

3.4 Budgeting: Expenditure and Variance Reports

Description:

This tool provides an overview of Expenditure and Variance Reports and a Sample Report.

How it can be used:

Expenditure and Variance reports are monthly or quarterly spreadsheets and summaries that give an up-to-date comparison between revenue forecasted and funds received, and between allocations and actual expenditures on a program by program basis. A summary report shows the overall financial position of the First Nation as at specific dates in the fiscal year (generally monthly).

Ensure your financial department is clear on the process and requirements to complete Expenditure and Variance Reports.

What are Expenditure and Variance Reports?

Expenditure and Variance Reports provide information from which financial corrections can be made. These reports compare budgeted and actual revenues and budgeted and actual expenditures for each program, as well as the difference (or variance) between them. These reports also include projections of the year-end financial picture by considering the actuals-to-date and the anticipated revenues and expenditures to year-end.

Where significant variances are identified, adjustments can be made. This may involve adjustments to program appropriations or instructions to program managers to adjust expenditures in order to balance with their allocated resources. Routine adjustments will be recommended by your financial controller and approved through an approval processes.

Expenditure and Variance Reports should be prepared for Board or Health Committee review as soon after the cut-off date as possible. The reports can be prepared in spreadsheet and graphic formats and usually include an overview of significant variances and recommended actions.

Expenditure and Variance reports normally include the following elements:

- revenue: budgeted and received
- allocations to programs and agencies
- budgeted and actual expenditures to date
- variances for both revenues and expenditures for the current period and on a year-to-date basis
- projected variances at year-end

Why are they important?

Establishing reporting dates for the preparation of Expenditure and Variance Reports should be done and communicated to all staff well in advance of the fiscal year. The Financial Controller normally completes these reports monthly regardless of the timetable for Board or Health Committee consideration.

It is important that all departments understand that effective cash management and transaction reporting is the only way to ensure that the Expenditure and Revenue Reports will be accurate.

In addition, the Controller must ensure that the budgeted and actual numbers are reported on a consistent basis to permit a simple and fair presentation of the funds committed. The controller must also have up-to-date information on items such as contracts entered into but not paid; because these are legal obligations which reduce financial flexibility in the long-term.

It is the ultimate responsibility of the Board or Health Committee to monitor the financial aspects of the organization. In order to carry out this responsibility, the Health Manager and the Financial Controller must present regular reports in a format that is easy to understand, allowing the Board or Health Committee to make the required financial decisions. It is recommended that Expenditure and Variance Reports be presented to the Board or Health Committee on a monthly basis.

It is also recommended that Expenditure and Variance reports be formally accepted by the Board or Health Committee and that any actions as a result of these reports be recorded in the meeting minutes. This will provide clear direction and create records needed for the audit. For deliberations on the Expenditure and Variance Reports, the Health Director and Financial Controller must be aware of and advise the Board or Health Committee of any restrictions for reallocating funds and achieving minimum program standards.

What is the process?

Financial transactions are recorded on a regular basis using Generally Accepted Accounting Principles (GAAP).

1. Monthly Expenditure and Variance Reports are produced by the finance department (where program managers will provide input on the causes of any budgetary variances, major commitments, and projections to year-end).
2. The Financial Controller distributes the Expenditure and Variance Reports to program managers and the Health Manager.
3. The Health Manager prepares a summary of the implications and required adjustments that come from the Expenditure and Variance Reports for the Board or Health Committee's consideration.
4. The Expenditure and Variance Reports are presented by the Financial Controller and the Health Manager at regular Board or Health Committee meetings. Recommendations for dealing with the variances noted in the reports are tabled. It may be necessary to request a briefing from program managers to explain why the variances exist.
5. Projected surpluses can be reallocated to other programs that require additional funds. Projected deficits may be addressed through program cutbacks, or by reallocation of additional funds to cover the deficit.

How often should the Expenditure and Variance Reports be prepared?

It is recommended that Expenditure and Variance Reports be prepared monthly. At a minimum, they should be done on a quarterly basis. Required corrections can most easily be made early in the fiscal year and can only be made if the problems have been identified and made known to the Health Manager.

Expenditure and Variance Reports should be completed by the 15th of the month following the reporting period.