

## Evaluation of Budgetary Control due to Fluctuation of Petroleum Price on Ministry of Interior, UAE: A Framework of Analysis

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### Abstract

This paper aimed at finding out the impact of petroleum price on budgetary control in the ministry of interior of UAE. Budgeting and budgetary control entails the establishment of goals by the management of an organization and designing a process which serves as a framework within which an organization effectively articulates overall planned activities. To establish the effectiveness of budgets control and the problems affecting budgeting and budgetary control due to fluctuation of petroleum price. The author's used literature review as their main source of data using UAE as a case study and also made use of personal observations.

Petroleum prices have been on a roller-coaster ride over the last few years and negatively impact on the global economy. This paper examines the evaluation of budgetary control due to fluctuation of petroleum price. It therefore recommended that since budgeting and budgetary control contributes to management efficiency and high productivity of an organization, all relevant stakeholders must be involved in the budget process, from preparation to implementation, in order to guarantee overall goal attainment. In this paper, gleaned from the relevant literature, an innovative framework is developed and in further studies the factors are tested using this framework for their validity and for establishing their links to budgetary control.

**Keywords:** Budgetary Control, Fluctuation, Petroleum, UAE

### Introduction

According to Adams (2009), a budget could be defined as a future plan of action for the whole organization or a section thereof. Budget can also be defined as a financial and or quantitative statement prepared and approved prior of time to be pursued by the organization in order to achieve organizational goals and objective. Budget is divided into two main classes: capital budget and operating budget. Harper (1999) defines an operating budget is a plan of the day

to day use of resources and creation of utilities. It is particularly concerned therefore with materials, labour, overhead, sales cash etc. and it usually runs for a year, the period which is expected to correspond with whatever fiscal year the company is following so that comparison of budget to actual can be made. A capital budget plans the capital structure and liquidity of the enterprise over a long period of time. Capital budgeting is also an investment concept basically because it involves commitment of funds now in order to receive desired return in the future. Capital and operating budgets are well inter-connected, since capital budgets can only be developed on the basis of planned operation over the years. Previous researches provide evidence that allocation of budget has significance relation with the petroleum price.

ISAAC (2015) defines budgeting as a comprehensive and coordinated plan which is packaged by the management of an organization, and expressed in financial terms for the operations and resources of an enterprise for some specific period in the future. Pandey (2002) defines budgetary control as the establishment of departmental budgets relating the responsibilities of the executive to the requirement of a policy, and the continuous comparison of actual budgeted result either to secure desired actions. Traditionally, budgeting has always been viewed as a way of limiting expenditure, hence a great part of management's time is devoted to the allocation of fund.

A number of controllable and uncontrollable factors also influence an organization and these factors must be well appraised in drawing up a budget. Due to the existence of uncontrollable factors, which are usually not within the purview of management, provisions must be made in the budget to allow for diverse results (whether favourable and adverse factors), depending on the state of the economy at any given time, and it is this provision that inputs flexibility in budgeting. In drawing up a financial plan, management must set a standard for comparing actual performance with what was budgeted, thus creating a basis for controlling performance both in terms of production and cost incurred. This control is primarily referred to as budgetary control; that is the use of budget to control firms' activities.

The UAE also experienced a budget deficit in 2015 and 2016 of 17.7% to 3.1% of its GDP due to Petroleum prices and increased investment in areas of job creation and education aimed to foster more growth and human capital in the nation (The World Fact book : UAE, 2016). Further, in 2015, UAE eliminated its fuel subsidies to reduce national spending through budget control (Shahine, 2015). Low oil prices have undoubtedly left the GCC nations with budget problems that create a potential risk to their stability.

### **Literature Review**

Budget it is a plan that outlines ways to achieve the strategic objectives of the enterprise (such as: increased turnover by a certain percentage, cost reduction, fill a particular market place, international development etc). According to Bremser (1988) budgets are used to communicate top management's expectations to managers and employees. According to Lucey (2002), it is a quantitative expression of plan of action prepared in advance of the period to which it relates, expressed in money terms approved prior to the period. Lucey (2002) further urges that performance is influenced by many factors which includes planning and coordination, clarification of authority and responsibility, effective communication both internal and external, control of resources available, both human and non-human and motivation of both the lower and middle management. The various components of the budgeting of an enterprise is required to achieve the performance in a competitive

environment and in the use of limited resources (human, financial, material etc). The activity planning and budgeting provides a support in managing performance (Albu, 2003).

Budget has been defined by Reeve J.M & Warren C.S (2008) as an accounting device used to plan and control resources of Operational Departments of Governments and Divisions. The budget is used to size, in financial terms and in terms of economic efficiency, allocation and use of resources. In the process of achieving revenue and incur expenditure, the budget is a tool for analysis and control and to ensure the financial equilibrium of the company or a country (Ristea, M. 2013). According to Abdullahi and Angus, (2012) national budget has to be well design, effectively and efficiently implements and adequately monitor; its performance must be effectively evaluated. He argued, if administered wisely, budgeting drives management planning, provides best framework for judging performance, and promotes effective communication and coordination among various segments of business organizations.

