PKF O'CONNOR DAVIES
ACCOUNTANTS AND ADVISORS

CFO Insights: Building and Safeguarding Value Through Financial Planning and Analysis

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Structuring an effective finance function typically includes financial planning and analysis (FP&A) that involves annual budgeting, monthly variance reviews and periodic reforecasting. These activities serve double duty by helping create business value through actionable insights and preserving value through a framework of financial controls intended to mitigate business risk. While historical accounting is important, driving business value forward is less dependent on looking in the rear-view mirror.

Investors and managers who build a strong foundation of accurate and timely accounting with future-focused, data-driven FP&A will create greater business value and better protect it. Here are three areas to focus on to get started.

Budgeting

Creating the annual budget is an exercise that brings business leaders together to set financial goals for the next fiscal year. Goals may be to grow the business organically through new, more profitable customers, contracts, or products and/or inorganically through strategic acquisitions. These goals are then tested for feasibility through a robust financial model, generally consisting of an integrated set of future-focused financial statements – a budgeted income statement, balance sheet and statement of cash flows. This combination of three-statements is interconnected and driven by a set of thoughtful, comprehensive assumptions made by managers of an organization.

This package of statements may be created in a spreadsheet, or by utilizing specialized software. The annual budget may pass through several (if not dozens) of versions before being finalized, as business leadership decides on strategic priorities and division or segment leaders compete for capital allocation and resource availability to enable their specific business goals for upcoming fiscal year. Depending on the size, stage, complexity and FP&A maturity of the organization, this exercise may be as quick as a few weeks or last a few months. Often, the budget will be evaluated by the finance committee of the organization's Board of Directors and be subject to Board approval.

Actual Results vs. Budgeted Objectives

During monthly variance reviews, the business compares actual business results to budgeted goals. This exercise allows the business to track and learn from year-to-date (YTD) financial and strategic outcomes and course correct as necessary to protect business value. This process dovetails with the month-end accounting close process and involves a collaboration between the FP&A and accounting teams.

For automated variance reporting, monthly budget amounts may be uploaded to accounting software and linked to actual results. Another option is to develop a budget in dedicated FP&A software and importing accounting actuals from accounting software for comparison, through a pre-built or custom application programming interface (API). Alternatively, actual results may simply be downloaded from accounting software and compared to budgeted amounts in a spreadsheet.

Variances are categorized as favorable (better than budgeted) or unfavorable (worse than budgeted), enriched with commentary and root cause analysis and reported to management as actionable insights. Variances may be generated for the whole business, or for individual business units first and then "rolled up" into a combined view. Variances may be in basic chart form, or in more robust dashboard form by utilizing

business intelligence and data visualization elements. Variance review meetings foster business partnership among finance function leaders and business unit management, helping to address any questions about the financial reports and allow the entire business to remain aligned.

Reforecasting

With a periodic reforecast, typically performed quarterly, the business can utilize what it learned from YTD results to adjust its operating tactics to meet or revise budgeted goals. This reforecasting exercise combines YTD results with rest-of-year (ROY) expectations and can act as a reality check to the budget. For example, combining three months of YTD actual results and nine months of ROY forecast results would yield the first quarterly reforecast; six months of YTD actuals and six months of ROY, the second quarterly reforecast and so on (i.e., the 3+9 and 6+6 reforecasts, respectively).

Reforecasting should not take as much time as annual budgeting and take into consideration any significant changes expected during the remainder of the year. Reforecasts may be performed more frequently than quarterly (e.g., 1+11 reforecast, including one month of YTD actuals and 11 months of ROY). During variance reviews, the management team may be interested in comparing the annual budget to the most recent reforecast, in addition to comparing the annual budget to actual results. They may also be interested in comparing actuals to the most recent reforecast *instead of* comparing actuals to the annual budget if the reforecast is more meaningful to their decision-making process.

Contact Us

If you are interested in discussing how to get started or update FP&A within your business, please contact the partner on your account, or a member of our CFO solutions team listed below.

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