

FINANCIAL REPORTING REFORMS IN THE INSTITUTIONS OF HIGHER EDUCATION IN INDIA

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ABSTRACT

Purpose: The present research paper, with conceptual/theoretical approach, is an attempt to comprehend the accounting reforms undertaken by the Government of India in the Government institutions of Higher Education (GIHE).

Design/Methodology: The first part of this paper deals with the initial reforms undertaken by the Government of India in the beginning of new millennium. Such reforms were made applicable to all autonomous bodies of Government of India (GAB) uniformly. The second part of this paper explains how the initial reformatory measures could not address the specific requirements of the Government institutions of higher education, because of their distinctive features vis-à-vis the other Government autonomous bodies. The third part of this paper examines the next phase of reforms introduced by the Government of India, which were fully oriented towards the specific requirements of the GIHE.

Findings: During the past one decade there is paradigm shift the way Governments accounts are looked at. The accounting in Government institutions in India, now, is no more perceived merely as a tool for recording the actual cash received and disbursements made. A well-structured financial statements and reports, based on widely accepted accounting principles and standards, are an important aid to the Government and other stakeholders to gauge financial state of affairs of the organization and in framing strategic policies and plans for future. The Uniform Financial accounting and reporting standard notified by the Government found to be fully aligned with the specific needs of the institutions except in the treatment of assets created out of sponsored projects and the compliance of AS 15 (ICAI).

Practical Implication: The identified issues and the suggestions incorporated in the paper is expected to help proper recognition and measurement of the economic costs and benefits arising out of assets created from sponsored projects as well as expenditure on retirement benefits.

KEYWORDS: Financial Reporting, Reforms in Accounting and Financial Reporting.

Introduction

As a part of Public Financial Management, the need of reforms in Government Accounting and financial reporting (especially in Government autonomous bodies) has attained the special focus of the Government for quite some time in the recent past. Prior to the year 2002, most of the Government autonomous bodies had been following cash basis - single entry accounting system. The financial statements of such autonomous bodies primarily reflected the total receipts and payments made during the period of a given financial year. Some of the organization also prepared income and expenditure account and a Balance Sheet. There was no uniformity in the formats and presentation of accounts of these bodies. The preparation of accounts primarily oriented towards the budgeting process of the institution. The Statements of annual accounts were presented in the shape of actual receipts and payments in reference to budgeted figures. Such statements did not provide adequate details concerning the overall financial health of the entity. Under this system, assets of the organization, it's written down value after providing for the depreciation, liabilities of the organization, income and expenditure accrued as distinct from actual receipt and payment did not find a mention in the financial statements. Recognizing the need to remove these inadequacies and keeping in view the global reforms taking place

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in the government accounting, there is paradigm shift, the way Governments accounts are looked at. Now, the accounting in Government sector in India is no more perceived merely as a tool for recording the actual cash received and disbursement made. A well-structured financial statements and reports, based on widely accepted accounting principles and standards, are an important aid to the Government and other stakeholders to gauge financial state of affairs of the organization. It also helps the Government in framing strategic policies and plans for future. The reformative steps taken by the Government in this direction are clearly manifested in various policies such as Government Accounting Rules, 1990, The Financial Responsibility and Budget Management Act, 2003 (FBRM) read with General Financial Rules, 2005 (GFR), Indian Government Accounting Standards (IGAS), Outcome Budget to name a few.

Initial Reforms

With a mission to bring reforms in the accounting of these bodies and to ensure uniformity and transparency in the presentation of accounts, the Central Government constituted an expert committee headed by Controller General of Accounts (CGA) to devise standard formats of accounts. The committee submitted its report dated Feb 2nd, 2001, wherein, standard format of accounts consisting of Statement of receipts and Payments, Income and expenditure account, Balance Sheet and schedules with significant accounting policies and notes to the accounts forming integral part of the financial statements. The Central Government accepted the report and made it mandatory for all the Central autonomous bodies to prepare its account on the standard formats with effect from April 2001. The common formats of account were also notified by the Ministry of Human resource development on 18th February 2002 for implementation by all the Central universities and other institutions of higher education under the purview of the Ministry. These common formats of accounts could not serve the purpose of educational institutions as these were not devised keeping in view the specific nature of activities and the financial practices prevailing in most of the government institutions.

Distinctive Feature of Government Institutions of Higher Education

Unlike most of the Government Autonomous Bodies, the profit is not the objective of Government educational institutions. It is not that all the institutions of higher Education in India are in public sector. There are considerable numbers of institutions of higher education in private sector also.¹ According to the All India Survey on Higher education (AISHE) for the year 2015-16 issued by the MHRD, there are 799 universities, 39,071 colleges and 11,923 stand-alone institutions in India, as tabulated here below.

