

Budgetary Control: Process, Planning, and Making It Work



In an uncertain economy, departmental heads and other budget owners go through the budgeting process focused on securing a sufficient share of scarce resources in order to meet their respective goals.

They often come into conflict with the accounting department and *their* focus on enforcing an effective budgetary control process that aligns the various departments' operating budgets with the actual results of their spend activity.

Bridging this gap between budget owners and the finance team begins with effective processes and transparent, comprehensive access to spend data in real time.

With the right tools and practices, it's possible to turn conflict into collaboration, reducing wastage and maximizing actual performance. Working together, team members in every department and business unit can meet their goals while giving accounting the oversight needed to ensure budgets are both sufficient *and* efficient.

What Is the Budgetary Control Process?

The finance team is responsible for regularly monitoring the different types of budgets created for a given financial period and ensuring spend activity hews to the budgeted figures as closely as possible—taking corrective action when necessary.

The budgetary control process helps accounting professionals:

- Prepare and monitor budgets.
- Prevent wastage and minimize cost overruns.
- Enhance the utility and availability of accurate financial reporting.
- Manage everyday operations while also providing financial guidance required to support long-term organizational goals.

For budget holders, the budgetary control process can be broken down into a sequence of four steps:

1. **Establishing actual budgetary positions.** Drawing from one or more sources, budget holders examine available financial statements to determine their current budgetary credits, debits, and committed spend.
2. **Comparing Actual Results to Budgeted Figures.** The budget holder compares their data to the figures set during the budgeting period. Deviations in income and expenditures from budgeted results are known as *variances*, and must be analyzed in order to identify the underlying issues and help prevent them from recurring in future periods.
3. **Performing Variance Calculations and Analysis.** Having calculated all variances, the budget holder seeks to identify the underlying causes for the variance. Some of the most common reasons include:
 - Human error, such as data entry errors, delays in entering essential information into the accounting system, or failure to collect all relevant spend data.
 - Ineffective or inaccurate budget profiling (or a lack of existing historical data to create a useful budget profile).
 - Increased efficiency in workflows, creating a positive variance by reducing costs and resource demand.
 - Unexpected external changes beyond the budget holder's control (e.g.,

legislative reform, rapid increases or decreases in consumer demand due to changing market conditions, supply chain disruptions created by natural disasters, war, etc.).

4. **Taking Corrective Action.** Depending on the nature of the variance, the budget holder will work with the master budget committee to make changes that will bring the budget back under control. Some of the possible solutions include:

- Increasing income.
- Reducing spend.
- Lowering costs.
- Transfer money from one budget to another (i.e., virements)
- Clarify objectives and adjust planning for future spend based on likely outcomes (e.g., adjusting to accommodate for seasonal shifts in demand, or postponing the development of a new product to the next fiscal year).
- Tap into contingency funding.
- Modify, reduce, or eliminate services.

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Advantages of Budgetary Control

Implementing a budgetary control process provides several important advantages to an organization, including:

1. Functional budgets limit expenses and clearly define the spend and performance results for a given budget period. This reduces risk exposure and provides important financial intelligence companies can use to improve both financial planning for future periods and overall decision making.
2. Budgetary control systems help establish both authority and accountability for department heads and other budget owners. In turn, these individuals are empowered to delegate responsibilities and tasks to

meet their respective goals while adhering to the budget and supporting enterprise-level goals.

3. Budget committees are generally staffed by seasoned executives from top management who understand not only their specific areas of expertise, but the enterprise and its goals, ambitions, and limitations.

The support of top management is crucial to securing organization-wide buy-in and compliance for budgetary control.

They can provide clear and effective guidance in making corrections and adjustments to budget plans, and help create a culture of open communication and shared success through cross-functional team leadership to achieve smart, strategic spending.

4. An effective and transparent budgetary control system prioritizes meeting benchmarks set by key performance indicators (KPIs) while keeping expenditures in line with budgeted figures. Examples of important KPIs include sales growth (expressed as a percentage, including acceptable deviation), percentage of inventory to be held to cover customer demand, gross profits (expressed as a percentage, including acceptable deviation), etc.

It also encourages all team members to practice mindfulness during the preparation of budgets and spend with an eye toward using sometimes scarce resources efficiently and strategically, with minimal waste.

5. Properly deployed, budgetary control processes make it easier for finance teams to identify budgetary deviations and take corrective action in a swift and strategic manner.
6. By providing an over-arching management and monitoring framework, budgetary control aims to improve transparency and strategic decision making while simultaneously improving communication and collaboration between different departments. Budget owners can coordinate their efforts with both top management and one another to more effectively make use of resources and cooperate, rather than compete, in supporting organizational goals.

Common Obstacles to Effective Budgetary Control

Financial professionals, working in and with budgeting committees, spend a lot of time, talent, and resources on the establishment of budgets they intend to help their organizations grow, innovate, and thrive.

The primary objectives of budgetary control are compliance, performance, and ensuring a strategic and plentiful allocation of resources without creating needless costs, waste, or redundancies.

Departmental heads and other budget owners spend a lot of time, talent, and resources executing the business processes supported by budgets that were painstakingly assembled and confidently submitted during the budget period.

But over the course of the financial month, quarter, year, etc., those budgets must be updated to reflect how actual events and business needs differ from the budgeted performance and spend values.

