Implement the Budget

Today's successful non-profit agencies use every tool at their disposal to enhance their financial health.

By Angela Byrne, CMA

As a result, many have discovered the critical value of the budget document and its implementation. Without a budget and without proper implementation an agency can quickly find itself in serious financial difficulties.

The budget document is a plan. It forces an agency to plan and allocate its resources. It identifies any shortfall in revenue and provides some lead-time to develop strategies and solve problems before they evolve into a financial crisis. Budgets also prove to be excellent communication devices as they incorporate financial and operating goals, thereby communicating expectations and priorities to the organization. However, for any plan to be effective it must be implemented. This is true with the budget. There are two main activities required: monitor planned activity to actual performance and take action.

Monitoring the Budget

In order to be of any value, the budget must be compared to actual activity. This requires a monthly review of budgeted revenue and expenses, to actual revenue and expenses. If your agency is experiencing serious financial difficulties you may want to increase the frequency of this monitoring.

In comparing the budgeted numbers to actual numbers an organization will want to note the extent of the deviation from the plan or in other words, the variance. The variance reflects the amount that the actual revenue and expenses are over or under the budgeted amount.

The next step is to understand the cause of the variance. Digging to discover why a variance exists will provide essential information needed in planning any action. The timing of expenses and revenue often causes variances. For example, when developing the budget certain expenses or revenues may have been planned for earlier in the year that do not occur until later. In other cases, variances will indicate an unforeseen change of circumstances. In either case, it is important to understand the reasons for the variation in order to be able to proceed to the next step: taking action.

Taking Action

Once the organization understands the cause of the variance, it is ready to take action. Ideally, regular monitoring of the budget will highlight significant deviations from the plan before it is too late for corrective action. Therefore, in deciding the extent of action to be taken it is important to understand the significance of the variation. Assessing the significance is done in light of the impact of the variation on the entire agency over the longer term. For example, if the variance is a relatively low amount or percentage it is likely that no action needs to be taken unless of course the variance is expected to develop into a larger variance by the end of the budget period. Also, if variances are created due to the timing of expenses and revenue but by the end of the year the agency will be on budget, little action is probably needed. The exception would be when the timing affects cash flow.

On the other hand, the cause of the variation may indicate the impact of unanticipated events.

In this case, an assessment of the impact over the remaining budget period is essential. Not only is it necessary to determine the financial impact, but also an assessment of the impact on service and program delivery targets is required. Once an understanding of the cause is acquired then appropriate steps can be implemented to minimize the impact to the agency. For example, an agency experiences higher than expected demand in a new program resulting in higher staff costs. If identified sooner rather than later, the agency has several courses of action at its disposal. It may choose to redirect resources from another program, restrict access to the program, apply for additional funding, or some combination of the above. Of course, any action plans should be developed in conjunction with staff who are directly affected.

Time is a critical element in the effectiveness of action steps. Timely identification of the variance and implementation of action will not only provide the agency with more avenues for corrective action but may prevent a financial crisis.

The goal of budget implementation is to become astute at assessing the impact of variances and to know when to implement steps to correct any deviation from the plan.

The budget and its implementation are of significant value to the organization. Not only does the budgeting process monitor the performance of the organization, it communicates expectations and priorities and provides a tangible parameter from which to base financial decisions.

Angela Byrne, CMA & Associates, has a proven track record of helping organizations by providing expertise in the areas of internal audit, risk management, business transformations, project management, and operational reviews. To learn more about how Angela and her team can help your organization succeed, visit our website at Angela Byrne, [CMA & Associates]. You can also reach Angela at (519) 284-0321 or by e-mail at info@angelabyrnecma.com