PROBLEMATIC ASPECTS OF APPLICATION OF INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS IN RUSSIAN UNIVERSITIES

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Abstract
This paper considered the practical application of international public sector accounting standards (IPSAS) in Russia. The authors analyzed consolidated financial statements of nine Russian universities participating in the 5-100 project. The results of work point out main problems in the application of IPSAS in Russian universities: reporting of net assets attributable to owners of the controlling entity; discloser of information about land and buildings owned by universities on the basis of operational management and free of charge use; qualification and recognition of revenue from non-exchange transactions; reporting of information on significant types of revenue. As a result of study, discrepancy between structure and content of financial reports preparing by Russian universities was identified. This results in impossibility of external users to obtain comparable information about the financial position and financial performance of universities. The paper comes out in support of idea that it is advisable to use unified approaches to the preparation of financial statements in order to ensure comparability both with other Russian universities and leading world universities. The authors developed the proposals on preparation of information about net assets of universities, recognition and assessment of assets, qualification and classification of revenues, disclosure of information in the financial reporting.

Keywords: financial reporting, international public sector accounting standards, public sector, university.

JEL code: M410, M480, G380

Introduction
International Public Sector Accounting Standards (IPSAS) are issued by the IPSAS Board, which is a standing committee of the International Federation of Accountants. The Board is supporting the international adoption of the IPSAS, monitoring their implementation. It also determines priority directions for the further development of accounting standards. Therefore, it is very important to analyze the practice of IPSAS application.

Nowadays IPSAS has been widely disseminated in foreign countries. At the same time in Russia there is almost no practice of IPSAS adoption for the preparation of transparent and reliable financial statements by organizations of the public sector of the economy. During the 2014-2016 only Russian universities participating in the 5-100 Russian academic excellence project have been prepared and published consolidated financial statements according to IPSAS.

The aim of this project is to increase the prestige of Russian higher education and to promote at least five universities from among the participants to the list of the world’s best universities according to three authoritative world rankings: QS, Times Higher Education and ARWU. The Russian universities-participants receive state subsidies to improve their positions in the world
rankings, which requires transparent and available information on the expenditure of these subsidies.

Results of study show that only 9 of 21 Russian universities which participate in the project 5-100 published their consolidated financial statements under IPSAS, but not in full volume and irregularly. In this connection, it is very important to analyze the practice of IPSAS application by Russian organizations and investigate the problems associated with such implementation.

Analysis of scientific literature shows that similar questions are being raised by researchers in other countries as well (see Castro et al., 2012; Ilie and Miose, 2012; Jorge de Jesus and Eirado, 2012; Nogueira and Jorge, 2012; Adhikari, Kuruppu and Matilal, 2013; Mutiganda, 2013; Azmi and Mohamed, 2014; Crawford et al., 2014; Goddard et al., 2016; van Helden and Uddin, 2016).

Methodology
The purpose of this research is to identify the problems of IPSAS application by the Russian higher education organizations and to carry out a critical analysis of these standards requirements. Data was collected from financial reports of 9 Russian universities for 2016 year.
- Saint Petersburg Electrotechnical University (LETI)
- Novosibirsk State University (NSU)
- National University of Science and Technology MISIS (MISIS)
- National Research University Higher School of Economics (HSE)
- Tomsk Polytechnic University (TPU)
- Far Eastern Federal University (FEFU)
- St. Petersburg National Research University of Information Technologies, Mechanics and Optics (ITMO)
- Samara University (SU)
- University of Tyumen (UNTM).

One of the significant problematic issues is disclosure the information about net assets in the financial reporting of universities. The term "net assets / equity" is used in IPSAS to indicate the residual value in the statement of financial position (assets less liabilities). Net assets / equity can be positive or negative value. In fact, indicator "Net assets" reflects the real value of the existing property, which is very important for analysis of entity's financial position.

In accordance with IPSAS 1 "Presentation of Financial Statements" entity should disclose information on net assets either in the Statement of Financial Position or in the Notes, separately identifying: (a) contributed capital on the reporting date, which is the total amount of owners' contributions, less payments to the owners; (b) accumulated surplus or deficit [IPSAS 1].

IPSAS 1 defines that many public sector organizations do not have share capital, but are controlled solely by another public sector organization. The government's share of net assets / capital of the organization is usually a combination of contributed capital and an aggregate of accumulated surplus or deficit and reserves that reflect the net assets / capital involved in the organization's operations [IPSAS 1].

