

# ESTABLISHING FINANCIAL MANAGEMENT AND FUND RAISING INFRASTRUCTURE FOR NEW UNIVERSITIES

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# Outline

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# 1. Introduction

- The University of Medical Sciences, Ondo, no doubt aspires to be a great University? But, what are the factors that make a great university?
- The following features are very often emphasized:
  - Quality faculty – competent teachers and researchers;
  - Imposing and copious physical structures;
  - Teaching and research facilities – classrooms, theatres, laboratories, ICT, etc.
- Seldom mentioned in the first order requirements is the imperative of a good administration. But without quality administration, no university can succeed in fulfilling its mission. Administration is what welds together all the other resources to produce results.

- Prominent within the administrative system is the Finance function. Finance is not only an enabler, it is the common denominator of all that is of economic value in the workings of the entire university system. It provides the wherewithal with which the system functions.
- Funds must be sourced or generated in sufficient amount, and made available when needed. Funds must be managed efficiently so as to maximise results.
- Our aim in this discussion is to outline what constitutes a sound financial management system in the university context and the important role which it plays in assisting the university fulfil its mission.

- Emphasis will be given in this discussion to issues relating fund raising, its approaches and the essentials of good fund administration.

## 2. Some challenges facing a young public university such as the University of Medical Sciences, Ondo.

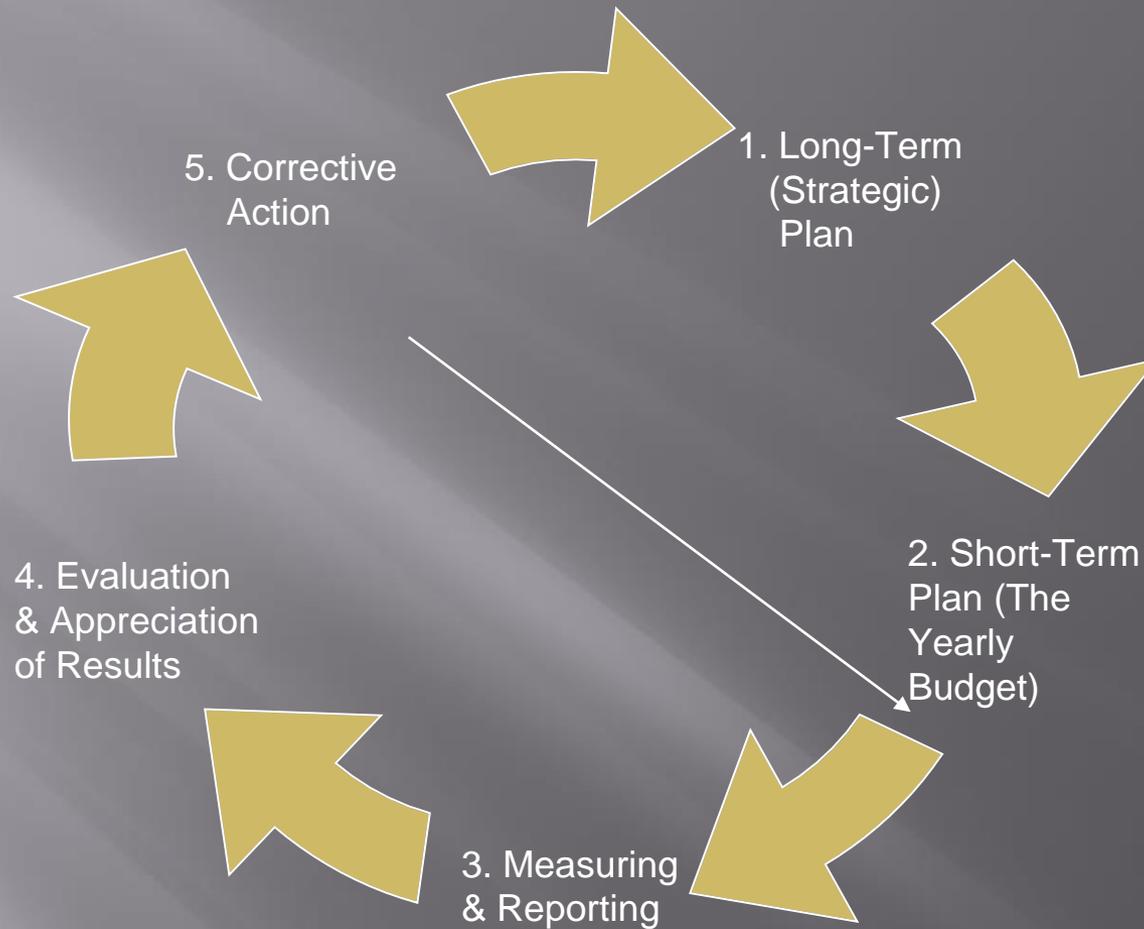
- Every university aspires to be world-class. But what are the factors that make a university world-class?
- A world-class university is a university -
  - where the best students seek admission;
  - where the best brains in the University system will seek to work;
  - which is the best destination for grants and collaboration;
  - where employers seek to recruit the best graduates for employment;
  - which is renowned for its research and research publications.

