelines for provisioning of bad debts from products sales which is not in line with leading and generally acceptable accounting principles.	• Misstatement of information provided in the financial reports.	• Update accounting policies to include provisioning and write-off of doubtful debts. Policies should clearly state provision rate, duration, write-off, e.t.c.
• Delays in capturing sales transactions on the Sun Accounting System: - As at August 2010, we observed that transaction entries relating to payment and product lifting by Coastal Marketers for June and July 2010 have not been captured onto the system.	• Inaccurate financial records. • Long cycle time for preparation of management reports due to reconciliation. • Increased and cumbersome reconciliation.	• Redesign process to ensure real time capture of transactions on the accounting system. • Define and implement timelines for posting of transactions as KPIs for process operators. • Explore opportunities to generate system invoices/ receipt.

Process Customer Invoice		
Findings	**Implications**	**Recommendations**
• Poor data management: - We observed that documents are not adequately filed and some documents are stacked in bags.	• Difficulty in retrieving supports for past transactions. • Increased risk of misplacement of documents. • Lack of supporting documents to present in cases where transactions listed on invoices are disputed by Marketers.	• Implement procedures for ensuring effective and timely filing/storage and back up of documents • Explore implementing a document management system to reduce the use of paper in the process flow. • Timelines for filing of all documents should be clearly defined and monitored to ensure compliance. • Ensure periodic system back-up to minimize data losses.
• Sub optimal utilisation of technology: - Prominent usage of excel sheet for various transactions. - Lack of integrated systems to enable end to end monitoring, reconciliation and tracking of transactions.	• Increased risk of errors from data transcription/ transposition. • Long cycle time for execution of transactions	• Ensure speedy implementation of ERP solution (SAP) across the Corporate Headquarters as well as the subsidiaries.