18.4: Budget monitoring

Once the budget has been finalized and the necessary funds have been received, the budget acts as the basis for all future expenditure and financial reporting for the trial. The expenditure should be compared against the budget on a frequent and regular basis, such as every 3 months for a trial that lasts more than 1 year, and every month for a trial of a year or less. This process is known as budget monitoring. This is an activity that is frequently given too little attention—sometimes with disastrous consequences for the trial. Budget monitoring should include variance analysis where the difference (variance) between the actual (past) and forecast (future predicted) expenditure is compared with the budget to see whether there have been, or are predicted to be, any over- or under-spends, either overall or on specific budget line items.

The overall and future budget should be reviewed at least once a year to check whether it will still be adequate. If not, it is best to approach the funder early, rather than leaving it till towards the end of the trial when the money is about to run out.

4.1 Analysis of expenditure

Regular analysis of expenditure by cost codes is very useful to allow the detection of excessive expenditure on one or more cost codes. For example, if the laboratory seems to be getting through an excessive amount of laboratory supplies, this might be because the supplies of another project are being erroneously charged to the trial’s account or because the laboratory staff or storekeeper are stealing them. The level of detail provided by the cost codes is not usually needed for the summary accounts sent to the funding agency, but it is relatively easy to collapse the cost codes down to major budget line items such as all personnel costs or all travel costs.

Funders often have specific rules about virement of expenditure between budget line items. Many allow no more than 10% virement out of, or into, any budget line item, and some will not allow any virement into personnel or into...
equipment, for example.

4.2 Balance sheet

The balance sheet summarizes the current financial position of the project by showing all its assets and liabilities. It and the cash flow forecast are needed for budget monitoring. The assets include both fixed assets (tangible and likely to last more than 1 year) and current assets (cash or something that could be converted into cash within a year such as a savings account at a bank). Liabilities include current or short-term liabilities (to be paid within year) and long-term liabilities (long-term commitments).

4.3 Cash flow forecast

This shows the expected income and expenditure of the project into the future and is essential to be able to predict when there might be a shortage of funds to be able to meet future expenditure and to take steps to avoid this.