



Financial Governance in Universities and Colleges: Assessing the disparity between Accounting Standards and Actual Management Practices

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Abstract:

This Paper explores system of Indian higher education. The financial resource management in higher educational institutions (HEIs), such as universities and colleges, is a critical aspect of their overall operational and strategic framework. Effective management of financial resources involves various processes including financing, pricing, accounting standards, and addressing gaps in practices. These components help institutions achieve sustainability, improve the quality of education and ensure long-term growth. This paper includes the practices in financial management for aligning resources in higher educational institutions. The utilization of finance & funds must be strictly in accordance with the set terms and conditions, rules and regulations, and hence, the accounting standards must be widely accepted in practice in which the statutory obligation should be increased and ensured in consultations with the professional and regulatory bodies. The paper concludes that the gaps in practices should be seriously detected and checked so as to safeguard the interests of the persons and bodies financing the higher education, and for that the effective information system should be ensured to satisfy the aforesaid users of accounting information.

Keywords: *Financial Management, Financing, Pricing, Accounting Standards and Gaps in Practices.*

Introduction:

The Indian higher education system is vast and diverse, catering to millions of students across a wide range of disciplines. It is governed by numerous institutions, policies, and regulatory bodies. India's higher education system is the third largest in the world, next to the United States and China. India has one the largest population in the world in age group of (5-24yrs) which presents a large number of opportunities in education space. Higher education in India is basically a state funded sector, and the state is financed by the Society from and through various tax revenues. As such the stake holders have every right to ensure proper and smooth financial management of and discipline in the Indian higher education. On this background, it



is necessary to articulate the emerging profile, issues, opportunities and challenges in Indian higher education system, and critically analyzes the recent initiatives and steps taken for revival of proper and smooth financial management of and discipline in the Indian higher education. There are various types of institution Public Universities, Private Universities, Institutes of National Importance and Deemed-to-be Universities. For monitoring these institutes' there are regulatory bodies such as University Grants Commission (UGC), All India Council for Technical Education (AICTE), National Board of Accreditation (NBA) and National Assessment and Accreditation Council (NAAC).

"Financial resources" refer to the funds or capital available to an individual, business, or organization to meet its financial needs, such as for operations, investments, or personal expenses. Effective management and allocation of financial resources are essential for sustaining operations, growing businesses, and ensuring personal or organizational financial stability. Following are the practices in financial management for aligning resources.

The Four Pillars of the Study are first Financing- Sources like state grants, private equity, and alumni endowments. Secondly, Pricing- Tuition models and student aid. After that Accounting- Adoption of accrual vs. cash-based systems and FASB/GASB standards and lastly, Gaps in Practice- The disparity between theoretical standards and actual daily management.

Financing of Higher Educational Institutions:

Financing of Higher Educational Institutions (HEIs) in India is a complex and multifaceted issue. It involves a combination of government funding, private sector investments, student fees, and international collaborations. The financial health of HEIs is critical to maintaining quality education, ensuring accessibility, and meeting the growing demands for educational services in the country. Below is an overview of the financing mechanisms available for higher educational institutions in India, their sources, challenges, and recent developments: Financing of HEIs can come from various sources, each contributing to the institution's overall budget:

- **Government Funding:** A significant portion of funding for public universities and colleges often comes from government grants. These funds typically support operational costs, infrastructure development, and academic programs.
- **Tuition Fees:** Tuition fees paid by students form an essential revenue stream for both private and public institutions, though it varies widely depending on the region, institution type, and the student's financial ability.



- **Research Grants and External Funding:** Many HEIs receive research grants from governmental agencies, foundations, and industry partnerships, which support research and development activities.
- **Donations and Endowments:** Contributions from alumni, philanthropists, and corporate sponsors can provide substantial financial support for university programs, scholarships, and infrastructure development.
- **Private Sector Investments:** Some universities engage with the private sector for joint ventures, creating specialized programs, or launching innovation hubs.

Pricing in Higher Educational Institutions:

Pricing, in terms of tuition fees and services, plays a critical role in determining access to education, as well as in the financial health of institutions.

- **Tuition Fees:** Pricing strategies differ between institutions. Public universities may have lower tuition fees compared to private universities, which rely more heavily on tuition revenue. Tuition pricing can also be influenced by the student's field of study, level of study (undergraduate / graduate), and residency status (domestic vs international students).
- **Scholarships and Financial Aid:** Pricing can be adjusted through financial aid programs, which may include scholarships, grants, work-study programs, and loans. These financial aids help make higher education accessible to a broader range of students.
- **Pricing of Services:** Many institutions offer additional services such as housing, meals, or extra-curricular activities, which contribute to the overall financial model of the institution. The pricing of these services is essential for managing non-academic costs.

Accounting Standards in Higher Educational Institutions:

The main aim of setting Accounting Standard is to bring about uniformity in financial reporting and to ensure consistency and comparability in the data submitted by educational institutions. These standards are crucial for ensuring transparency, accountability, and proper management of funds.

- **International Financial Reporting Standards (IFRS):** Many institutions, especially those in regions like Europe or parts of Asia, follow IFRS for financial reporting. IFRS is designed to bring transparency and comparability to financial statements.
- **Government Accounting Standards:** Public universities often follow specific government accounting standards set by national or regional authorities. These



standards ensure compliance with public sector financial management policies and regulations.