One of the emerging issues in today's globalized world is that managers are planning for the future of their organizations in an environment where changes in conditions are experienced at frequent intervals. The value of currencies rise and fall, prices of input materials suddenly fluctuates and there are generally structural imbalances and rigidities in the global economic systems. Amid these conditions, management must make comprehensive appraisals and take critical decisions about the future of the organization in order to remain a going concern and result oriented. According to Lambe (2014), one of the effective ways to prepare for changing conditions is to provide a framework that contains specific plan that is sufficiently flexible to adapt to unanticipated changes. A comprehensive process of providing such framework is known as budgeting. It involves the setting of targets, and effectively monitoring of actual performance against those budgeted.

The petroleum industry then developed into an increasing number of countries, but remained largely dominated by US production, which in 1939 accounted for 60% of the world and in 1945 went to 65%. Nevertheless, with regard to the reserves, an increasing share is located in the Middle East, where one begins to discover the giant deposits, like Burgan in 1938. Starting in the 1980s, oil and certain petroleum products will be subject to financial instruments listed on the stock exchange, helping to promote trade in this area.

After World War II, the huge oil reserves in the Middle East became available, at a very low cost, and they rapidly revolutionized the way we live. Indeed, the twentieth century – with all the dramatic changes that it has brought to society – is probably best characterized as the century of oil. Most of the world's petroleum is to be found in the Middle East.

Ftiti et al., (2016) studied the degree of interdependence between oil price shocks and economic growth for (United Arab Emirates, Kuwait, Saudi Arabia, and Venezuela) in OPEC during the period from 2000 to 2010. They used co-integration test, the researcher showed that oil price shock short-term and medium-term during the period of fluctuations in financial turmoil and the global business cycle impact on economic growth in Organization of the Petroleum Exporting Countries. The effect of the medium-term effects is greater than that of the short-term effects.

Caraiani (2004) considers that the principles governing the budgetary control are:

**Monitoring of budgetary provisions:** Budget officers permanently checks the budget estimates with actual results to identify and correct errors.

**The flexible Budget:** It provides estimates which can be automatically adjusted with changes in the level of productive output. This tool cost control is used in the analysis of performance.

**Analysis of deviations through selective management:** Analysis of deviations is the process of calculating the value and identification of the causes of differences between actual and budget. This analysis is applied selectively, are examined only favorable and unfavorable deviations which do not fall within the limits set by management.

**Creating a system of periodic reports on performance:** It is focuses of the accounting system. On the basis of the dysfunctions observed, identify solutions and adjust the following data on the budgetary circuit.

Oil prices have plunged recently, affecting everyone: producers, exporters, governments, and consumers. Moriarty and Honnery (2014) provided evidence of a strong correlation between global economic output and the continuation of increase in the future use of primary energy sources such as oil and gas, creating great potential for energy prices to increase when viewed from the long cycle time-series component of the traded oil commodity.

These fluctuations in price not only affect many countries and company but even normal people in many countries. Example: one of the biggest losers in the oil price drop in Russia ,since about 70% of the country's export incomes comes from oil exportation according to 'Winners and Losers' article in the Economist. So, most of the oil producing countries have to sell the oil barrel at least at \$100 to balance their budgets.

### **Empirical Review**

Marcormick and Hardcastle (2011) carried out a study on budgetary control and organizational performance in government parastatals in Europe. A sample of 40 government parastatals were used for establishing the relationship between budgetary control and organizational performance, secondary data was used and a period of ten years was reviewed. A regression model was used for data analysis and the results of data analysis revealed a positive relationship between budgetary control and organizational performance of government parastatals. This is supported by Serem (2013) who explains that there is a weak positive effect of budgetary control on performance of Non-Governmental Organization's in Kenya measured by R square at 14.3%.

### **Fixation of Oil Price**

In spite of the fact that only about 3% of traded futures lead to physical delivery of the goods to the buyer, the theory of the balance of supply and demand is also applicable to this market. In turn, this balance affects many factors. Below are some of the points that traders are guided by when buying or selling oil, in the course of trading on the stock exchange:

- Data on oil production
- reserves
- consumption

The two main sources of this information are the weekly EIA and API reports. Indirect factor is also the number of existing drilling rigs according to Baker Hughes, which indicates the profitability of oil production at a particular time. News about the decisions taken by the oil-producing countries, primarily concerning the limitation or increase of oil production. Activities and decisions of OPEC. The organization of oil-exporting countries today still has a

serious impact on pricing in the oil market. The news about the next meeting of the cartel participants affects the course of oil in one direction or another, depending on the expectations of the outcome of the meeting. And the decisions made on it can significantly shift the balance of the market.

Economic growth / decline in some countries. Improving economic performance, for example, China or India, will force traders to reconsider their forecasts for black gold consumption, and thus provoke a change in oil quotations.

The crisis and the unfavorable political and economic situation in the oil-producing countries can potentially significantly reduce the level of production. As a result, oil quotes are creeping down. An example is the imposition of sanctions on Iran in 2012 in connection with its nuclear weapons program. As a result of declining supplies of Iranian oil, the price of oil rebounded to \$ 95 - 100 per barrel. Wars and terrorist attacks. Any military actions and terrorist acts in the oil-producing areas lead to panic in the oil market, due to the expectation of falling supplies.

