

Exploring the 2023 Reformation of Financial Systems in Higher Education Institutions and Examining the Practical Aspects of its Execution

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Abstract: As China's economy has experienced rapid growth, the economic landscape for higher education institutions' financial systems has become increasingly intricate. Consequently, there has been a heightened demand for enhanced financial management in these institutions. Notably, in 2012, the country's Ministry of Finance and Ministry of Education introduced a new financial system for higher education institutions, and in 2022, the Ministry of Finance publicly revised this system to further standardize financial practices within higher education institutions, align with financial management requirements, and foster the development of these institutions. This paper offers an extensive examination of the updated financial system for higher education institutions compared to the previous version, delving into aspects such as the financial management framework, professionalization criteria for financial directors, enhancements in managing the proceeds from technology and research achievements, and the incorporation of management accounting reports. Additionally, it provides a comprehensive analysis of the challenges faced by financial management in higher education institutions and outlines strategies for addressing these issues.

Keywords: Higher education financial system; Reformation; Financial management

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1. Introduction

The necessity for financial system reform in higher education institutions (HEIs) arises from the imperative to align institution finances with the demands of the contemporary era. The rapid advancements in China's information technology have significantly impacted conventional institution financial systems, thereby instigating innovation and change within institution accounting practices. The development and reform of financial operations bear relevance not only to institution management but also to the financial sector itself, underscoring its profound importance^[1]. The adoption of information technology office procedures serves a dual purpose: it reduces the consumption of physical office supplies while enhancing working methods and overall efficiency. Simultaneously, information technology elevates the transparency and precision of financial work, facilitating the execution and oversight of an institution's financial tasks, thereby playing a pivotal role in

enhancing the quality and efficiency of financial operations ^[2].

The reform of the HEI financial system aligns with the intrinsic needs of financial operations. Given the inherently critical attributes of financial work, necessitating a high degree of accuracy and timeliness, the previous *modus operandi* relied heavily on manual data compilation. With the advent of modernization, accounting systems have continuously evolved, propelling the financial sector toward digitalization ^[3]. Information technology significantly enhances the precision and timeliness of financial operations while ensuring data completeness. In the former financial processes within institutions, managing extensive data was a formidable challenge, with limited capacity for instant analysis and data retrieval. The utilization of information technology effectively addresses these issues, enabling instant access to pertinent data, thereby reducing data extraction time and facilitating more precise analysis and informed decision-making ^[4]. In recent years, HEIs have been striving to leverage their strengths, necessitating ongoing enhancement and refinement of the financial system to accommodate the evolving needs of these institutions.

The restructuring of HEI financial systems is an essential requirement for management endeavors. Information technology integration enables financial data to be linked with various resources, providing comprehensive and accurate information for HEIs. This empowers managers to gain profound insights into the financial status and related information based on the real-time information system, thus enhancing the accuracy and efficiency of management operations. Furthermore, it aids HEIs in establishing seamless data connections, enabling the timely extraction of relevant data from higher authorities, and ensuring the precision and fluidity of information transmission ^[5]. As institutions progressively seek to intertwine their financial information with other organizations, such as banks, information technology fosters smoother and more convenient communication between institutions and these external entities. In line with the demands of the new era and the need to strengthen connections and interactions with the external world, institutions must expedite the development of their information technology systems.

2. Five key aspects of financial system reform in higher education institutions

2.1. Strengthening Chinese government leadership in higher education

Article 5 of the “Financial Rules for Institutions” states that “financial activities within institutions shall be centrally managed by the institution’s financial department, under the leadership of the institution’s head.” The “Financial System of Higher Education Institutions” further elaborates on this concept in Chapter 2, “Financial Management System” ^[6].

Within this framework, Article 7 of the new system revises the original Article 6, with significant changes that include: (1) Emphasizing the execution of financial tasks within HEIs “under the leadership of the Party Committee” of the institution’s head, thereby reinforcing the overall leadership of the government within institutions; (2) Under the new system, HEIs are no longer obligated to establish the role of a chief accountant, instead, they have the flexibility to decide whether or not to appoint a chief accountant. They can also assign deputy institution-level administrative leaders to assist the head of the institution or faculty in managing financial operations; (3) Whether or not the position of a chief accountant is created, the new system places great emphasis on equipping the administrative leadership team of HEIs with individuals possessing financial professionalism to support the institution’s financial management under the head’s guidance; (4) The new system also removes the provision stating that “any higher education institution with a chief accountant shall not have a deputy head of institution whose authority overlaps with that of the chief accountant.”