Table 1

University	Central University	43
	State Public University	329
	Deemed University	122
	State Private University	197
	Central Open University	1
	State Open University	13
	Institution of National Importance	75
	State Private Open University	1
	Institutions under State Legislature Act	5
	Others	13
	Total	799
College		39071
Stand Alone Institution	Diploma Level Technical	3867
	PGDM	435
	Diploma Level Nursing	3060
	Diploma Level Teacher Training	4403
	Institute under Ministries	158
	Total	11,923

¹MHRD Report "Educational Statistics- At a Glance" 2016(website: <http://mhrd.gov.in/statist>)http://mhrd.gov.in/sites/upload_files/mhrd/files/statistics/AISHE2015-16.pdf

So far as academic standards are concerned, the private institutes are regulated in the same manner as the Government institutions. However, unlike Government institutions, the private institution of higher education operates like a business entity, in the sense that such institutes not only recover the total cost of its services from the students and other users but also generates an appropriate surplus to fulfill their future needs. Such private institutes have to prepare their accounts following the same Accounting Standards as prescribed for other organizations. Thus, the accounting system in Government institutions of higher education can neither be similar to the one being followed by other Government autonomous bodies, which are working on commercial lines, nor with the private institutions of higher education.

The Government institutions are largely dependent on Government grants for its maintenance as well as developmental activities. The major source of internal revenue of these institutes comprises fee from students, donations, consultancy works, rent from University estate, interest from endowments, etc. In most of the GIHEs, the total annual internal revenue from all these components can hardly meet the total annual operation and maintenance expenditure of such institutes. As such, the resultant deficit of such institutions, i.e., excess of expenditure over income, is met by the government in the shape of annual grant(s) to these institutions.

Here, it will be relevant to make a brief analysis of public expenditure on the education sector. The total expenditure of Government (Central, State and Union Territories) in 2013-14, on Education, was Rs 472011.27 crores.¹ A table showing total expenditure of Government (Central, State and Union Territories) in 2013-14 is as below: -

Table 2 (Rs in crores)

	Revenue	Capital	Loan & Advances	Total
Expenditure on Education by Education Department	365965.23	6841.71	26.76	372833.70
Expenditure on Education by Other Departments	99177.57	0.00	0.00	99177.57
Total	465142.80	6841.71	26.76	472011.27

The table 2 depicts the total public expenditure on education, which includes the expenditure on school education as well as higher education. Out of the total public expenditure (revenue) on education of Rs 465142.80 crores, the government outlay towards higher and technical education was Rs 142044.92 crores as tabulated here below:

Table 3

Sector	Expenditure Higher Education (Rs in crores)			Expenditure (% of GDP)		
	States/ UTs	Centre	Total	State/ UTs	Centre	Total
University & Higher Education	45571.69	25567.34	71139.03	0.40	0.23	0.63
Adult Education	637.42	686.65	1324.07	0.01	0.01	0.01
Technical Education	36320.90	33260.92	69581.82	0.32	0.30	0.62
Total	82530.01	59514.91	142044.92	0.73	0.54	1.26

Given such a huge public expenditure on Government institutions of higher education, it was required on part of the Government to formulate a standard format of annual accounts and financial reporting & disclosure standards for all the central funded institutions of higher education, keeping in view their specific requirements. Another special feature of Universities and other institutions of Higher Education is that these institutions carry out various Government(s) sponsored research projects and schemes, which require special accounting treatment and disclosures.

These institutions frequently receive donations, contributions and endowments with some restriction and stipulations concerning utilization of these funds. These funds are thus applied and utilized in such predetermined manner in consonance with the prescribed stipulations. Such institutions also set aside or earmark a portion of their own income for some specific activities. All such funds constitute 'Restricted funds' which require different accounting treatment, presentation, and disclosure in the

¹MHRD Report "Educational Statistics- At a Glance" 2016(website: <http://mhrd.gov.in/statist>)

financial statements. Owing to these distinct and special features, there was a need to formulate sound accounting and financial reporting framework, specific to the requirements of education sector.

In the above background, the Ministry of Human Resource Development (MHRD) in partnership with the Institute of chartered accountants of India (ICAI), New Delhi, constituted a working group. This group was tasked to formulate an appropriate method of accounting, a uniform reporting framework, application of sound accounting principles pertaining to recognition, measurement, and disclosure of various items of income & expenses and assets & liabilities in the financial statements of educational institutions, keeping in view the peculiarities of the activities of Institutions. After an extensive study and keeping in view the legislative environment governing the education sector, prevalent accounting and disclosure practices, and elements of financial statements specific to the education sector, on Jan 18, 2012, the working group submitted a detailed report and its recommendations. The recommendations of the group include¹:

- All educational institutions should be mandated to apply accrual basis of accounting.
- Accounting standards issued by the ICAI should be made mandatory to educational institutions.
- Fund based accounting may be introduced to ensure appropriate use of Earmarked funds by the institution.