Natural and man-made disasters in oil-bearing areas are also accompanied by changes in the cost of oil. A striking example was Hurricane Katrina in August 2005, which caused damage to about 20% of US oil production facilities. As a result, oil quotes grew by \$ 3 per barrel. Following him, Hurricane Rita followed. In total, both hurricanes destroyed 113 oil and gas production platforms.

Change in consumer habits. For example, data that this year the Americans have spent more time driving. The world share of oil consumption today in the US is about 20%, almost half of this amount goes to the production of gasoline. Thus, changes in the habits of drivers can lead to both a deficit and the formation of surplus fuel. It is only natural that developers of alternative energy sources compete sharply with oil companies. Therefore, any developments in this area have a certain influence on the oil price. At the moment, this influence is not expressed strongly, but in the future it will increase.

Thus, in general, oil prices, like any other commodity, are set by the "invisible hand of the market" mainly in accordance with the supply-demand ratio. And market participants are engaged in the fact that they predict the impact of certain events on the price of oil, relying on certain events occurring in the world.

### ***OPEC crude oil prices***

The OPEC Basket is one of the most significant benchmarks for crude oil prices worldwide. The most important benchmarks are UK Brent, West Texas Intermediate (WTI), and Dubai Crude (Fateh). Because there are many types and grades of oil, such benchmarks are indispensable for referencing them on the global oil market.

The statistic depicts the average annual oil price for selected OPEC crude oils from 1997 to 2018 is given below:

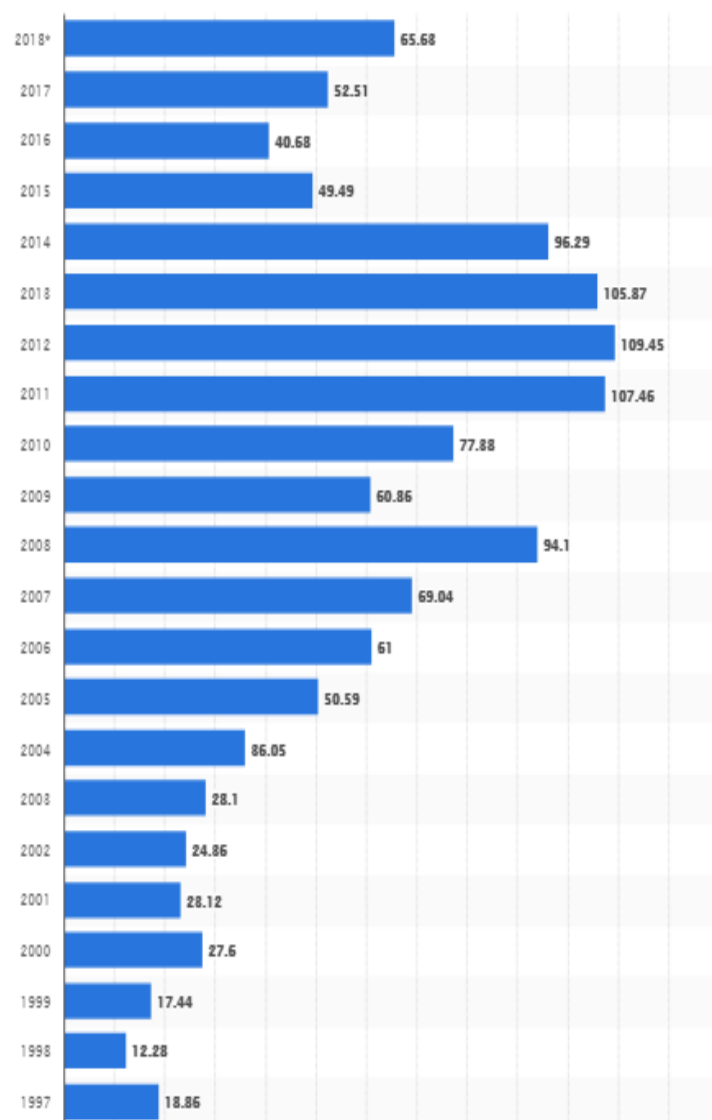


Figure 1: Average annual OPEC crude oil price from 1997 to 2018 (in U.S. dollars per barrel)

This statistic illustrates the monthly average crude oil prices of the OPEC (Organization of Petroleum Exporting Countries) basket for the period between May 2017 to May 2018.