2.2. Raising financial professionalism in higher education institutions

Article 38 of the “Accounting Law of the People’s Republic of China” specifies that “accounting personnel must possess the necessary professional skills to engage in accounting work. The individual responsible for the accounting department of an entity (accounting personnel) must qualify as an accountant or possess more than three years of experience in accounting.” To bolster the professional management of finance matters in HEIs, Article 8 of the new “Financial System of Higher Education Institutions” emphasizes the professional qualifications of primary financial management staff, thereby raising the standard of financial management and promoting the standardization of financial operations ^[7].

2.3. Optimizing the management of tech achievements and driving scientific progress

In recent years, there has been a notable emphasis from the Party Central Committee and the State Council on the transformation of scientific and technological accomplishments. To expedite the implementation of the innovation-driven development strategy, facilitate the transfer and transformation of scientific and technological achievements, and elevate economic quality, efficiency, and advancement, the National People’s Congress amended the Law on the Promotion of the Transformation of Scientific and Technological Achievements in August 2015. A significant aspect of this amendment is the encouragement and incentivization of scientific research institutions to actively engage in the conversion of scientific and technological achievements, along with the refinement of the management and revenue distribution system for these achievements ^[8]. In alignment with these developments, the “Financial System of Higher Education Institutions” introduces a new provision in Article 49, subsection 3, which states that “higher education institutions may independently decide to transfer, license, or invest in scientific and technological achievements, and the income generated from the transformation of these achievements is to be retained by the unit in its entirety.” Additionally, the category of “income from the transformation of scientific and technological achievements” is removed from the definition of “income from scientific research undertakings” in Article 22 of the new system.

It is worth emphasizing that the “other” segment of income generated from the use of state-owned assets in HEIs should be governed in accordance with the specific management protocols outlined by local financial departments ^[9]. This is due to the “Administrative and Public Utility State-owned Assets Management Regulations” in 2021 (State Council Decree No. 738), Article 35, subsection 3, specifies that “revenue resulting from the use of state-owned assets in public institutions are subject to specific management guidelines set by the financial department of the local government.”

2.4. Shifting higher education finance from management to accounting with clear guidelines

The implementation of government cost accounting constitutes a pivotal element in China’s government accounting reform ^[10]. In December 2019, the Ministry of Finance issued “Basic Guidelines for Cost Accounting in Public Institutions” (Caikuai [2019] No. 25) to establish fundamental principles. Subsequently, in November 2021, the Ministry of Finance issued “Specific Guidelines for Cost Accounting in Public Institutions – Public Hospitals” (Caikuai [2021] No. 26). In May 2022, the Ministry of Finance also released a draft of specific guidelines for higher education and scientific institutions for public review. Cost accounting has evolved into a critical component of institutional financial management ^[11]. Historically, China’s HEIs have placed significant emphasis on cost management, dedicating an entire chapter (Chapter 10, “Cost Management”) to it.

However, the new system omits the previous Chapter 10 “Cost Management.” Instead, the new Article 30 states that “higher education institutions should strengthen their economic accounting and may perform cost accounting in alignment with the actual requirements of teaching, research, and other activities. Specific cost

accounting methods should adhere to the relevant regulations of the State Council’s financial department.” Under the “Financial Rules for Institutions”, cost accounting in HEIs and other institutions is mainly regulated by the unified basic guidelines and specific guidelines outlined by the Ministry of Finance, no longer specified within the financial system ^[12].

It is essential to highlight the shift from the original “cost management” in the previous system to the “cost accounting” emphasis in the new system, the basic guidelines, and the specific guidelines. Notably, cost accounting and cost management represent two dimensions of cost accounting, with cost accounting serving as the foundation for effective cost management ^[13]. Therefore, the government’s approach to cost accounting reform is pragmatically reinstating the fundamentals of cost accounting.

2.5. Strengthening reform requirements for higher education institutions within the *Financial Rules for Institutions*

As previously mentioned, the reform of the “Financial Rules for Institutions” encompasses twenty significant innovations in the context of the three major financial budget management reforms. The reform of the “Financial System for Higher Education Institutions” strengthens some of these important reform requirements.

Firstly, as part of China’s budget management integration reform, an important innovative mechanism revolves around the budget item as the foundational unit, establishing a comprehensive mechanism for managing budget items throughout their entire lifecycle ^[14]. Article 22 of the new system reiterates the need for the expenditure budget to adhere to the “integrated budget” concept, where “all expenditures are included in the unit budget, and establish a robust expenditure management system,” adding “implement project pool management.” Furthermore, Article 27 in the new system introduces a provision, “no budget shall be allocated for projects not included in the budget project pool,” to fortify these requirements.

