

INTERNAL FINANCIAL REPORTING SYSTEM IN LEADING EDUCATIONAL ORGANIZATIONS IN MAHARASHTRA STATE, INDIA.

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ABSTRACT

Private Educational Societies have a long track record in India and Maharashtra State. Proper financial management of such Educational Organizations is essential for their stability and development. School, Colleges and other Institutions working under the umbrella of the parent body- Trust have to maintain regular and complete internal financial reporting. Besides, additional supporting systems of accounting may also be developed and adopted in such organizations. The present Research Paper is based on the first hand Research work done in the leading Educational Societies in South Maharashtra.

Key Words:

- Business of Education
- Trustees and Secretary
- Central Office and Units
- Statutory Compliances
- Private Educational Society
- Investment Status Report
- Endowments

INTRODUCTION TO EDUCATIONAL ORGANIZATIONS:

The role played by Private Educational Societies throughout India and particularly in the Maharashtra State since the 19th century is well known. Initially, the aim of education was to mobilize youth to actively participate in the freedom movement. This helped to awaken the spirit of patriotism amongst the youth. After the attainment of independence also, these Societies have been doing the work of spreading education among masses and also of imparting qualitative education. The number of Educational Societies has grown in size and has diversified into the interiors of India in general and the State of Maharashtra in particular. After the attainment of political independence in 1947, the Bombay Public

Trusts Act, 1950 was passed together with the BPT Rules in 1951. Though some Educational Societies had started their work earlier, as a registered Society under the Registration of Societies Act, 1860, they have also been asked to register themselves as Educational Trusts under this Act. It is obvious that these Societies and Trusts would not have been able to do this work and will not be able to do the work without the availability of necessary finance. In fact, Finance is the backbone of any economic entity. Educational Societies / Trusts, though basically are created as a charitable organization, are an independent economic entity. In fact, in modern times, the terminology of 'Business of Education' is much in vogue. These Societies / Trusts have achieved their academic and administrative excellence because of the

foresight and vision of their pioneers, administrative competence and generous financial support of the rulers, well wishers, and even ordinary citizens. Even today, running the noble profession of educational institutions and attaining the quality has been possible because of the constant flow of funds by way of donations and efficient financial management continued by these Educational Societies and Trusts.

The office bearers of these Trusts are mainly the Trustees, Secretary and the other members of the Governing Body or Council, mostly working in their honorary capacity. The Government, through Laws, has prescribed a number of administrative and financial responsibilities upon their office-bearers. With the passage of time, the network of schools and colleges under the management of an Educational Society/ a Trust enlarges in size and becomes complex in their activity. Most of the Educational Societies /Trusts have created a network of these units ranging from preprimary, primary, secondary and collegiate to autonomous units. Number of students, teaching and administrative staff has also increased tremendously. The geographical spread, role of the State Government in the field of education, public interest and interest of the other stakeholders in these organizations has also increased tremendously. In fact, 'Trust' as a model or vehicle for educational institutions has become an outdated version in the Business of Education. The attitude of charity has to be replaced by business of education and a corporate culture is being developed in the management of education. Educational Societies / Trusts generally have a Central Office and schools and colleges created by them act as their units, as the replica of head office and branches appearing in the world of business. Though imparting quality education to their students is the prime objective of every unit of an Educational Society or Trust, the same is possible only if proper and efficient financial management is adopted

at all levels. The need for efficient financial management has to be appreciated at the grass root level i.e. at the unit level and has to be imbibed by all. Hence it is felt that efficient internal reporting system is the heart of efficient financial management of the Private Educational Societies.

Financial Reporting in Educational Organizations:

Financial Reporting is a confidential function of any management. However, unlike the commercial field of business or industry, the branches i.e. units of Educational Societies / Trusts are generally managed traditionally. Efficient internal financial reporting system is the key for the success in financial management of any organization. Educational administration refers to not only instructing students in class and conducting examinations but has a larger share of other administrative activities like upkeep of premises, appointment and maintenance of staff, records keeping and problem solving. Efficient internal reporting system of units to the Central Office of an Educational Society / Trust acts as a backbone for financial management. In fact, the timely, complete and transparent reporting of financial matters from the unit heads to the office bearers of the Central Office is a prerequisite condition for the overall stability and development of any Educational Society / Trust. Financial administration needs the usage of number of forms and formats besides the mere traditional financial statements. It is necessary to undertake to device and form a check list of such forms and formats for efficient internal financial reporting of the schools and colleges i.e. by the Units to the Central Office of that parent organization i.e. the Society /Trust.