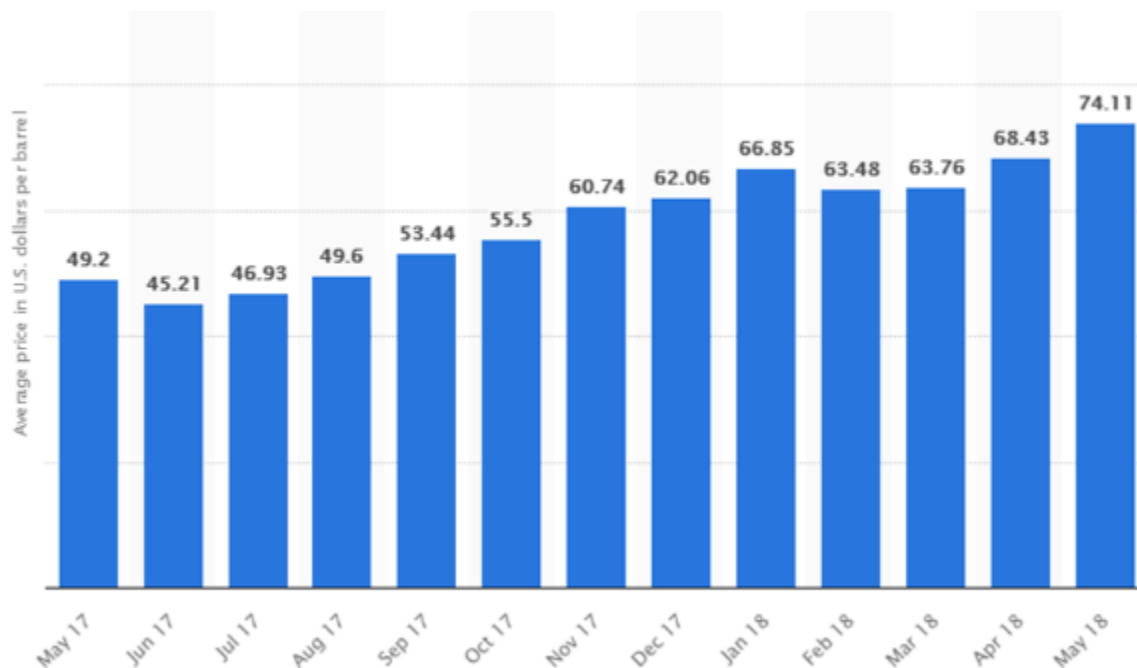


Figure 2: Average monthly OPEC basket crude oil price from May 2017 to May 2018 (in U.S. dollars per barrel).

### ***Nymex Crude Oil Futures***

The New York Mercantile Exchange (NYMEX) is the world's largest physical commodity futures exchange. Today, NYMEX is part of the Chicago Mercantile Exchange Group (CME Group). The CME Group is the world's leading and most diverse derivatives marketplace, made up of four exchanges, CME, Chicago Board of Trade (CBOT), NYMEX and Commodity Exchange, Inc. (COMEX). Each exchange offers a wide range of global benchmarks across major asset classes.

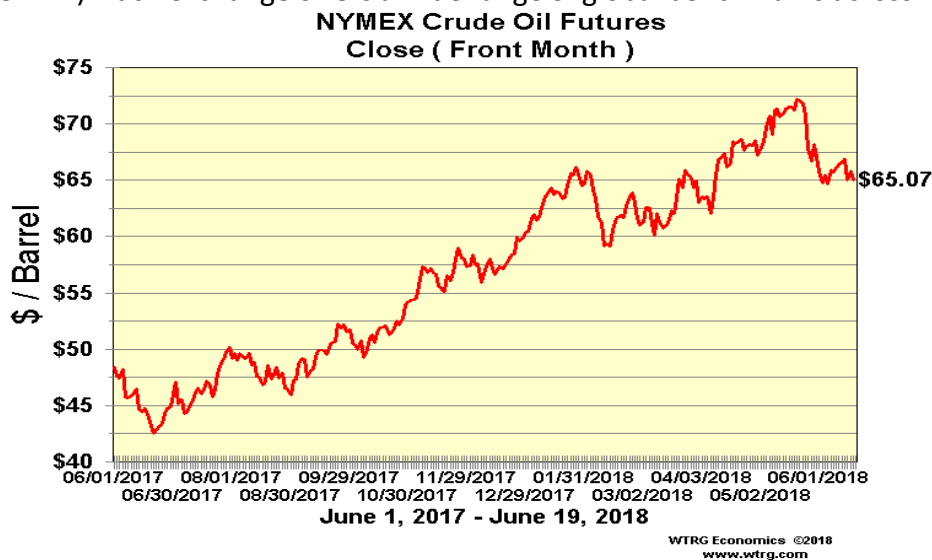


Figure 3: NYMEX West Texas Intermediate Crude Oil Price

### **Petroleum production capacity and industries in United Arab Emirates**

During the past 5 years, production of crude petroleum had been increasing steadily in the UAE. In 2014, ADNOC produced crude petroleum from onshore fields, including the Murban field, and from offshore fields, including the Lower Zakum, the Umm Shaif, and the Upper Zakum fields. The country used enhanced oil recovery (EOR) technologies to extract crude



petroleum and natural gas from many of its oil-producing wells. In October, ADMA-OPCO started crude petroleum production at the Umm Lulu oilfield, which is located 30 km northwest of Abu Dhabi, for the first time. Crude petroleum produced from Umm Lulu, which would have a capacity of 105,000 bbl/d, was expected to be transported through subsea pipelines to Zirku Island in order to be exported to countries in Asia. In July, ADNOC started to produce a new crude stream, termed das, which was a blend of light and sweet (low sulphur) crude, from the two existing streams of the Lower Zakum and the Umm Shaif fields.

The Upper Zakum offshore field development project, which is located 84 km off the coast of Abu Dhabi, was projected to be sustainable for 25 years. The project, which was managed by ZADCO, was expected to increase Upper Zakum's output to 750,000 bbl. /d by 2016 from the current 590,000 bbl. /d.

The Lower Zakum offshore field, which is located 63 km off the coast of Abu Dhabi and was operated by ADMA-OPCO, was expected to increase its output to 425,000 bbl. /d by 2020 from the current 345,000 bbl. /d (U.S. Energy Information Administration, 2015).

