Research Fairness Index – Vignette 8

- Adequate Financial Management Systems -

- *Avoiding use of research funds for unauthorized purposes – whether by intent of by lack of expertise*
- *It is pragmatic, and possibly also 'fair', that partners without access to adequate financial management are supported to develop or access financial management capacity*

[The scenario]

A major bilateral donor awards a contract to a well-known global health researcher (the "PI") in an equally well-known university in their own country ("HIC Univ") for purposes of conducting a research and intervention programme in a low income country (LIC). To implement the programme, the PI subcontracts a colleague working LIC's major university ("LIC Univ") for part of the work. The PI is a conscientious researcher who maximizes the amount of work that can be done 'in-country' by staff at LIC Univ.

It is not difficult to find a 'partner' in LIC Univ and get agreement from LIC government. After all, this is large, 4-year programme with substantial employment, training and travel opportunities for local staff – and it addresses a health problem that is locally relevant. Contracting is 'not a problem' – it is simply done between the PI of HIC Univ using a standard HIC Univ contract, on the one hand, and his colleague at LIC Univ, on the other hand, as there is no grant administration office at LIC Univ.

> *So far, this is a very common scenario in 'global health research' – and not just in the public sector: private sector collaborative research often happens with only minor variations.*

[The problem]

Three years into the programme, a first financial audit is conducted by HIC Univ in preparation for completion of the project and the need to provide financial reports back to the donor. While collaboration has been good, research results have been forthcoming, and publications have been produced, the financial audit shows that $300.000 on a total of $3 million is unaccounted for – all of it from the funding allocated to LIC Univ.

[The consequences]

- Immediate results: the bilateral donor threatened legal action against the HIC Univ; the reputation of the HIC Univ was tarnished; the PI lost his job; the partnership will not be renewed any time soon.
- Longer term results:
    - HIC Univ puts in place a new collaboration policy that is very restrictive in terms of providing funding to LIC Universities in general – thus making 'real / equal' partnership more difficult in future – with this particular partner, but also with any future LIC partners
    - The LIC Univ is not 'better off' in terms of financial management; the missing funds have not been traced nor repaid; the deficiency in the financial management system has not identified and certainly not been addressed; and the reputational damage has

been severe – even though it was never clear whether funds went missing by intent or – equally likely – by lack of skills and SOPs in financial management.

[How can the RFI improve this situation ?]

The RFI encourages all partners to report on the standards used in and transparency of their financial management systems, and to outline steps that will be taken in future to improve these. While it is easy to paint an 'optimistic' picture if there is no external validation mechanism in place, the extent of this is limited by asking to share policy documents, agreements or other evidence of current and future actions through the reporting. Secondly, the RFI Report is the start – it enables partners to ask more specific questions or make more specific demands. And – this may happen in both directions:

- The sponsoring institution or donor may well wish the LIC Univ to begin using an internationally accepted accounting standard as precondition for receiving (substantial) funds.
- The 'receiving' institution may well wish to ascertain and ensure that financial decision-making in a (longterm) study is matched, that policies to transfer funds are not overly restrictive, or that adequate budgetary provision for external audit are included.

The RFI promotes access to appropriate financial management and audit as part of good partnerships. Ideally, all institutions should have competence in this core area and, if not, should develop it. Collaborative research can be expected to contribute towards the cost of developing and maintaining such systems, as it is an essential pre-requisite for well-managed research and well-managed partnerships.

Clearly – small studies can not contribute in the same measure as large, multi-year projects. Similarly, if donors/research funders do not provide ring-fenced budget line items dealing with financial management – it may be difficult to 'build systems'. Nevertheless, at the very least, external audit over projects can be included. LIC governments and institutions can insist that this be done – it is only fair to protect themselves against reputational damage. Similary, HIC donors and institutions can refer to the RFI and simply include external audit as minimum measure. Both partners – in the phase leading up to the contract – can expand on this, especially in large multi-year, multi-partner programmes. Whether on the basis of 'fairness' or of 'pragmatism' – leaving ambiguity in financial management is bad for research, bad for research partnerships.

Therefore, the RFI encourages use of external financial audit in case local systems are inadequate to provide rapid quality. The RFI also asks everyone to report on efforts made to i) assess financial management capacity in partners institutions and ii) to report on steps taken to ensure these can deal appropriately and competently with anticipated research funding, if necessary.

Imagine that – in this case – all three partners (the bilateral donor, HIC Univ and LIC Univ) all were RFI members and produced their annual RFI report – the RFI could helped to prevent this negative scenario by:

- Donor and HIC Univ could have agreed with LIC Univ on improvements of LIC Univ financial management system (for purposes of this study), and could have taken appropriate steps to increase capacity, audit transparency; and not to leave it for 3 years to do a first audit, perhaps.
- In the immediate term, the PI would perhaps not have been fired.
- There could longer term impact:
  - A 'positive' cycle – improving capacity – rather than a negative 'clamping down' one
  - Bilateral donors are already setting up 'financial policing' branches – and, in this way, are confounding their own roles – being a 'trusted partner' vs 'being an external auditor'.
  - By referring to an external standard of 'fairness' – which applies to all partners – and appeals to fairness on both sides – partners can focus more on being 'trusted partner' and less on 'policing'

Some key questions arising from this Vignette are these:

- Partners need to make an assessment of quality of financial management systems in other partners – in particular, partners that transfer funding out would need to know that partners that receive such funding can competently manage the funding for the purpose for which it is transferred. The questions:
  - Who does the assessment ?
  - Against which benchmark of 'competence' ?
  - How can this be done in a manner that maintains trust, respect, dignity of all concerned – after all, the research is still to happen!
  - In particular – how can a research funder be a 'trusted partner', on the one hand, and a 'financial policing agency' on the other hand? Can an external standard, like the RFI, reduce the tension between these two roles ?

- Should the financial management system of a partner be found wanting – then there are other questions:
  - Whose responsibility is it to improve the system ?
  - Measured against which standard ?
  - And … who will carry the costs for this.

- And a last key question:
  - Balancing 'fairness' and 'pragmatism':
    - 'Fairness' – should a high-income country institution carry all costs (even if previous projects have also already contributed to the financial management system development ?
    - 'Pragmatism' – to what extent should one simply consider this as the 'cost of doing collaborative research?' and choose for an expedient option, such as demanding external audit or independent accounting – and build the cost into the overall programme budget?

The RFI does not have answers to all of these – at least not immediately. At the same time, adequate financial management is a key issue in promoting high quality, relevant and timely research for health around the globe. For now, we propose a set of reporting questions (see Reporting Guide, reporting area 8) and expect that a best practice standard will develop in the next few years.

RFI

The RFI Vignettes are being developed to illustrate how the RFI can impact on research and innovation for health, equity and development – around the globe – prioritizing low and middle income countries. Many are based on real cases. Where possible, references are provided to source documentation.

We are always looking for more and better examples and illustrations of how the RFI creates change – please help us and send your suggestions, ideas, comments for improvement to rfi@cohred.org