KEY WORDS AND TERMS

In this Paper, the following Key Words and Terms have been used:

Business of Education: In modern times, the field of Education is expected to run on business principles. As a business model, every Unit must undertake only those activities, which will earn surplus.

Trustees and Secretary: A trustee is a person/s who has accepted the responsibility of holding the property of a Trust as a custodian and running the Trust selflessly. Secretary of a Trust is generally the Executive Head of a Trust.

Office-bearers of a Trust:

A Trust or a Society may have a Board of Trustees or other office-bearers who are generally elected members. They together may constitute the Governing Body or the Council of a Trust.

Central Office and Units:

An Educational Society or a Trust is generally a Federal System. It consists of a Central Office and the Schools and Colleges as its Units.

Statutory Compliances:

An Educational Society or a Trust is a legal body bound by laws. It also has to comply with the various legal provisions called Statutory Compliance.

Private Educational Society:

An Educational Society formed and registered under the Act by individuals is called a Private Educational Society. Generally it is funded by way of Donations and gifts.

BPT:

The Bombay Public Trusts Act is a State legislation of Maharashtra State since 1950.

Change Report:

Change Report is the document to be filed with the Charity commissioner for all material changes in the composition of office bearers and all the important events.

Charity Organization:

The Charitable Trusts are registered with the

competent authority called Public Charity Organization. It is the office of the Charity Commissioner.

Contribution:

Contribution is the amount to be deposited by every Charitable trust at fixed percentage of its surplus with the Charity Organization.

Investment Status Report:

The status as at that point of time of the investments made by an organization may be called a Investment Status Report.

Endowments:

It is a Deposit liability of a trust accepted on specific conditions of distributing interest income to the persons entitled on a regular basis.

FEATURES OF AN EDUCATIONAL SOCIETY:

A Society / a Trust is founded with a noble objective of spreading education. It has its Central Office at some central place and the Units are established at different places over a period of time. The units of Educational Societies / trusts are of various levels ranging from pre-primary, primary schools, secondary schools, colleges and autonomous institutions. The units are mostly governed by the State Government rules and regulations. The accounting staff is generally appointed on need basis. It is traditional minded and mostly uneducated in the specialized field of finance. Though many Educational Trusts have Accounts Department at the Central Office, it is understaffed and is generally overloaded. The accounting and financial management is restricted to the statutory minimum level of compliances such as salary records, day to day accounting of cash transactions, audits of accounts and submission of statutory returns. In fact, preparing creative perspective vision plans are not thought about

even. The provisions of tax laws, and trust related laws are becoming complicated year after year which may be beyond comprehension to the accounting staff-members at the Unit level. The general expectations from financial management in the open market are becoming tougher and tougher. There are several challenges in front of the managements of any business organization; Educational Institutions are no exception to it. Some of them are - security of funds, proper and optimum use of funds, transparency in records and even the foresight for future development. The overall approach of the society at large towards the field of education is changing rapidly and demanding several things with its efficient management.

Definitions:

Financial Management: It includes estimating the needs of finance, acquiring finance from different sources, allocating it for different purposes, actual using of finance, analyzing the actual use of finance and making perspective plans for the future.

Private Educational Societies:

These are the Societies normally registered under the Societies Registration Act, 1860 and the Bombay Public Trusts Act, 1950 whose main objective is to establish institutions in different parts of their areas of operations for imparting education from preprimary to collegiate level and also to run some need based autonomous courses.

Units and Central office:

A unit refers to an individual school or college run by an Educational Society / Trust and the Central Office is the head office consisting of office bearers like Trustees, Secretary and the other members of the Governing Body / Council of the Trust.

Besides the BPT Act, 1950, a number of legislations like - Bombay Primary Educations Act,

1947, ZP Act, 1961, Maharashtra Educational Institutions (Transfer of Management) Act, 1971, MEPS Rules, 1981, Capitation Fees Act, 1987, and the Maharashtra Universities Act, 1994, have been passed and are applicable to the Educational Institutions. Further, the Financial Management of educational institutions has to follow the Central laws like - Income Tax Act, Professional Tax Act, Service Tax Act, etc.

GENERAL PRACTICES:

All Educational Societies and Trusts registered in the jurisdiction of Maharashtra State are expected to follow the provisions of the Bombay Public Trusts Act, 1950 and the BPT Rules, 1951. Schedule 3 has prescribed the format of 'Change Report' to be furnished by a Trust for all material changes in the composition of office bearers and all the important events. As regards accounts and financial matters the following are the formats laid down by the act-

Schedule VII-A -Annual Budget

Schedule VIII- Balance Sheet

Schedule IX- Income and Expenditure Account.