- **Non-Profit Accounting:** Many universities and colleges are considered non-profit organizations. As such, they must adhere to specialized accounting frameworks, such as the Financial Accounting Standards Board (FASB) guidelines, for non-profits in the United States.
- **Grant Accounting:** Institutions involved in research and project-based activities must adhere to grant accounting standards, ensuring that funds are used according to donor or sponsor guidelines.

Gaps in Practices in Financial Resource Management:

There are several gaps in the financial resource management practices at many universities and colleges, including:

- **Inefficiency in Fund Allocation:** Some universities face challenges in efficiently allocating resources, with funds being misallocated across different departments or programs, leading to inefficiencies and resource wastage.
- **Lack of Transparency:** In some cases, financial decision-making processes are opaque, and stakeholders (such as faculty, students, or even donors) do not have full visibility into how funds are being used, which undermines accountability.
- **Overreliance on Tuition Fees:** Many institutions, especially in private or for-profit education, overly depend on tuition fees for their revenue, which can make them vulnerable to shifts in enrollment numbers or economic downturns.
- **Underdeveloped Financial Planning:** In some HEIs, long-term financial planning and forecasting are either underdeveloped or non-existent. This lack of strategic financial management can lead to financial crises when faced with unexpected budget cuts, enrollment drops, or unforeseen costs.
- **Failure to Update Accounting Practices:** Some institutions are slow to update their accounting standards to reflect current best practices or changes in the financial landscape, which can lead to outdated financial reports and poor decision-making.
- **Ineffective Cost Control Measures:** HEIs sometimes face a lack of effective cost control measures, resulting in inefficient spending in areas such as administration, facilities management, and support services. This can lead to higher operational costs without proportional improvements in educational quality.



Practices in financial management for aligning resources:

- 1. Strategic Budgeting Aligned with Institutional Priorities:** Develop a strategic budgeting process that is closely aligned with the university's academic and long-term goals. A well-planned budget should reflect the institution's mission, priorities, and vision for the future.
- 2. Data-Driven Decision Making:** Use data analytics to inform financial decisions and measure the impact of resource allocation on academic outcomes.
- 3. Investment in Faculty and Staff Development:** Allocate resources to faculty and staff development to ensure that the institution attracts, retains, and develops high-quality educators and researchers.
- 4. Efficient Use of Capital Resources:** Align capital investment decisions with academic priorities and future needs. This includes investment in infrastructure (classrooms, laboratories, libraries) and technology.
- 5. Aligning Funding with Research Excellence:** Ensure that funding is aligned with research excellence by supporting faculty and student research through grants, endowments, and institutional funding.
- 6. Revenue Diversification:** Broaden the university's financial base to reduce reliance on tuition and government funding by developing alternative revenue streams.
- 7. Cost-Effective Resource Allocation:** Adopt cost-effective strategies for resource allocation, focusing on achieving maximum academic impact with available funds.
- 8. Encourage Academic Innovation and Interdisciplinary Programs:** Allocate resources to encourage academic innovation, including the development of interdisciplinary programs and the integration of emerging fields.
- 9. Transparent and Accountable Financial Management:** Maintain transparency in financial management to build trust with stakeholders and ensure that resources are used effectively to advance academic goals.
- 10. Continuous Monitoring and Adjustment:** Continuously monitor financial performance and academic outcomes to adjust resource allocation in real time.

Conclusion:

The Financial management of higher education institution does include the aforesaid issues and problems pertaining to financing pricing, accounting standards and gaps in practices in universities and colleges. In the fast changing socio-economic context, the higher education system will be exposed to greater pressure for expansion, which needs effective pricing of the



higher education so as to provide comprehensive finances to university & colleges. At the same time utilization of finance & funds must be strictly in accordance with the set terms and conditions, rules and regulations. The accounting standards must be widely accepted in practice in which the statutory obligation should be increased and ensured in consultations with the professional and regulatory bodies including ICAI, UGC, and NAAC. The gaps in practices should be seriously detected and checked so as to safeguard the interests of the persons and bodies financing the higher education. The effective information system should be ensured to satisfy the aforesaid users of accounting information.

Recommendations:

To improve financial resource management, universities and colleges could implement the following strategies:

- **Enhanced Financial Planning:** Institutions should implement comprehensive financial planning that includes budgeting, long-term forecasting, and risk management strategies to deal with potential financial shortfalls or challenges.
- **Improved Transparency and Accountability:** Institutions should increase transparency in their financial operations by making their financial statements accessible to all stakeholders, conducting regular audits, and adhering to clear accountability measures.
- **Diversification of Revenue Streams:** Universities should aim to diversify their sources of revenue, balancing government funding, tuition fees, research grants, and donations. This can reduce the risks associated with overreliance on a single income stream.
- **Modernized Accounting Practices:** Updating accounting standards and adopting modern financial management tools can help HEIs maintain accurate, up-to-date financial records and improve decision-making.
- **Cost Management and Efficiency:** Instituting cost-effective measures, such as adopting new technologies or optimizing administrative processes, can help reduce wasteful expenditure while maintaining the quality of education and student services.

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