18.1: Introduction to budgeting and accounting

This chapter gives a brief introduction to budgeting and accounting requirements and associated methods in the context of field trials. For all but the smallest trials, a trained accountant should be part of the trial team, at least part-time. This chapter is not written for such accountants. Rather its aim is to help non-specialists, such as PIs or trial managers, understand the basics of what budgeting and accounting will be needed in the management of a trial, and why. Though this knowledge is essential for those conducting trials of interventions everywhere, well-qualified support staff who can do much of the checking of budgets and accounts are generally in short supply in LMICs, so the PIs and trial managers may need to do more of this themselves. The chapter does not attempt to cover what would be included in a full textbook on budgeting and accounting. For that, readers are referred to specialist textbooks, some of which are available free online (Walther, 2012). Most budgeting and accounting textbooks are written from the perspective of a profit-making business, but Mango’s excellent Financial management essentials: A handbook for NGOs (Lewis, 2013) is designed specifically for non-governmental organizations (NGOs) and is also available free. With permission, this chapter summarizes many of the issues discussed in the Mango handbook, and those who want to know more are advised to consult the Mango website (<www.mango.org.uk/Guide>).

Like any specialist discipline, accounting has its own ‘language’. The 2010 edition of a widely used dictionary of accounting runs to over 400 pages and has more than 3600 entries (Law, 2010). The definitions of some of the most important terms are given in Section 7, and every time a term that is defined in Section 7 is used in the chapter it is written in italics.

All too often, those planning a trial put a great deal of effort into the scientific aspects of trial design, but relatively less effort into ensuring that the budget for the trial is adequate. Yet the latter is critical for the success of the trial. Also, once the trial is funded, it is essential that the trial has a well-thought-through budgeting and accounting system, with sufficient checks and balances built into it to ensure that ‘leakage’ of those hard-won funds will not occur and that funds will be available when and where they are needed, so that the implementation of the trial can flow in a timely and efficient
manner. PIs and other researchers do not usually need to do most of these tasks themselves, but they need to ensure that they will be done and know enough to be able to supervise them adequately.

There are four key principles of financial management of project grants:

- use funding for the purpose for which it has been given
- regularly monitor expenditure against the budget
- maintain accurate accounting records
- maintain a good filing and backup system for all financial information.

Keeping track of all purchases, donations, stores, and equipment is usually seen as a task for the accounting staff of an organization. These issues will not be dealt with in detail here, and those who want to know more about them are referred to the relevant sections of Lewis (2013). Monitoring and maintenance of clinical and laboratory supplies raise special issues such as needing to keep careful track of expiry dates and the rigorous use of the ‘first in, first out’ system of disbursement from the stores. Some of these are discussed in Chapter 17, and others are covered in accounting textbooks (Walther, 2012).

All organizations hosting trials should have a financial manual or a set of financial regulations that sets out all the financial policies and procedures to be followed. This may be developed from scratch, but usually it is possible to modify a manual from a similar institution. The manual should cover the procedures that will be used for the tasks listed in Box 18.1. Almost, but not all, of these issues are covered in this chapter. Readers are referred to accounting textbooks for further details (Walther, 2012).

Most trials will operate within an existing organization that already has its own financial manual and detailed methods for budgeting and accounting. Where this is the case, the PI, trial manager, and others involved in the trial should obtain a copy of these and make sure that they know the procedures and that they will provide all the information and necessary financial checks and balances. Occasionally, a trial will need to set up its own procedures, either because there is no pre-existing local organization involved in the trial or because the trial will need to be run from a new remote office. Here, the PI should seek professional help to set up suitable financial systems but should know enough to ensure that the results meet the standards of good financial practice. The rest of this chapter gives a brief introduction to what these should include.

In this chapter, the focus is on the costs of conducting an intervention trial. In Chapter 19, the focus is on the costs of the intervention itself, as they would be when the intervention is implemented in a public health programme. The time horizon for the research is generally well circumscribed, whereas that for provision of an intervention in a public health system is usually open-ended. This chapter is written from the perspective of accountants, whereas Chapter 19 leans more towards that of economists.

Box 18.1 Financial manual

The manual should include instructions and notes relating to the items listed:

- financial accounting
- the chart of accounts and cost codes
- budget preparation and monitoring
- management accounting routines and deadlines
- managing internal risk, for example, delegated authority rules (i.e. who can do what), separation of duties, reconciliation, cash control, physical controls
- procurement and tendering
- expense claims
- storekeeping
- asset management, including vehicle management
- bank and cash handling
- management of exchange rate variations
- payroll procedures and staff loans/advances
- staff benefits and allowances
- internal and external audit arrangements
- how to deal with fraud and other irregularities.

It should also include:

- standard forms
- organization charts (organogram)
- job descriptions.

Adapted with permission from Lewis, T., Financial management essentials: A handbook for NGOs, Management Accounting for Non-governmental Organisations (MANGO), Oxford, UK, Copyright © 2014, available from <www.mango.org.uk/Guide>. This box is distributed under the terms of the Creative Commons Attribution Non Commercial 4.0 International licence (CC-BY-NC), a copy of which is available at http://creativecommons.org/licenses/by-nc/4.0/.