Educational Trusts being exempted from taxation were not subject to many considerations till recent times. They were also exempted from paying any part of their net earnings, by way of '**Contribution**' to the Charity Organization. However, in recent times, several other conditions and formalities are becoming binding on Educational Trusts too. The financial management adopted by the Educational Societies / Trusts, on the whole, is a working model. Most of the Educational Societies have been formed and registered since long time and are established with a strong foundation. They have been working in the field of education over several years. Generally, the Educational Societies have created a number of Units

i.e. Schools and Colleges working under their parent body, i.e. the Central Office.

The Societies have a well-established administrative set-up at their Central Office, consisting of office-bearers like - Chairman, Vice-Chairman, Secretary, Treasurer and others, mostly working on an honorary basis. However, they have to furnish the **Change Report** to the **Charity Organization** about the important changes in office bearers. Many times, they have a separate Finance Committee to look after the finance function of the Trust. The Educational Societies generally have the common accounting practice of preparing separate books of accounts at the Unit level and putting them together for consolidation at the Central Office level. The consolidated picture of Budgets as well as the final accounts duly audited is sent to the office of the Charity Organization as compliance of the law.

SPECIFIC OBSERVATIONS:

In addition to the above-mentioned General Observations, the Researcher has made many specific observations about financial management of Educational Institutions in the course of his study as follows:

1. Most of the Educational Societies and Trusts have their office-bearers, including Trustees accepting these assignments as a part of social work or social obligation. Sometimes, they are not directly related to the field of education even! But as many of them are socially recognized figures in the local areas, they are either invited or they themselves accept this assignment.
2. As regards budgets, though most of them are complying with the legal provisions, the same are being prepared by the Unit Head concerned i.e.

the Head Master or the Principal with the help of the Accountant. Sometimes, there is an arrangement of making scrutiny of the Unit Budget scientifically. Further the inter-unit comparison, which might guide the management more on the financial matters, is also considered in some cases. However, it is observed that, the Central Office of Educational Societies has a minimal role in the financial administration of these Societies.

3. Generally, the responsibility of collecting the revenue by way of fees from parents and Grants from the State Government is mainly shouldered by the Unit Heads only. The Central Office has hardly any role in the collection of these routine funds. In fact, in this connection, in the eyes of the Government, the Office-bearers of the Central offices of Educational Trusts have no locus- standi at all! Unfortunately, many office-bearers have either ignorance or helplessness about the same situation.
4. The present system of the State Government, as regards Grants has built-up a vicious circle namely - first- expend - then account for - then claim for Grants and then Assessment by Government for Utilization of Grants, many times, after a long gap. Furthermore, some items of expenditure being disallowed for Grants resulting in to sheer loss or burden to the Educational Society.
5. Most of the Societies follow joint operation of bank accounts opened by them, which result into definite safety to the Unit and the Central office. However, they further need to reconcile the same to get confirmation and avoid further complications.
6. The accounting of Educational Societies is typically the **Fund Accounting System** where the

Funds raised by way of Grants from Government and by way of Endowments and Donations are accounted and their Central Office makes the accounting of assets centrally. However, the Dead Stock Registers are generally maintained at the Unit level i.e. where the assets are actually used. There is a definite need to have its periodical verification. A system of Internal Audit should be introduced by every educational institution, besides the Statutory Audit of all the Units together with the Central Office.

7. Internal Checks and Internal Controls is yet another area necessary for efficient financial management. In case of most of the Educational Societies, Internal Checks and Internal Controls are implemented but it is restricted to the Purchase Procedure being followed. In case of some of them, the Internal Audit system is introduced. However, tools of modern financial management like - Cash Flow Statement, Funds Flow Statement, and Ratio Analysis etc. are not generally used or even are not known to many of them. A sense of professionalism needs to be introduced and imbibed by the Private Educational Societies wherein an Educational Society has to be treated as a business entity. All the Units and Sub-Units need to be classified as Cost Centers and Cost accounting systems suitable to Educational Institutions need to be devised. Use of modern Computer packages have to be designed as applicable to educational institutions so as to have complete efficiency, perfection and speed in work.
8. Educational Societies hardly use any specific formats of documents for their internal reporting. Most of them are confined to the Use of cash and Bank transactions, Budget spent, etc. Educational

Societies can devise number of documents and formats for their internal reporting as regards their financial matters. Major policy matter decisions of these Societies are dependent upon the correct and latest information at the Unit level. Specific formats regarding Investment Status Report, Progress Report regarding Construction works, Compliance Report regarding Internal / Statutory Audits can be introduced.

