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The Strategic Budget Process Overview

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Budgetary Process Overview

The traditional budgeting process can be a challenging for many organisations, as it may not facilitate goal or financial tracking. The conventional process may tend to highlight amounts that are out of control of managers that can lead to misunderstandings between departments.

Organizations need to be able to track budgetary requests to specific objectives, priorities, and outcomes. As a result, managers increasingly must look at the budgetary process strategically rather than look only at the previous year's results. The use of linking performance, organisational activities, key performance indicators (KPI) and metrics can assist an organisation with its strategic initiatives.

Budgetary Process and Organizational Strategy

The budget should reflect the organisation's strategic plan. More often we have often seen budgets that are based on trends and therefore may not include complete information, or new initiatives that should part of the budgeting process. The budget should be tied to the overall business plan, but have more

detail. The process may start with a high-level five-year business plan that includes projects and initiatives that are in line with the overall business strategy of the organisation. Combining Big Data Analytics with the overall budgetary process can help yield budgets that may be reflective of future events or strategy of the organisation.

Various budgeting tools may be used to collect and organise information from multiple sources. The method used to include the utilisation of the budget module within the financial package, dedicated software, or spreadsheets will be dependent on various factors including complexity, and compatibility with existing processes.

Cross-Organizational Involvement in the Budget Process

The act involving procurement as part of the planning process has benefits in yielding a more accurate plan and budget. Information obtained in the planning process can include quotes for hardware, software, licensing fees, training, and other resources and interdependencies with other projects or departments. Each department within the organisation has a critical role to play as part of the



budgetary process; it should not only a finance department responsibility.

Effective communication across the organisation, departments, and cost centres are critical for effective budgetary control. As well participation of key departmental personnel in the budgetary process is key to its success as those closest to the operations may be aware of external influences as part of the budgetary process. A Finance Business Partner can coordinate and communicate relevant information that may be useful for decision-making, whose role extends beyond the traditional month-end reporting and includes providing value-added analytics to internal clients within the organisation.

Budgetary Manual & Processes

The use of a budget manual that sets forth details related to the persons responsible for collecting, and engaging people for information required. It should also contain the budget plan, procedures, as well as timelines. It should also include the appropriate participation of key employees who are closest to the operational activities. Clear responsibilities should be defined once the budget is established.

Explanations of variances from the budget will occur, any differences beyond the set tolerance level. A significant deviation should be cause for concern and may require the budget and short-term objects to be reviewed. It may also be important at the time to revisit the budget and update it due to changes in market conditions as well as changes from government policy that could affect funding that may be received.

An Adequate accounting system should be in place to facilitate a successful budgeting process. As well a well-documented budget may assist in the preparation of cash flow management activities. The importance and role of the budgeting process should not be under-estimated as if used effectively can be used strategically as part of the overall organisational activities.

Budgetary Cost Centres

The use of cost centres should be employed can assist in the budgetary process to ensure that items that departments can be held responsible for their cost centres. A Budgeting Coordinator can contribute to facilitate and interact with various departments during the budget process. The budgeting period can vary based on different factors including industry (private or public sector), economic factors, and complexity and volatility of the industry. The support of top management is necessary to get full support and buy-in of others in the organisation. As well the budgeting system used should not cost more both monetary amounts and effort than it is worth.

In determining the allocation of costs and resources for a budget and evaluation framework should be used to establish which projects fit with the organisational priorities or the year based on strategic goals. Traditional budgeting assumptions may not take into account future events. As a result, it may be necessary to evaluate items using various multiple drivers to assess the allocation of budgetary amounts between cost centres and determine if the assumptions would have been different under an alternate basis of measurement.

Changes to the Organizational Environment

Flexibility in the budgetary process should allow it to changes to the environment. It should have a notation of various issues that vary with the level of activity to accommodate flexibility. Separating these two areas within the development of the budget allows for better identification and explanation of variances, and allow for better accountability by managers over activity that they have control over.

Procedures for operational and capital budgeting may undergo a slightly different review process. A budget even if properly managed is not an exact



science. Budgets are established based on forecasts, which may change based on external factors which the department or organisation may not have control over.

The budgetary process is not a substitute for active management but is a tool as part of the organisational goals of the organisation. The budgetary process can be time to consume as it involves various stakeholders within the organisation. A detailed and enhanced budgetary system may also prove complicated and may not yield any net benefit to the organisation depending on the strategic goal, operational objective, and external forces.

If a major event were to affect the organisation, it might be necessary to update the budget to mitigate events better. For some organisations, the use of a rolling budget on a more frequent basis such as quarterly may be useful. Different budgetary methods can still provide a valuable tool for an organisation to plan its operations and manage its resources effectively.

Budget Analytics

Traditionally have been prepared based on trends, and assumptions. Under the trend basis historically the following years budget was adjusted based on actual amounts of the current year plus a percentage increase or decrease. The focus of a budget may be short term that is for a period of one year, or for a longer period such as five to ten years. Components of the budget such as capital, operational may be sub categories within will depend on the size and nature of the organisation. The use of Zero-Based Budgeting (ZBB) has gained popularity and has been used to prepare more realistic budgets but can require more commitment.

As well enhancing the commentary of budgets through information that is available through the use data analytics both financial and non-financial such

as through the use of Big Data Analytics can improve reporting and evaluate the impact of decisions that may not directly appear on the financials. Used a well-planned budget strategically cannot only be used for financial information and analytics but can also assist an organisation with planning its overall strategic initiatives. Budgetary control can help departments meet their goals, and be accountable for variances that occur. The budget procedure can also highlight inefficiencies as well as cross-dependencies between departments such resources that can be shared to reduce costs.

Strategy as Part of the Budgetary Process

Undertaking the budgetary process of an organisation should be in line with the overall strategy of the organisation. As well the budget procedure should from an accounting perspective enhance accountability, and effectiveness of reporting. The role of a Finance Business Partner is to not only to assist in reporting, but the role goes beyond monthly financial reporting as part of the strategy for the organisation.

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