In 2014, the UAE had five petroleum refining facilities with a total capacity of 778,000 bbl. /d of refined petroleum products, which was to be increased to 1.2 million barrels per day by 2015. The largest UAE refinery was at Ruwais and was operated by TAKREER, which was a wholly owned subsidiary of ADNOC; the Ruwais facility had the capacity to produce 400,000 bbl. /d of refined products. By yearend 2014, the Ruwais refinery commissioned a \$10 billion expansion that would add 417,000 bbl/d of refined products capacity. The expansion was expected to bring the refinery's overall capacity to 817,000 bbl. /d by mid-2015. The project was originally planned to be commissioned by mid-2014, but was delayed for unknown reasons. At yearend 2014, work continued on the petroleum-storage expansion project at the Al Fujairah export terminal. the project was expected to reach about 16 Mbbl of crude petroleum and refined petroleum products storage capacity by 2016 and to include adding three subsea loading lines, an intermediate pumping station, and three offshore buoys designed for deep-water tanker loading (Critchlow, 2014; Crisp, 2015). in 2014, the joint venture of ADNOC (51%) and Abu Dhabi Future energy Co. (Masdar) (49%) continued the development of a three-component carbon capture, use, and storage facility that would have the capacity to sequester 0.8 Mt/yr. of carbon dioxide . the contract to build the \$122.5 million project was awarded to Dodsai engineering and Construction Group of India and Asia engineering and Construction LLC. the Abu Dhabi Carbon Capture and sequestration (CCS) project was designed to capture carbon dioxide at the source at the ESI mill at Mussafah. Then, about 90% of the carbon dioxide produced at the ESI facility would be compressed, dehydrated, and transported through a 50-km pipeline to ADNOC's onshore oilfields where it would be reinjected into the Rumaitha oilfield to enhance the rate of oil recovery. The project, which was expected to be inaugurated by the first quarter of 2016, was intended to free up considerable volumes of natural gas, which was utilized typically to pressurize petroleum wells and to support power generation and water desalination (Watts, 2014).

Oil production in the economy United Arab Emirates is second largest oil producer in the Middle East (after Saudi Arabia) and the extraction of oil in the 2014 reached 3.7 m bpd. Although being such a large producer, UAE economy is not so much dependent on oil as in the other Persian Gulf countries.



### Budget estimation

Budget estimates are prepared on the basis of six major elements; namely:



Figure 4: Six major elements of budget

### Annual budget preparation

In each annual budget, forecasts of revenues, expenses and allocations are to be produced on the basis of six main sectors.

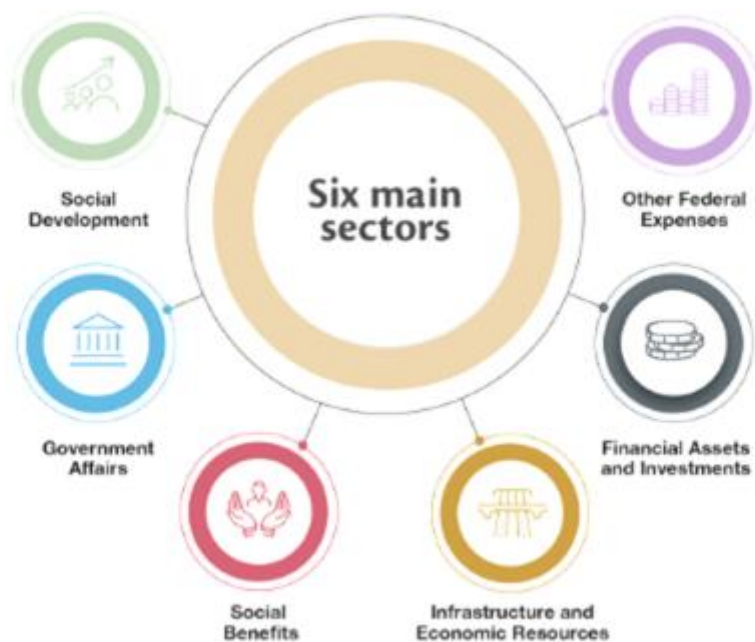


Figure 5: Six main sectors of allocation

### Ministry of Interior (MOI) -UAE

MOI UAE provides services for smart phones to be used by individuals and companies as well. The application provides services that are offered by four main sectors of the Ministry of Interior of United Arab Emirates, which are the following:

#### 1. Traffic and Licensing:

- Vehicles Registration
- Traffic Fines

- Plates Services
- Drivers Test Services
- 2. Civil Defense
  - Institutions Licensing
  - Engineering Plans
- 3. Police Headquarters
  - Police Services
- 4. Naturalization and Residency
  - Entry Permits Services
  - Entry Visa Services
- Residency and Foreign Affairs

### **Federal Budget Preparation**

Ministry of finance moved from the “Line Item Budget” applied in 1972 to “Programed and Performance-based Budgeting” in 2001. In 2008, a medium-term (three-year) budget was implemented until the medium-term zero-based budget was adopted in 2011. Then, in 2014, COFOG and an automated system were implemented until a five-year zero-based budget was adopted for the term 2017 - 2021

In the last 44 years, the UAE's budget has increased more than 242-fold from AED 200 million in 1972 to AED 48.5 billion in 2016. This has been accomplished through optimal distribution, efficient use of resources, and maintaining a balance between revenue and expenditures

The federal budgeting process consists of five phases implemented according to laws, regulations, circulars and relevant manuals, namely: planning, preparation, reviewing, approval and execution. Budget expenses and allocations are distributed to the six following sectors: social development, social benefits, infrastructure and economic resources, government affairs, financial assets and investments, and other federal expenses.