The founders and owners of all universities under our investigation is the Russian Federation. The Ministry of Education and Science of Russian Federation fulfill functions of owner in respect of federal property transferred to universities. In the universities financial statements under IPSAS payments with founders represent the contribution of the owner and are reflected in the amount of net assets.

IPSAS 1 defines that owners' contributions represent future economic benefits received from external parties that do not result in entity's liabilities and form a share in the entity's net assets / equity [IPSAS 1].
Result

As a result of analysis of consolidated financial statements of Russian universities, we have identified the following features of presentation the information on net assets in the Statement of Financial Position.

In the most universities' reports net assets reflect the value of land transferred to universities for free use, as well as real estate and especially valuable movable property in operational management. Operational management gives universities the right to own (use) property without the right to dispose of it. In accordance with the legislation of Russia, universities without the consent of the founder have no right to dispose of real estate and especially valuable movable property, fixed by the founder or acquired by universities at the expense of the funds allocated by the founder for the acquisition of property.

Our analysis shows that there are significant differences in the content and structure of information on net assets presented in Russian universities’ financial statements (Table 1).

<table>
<thead>
<tr>
<th>Line items of Statement of Financial Position</th>
<th>LETI</th>
<th>NSU</th>
<th>MISI</th>
<th>HSE</th>
<th>TPU</th>
<th>FEFU</th>
<th>ITMO</th>
<th>SU</th>
<th>UTMN</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payments to the owners</td>
<td>x</td>
<td>x</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>x</td>
<td>+</td>
</tr>
<tr>
<td>Distributions to owners</td>
<td>+</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Contributions from owners</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>+</td>
<td>x</td>
</tr>
<tr>
<td>Accumulated surpluses or deficits</td>
<td>Surplus</td>
<td>Surplus</td>
<td>Surplus</td>
<td>Surplus</td>
<td>Deficit</td>
<td>Deficit</td>
<td>Deficit</td>
<td>Deficit</td>
<td>Deficit</td>
</tr>
</tbody>
</table>

It should be noted that in analyzed financial statements the property assigned by the founder on the right of operational management is mostly reflected in a separate line item. An exception is the Novosibirsk State University (NSU), which does not have the line item "Payment to founder", although the Notes contain the information that its founder is the Russian Federation, and the functions of founder are carried out by the Ministry of Education and Science of the Russian Federation. The NSU is responsible for its obligations to all the assets that it has on the right of operational management, with the exception of real estate and especially valuable movable property, assigned to the NSU by the owner or acquired by the NSU at the expense of funds allocated by the owner.

Financial statements of Saint Petersburg Electrotechnical University (LETI) net assets are represented by obligations to the founders, separately from the value of the right to permanent land tenure. It should be noted that the Notes do not reflect this information.

We suppose that it is necessary to follow uniform structure and content of reporting information in order to ensure comparability of data both with other Russian universities and leading world universities.

Property assigned to universities on the right of operational management, should be represented in the statement of financial position as a separate line item "Payments to the founder". In our opinion, this information can be useful for users of financial statements. Reflection of such property in total value of payments to the founder deprives university of the right to dispose of it.
independently, as a result of which such property cannot be used as a security for obligations of the university.

Special attention should be paid on the following problems of presentation of information on net assets.

In the financial statements of universities prepared according to Russian GAAP payments to the founders for property owned on the right of operational management are represented as obligations for founders and are reflected in the statement of financial position with a negative sign. Land in indefinite use are reflected on off-balance accounts and are not included in the value of assets. Thus, in the Russian accounting practice, financial statements are being prepared primarily by a legal approach with strict rules.

For the purposes of financial reporting under IPSAS property and land received from the founders on the right of operational management are recorded as an asset if the conditions for asset recognition are met.

According to IPSAS 1 "Presentation of Financial Statements", assets are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity [IPSAS 1].

Qualification and recognition of assets in financial statements is one of the significant issues in this area. One of the main characteristics of assets is the presence of control over them by the organization (in the situation with universities - the presence of control by the founder). In this case, control is considered as the ability to obtain economic benefits that must come from the asset, or the possibility of its efficient use. Despite the fact that the organization's ability to monitor economic benefits is based on the legal ownership, some items can be recognized as assets even in the absence of control from legal point of view. The economic concept of controlled asset is much broader than the concept of legal control over an asset. Economically controlled assets include assets both owned and not owned by the organization on the basis of ownership.

