

# IS YOUR BUDGET UNDER CONTROL?



A budget is a plan expressed in financial terms, prepared and approved prior to execution, and designed to outline expected revenues, expenditures, and the capital to be utilized. Budgets should not be developed in isolation from the broader control environment, as they constitute a key component of what is known as the budgetary control system. This system ensures the proper formulation of the budget and the establishment of clear controls, followed by effective communication and coordination across the organization.

It is essential to align and standardize the concepts of budget adherence and budget variance between the finance function and the CEO on one side, and the board of directors on the other. Furthermore, the CEO and CFO must be fully clear on the authorities granted to them by the board when addressing budget variances. They must also ensure that all relevant individuals and departments understand how to appropriately manage budget deviations when they arise.

## Budgeting Process

01

Strategic Planning Process  
(Defining Objectives and Strategies)

Developing a Long-Term Plan to  
Execute the Strategies

02

03

Preparing the Annual Budget  
Within the Context of the  
Long-Term Plan

Monitor actual results

04

05

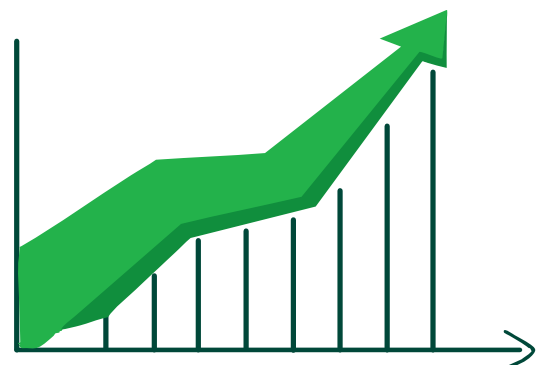
Addressing Any Deviations  
From the Plan

## Budgetary Control

Budgetary control involves establishing a budget that links executive management responsibilities to policy requirements, along with the continuous comparison of actual results against the planned figures. The absence of effective budget control has a direct negative impact on net profits, as the budgeting process loses its purpose when it fails to manage spending or adjust expenditures during periods when the organization experiences lower-than-planned revenues.

In a recent study conducted by LOGIC across **158** leaders of family-owned businesses, findings revealed that **53%** of companies do not have any mechanism in place for budgetary control.

A budgetary control mechanism must ensure that spending priorities align with business objectives and that it remains flexible enough to address scenarios of both excess and shortfall in revenue collection. Monitoring budget spending through a robust system also provides a foundation for effective budget review and adjustment.



# Reasons for Budget Deviations

Budget variances appear in many forms and may arise from either over-collection or under-collection of revenues, which is typically linked to inaccurate forecasting. Variations between actual results and projected figures can also stem from broader macroeconomic changes such as recessions, inflation rates, and other economic shifts. In some cases, variances occur because management successfully generated savings within functional budgets. In other instances, management may request reallocating funds from one function to another—for example, shifting budget allocations from marketing to sales.

## Key Questions Related to Budget Deviations

In cases of budget deviation, companies must establish clear authorities within the leadership structure to answer essential questions such as:

Who has the authority to reallocate approved budgets from one function to another—the CEO or the Board of Directors?

How should the organization respond when actual revenue falls short of forecasts while expenditures remain aligned with the original budget? How can the company prevent the unfavorable situation in which sales decline but 100% of planned costs and expenses continue to be incurred?

At what level of revenue overperformance is the CEO permitted to request budget increases to support higher business activity—at 5%, 10%, or more above planned revenue?

How should expenses be phased over the year? Should the budget allow for evenly distributed spending across all four quarters, or should a more conservative approach be taken—such as reduced spending in Q1 until business performance is confirmed?

## Common Budgetary Control Pitfalls

- ✦ Misalignment between business plans and the budget.
- ✦ Failure to sign off on the final approved budget version.
- ✦ Lack of written approval from the Board of Directors.
- ✦ Disconnect between “budget first” and “budget only” approaches, where budgets are prepared without— or before—developing the business plan.
- ✦ A top-down budgeting approach instead of a bottom-up process.
- ✦ Poorly developed assumptions related to activities and expenditures.
- ✦ Failure to incorporate lessons learned from previous budgeting cycles.
- ✦ Absence of industry benchmarks or internal performance ratios.

**Full engagement in the budget monitoring process ensures complete commitment to the successful execution of corporate budgets**

## Authorities Related to Key Budgetary Control Elements



Approving additional budgets throughout the year for major opportunities

BOARD

Transferring profit surplus from one quarter to another



BOARD

Transferring budget savings from one quarter to another



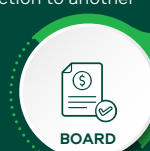
CEO

Transferring budget savings from one function to another



CEO

Approving the budget (Operation budget) (CAPEX and Cash Flow)



BOARD