3 Steps to Project Financial Reporting

by David Elam

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Over the past year, this column has explored tools and techniques for capturing and analyzing project financial information. Of course, financial information has little value if it is not shared in a timely manner and usable format with those who are affected by it. And at some level, all environment, health, and safety (EH&S) project stakeholders are affected by financial performance. For these reasons, project managers must design project financial reporting systems that satisfy stakeholders' needs.

In some cases, project financial reporting will be governed by contract requirements. Government-funded projects, for example, often have very specific financial reporting requirements that allow the contracting officer to evaluate project performance.

Internal and private sector projects typically rely on less formal financial reporting systems—until something goes wrong. And then there is no shortage of requests for financial information and backup documentation—requests that can sidetrack the project manager from the critical hands-on project tasks required to restore project order and improve project financial performance.

It makes sense—both to avoid problems and to address them should they occur—for EH&S project managers to build financial reporting systems into every project from the beginning. While each project may have unique financial reporting requirements, the following guidelines will help EH&S project managers design and implement financial reporting systems for any project.

Financial Reporting 1, 2, 3

1. **Decide what type of information is required for each project stakeholder**. On a lump sum/fixed-fee project, the buyer (client) has little interest in financial performance unless the buyer fails to satisfy a project obligation that affects cost. In this case, the seller (consultant, engineer) has provided a price that reflects stated risks and associated financial implications. Accordingly, the project manager should be prepared to immediately alert the client when those risks are imminent or realized. Timely notification allows the client the opportunity to take actions to either avoid or approve additional costs. In contrast, the buyer of a time-and-materials project needs regular reports that compare project costs against milestones.

   Project team participants providing project services also require financial reports. These stakeholders will find value in financial reports that compare their efforts and progress against planned effort and progress regardless of the compensation model for the project.

2. **Decide the frequency for issuing project financial reports**. Project financial reports should be issued at intervals and frequencies that allow stakeholders the opportunity to take action on reported information. For a large permitting project involving steady effort over a long period, weekly or monthly financial reports maybe sufficient. Projects requiring short intense efforts, such as field investigations, may benefit from daily financial reporting, even if absolute financial data are not available. In these cases, it may be sufficient to report that effort matched plan or if it differed from plan, why and by how much.

   It may also be convenient to report financial data relative to project milestones. Project managers will find it useful to report financial data relative to progress before the milestone is achieved. For example, project stakeholders have the opportunity to take action that influences financial performance if appraised of finances when the milestone is 80% complete.

3. **Decide the format and delivery information for financial reports.** Financial information should be reported in formats using delivery methods that support decision-making. It makes little sense to report earned value management data to team members if they have not been trained to interpret it. Similarly, clients may find little value in financial reports intended for consulting firm management. In terms of delivery, e-mail or project Web sites may work in many cases, but may not serve the needs of a field crew working at a remote and secluded project location.

Financial reporting can seem like an additional burden to an overworked EH&S project manager. Undoubtedly, it takes time to gather the information, format it, distribute it, and follow-up on concerns that arise from the reported information. But reported financial information offers the opportunity to engage stakeholders, reminding them of their financial responsibilities, and empowering them to act on those responsibilities.

In short, communicating financial information in timely and relevant ways enables the project manager to share financial management responsibilities, resulting in projects that meet budgets, fewer change orders, approved change orders when they are required, and a shared sense of responsibility for project financial performance.

Year-End Reports

Regardless of your organization's financial calendar, the year end is an excellent time to review financial data for all your open projects and report them to project stakeholders. You'll find you'll approach the holiday season with a sense of accomplishment and the New Year with a sharpened sense of direction. **em**