- It should be noted that no university can become world-class unless it has a deep pocket, a very deep pocket. The university must have other non-financial resources of course, but a deep pocket is the principal enabling resource.
- The requisite funds must be provided either by the proprietor or by alumni, friends or well-wishers (i.e., public-spirited individuals in the society).
- In the final resort the university may commercialise and some of its services or undertake business activities in to augment other sources.
- The experience of many public universities in Nigeria with respect to funding is however not very pleasant. Government grants or subventions to public universities are quite often not enough, and yet for political reasons public universities are not encouraged to charge commercial fees to recover their costs fully.

- Budgeted sums may not be released in full; part of the approved budget may be embargoed by government in the face of competing demands.
- Even when the funds are not embargoed, they may yet not arrive on as and when needed.
- Some public universities do not have financial autonomy; powerful persons in government may interfere with the contract award system; this may short change the university in terms of adequate and quality structures.
- Sometimes the activities of vibrant unionism (staff and students) may compel a university to divert scarce resources to unbudgeted expenditure, when it is faced with threat of demonstrations and shut downs.
- Above problems may combine or conspire to impede the legitimate aspirations of a public university. The university's management must find ways to strategise to minimise the impact of these debilitating factors.

### 3. What role can financial management play to meet above funding challenges?

- Financial management is basically about raising funds and then judiciously managing such funds.
- It is essentially a planning and control device, as can be seen in the schema below:



## The Planning and Control Cycle

- The finance function is the very core of the above schema

- For efficient management, costs must be tied to goals and targets both in the planning phase and in the operational phase. Financial reporting must also be related to specified goals and targets.
- Whereas in a pure commercial setting, goals, targets and outputs can be specified in measurable quantities and costs related to them, this is peculiarly difficult in a university setting where it is not so easy to quantify goals and targets.
- For instance what is the measure of university performance? Is it in terms of number of graduates? Or quality of graduates? Or of quality of research? Is it number of research publications or number of patents?
- This represents a peculiar dilemma in the evaluation of university performance!

- Notwithstanding, effort is usually made to devise such control metrics as (i) tuition cost per student, (ii) staff-student ratio, (iii) maintenance cost per vehicle or equipment? (iv) maintenance cost per staff quarter, etc.
  
- Such control devices may be supplemented by periodic compilation of Budget Comparison Statements, and value-for-money audits which address the three financial criteria of -
  - (i) effectiveness (what we set out to achieve, did we achieve it?),
  - (ii) efficiency (at what cost? Could it have been done at a lower cost?) and
  - (iii) economy (Is there an alternative option which could have been cheaper? Why did we not use that cheaper option?)

## 4. Scope and features of a typical university financial management set up

- A typical university financial management set would be headed by a Bursar who is the University's Chief Financial Officer. He reports to the Vice-Chancellor
- Under the Bursar would be sections or units which undertake the following activities:
  - Budget and Expenditure Control
  - Payroll
  - Treasury (Cash Office)
  - Student Financial Records
  - Final Accounts and Reporting
  - Insurances
  - Purchasing and stores
  - Contract Records
  - Business Affairs (IGR)
  - Fund Management (Grants & Investments)

- The duties of these sections/units would of course be very clearly spelt out in **the Financial Regulations**. Financial Regulations set out:
  - (i) Procedures (initiation and authorisation)
  - (ii) Documentations
  - (iii) Chart of Accounts,
  - (iv) Authority Limits of all approving officers, etc.
  