### **Federal Government Budget**

This section provides you with all the information and details you need to know about the UAE federal budgets over the years, including the general federal budget for the fiscal year 2018 at a total of Dh51.4 billion, which is the largest budget ever to be allocated to the federal government; as well as the federal budget for the fiscal year 2017 which was prepared in tandem with the zero based budget principles adopted by the UAE, and it is in line with the initiatives and projects adopted in the federal government strategy.

### ***Federal Budget 2018*** (the largest budget ever announced by MoF)

The second general federal budget of the five-year plan from 2017-2021 was announced at the beginning of November 2017, and totalled AED 51.4 billion, an increase of 5.6% from 2017. The budget for 2018 represents the largest drafted by the UAE Ministry of Finance to date.

### ***Allocations of the budget***

The UAE is the first Arab country to propose a Five-Year Federal Budget (2017-2021). In October 2016, the UAE Cabinet approved the federal budget draft for 2017-2021, with an estimated spending of AED 247.3 billion over five years, making the UAE the first Arab country to prepare a periodic five-year budget.

UAE cabinet approved AED 49.1 billion-draft federal budget for the year 2015, an increase of 6.5% as compared to 2014. The breakdown of the budget shows that 49% of total budget (AED 24 billion) will be spend on social development and social benefit, 41% (AED 20 billion) on government affairs and 3.7% (AED 1.8 billion) on infrastructure.

The federal budget for fiscal year 2018 was allocated to the key sectors for the UAE, with the budget for Social Development and Social Benefits standing at AED 26.3 billion, equating to 43.5% of the total. The UAE Government was allocated a total of AED 22.1 billion, or 36.5% of the total budget.

The 2018 federal budget was drafted in line with the the International Monetary Fund (IMF) standards relating to government financial statistics. MoF continues to adopt a functional classification of government expenditure initiative, as it has done since 2014. This places a focus on classifying government expenditure according to social and economic goals. This classification facilitates financial analysis procedures, showcasing the effectiveness of governmental financial provisions for public services, in addition to enabling international comparisons with countries that implement the same functional classification system.

### The impact of higher oil prices on budget

According to Pallavi Pengonda (2018 ), the firm oil prices are playing the villain. Whether GST (goods and services tax) will turn out to be the hero that will save us from this menace remains to be seen. Inflation is the most important factor and the government will have to determine the extent to which it is comfortable. "My sense is that the oil subsidy outgo for fiscal 2019 will increase by Rs5,000-Rs10,000 crore assuming the government does not cut taxes, which will assure its revenues," he added.



Figure 6: The impact of higher crude oil prices on the budget is given on the above chart.

It shows the increase in government revenues and government expenditure (or oil subsidy) for every \$10 a barrel rise in oil prices. The subsidy on cooking gas and kerosene (fuel products on which the government still compensates after diesel and petrol were deregulated)

increases to Rs18, 400 crore. But then, higher crude oil prices also bring in higher revenues for the government.

According to CNBC data journalist Mark Fahey (2015), even if OPEC opts to decrease production in an effort to bolster prices, there is no guarantee that member countries will comply. In fact, OPEC has little real power to hold members to their quotas. Most members cheat on quotas regularly, and they're more likely to do so when low prices cause revenue pressures at home.

The fiscal break-even price and fiscal deficit (%GDP) of the OPEC's 12 member countries after oil price decrease in 2014 are given below:

OPEC member	Fiscal break-even price	Fiscal deficit (% GDP)	Million barrels per day	Spare capacity (% unused)
Algeria	\$96.10	-13.90%	1.11	2.63%
Angola	\$110.00	-3.50%	1.79	2.22%
Ecuador	n/a	-5.10%	0.53	5.26%
Iran	\$87.20	-2.90%	2.88	20.83%
Iraq	\$81.00	-23.10%	4.2	6.94%
Kuwait	\$49.10	1.20%	2.73	1.42%
Libya	\$269.00	-79.10%	0.43	20.00%
Nigeria	\$122.70	-2.80%	1.9	6.77%
Qatar	\$55.50	4.50%	0.67	5.71%
Saudi Arabia	\$105.60	-21.60%	10.25	17.13%
UAE	\$72.60	-5.50%	2.89	2.04%
Venezuela	\$117.50	-24.40%	2.38	3.21%

Figure 7: IMF Regional Economic Outlook: Middle East and Central Asia, October 2015

### Fiscal policy

It was intended first of all if not to eliminate the budget deficit, then reduce it to a minimum, reduce the cost of subsidies to unprofitable branches of the economy, defence and the military-industrial complex, management, etc. .Therefore, the main task in the budget policy was and remains to strengthen public finances, reduce the budget deficit, create favourable financial conditions for the development of the national economy. The most important link in the economic policy of the state is the budget policy. It reflects all of its financial relationships with legal entities and individuals. When planning budget policy, the state should proceed from the need to ensure economic and social stability. In recent years, certain efforts have

been made to strengthen the budget system , reduce the government's inefficient spending, and reduce the level of the budget deficit. However, the formation of a budget system that meets the requirements of the country's economic development has not yet been completed. In the light of these problems, the following main directions of the fiscal and budgetary policy of our state have been determined in the long-term economic plan developed and approved by the Government of the Russian Federation.