Devising and Notification of Common Financial Reporting Format and Accounting Standards, Entirely Oriented Towards the Distinctive Requirements of GIHE

Based on the recommendations of the fore mentioned working group, MHRD in the month of April 2015 notified² a standard common format for presentation of financial statements of Central Higher education Institutions. Accounting Standards issued by the Institute of Chartered Accountants of India (ICAI), with certain exceptions, were made applicable to meet the requirements of all stakeholders. Such common formats aimed to bring not only uniformity and comparability of financial statements of different institutions, but also to promote accountability and transparency. Some special characteristics of this standard format are as follows.

Fund Based Accounting and Reporting

The educational institutions generally receive funds and contributions for some specified purposes. E.g., a person may donate a lump sum amount to an Institution to create an endowment, the income of which is to be utilized for payment of award of scholarship to meritorious students. In other case, a donor may make a contribution to an Institution for utilization towards the construction of a building or a laboratory, etc. In some cases an Institution may on its own earmark a portion of its own funds for utilization towards some specific objectives, such as construction of buildings, financial assistance to research scholars, to name a few. Accordingly, such restricted/earmarked funds and contributions are applied for the specified purposes and objectives only. The accounting treatment of receipt and application of such funds is not similar to that of other (unrestricted) income and expenditure of the organisation. In order to enable the concerned stake holders to have a true and fair view of the receipt, application and unutilized balance of the restricted/earmarked funds, the standard format has prescribed a separate schedule to reflect the state of affairs of such funds as follows:

Table 4

1	Opening Balance		xxxx
2	Additions during the year		
	i.) New Contribution	xxxx	
	ii.) Income from Fund (e.g. interest)	xxxx	xxxx
3	Total (1+2)		xxxx
4	Application of Funds		
	i.) Revenue Expenditure	xxxx	
	ii.) Capital Expenditure	xxxx	
	Total (i+ii)		xxxx
5	Closing Balance (3-4)		xxxx
6	Closing balance represented by		xxxx
	i.) Bank Balance		xxxx
	ii.) Securities		xxxx

¹Report on implementation of accounting standards in Educational Institutions of Department of Higher Education, Ministry of Human Resource Development.

²MHRD notification No.29-4/2012-IFD dated 17/04/2015

iii.)	Receivables		
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The closing balance of the earmarked funds as reflected in point five of the above schedule on the liability side of the balance sheet of institution. The assets held against such fund, as detailed in point 6 of the above schedule are reflected on the assets side of the balance sheet. The capital expenditure made out of earmarked funds, leading to creation of fixed assets, are added in the schedule of Fixed of assets with corresponding addition to Capital Fund of the Institution.

Special Treatment of Grant(s) Received for Sponsored Projects and Schemes

Various Government departments/its agencies, such as DST, DBT, UGC, AICTE, etc., sanction grant(s) to Universities/Institutions to carry out specific research projects and other schemes. Such grant(s) are not similar to earmarked funds. In case of earmarked funds, though there exists some restriction on its usage but, the ownership of such fund as well as the assets created there from vest with the Institution only. Whereas, in case of the grant(s) received by an institution to carry out some specific projects and schemes(sponsored by various Govt. agencies), the ownership of such fund continue to vest with the project sponsoring agency. Even the ownership of the assets created during the execution of such sponsored projects remains with the Govt., though the concerned institution continue to possess the same for utilization during the useful life of the assets so created. The status of receipt of such grant(s), utilization thereof and the closing balance (pending utilization) at the end of year is reflected in the financial statement through a separate schedule as follows:

Table 5

Sr. No.	Name of Project	Amount received During the Year (Cr)	Expenditure During the Year (Dr)	Closing Balance (Unspent Grant)

Unlike earmarked funds, the capital expenditure out of grants for sponsored projects is not reflected separately in the financial statements. Even the fixed assets created out of such grants are not reflected in the balance sheet of the institution as the ownership of such assets continues to vest with the sponsoring agency. The unspent grant (pending utilization) is treated as a current liability of the Institution and accordingly reflected in the liability side of the balance sheet.