Secondly, the foundational position of the new rules regarding the borrowing practices of institutions remains unaltered. Article 51 adds the directive to “truthfully reflect the borrowing situation in accordance with the law,” underscoring the importance of transparency and openness in institutional borrowing, which serves as the fundamental condition for averting financial risks. Additionally, Article 57 of the new system reinforces that “no direct or indirect financing or guarantee shall be provided on behalf of local governments and their departments in any way, and new hidden debts of local governments shall be strictly prohibited.”

Thirdly, in line with China’s government accounting reform’s principle of “dual reporting - dual basis - dual function,” the new rules revise the previous chapter titled “Financial Reporting and Financial Analysis” to “Financial Reporting and Accounts Reporting,” involving structural adjustments. This revision represents the most extensive part of the “Financial Rules for Institutions” reform. Articles 57 and 59 outline the composition of the financial report and final accounts report, encompassing financial/final statements and financial/final analyses, stipulating specific components for financial and final statements, as well as the content of financial and final analyses, respectively. Additionally, the new system, through Articles 63 and 65, elaborates on the essential aspects that should be addressed in the indicators presented in the financial/accounts analysis by adding a second paragraph to each.

The evolving government accounting system imposes higher standards on the financial management of higher education institutions. To successfully implement the reform of HEI financial systems, the focus must start with financial management, addressing the existing deficiencies to align with the demands of the new accounting system ^[15].

3. Problems and remedial measures in financial management for higher education institutions

3.1. Problems in financial management for higher education institutions

3.1.1. Weaknesses in internal control.

Financial management mandates stringent control measures, necessitating mutual supervision among financial personnel, well-defined roles, and advertence of impropriety, among other prerequisites ^[16]. However, in some HEIs, individuals hold multiple positions, such as cashier and accountant concurrently or simultaneously managing auditing, provident fund oversight, payroll, and more. Additionally, many institutions have adopted computerized accounting methods, but the authority settings often do not align with requirements, leading to individuals exceeding their designated limits. This fosters a conducive environment for malpractice and errors in financial record processing ^[17]. The causes stem from both internal and external factors. Internally, financial staff may lack the necessary competence and fail to recognize the issue. Externally, the shortage of financial personnel in HEIs necessitates multitasking out of necessity.

3.1.2. Limited quality and expertise in financial personnel

Previously, HEIs adhered to a straightforward “cash system” bookkeeping, which was a relatively simple accounting process. Consequently, some financial personnel in HEIs have remained focused on basic bookkeeping, overlooking the need for more advanced financial reporting, analysis, and management ^[18]. This can be attributed to the suboptimal quality of financial personnel and a lack of recognition regarding the elevated demands of financial management in HEIs.

3.2. Remedial measures in financial management for higher education institutions

3.2.1. Elevate the expertise and competence of financial personnel

Enhancing the quality and expertise of financial personnel is fundamental. Financial and accounting professionals must evolve their skills and adapt their thinking to address the complex demands of modern financial management. HEIs should intensify professional training, create platforms for knowledge exchange among financial personnel, and offer opportunities for external learning and training. The focus should be on enhancing financial skills, analysis, and reconciliation abilities. Proficiency in document interpretation is crucial for understanding higher-level directives and ensuring sensible financial practice ^[19]. To keep pace with modernization, financial computerization must be embraced, enhancing computer application proficiency to boost efficiency and enable data visualization, retrieval, and improved financial management.

3.2.2. Enhance budget accuracy and implementation

Budgets shape a HEI’s financial landscape, and the commitment to accurate, reasonable, and stringent budgeting is essential. Unit leaders and relevant managers must prioritize budgeting, ensuring that budgets are both accurate and realistic. An early warning account processing system must be established, promoting regular supervision and control. Only then can effective fund utilization be guaranteed, fostering the HEI’s healthy and sustainable growth ^[20]. In the revised accounting system, both financial and non-financial funds contribute to the expenditure section, requiring a meticulous distinction of fund sources during the budgeting process.

4. Conclusion

In summary, the implementation of the new financial system for HEIs poses fresh challenges but also promises opportunities for positive transformation. The ongoing innovation and reform in financial systems aim to align

with new accounting norms. Thus, financial reporting will be more comprehensive and accurate, and financial management will evolve to embrace modernization, standardization, and enhancement.

Disclosure statement

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