An important direction of the financial and budgetary policy is the creation of an effective system of public financial management . The transfer of all budgets to treasury execution will strengthen the control of society over the use of budgetary resources.

The state's financial and budgetary policy is carried out mainly in the course of the work carried out by the authorities to raise funds and use them; in the course of the budgetary process.

The budgetary process is a set of actions of executive and representative authorities on the development and implementation of fiscal policy and management of the budget system.

The financial and budgetary policy is implemented in the activities of financial and tax authorities , the monetary authority (the Bank of Russia ), control and accounting bodies.

In order to draw up a draft budget, the RF Ministry of Finance and territorial financial bodies should be provided with the necessary information base , which it receives from the relevant government, statistical, tax authorities and other institutions. The main source of information for drafting the budget is the forecast of the socio-economic development of the state or territory, which in turn is developed on the basis of economic and social development data for the reporting period , development trends for the planned year and other indicators. When developing the draft budget, the main provisions of the financial and budgetary policy adopted for the relevant planning period are also taken into account.

The basis for the drafting of the federal budget is laid out the directions of the planned fiscal and budgetary policy , as defined in the budget message of the President to the Government of the Russian Federation, and the indicators of the forecast of the socioeconomic development of Russia developed by the Ministry of Economic Development and Trade for the planned year, the specified parameters of the medium-term forecast of Russia's socioeconomic development , indicators of the monetary program compiled by the Bank of Russia, and indicators of long-term federal targeted program mm , the list of which is determined by the Government on the basis of long-term and medium-term forecasts of the country's socio-economic development. In addition to drawing up the draft budget for the planned year, the executive authorities of the subjects of the Federation and municipalities should prepare and submit to the higher executive authority the following documents and materials for the purpose of compiling the consolidated budget of the Russian Federation , ensuring a unified fiscal and budgetary policy.

The Government of the Russian Federation, before August 15 of the year preceding the planned one, reviews the forecast of Russia's social and economic development, drafts of the federal budget and budgets of state trust funds, drafts of the consolidated financial balance and materials characterizing the financial and budgetary policy for the planned year.

The bodies of the federal treasury are called upon to implement the state budgetary policy ,

manage the execution of the federal budget, while exercising strict control over the receipt, targeted and economical use of public funds. The Treasury has the following tasks. The primary objective of fiscal policy is to overcome the budget crisis.

Several authors have made various propositions and have defined the term budget; from various perspectives, mostly on individual perspectives and experiences. According to Brown and Howard (2002), a budget is a predetermined statement of management policy during a given period which provides a standard for comparison with result actually achieved. Buyers and Holmes (2000) on their part define a budget as a financial and/or quantitative statement prepared and approved prior to be pursued during that period for the purpose of attaining a given objective. They opined that a complete budget of the future operation of a business involves the matching of sales with production. This is to set an attainable objectives and the planning of the work to be carried out and costs to be incurred by the canters into which the business is divided for budgeting purposes. In the views of Charles (1997) a budget is a quantitative expression of plan of action and an aid to coordination and implementation. This suggest that budgets are designed to carry out a variety of functions; planning, evaluating performance, coordinating activities, implementing plans, communicating, motivating and authorization, thus punctuating the basic element of a result oriented budgetary system. Pandey (2001) posits that a budget is a comprehensive and co-ordinated plan expressed in financial terms for the operations and resources of an enterprise and for some specific period in the future. According to him, the basic elements of a budget are would include the following:

- It is a comprehensive and co-ordinated plan.
- It is expressed in financial terms.
- It is a plan for the firms operation.
- It is a future plan for a specified period.

Cope (1994) views the term budget as a comprehensive plan expressed in financial terms by which an operating programme is effective for a given period of time (usually one year) including estimates of the services, activities and projects comprising the programme, resultant expenditure requirement and the resources usable for their support. Onuorah (2005) however holds the view that budgeting spells out management plan in quantitative terms. According to him, it also helps to evaluate organizational plans, while at the same time performing two vital management functions namely: • The formulation of a comprehensive future plan of action; • It compares actual result with predetermined plan, thus, planning and control (which are two primary functions of management) are also essential features of the budgeting process. In the views of Lucey (1988) as it relates to the discourse, a budget is the annual process of funds allocation, which should be seen as stages in the progressive fulfillment of the long term objectives of the organizations. Accordingly, the budgeting process steers the organization towards the long term objectives defined in the corporate plan. An analysis of the above propositions on the concept of budget reveals that although they have different interpretations they all have a common element. In essence, a budget is a predetermined statement of management policy during a given period, which provides a standard for comparison with the results actually achieved. It involves an estimation of income and expenditure over a period of time, thus the act of preparing a plan and quantifying it financially is known as budgeting. A budget is generally the organization's expectation in the future and it basically involves planning (which involves the control and manipulation of relevant variables - controllable and non-controllable) and reduces the



impact of uncertainty. It makes management active to influence the environment in the interest of the enterprise. A budget expresses the plan in formal terms and helps to realize the firm's expectation. It is a comprehensive plan in the sense that all activities and operations are considered when it is being prepared.