- A very important financial control unit which operates outside the confines of the Bursary and reports direct to the Vice-Chancellor is the Internal Audit Unit.
  
- The Internal Unit conducts independent examinations of all Bursary operations to ensure that they comply with established regulations and conform to high standards of probity and prudence. It also traditionally maintains the University's Asset Register.

- Our experience is that the Internal Audit function in many Nigerian universities are under-utilised and have not risen to the expanded or variegated demands of modern organisations.
  - They mostly do pre-payment audit and do not undertake post-expenditure appraisals.
  - They also do not undertake operations reviews and special cost minimisation studies.
  
- Underscoring all of the above is of course the issue of **quality of staffing**. Appropriate academic and professional qualifications as well as relevant experience in cognate institutions is usually a *sine qua non*.
  
- So also is the requirement for Bursary/Internal Audit staff to maintain high ethical conduct.

## 5. Infrastructure for fund raising and fund management

- Some reasons why universities have of necessity to explore additional sources of funding:
  - (i) The inadequate, irregular and (of late) declining subventions from government.
  - (ii) The exceedingly high burden of providing quality university education. It is acknowledged all over the world that if universities were to seek to charge out all costs in fees, the resultant burden would far exceed the capacity of most students.
- Recognising these, most universities even in developed countries are forced to diversify their revenue sources – see below:

## Some international comparisons of revenue sources to universities

	Public Universities in:	
	<u>Nigeria</u>	<u>USA</u>
Revenue from tuition fees	2%	18%
Revenue from commercial projects	> 5%	23%
Total non-govt revenues	> 25%	48%
Donations and grants	?	varies

- Potential unexploited/underexploited sources of funding in Nigerian universities include:
  - Grants - R & D grants, capital grants (e.g., Trust Fund)
  - Endowment Funds
  - Gifts from alumni
  - Consultancy services
  - Trading activities (e.g., packaging of water, bakery, catering, production of stationery, etc.)
  
- The above sources fall into three broad categories – Grants, Consultancy and Commerce.

- Universities characteristically lack the suitable orientation to run commercial enterprises profitably by themselves. To make a success of such businesses they either have to hive such units off entirely from the university administration or go into private-public partnership (PPP) arrangements.
- Experience also shows that University based consultancy services need to be managed and driven by persons who have some commercial background in order to achieve good results.

- Accessing grants involves a strenuous process of :
  - search,
  - educating oneself about the specific focus and requirements of the particular grantor agency.
  - developing a proposal which meets the grantor's criteria
  - peer review, etc., etc.
  
- That in itself is a major challenge for the potential grantee, but it is only just one of the two major challenges.
  
- *The second challenge is managing the grant in a manner that is acceptable to the grantor.*

➤ Grants come with its own obligations:

Donor agencies do not give you money just to spend as you like. The money always comes with an important obligation – the obligation to use the money solely for the agreed purpose, following standard rules of prudence and accountability, bearing in mind that the grantor organisation is itself quite often just an agent who must also account to its own fund providers.

➤ Elements of control grant management :

- (i) There is usually an agreed budget/plan which specifies work to be done, targets to be attained, and costs relating to each target or segment.
- (ii) Such budget or plan usually assigns specific responsibilities to identified individuals involved in the execution process – researcher, university, grantor.
- (iii) The university must put in place a measurement system which records what was attained and how much it cost. The measurement process must have in-built internal assurance mechanisms.

- (iv) Periodic progress reporting, especially if the project entails a long timeframe;
- (v) A final report at the conclusion of the task is usually demanded by the grantor. This serves to evaluate both the physical and financial outcomes.
- (vi) For the report to be credible it must be subjected to audit by a qualified independent party. Sometimes grantors nominate a reputable audit firm (different from the university's external auditor) to attest to the financial report.

## The Institutional framework entailed in grant management:

- In most cases when grants are made, the money is not given to the individual researcher but to the University to administer in trust on behalf of the grantor. The university is expected to exercise the highest degree of control over the use of the grant.
- The university is usually entitled to charge a fee. Such fee may be included in a general charge called Finance and Administration (F & A).
- F & A usually includes the use of the University's facilities such as laboratory equipment, personnel, space, etc.