When a company doesn't have the technology and internal controls in place to help budget owners communicate and collaborate effectively with finance, financial molehills can quickly become mountains that stifle cash flow, interrupt production, or hamper decision making.

These difficulties are particularly apparent at companies still relying on manual workflows and paper-based documents, but can occur at any organization that hasn't taken measures to standardize, automate, and optimize their budgeting and budgetary control processes.

Some of the most common roadblocks to successful budgetary control include:

- **Lack of real-time access to budget data for managers.** Having to wait for data from finance in order to make time-sensitive spending decisions can create additional costs through delayed production, wasted time and materials, and damaged supplier relationships, threatening not just the bottom line but overall business continuity.
- **Lack of real-time visibility into actual results for finance teams and budget committees.** Waiting until a department or project team has a

budget overrun to correct it is no way to stay ahead of the competition—or protect an organization’s cash flow and profitability.

- **Siloed data collection, management, and analysis.** Working in separate accounting systems and having to share data electronically in different formats (or worse yet, manually via paper documents that require data entry before they can be accessed and analyzed) can make it next to impossible to correct variances or find solutions to cash flow challenges in a timely and effective fashion.

Implementing Budgetary Control for Your Organization

1. Invest in a Comprehensive Procure-to-Pay (P2P) Solution.

Strategically useful budgets rely on accurate and complete data. Choosing a cloud-based, comprehensive P2P software solution like PLANERGY gives organizations a considerable advantage in both creating budgets and performing budgetary control by:

- Centralizing all spend data, integrating the existing software environment, and standardizing information exchange to eliminate silos, enhance communication, and improve the speed and efficiency with which information is accessed, shared, and analyzed.
- Ensuring complete, clear, and transparent spend data for easy and accurate review and comparison of budgets vs. actual spend on the balance sheet.
- Providing process automation and optimization to ensure compliance with spending protocols and help keep spend within budget by eliminating rogue spend, invoice fraud, etc.
- Providing customizable review and approval workflows for variances, ensuring all spend is captured, approved, and assigned to the proper stakeholder, project, and department.

2. Establish Budget Responsibility

Designate a budget officer to lead a master budget committee made up of experienced top management (including departmental heads).

This committee is responsible for defining the overall approach to budgeting, the establishment of budgets, and performing variance analysis in order to compare budgeted figures with actual results.

The budget officer in particular is responsible for acting as a liaison between the CEO and departmental heads on matters related to budgeting, and communicating budget information at all levels of the organization.

3. Define and Implement Budgetary Control Parameters

The budget committee sets goals for implementation of budgetary control, setting benchmarks and using key performance indicators to ensure engagement and compliance.

Make sure your implementation strategy allows you to introduce budgetary control across the organization incrementally and with an eye toward flexibility, as you may need to both educate all team members (including top management) on the importance of budgetary control and compliance and/or overcome some measure of resistance to changes in corporate culture.

4. Define the Budgeting Period

The budgeting period is designated based on the business needs of the organization and the type of business. Firms with substantial capital expenditure budgets, for example, will likely require strategic long-term budgeting compared to those without such expenditures.

Regardless, prepare your budgets based on the shortest possible period of time that allows for maximum utility, flexibility, and accuracy in the financial forecast.

5. Define Budgetary Limits

Have the committee identify the *principal budget factor*, i.e. the factor that limits the capacity of the organization and could conceivably prevent it from reaching its goals for expansion, development, competitive strength, or profitability.

This factor helps determine the order in which budgets should be prepared.

For example, a manufacturing firm will likely prioritize production budgets to ensure they have the power, raw materials, and labor required to produce goods for sale, and then proceed to other budgets such as the sales budget, the cash budget, etc.

6. Create Strategic, Control-Guided Budgets

Budget holders, guided by and collaborating with the master budget committee, create their budget estimates based on sales forecasting, limiting factors, etc.

Once the committee approves, the budget holders can further refine their budgets, assemble a master budget based on the best available intelligence, and then submit it for approval.

7. Monitor and Manage Budgets

Approved budgets are regularly monitored by the master budget committee, both to ensure benchmarks for compliance and performance are being met *and* to identify any potential variances so they can be dealt with proactively rather than reactively.

For budget holders, this monitoring also provides opportunities to identify patterns that can be used to further refine future budgets (e.g., changing consumer buying habits during a pandemic), processes in need of optimization (improving efficiency and freeing cash for other uses), and cost centres that need special attention to ensure an optimal ROI and minimal waste.

Over time (and, ideally, using data management, budgeting, and analysis tools), budgets will continue to improve in both accuracy and efficiency, reducing risk, securing maximum profitability, and ensuring resources are being directed where they're needed most to support success at the department, business unit, and

enterprise levels.

Spend Smarter and More Strategically with Effective Budgetary Control

You have to spend money to make money, but without a clear and effective budgetary control system, it's hard to get the best possible return on your dollar.

Develop and implement effective budgetary control processes. Invest in technology that provides clean, reliable data in real time, along with automation and analysis capabilities.

Ensure your team is educated about and engaged with the budgeting and budgetary control processes that support their departmental and organizational goals.

When you do, you'll have the flexibility and strategic insights required to create, monitor, and manage all your budgets successfully—and ensure every dollar spent goes toward building a successful business.

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