Accounting of Expenditure on Employee Benefits and Disclosure Thereof

Most of the GIHEs are dependent on the govt. grants to meet their substantial portion of maintenance expenditure that largely includes expenditure on employee benefits. Therefore, it is very important for the institution to properly account for and make adequate disclosure of expenditure on employees benefits As per the Accounting Standard (AS) 15 issued by the Institute of Chartered Accountants of India (ICAI), the employee benefits have been classified into four types, i.e., Short term benefits (which includes monthly payment of salaries, wages, bonus, etc), long term benefits (that includes benefit of sabbatical leave, leave travel concession, etc), post-retirement benefits (e.g., gratuity & pension) and terminal benefits. Depending upon the type of the employee benefit and the period within which a liability is falling due, the AS 15 (ICAI) has prescribed different method of measurement and recognition of expenditure on employee benefits. For example, if a liability is falling due beyond twelve months then the expenditure has to be measured after discounting. With regard to post-retirement benefits the AS 15 (ICAI) prescribes use of actuarial techniques to measure the amount of employee benefit which is attributable to a given financial year.

However, keeping in view the specific pay structure of the Government institutions and its reporting requirements, the financial reporting standard (FRS) notified by the MHRD classified the employee benefits into two categories instead of four. The first category includes the service benefits and the second category includes retirement and terminal benefits. The yearly expenditure on service benefits are directly charged to the income and expenditure account. Even the employer's contribution towards pensioner funds under a defined contribution scheme (commonly known as New Pension Scheme or NPS) is also directly charged to income and expenditure account along with salaries, wages, medical facilities, etc. In case of retirement and terminal benefits (that includes payments towards Gratuity, Pension under a defined pensionary benefit scheme and leave encashment), only the provision required to be made in the given financial year is charged to income and expenditure account. Such yearly provision is calculated by using the actuarial techniques. The FRS (MHRD) has prescribed a

separate sub schedule of Staff Payments and benefits to disclose the working and calculation of yearly provision towards the retirement benefits as detailed here below:

Table 6

Particular	Pension	Gratuity	Leave Encashment	Total
(a) Opening balance of retirement Fund				
(b) Addition: Capitalized value of Pensionary Contribution received during the year				
(c) Total (a+b)				
(d) Less actual payments made during the year				
(e) Balance at the end of the year (c-d)				
(f) Provision required as per Actuarial valuation at the end of the Financial Year				
(g) Provision to be made during the Financial Year (f-e)				

After the implementation of FRS (MHRD) in 2015, the major issue faced by the institutions is as to how to build up the required Retirement Fund as per the actuarial valuation at the beginning of the financial year 2015-16, which is a prerequisite for the proper implementation of FRS (MHRD) on the basis of principles enunciated in AS 15 (ICAI). In case an institution makes the provision of an amount required as opening balance of Retirement Fund (as per the calculation under Actuarial valuation), without having a corresponding asset base, it is most likely that the whole of the capital of the Institution would get depleted. The possible solution to this is one-time financial support to all GIHEs to build up the required opening balance of Retirement Fund. In the absence of such support, those institutions could not build up the required Retirement Fund and thus are constrained to follow the principle of 'pay as one goes' to book the expenditure on retirement benefits.

Conclusion and Suggestions

To conclude, during the past one decade the Central Government has indeed brought in the much-desired financial accounting and disclosure standard which are uniformly applicable to all the centrally funded higher education institutions. These standards are fully aligned with the specific needs of such institutions. However, most of the public institutions of State Government are still following their own traditional method and format of financial statements and reporting thereof, which are not in conformity with FRS (MHRD). There is also a need to review the accounting treatment of assets created out of sponsored projects. In specific following suggestions are made to ensure effective implementation of Uniform Financial Reporting Standard notified by the MHRD;

- All the State Governments may be pursued to adopt such standard for implementation by all the public institutions established by respective State Legislation.
- With respect to the assets created out of fund released by any Governmental agency (to carry out any specific research project or a scheme), the ownership of which continue to vest with the sponsoring agency even after the completion of tenure of project, the FRS (MHRD) prescribes that such assets shall not be reflected in the balance sheet of the concerned institution disregarding the fact that after the completion of the project such assets are actually utilized by the institution for its other operations/activities. This standard missed out the fact that irrespective of the ownership of such an asset, the economic benefit and costs relating to such asset are actually enjoyed/borne by the institution. By not including such assets in the balance sheet, neither the book value/written down value get reflected in the books nor does the depreciation. This results in understatement of operational costs on the one hand and the understatement of assets employed in such institution on the other hand. To address this anomaly there is a need to review this standard.
- In order to provide an adequate asset base corresponding to the provision Retirement Fund (to be calculated by following Actuarial Valuation technique), the Government may sanction a one-time grant to the concerned Institutions.

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