- F & A fee varies between 10 and 30% depending on the extent of use of university facilities.
- F & A must be built into the research or project cost submitted along with the proposal.
- The procedure for incurring costs involves as follows:
  - (i) Use appropriate documentation (PV) to request for fund. The PV would specify the particular cost component which is involved (e.g., purchase of equipment, payment of research assistant, reagents, hotel and travelling, stationery, etc.)
  - (ii) Submit PV for checking by Internal Audit;

- (iii) Get the P.V approved by a duly authorised officer e.g., the institution's Grant Manager/Officer;
- (iv) The spender/researcher should bear in mind that the amount obtained is merely an advance which must be retired in due course with appropriate documentations (invoices, receipts, etc). Retirement statements will usually again require authentication by the Institution's Internal Auditor.
- (v) Submit periodic reports on work progress, if this is a specified requirement in the conditions for the award. Attach an authenticated interim statement of expenditure obtained from Bursary.

(vi) At the end of the research project submit a final report which is again authenticated by the University. If the conditions of award so demand, this must again be attested to by an external auditor appointed by the grantor.

➤ The above arrangements assume as follows:

- That there is in operation a sound accounting system which not only captures expenditure accurately but also segregates cost according to its major components - e.g., personnel, materials, overheads, etc.
- The accounting system must also be able to produce timely reports as and when needed. A fully computerised Bursary is an advantage.

- That there is in operation an efficient internal control system which separates responsibilities for the raising of the request; for approving and for the actual release of the physical cash.
- Where the volume of grants justifies it, an institution may create a Grants Department which takes responsibility for managing grants received by various units or individuals in the university. Such function is usually located in the Vice Chancellor's Office.

- It should be noted that successful grant management comes with immense rewards.
  - (i) To the researcher, it places him in favourable light in the eyes of the grantor. He may be able secure more grants in future.
  - (ii) To the institution, it establishes or reinforces the university's image and reputation. This usually robs off on other research grant applications from the same university.
  - (iii) To the grantor because it enables it to acquit itself before its own fund providers. This facilities future fund raising.

➤ **It's actually a win-win situation.**

## *Caveat!*

*There have been instances of frauds perpetrated either by grantees, foundations, donor agencies, etc. Some of these were of high profile nature which were widely publicized. This has led grant makers to insist on stricter measures of control including audit.*

- Therefore, the grantee should observe the highest degree of honesty and transparency in the utilisation and reporting of grants. Bear in mind in particular that, coming from a country with a badly scarred international image of integrity deficiency, such as Nigeria, even a small honest mistake or error can be easily classified as fraud!

## 6. Conclusion

- A young 'public' university (such as ours) faces some traditional challenges which it must strategise to overcome if it is to fulfil its lofty aspirations. Especially so in an era of dwindling (and characteristically unsteady) funds flow from its government-proprietor. Among other things:
  - (i) It must develop a smooth and seamless relationship with the funding and disbursing organs of government. This is usually a task for the Vice-Chancellor himself or the Bursar.
  - (i) It must develop an aggressive system of generating internal funds to augment its traditional sources. Among these – endowments, grants, consultancy and if possible some commercial undertakings.

- (iii) It must have a good and comprehensive accounting system which renders frequent and timely reports that enable management to monitor its activities and take prompt remedial actions in the event of potential financial embarrassment (e.g., weekly or monthly cash budgets to the Vice-Chancellor should be prepared by the Bursar to guide the Vice-Chancellor's expenditure authorisations).
  
- (iv) It must also provide regular and timely reports to both internal management as well as external providers of funds.
  
- (iv) It is advisable for the University to have very early in its existence an Investment Unit that ensures profitable investment of its capital grants and endowments and surplus funds. The Unit must be managed by investment experts.

- (iv) Above all, The University's financial management function must institute a culture of prudence and transparency.
  
- (iv) Finally, the finance function must recognise at all times that is **just a service function**, whose success is adjudged/measured in terms of the quality of its services to the operating organs of the University.

*Chairman Sir,  
Vice-Chancellor,  
Ladies and gentlemen,  
I thank you all for  
your attention*