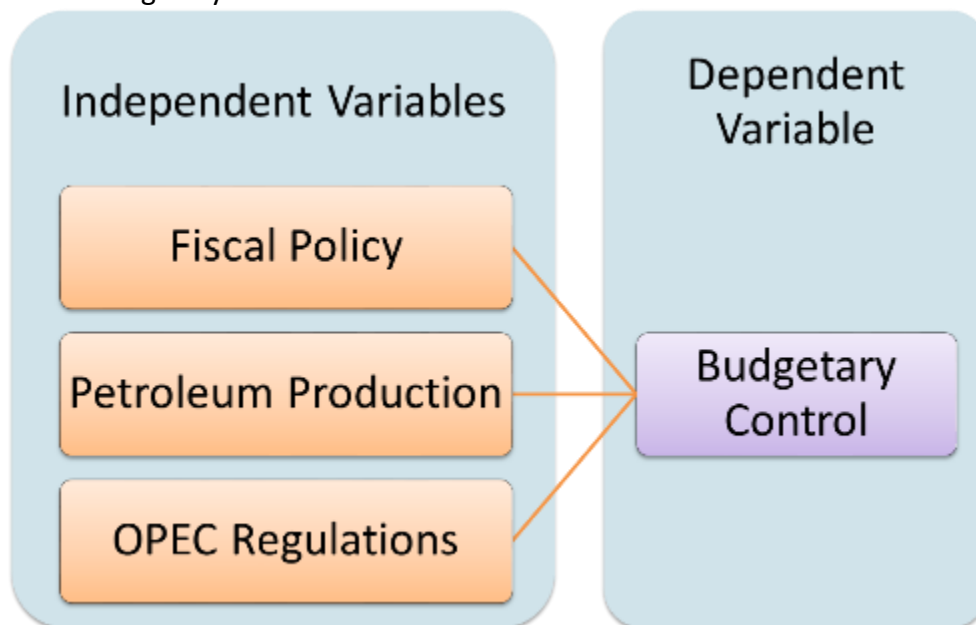
### **OPEC and Its Role in Regulating Price of petroleum**

Studying oil price developments and OPEC's role since its foundation shows that OPEC has reacted sensitively to oil price volatilities and attempted to stabilize oil prices. In fact, the organization has played an effective role through different crises. Oil and oil revenues are considered a vital factor influencing economic behavior and developments of oil-rich and oil exporting nations. Today, more than 50% of the major oil producing countries, directly or indirectly, rely on oil revenues income and any fluctuation in oil prices is reflected in their economies.

The fact that crude oil has not been substituted by any form of energy throughout the 20 century is indicative of the importance of this energy carrier in terms of cost-effectiveness as well as preferable value-added index in contrast to other forms of energy. While mankind has made substantial progress in making use of alternative energy resources, oil is still at the focal point of the measures for creating value-added indexes and maximizing profit. The history of oil industry shows that, in certain periods, major oil companies held monopoly on the industry, however, since the foundation of OPEC, oil exporting countries have managed to gain a partial control over the market. The oil prices have long been the most pivotal issue in the industry. The main reason for creation of OPEC was the debates between oil exporters and oil companies over oil prices as well as the companies' unilateral measures to reduce oil prices. The truth is that establishment of the Organization of petroleum exporting Countries (OPEC) was a political and, in the meantime, anti-colonial reaction by the developing oil exporter countries against the policies and stratagems of the international oil companies. Therefore, this research paper attempts to, firstly, review the short history of the organization and, secondly, introduce its members, operational units and vision of organization. The paper finally examines OPEC performance during different crises and its role in regulating oil prices. Before 1960, oil market was under the monopoly of seven major oil companies known as "The Seven Oil Sisters ": five American companies, an English company and an English-Dutch company. These Sisters had monopoly on almost all discovered oil reserves of the world at the global oil market was entirely dependent on their decisions. The scope of the dominance of the Sisters was so vast and deep that in the 1950s, 90% of the production and sales of crude oil as well as oil products from outside of the United States and about half of the oil reserves inside the US were held under control of the Sisters. These companies had control, on the one hand, over exploration and production of oil in oil rich countries and, on the other hand, over refineries and distribution networks in other parts of the world. Consequently, they had all the exported oil of Iran, Iraq, Saudi Arabia, Kuwait and Venezuela equal to some 86% of the world's crude oil export then they also held licenses for oil production in other oil- rich countries like Indonesia, Qatar, Libya and the AUE. Not only did they ignore the exporters' rights to increase royalties, taxes, and oil revenues in general, but they also weakened the global oil market so badly that the Persian Gulf oil prices, which were considered a basis for calculating taxes and oil revenues levied by oil-rich countries, plummeted down to 18 cents in 1959 and eventually 10 cents in 1960.

### Conceptual Framework:

- Independent Variables
  - Fiscal Policy
  - Petroleum Production
  - OPEC Regulations
- Dependent Variable
  - Budgetary Control



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