18.5: Accounts summaries and auditing

Once expenditure on the trial has started, the *income and expenditure accounts* will show the actual (past) *income* and *expenditure* within the *cash book*, and this should then be summarized periodically (ideally once a month, but at least once every 3 months) by major line items. The *income and expenditure accounts* can then be put into an income and expenditure statement, which will show actual (past) and forecast (future) *income* and the equivalent for *expenditure*, broken down by period (for example, monthly or quarterly) and by line items. This is used for *budget monitoring*. It is useful to include a column showing the percentage by which the budget has been over- or under-spent (known as a *variance analysis*). The *income and expenditure accounts* and statement are the most useful summary accounts for most time-limited projects such as a trial.

The *balance sheet* summarizes the overall current financial position of a project or institution, taking into account the current market value of *assets*—fixed (for example, buildings, vehicles) and current (cash or savings that are likely to be converted into cash within 12 months). However, for a specific trial, a *balance sheet* is likely to be less useful than the *income and expenditure accounts*, an income and expenditure forecast, a list of (major) *assets*, and a *cash flow report* and forecast showing when *expenditures* can be expected relative to the *income*, in order to highlight potential periods when there may be a shortfall or when cash may need to be spent to avoid it being lost back to the funding agency.

It is essential that all accounts are subjected to *external audit*. Ideally, this should be done annually as soon as possible after year-end, based on the *annual accounts*. *External audit* is relatively expensive and needs to be included in the budget. Sometimes, the institution has arrangements in place that all their accounts are externally audited each year. Where this is the case, this is usually sufficient, but it is essential that this is checked with the funding agency, which may require a separate project-specific external audit.

Box 18.3 gives a checklist of questions to ask when reviewing financial information in a trial.

Box 18.3 Questions to ask when reviewing financial information
General

- Do the accounts make sense? Do the various figures add up correctly? Do the amounts given in different parts of the accounts match each other?
- Are the amounts given backed up by supporting documents?
- Do spot checks of some of the original supporting documents match the amounts given in the accounts?

Funding and expenditure

- Are funding and expenditure broadly in balance?
- Is there a significant increase or decrease in activity levels from the previous reporting period?
- What is the balance of direct project costs vs administrative and indirect costs?
- Is expenditure reasonable for the size and nature of the project?
- Are there any large bills outstanding which could substantially affect the figures shown?
- Are bills paid in a timely manner? If not, creditors may refuse to supply the project or the institution as a whole in the future.
- What is the projected year-end balance? Is this satisfactory? If not, what steps need to be taken to change things?

Variances and virement

- Is the expenditure broadly in line with the budget (for example, ± 10%)?
- Is the income broadly in line with the budget (for example, ± 10%)?
- Are there any significant variances (for example, under-spending as a result of delayed activity plans, or overspending due to inflation or unexpected salary increases)? If so, have they been explained satisfactorily?
- What action is being taken to correct significant variances? This might include going back to the funder to get permission for the budget to be changed.
- Are all virements within the permitted range? If not, will it be possible to rectify this before the end of the project? If not, has the funder been approached to give their permission?

Cash flow

- Is the project owed any large sums of money? Are the project funds expended, borrowed, pledged, transferred, or otherwise used for reasons that are not directly associated with the project? What is being done to retrieve them?
- Are there any unbudgeted expenses that may occur later in the financial year?
- Is income still expected to come through on time?
- Are spare cash balances invested to produce the best return? Is any interest being properly accounted for?
- Has the income or expenditure been affected by exchange rate movements? Will the funder compensate for these if they were in a negative direction?