9. Receiving Endowments from well-wishers and donors is a regular feature of every Educational Society and Trust. It is observed that, Endowments are received mostly by the Central Offices of the Trusts. In some cases, even the Units are empowered to do so. However, in the changing times, now the receiving of Endowments Prize money and Donations should be delegated and broad based. The Units should be encouraged to act as franchise of the Educational Trusts. There should be a separate Register, maintained at each Unit level, regarding Endowments. It should be physically verified periodically, with the list of Investments of Endowment Funds be scrutinized, up dated and deployed in the best interests of the Society. A system of regular reporting to the Donors and well-wishers regarding handling of the funds be introduced. There should be a reconciliation of Endowments at Unit level by the Central Office, on a regular basis.
10. The traditional sources of finance of the Private Educational Societies are inadequate and insufficient for their future growth. Generating new sources of finance, through novel methods and by augmenting the present sources has become a must. The additional sources of finance should be legitimate and not with the profiteering

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approach. Some times it is observed that the traditional Educational Societies are unaware and are reluctant to follow the same. They have these funds pulled centrally alone, and are accounted for centrally. However, there are heavy pressures of demands from all the Units for providing sources of finance. The proper investment of funds is yet another area that needs professional approach in the Educational Societies. 11. As regards perspective financial planning, these days, most of the Educational Societies are aware about the same. However, they are confined to the grounds of the needs of the individual Units. It is necessary to prepare the same, considering the overall changing social and financial conditions.

FORMS AND FORMATS FOR EFFICIENT INTERNAL REPORTING SYSTEM:

Based on the observations of present practices of internal reporting and discussions with the office-bearers of educational Societies, the Researcher comes to the following list of essentials that will be useful for

efficient internal financial reporting:

1. General guidelines to Unit Heads regarding accounts and Finances.
2. Format of Fixed Deposits to be accepted
3. Format of Budgets to be prepared by Units
4. Format of Debit /Credit Note
5. Accounts Manual
6. Format of the Audit Report of Units
7. Format of Endowments accepted
8. Format of donations accepted
9. Internal Audit Report
10. Hostel Mess Fees register
11. Financial Review Statement
12. Format of the Dead Stock Register
13. Format of procedure for purchases and Review of Grants received
14. Format of items to be disposed from Dead Stock Registers
15. Internal Checks and Internal Controls established
16. Audit Guidelines
17. Issue of Debentures and Appeal to Donors and well-wishers

PRESENT SYSTEM AND THE PROPOSED SYSTEM

PRESENT SYSTEM	PROPOSED SYSTEM
1. No specific system, no proper documentation.	1. Specific system and proper documentation has to be evolved.
2. Traditional, historical accounting norms are followed.	2. Modern, constantly review- based accounting norms are to be generated.
3. Fund Accounting System is followed in which number of Funds like - Permanent Fund, Corpus Fund, Building Fund, Endowment Fund, etc are maintained.	3. Business minded approach has to be adopted in which Corpus amount through Educational Bonds, Institutional finances, Collaborations, tie-ups, etc. can to be made
4. Auditing is carried out traditionally, Unit-wise audits through vouching and casting methods and consolidation of accounts at the Central Office level.	4. Modern techniques of auditing such as Propriety Audit, Analytical Audits, Status Reporting, Disclosure of accounting policies etc. will have to be adopted.

5. The Accountants are generally less qualified and traditional in their approach. They are less adaptable to the changing situations.	5. The accounting staff will have to be highly skilled and quite familiar with the modern tools and techniques of accounting profession. They must be ready to receive new and new techniques, system for efficient internal reporting.
6. Present system recognizes the role and importance of Heads of Units only.	6. The modern system has to consider the role of people in the management of Educational Societies.
7. At present, a vicious circle of financial support of Govt. Grants is created in most of the Educational trusts.	7. A system of less and less dependence on Govt. Grants will have to be devised.
8. Grants to schools are given on salary and Administrative basis and to the Colleges on Pro-Rata treatment of Junior and Senior colleges.	8. Grants, if at all will be given as basic grants, advanced grants and Special grants in the future.
9. At present, academic performance of units is not considered while releasing grants.	9. In future, Grants, Grants may be linked with the actual performance of an Educational Society.
10. At present there is no special rewarding system for merit-holding institutions.	10. In future, survival of only the units and institutions having merit will prevail.
11. Traditionally, the field of education was looked at as a Charitable activity and hence, there were no much legal bindings of laws like -Income-Tax Act, Excise Act, Sales tax Act, etc.	11. In future, number of legal compliances under the Income Tax Act, Excise Act, Sales tax Act, will become binding on educational Trusts.

