Public Budgeting: Good Practices Budgeting In Oil And Gas Industry

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INTRODUCTION

There are so many definition of budget in the world and it is depend on what kind of situation or function of the budgets that were used by the organization. What is the meaning of the budget? It is a set of document which translates the plans into money. This money will be used by the organization to spend for the activities in order to ensure your planned activities done or in other word as expenditure. By using the budget, the money will be used to generate and cover the costs or organization income. Budget is “a budget is not written in stone where necessary can be changed, so long as you take steps to deal with the implications of the changes” [8].

Besides that, budgets are used in the organization especially for various purposes such as performance dimension and assessment, personnel inspiration, evaluating results and cost mechanism [11]. Hence, the fluctuations in business atmosphere have reflective effects for cost supervision systems [9]. As a result, the organization needs to have better management in order to overcome the cost problems or they have to terminate operate in the future as they cannot strive very efficiently.

There are some basic principles that we need to know about the budgeting. The most important is budget is not something that you can plan or make it as simply as you think. A good practice in budgeting consists of precision of tenacity, complete forecasting and significant thought. As we developing the budget for the organization, we need to think or have some question about the budgets such as “Could we have spent less last year and still achieved the same results, or better” and “Have we wasted money in the past? If so, can we avoid doing so in the future?” [8]. Why a budget very important for an organization, project or department? The major reason budget so crucial for the organization is because it is critical management instrument and deprived of it, you are piloting in the obscure without devices.
Budget preparation is, by definition, the first step in the budget management cycle and by developing the budget, it will tell you the amount of money that required you to implement the plans and it does forces have a critical thinking especially on your activities. The budget also will help you to use the money wisely because it tells you when the right time to use the money for the activities. It also helps you to monitor your profits and disbursement and define any problematic issues which occur during the implementation of your activities. On top of that, it is a base financial responsibility and transparency which allow everyone to see the amount of money which have been spent and received also the inconsistencies.

**Budget Concept:**

The budget is the government’s key policy document. It should be comprehensive, encompassing all government revenue and expenditure, so that the necessary trade-offs between different policies options can be assessed. According to the [15], “Public budgeting is a field of public administration and a discipline in the academic study thereof. Budgeting is characterized by its approaches, functions, formation, and type”. In order to prepare the budgeting, one should know the values, strategy and plans of the organization or project. They must have the understanding of what it means to be cost effective and cost effective also must know what involved in generating and raising funds. As a part of the team, it is a good idea to have a small budgeting team and only one person does the draft which will be discussed by the team later.

In the making of the budget, The Finance Manager, Bookkeeper, The Project Manager and the Director of the organization or department will be a part of the which would normally be involved in the budgeting process. Besides that, the budget is the business of everyone in the organization and the senior staff should have more understanding about the budget which could help other in order how to it has been drawn up, why it so important and how to monitor it. [1] stressed “fiscal and budgetary responsibility are not simply instrumental agents of their job descriptions but constitutive agents of the public interest”. The budget must be consolidated in an overall budget for the organization. Each branch and department should be able to see how the budget can fits into the overall budget and how to monitor it monthly basis.

Based on the [10], he explained that in each governmental jurisdiction of the United States have five major characteristics which served by a public budget. There are responsive, effective, cost effective, communicate and healthy economy which could reflects disagreement over the proper balance. Generally, budget can be considered as a working task that help you to determine or decide what decision you should made in order to survive for the next budgetary cycle. The successful of the budgeting process can be seen in the participation between the state or federal government and the administrative agencies in balancing the short and long term priorities. By looking in the structure and the sequential order of the budget process itself, it reflects most of the purposes of a public budget. On top of that, the purposes and goals in the budgeting process were reflected by the analytic steps in developing the budget, format, informational content of the budget itself. Individual accountability is the primary reason why many library leaders, or leaders of any organization, are recommended to be concerned with strategic budgeting [2].

In economic aspect, the public budgeting serves the combination of economic objectives by funding some social programs who are in needs and this will lead to the raise of the demand amongst private sector goods and services. Besides that, the budget also serve the tax policy, commercial, transportation, land, environment, education, training programs, production of goods and services, purchase, capital projects, economic development and supports the state’s largest employer [10]. According to the [14], “The promises of an election campaign must be quickly translated into policies and programs”, which explained the campaigns and programs must be quickly transformed into legislation and directives that could upgrading the administrative agencies. Yet, the governors should make modifications with care because the consequences of budget choices in the context of the current set of fiscal circumstances first turn out to be completely obvious only with the gathering of the combined budget.

**Good Practices Budgeting:**

A budget is a procedure which helps in achieving the principles and elements of the budgeting process also it is a practice which could help others to accomplish another practices. The budget practice must be defined clearly so that it could be related to activities that identified during the process. With the exception in contributing to the development, understanding, explanation, execution and assessment, it cannot be defined as a budget practice. For instance, a policy statement on debt capacity is a part of the budget practice and it cannot be separated from the budget practice.

In the budgeting practices, we need to overview and consider the fundamental in the Planning, Budgeting and Forecasting. Planning is a strategic prediction of business performance at a lower level and it is an area which authorized by the manager to ensure the companies and organization respond to the market changes especially market conditions and balancing sheet. On top of that, hiring and retaining the best people and filling capability shortages are paramount issues. According to Best-Practice Budgeting by [6], they stressed on the budgeting where the managers and shareholder should understand gaps, overages, changes to plan and other.
Besides that, the finance department will provides guidelines and guidance, get everyone’s assumptions and finally sets the level to which budgeting will occur. The managers and budgeters will have some meeting and discussion about this budget until they have an agreement on the budget.

In the best-practice model for budgeting, the managers should create a business plan with the detailed information for the evaluation. For instance, there is might be a company that will have defined headcount and compensation down to the individual level, [6]. Once it is started, the managers and analysts should be able to identify variances and understand the causes after designed the budget. In retrieving the data, the managers should ensure that the results are typically downloaded into data mart because this will allow the users to drill down to the transaction level. For example, the manager from the marketing department might want to see the expenses by line item. The significant that occurred in the variances would allow the finance to consider creation of the forecast on summary level detail.

On top of that, another good practices budgeting are about the integrity, control and accountability in the budget transparency. All the relevant accounting policies must be prepared with all reports because all the documents will helps in the report preparation and deviations in the accounting and the policies must be practice and used in all reports. The reason changes must be clearly justify and clarify while the previous information should be adjusted in order to ensure the current information is in the report. One systematic system must be placed in order to make sure in transparency could be provided in the reports. Every report must have responsibility statement from the finance minister or any qualified officer in processing the reports and the impacts on the fiscals must be included.

In fact of that, audit is the crucial action which should be taken by the Supreme Audit Institution to go thoroughly all the reports and it must be examined by the Parliament. Hence, the needs for the auditing session is very important to government or firm to ensure the transparency could be practiced in the future.

Four Keys Factors In Successful Budget In Oil And Gas Industry:

According to the Financial Performance of the Major Oil Companies 2007-2011 by [13], he explained the phases of mounting oil rates can effects in reduced economic progress, increasing prices and reduced revenues for consumers and this is worsening trade stability. Increasing in cash flows and profit are indicated by the high oil prices in the oil industry. However, some improvements were made by some organization but it does not bring any different to them because others looked it as a direct transfer from consumer without any activity attributable to the industry. Although U.S is one of the country in the world which have more oil and gas companies but it does not means that they would have higher profit. There are “…five major firms that operating extensively in the U.S market. These firms are ExxonMobil, Chevron, BP plc, Royal Dutch Shell plc, and Conoco Philips”, [13].

For over five years, the oil prices were unstable and in was stated in the record in 2008 the value increased but declined rapidly on 2008 and 2009. Unfortunately the oil prices increase on 2010 ad it still remained on the next year. During those years, the pattern of the total revenues and net incomes of five oil companies were similar and the oil prices were remained unstable. This is shows that the market price and the key products were not closely related to each other. On top of that, some of the companies carried out some activities by the distribution of dividend, repurchase of shares which enabled them to enhance the investors and business strategies.