The above points of analysis of present system and the proposed system explain sufficiently the gulf between the two. In order to get ready to face the challenges of the future, the Educational Societies and Trusts will have to devise number of methods. They may be enlisted in the form of the following specific recommendations:

SUPPORTIVE METHODS IN ACCOUNTING:

Supportive methods in accounting means, in

addition to the statutory requirements in accounting, some modern methods are introduced and used. They are voluntary and are devised as per the needs of the individual organization. They are as follows:

- **Accounting Policies adopted:**

Generally, the accounts of an educational Society / Trust are maintained on cash basis. That means, all receipts and payments in cash alone are accounted for in the books of accounts. The accrued amounts of income and expenditures are recorded separately and

are presented in the Balance Sheet as out-standings. All the Accounting Policies adopted by a Trust should be specifically coined considering the needs of the Trust. Generally, the following accounting policies are adopted by Educational Trusts:

Policy regarding handling of cash

Policy regarding bank account operations

Policy regarding accounting of assets at the Central Office

Policy regarding accounting of bad debts

Policy regarding accounting of Grants

Policy regarding accounting of Dead Stock items

Any other specific items of importance

- **Endowment Accounting:**

Endowments are an integral part of accounting of Educational Societies /trusts Endowment Policy should be properly drafted by each Trust independently, by considering its own situations. Some important considerations that must be borne in mind while accounting for the Endowments are - Proper registers of endowments and donations should be maintained by each Trust at Unit as well as at the Central Office.

Investment of funds out of Endowments and donations be made as per the norms applicable to Trusts; Physical verification of endowments and investments be made periodically; Distribution of Scholarships/ prize money etc. should be monitored; The central office should monitor reporting of administration of Endowed funds to the Donors and the central office.

- **Use of forms and Formats:**

Use of forms and formats is the life-line of internal reporting of any organization. Particularly, in case of Educational Societies and Trusts, Units must have an in-built habit of prompt, correct and complete

reporting to the Central Office. Specific Forms and formats should be designed and put to use by every Educational Society for efficient Financial Management. Following is the List of formats of Documents, suggested for efficient financial management of Private Educational Societies:

- Guidelines to the Unit Heads and Accountants regarding maintenance of books
- Format of Unit Budgets
- Policy Document relating to Endowments
- Format for Internal Audit report
- Format for accepting Fixed Deposits from well-wishers
- Format for raising funds through Debentures
- Format of Debit / Credit notes
- Format of Dead Stock Registers
- Format for review of Assessment of Grants
- Format of Accounts Manual of an educational Society /Trust
- Format of Annual Statements of Accounts:

The present format of Annual Statements of Accounts to be presented by an Educational Trust to the Charity Organization is quite outdated and needs total review. Special exhaustive format of Balance Sheet and Income and Expenditure giving all the relevant financial information about the Trust should be adopted.

- **Reporting by Auditors:**

Audit of Educational Trust is mostly a non-remunerative job for the auditors. In fact, they accept these assignments more as a social obligation. It is observed that, the reporting by the auditors of Educational Trusts is also very formal (as per the format given by the law) and in a same manner for all the types of Trusts. The researcher has therefore devised additional points to be acknowledged by the auditors, that should be mentioned with the annual

statement of accounts of an Educational Trust. A copy of the said suggested format of additional points has been attached with this report elsewhere.

• **Internal Audit System:**

Internal Audit is an additional specialized tool for ensuring efficient financial management. An in depth Internal Audit System specially designed for Educational Societies and Trusts should be adopted. Internal audit is a support service to the management and also to act as the bridge to link the organization and the statutory auditors. The points to be considered by the internal auditors and the format of their reporting have been devised by the researcher, which is enclosed in this report for ready reference.

With the adoption of all the above-mentioned steps and documents specially designed for internal reporting, the financial management e.g. Educational Societies and Trusts will become efficient.

SUMMARY:

Efficient Internal Financial reporting System is an essential condition for the efficient Financial Management of an Educational Society. In Maharashtra State, India though there are many well-established and well-known educational Societies, there is a definite need for professionalization in Internal Financial Reporting. The System of Accounting in an Educational Institution is different than that of any commercial organization. In order to be modern and up to date, every educational institution should try to adapt itself to the new system. Additionally, the supportive methods in Accounting should also be adopted by the Educational institutions. In short, internal financial reporting is the pre requisite for successful working of an Educational Institute.

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