Table 1: U.S. Refiners Acquisition Cost of Crude Oil (Dollar per barrel)

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Composite</td>
<td>67.94</td>
<td>94.74</td>
<td>59.29</td>
<td>76.69</td>
<td>101.61</td>
</tr>
<tr>
<td>Domestic</td>
<td>69.65</td>
<td>98.47</td>
<td>59.49</td>
<td>77.96</td>
<td>100.29</td>
</tr>
<tr>
<td>Imported</td>
<td>67.04</td>
<td>92.77</td>
<td>59.17</td>
<td>75.88</td>
<td>102.55</td>
</tr>
</tbody>
</table>

Source: Energy Information Administration.
Notes: 2011 data are through November 2011. The composite price is the weighted average of the prices of domestic and imported crude oils [13]

The Table 1 shows the rising price oil from 2007 to 2011 and the oil price were unstable at that time also it rapidly growing during the emerging economies. As you can see in the Table 1, the declined in the oil prices in 2009 but it continues to grow in the years later. The rising of the oil prices were determined by the market demand itself but the price for the oil is not one but many. The oil prices depend on the quality and the contents, for instance the crude oil have specific gravity and the sulphur content. The difference in the quality of the crude oil give the rising prices for the crude oil but it is not only depends on the contents and the quality but location itself as well.

In this section, there are four element that determine the success budget and revenue work; “…analysis, organizing and coalition building, media and public education and dealing with public officials”, [13]. For the first element, analysis refers to the quantitative analysis because it based on good data which allows people to differentiate the values, judgment and priorities. Analysis in this context is an applied analysis because it does not have impact directly on the budget and it is just not understanding the policies but changing them as well.
1) Analysis:

Getting the information that you need is one of the challenges for the effective analytic work other than developing analytic capacity, deciding what to analyze and translating and disseminating that analysis to the right audiences. Analysis on the budget required information from the industries and usually it is daunting challenge to applied analysis of budgets. Civil society needs to proceeds a transparency campaign to obtain information and data about the government interaction with the industry. FITRA is a group which established in Indonesia with the mandate to secure basic information on the budget and this will lead to expand of the budget analysis and training. Thus, the civil society demands for the budget information which could be used to encounter any possibilities that will be occurred in the future.

2) Building and Maintaining Advocacy Coalitions:

The effective combinations can bring to the advocacy work that could fortify the political power which can create a tougher and broader civil image. In the coalitions, it can help to avoid unnecessary effort and it can create the relation between local, national and international. They also provide an opportunity for the freshmen to work while the broad combination can create the entity by the negotiation of government officials and political adversaries.

3) Effective Media Works and Dealing with Public Officials:

Creating the public awareness was not easy as we think and the help from the media is required in order to effect the actions of public administrators. Powerful media is the best strategy to influence the policymakers and the public officials should have the understanding about the media jobs and design. In other countries, international press helped a lot in promoting and the public awareness campaign. To ensure the campaign run smoothly for the better effect, we need to provide the timely information for them to build the public awareness amongst the publics. However the longer report required a period of time for them to analyze and digest. Another strategy for the organization is to provide a copy of the policies a few days before they publish it and obviously it would make them understand not to do so until the release date. Another strategy with the media is by provide them an exclusive story before others receive it and most of the editor would love it since it provide them information that others did not have.

Conclusion:

Although due to the challenges and issues, none of the companies or organization would neglect the budgeting cycle in the budget process. According to the [6], “budgets are fundamental strategic tools” that will ensure the managers to understand the parameters used to judge their performance. In addition, some of the companies have the opinions that budget serves as foundation for periodic forecasts. In the budgeting, the stakeholders should think more about the beyond budgeting or better budgeting because these factors will effects the oil and gas industry. Besides that, the transparency is another element which could trigger the rationality of the budget process in the oil and gas industry.

To ensure better transparency, accounting policies should be applied on the fiscal reports by using the same accounting policies. If there is a need for the changes in the fiscal reports, it is crucial to fully disclose the nature of change and the reason of the change. A dynamic system in auditing is important especially in the internal financial controls, which include the internal auditing to assure the integrity in the financial reports. For instance, “government need to strengthen the capacity and independence of law enforcement agencies to criminalize corruption by investigating and prosecuting cases in federal, state and local governments, rather than the practice of political settlements of corruption cases”, [12]. Based on [12], the government need to have powerful law enforcement which could help them in facing the oil and gas revenues and development challenges.

REFERENCES