Property received from the founders on the right of operational management and land in indefinite use have useful potential for carrying out current universities activities. Universities control the future useful potential from the use of property and land. Thus, there are enough reasons to reflect property in operational management and land in indefinite use as an asset. In case of changing the judgment, property and land would not be classified as an asset in the universities statement of financial position and would be reflected in the statement of financial position of Russian Federation.

The next problematic issue for Russian universities is the choice of a model for the measurement of fixed assets after recognition. IPSAS 17 "Property, Plant and Equipment" allows to select one of two models for each asset class: 1) cost model or 2) revaluation model. Our investigation has shown that for preparation of financial statements under IPSAS most Russian universities prefer a cost model for measurement of fixed assets after recognition. However, this model is not applied to all classes of fixed assets. All universities under investigation use revaluation model for land. For this purpose, fair value of land is estimated as the cadastral value of land at the date of revaluation.

Application of revaluation model under IPSAS 17 requires disclosure of following information in the financial statements [IPSAS 17]:

a) the effective date of the revaluation
b) whether an independent valuer was involved
c) the methods and significant assumptions applied in estimating the assets’ fair values
d) the extent to which the assets’ fair values were determined directly by reference to observable prices in an active market or recent market transactions or were estimated using other valuation techniques

e) the revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to shareholders or other equity holders

f) the sum of all revaluation surpluses for individual items of property, plant and equipment within that class

g) the sum of all revaluation deficits for individual items of property, plant and equipment within that class.

Our research shows that most universities do not comply with the requirements of IPSAS 17 in terms of disclosure information about the date, methods of revaluation and its results. In the notes to the financial statements of National University of Science and Technology MISIS it is pointed out that cadastral value is used as the fair value of land. The basis for this judgment is the fact that cadastral valuation of land relies on principle of their classification by target utilization and type of exploitation.

Some universities disclose information that the cadastral value of land is determined with participation of the Federal Service for State Registration, Cadastre and Cartography (Rosreestr). Rosreestr engages a valuer that determines specific indicator of cadastral value for each quarter and for each type of authorized utilization. The basis for calculation is average market value of land in a particular quarter with a certain type of authorized utilization.

At the same time, information on results of land revaluation reflected in the Notes to the financial statements of universities is not standardized and contains separate, "fragmentary" data. As a result, users of financial statements find it difficult to determine how assets’ fair values were determined.

Another important problematic issue of the preparation of financial statements under IPSAS is a disclosure on revenue. The procedure for accounting and reporting of revenue information is considered by two standards: IPSAS 9 "Revenue from Exchange Transactions" and IPSAS 23 "Revenue from Non-Exchange Transactions (Taxes and Transfers)". Based on the provisions of these standards, it can be concluded that the main difference between exchange and non-exchange transactions is that non-exchange transactions do not call for counterclaim or it is provided for a nominal fee. In this regard, professional judgment plays significant role in faithful classification of revenue for revenue from exchange and non-exchange transactions.

In most cases, in the statement of financial performance of universities subsidies for the fulfillment of government assignments, grants for the development of university, grants and donations for scholarships, grants and other income, target allocations from the budget for capital investments, targeted and donated receipts are reflected as a part of revenue from non-exchange transactions. Revenue from exchange transactions usually include income from paid educational services, revenue for the services of additional paid education, revenues from research and development work, revenues from rental services, etc.

At the same time, the analysis of revenue information in the statement of financial performance of the universities under investigation shows that there are ambiguous approaches to the presentation of revenue information, which is demonstrated by the ratio of revenue from exchange and non-exchange transactions (Table 2).
Table 2 The share of revenue from exchange and non-exchange transactions in the total amount of universities revenues

<table>
<thead>
<tr>
<th>Indicator</th>
<th>LETI</th>
<th>NSU</th>
<th>MISI</th>
<th>HSE</th>
<th>TPU</th>
<th>FEFU</th>
<th>ITMO</th>
<th>SU</th>
<th>UTMN</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue from non-exchange transactions, %</td>
<td>69,6</td>
<td>75,1</td>
<td>33,6</td>
<td>69,2</td>
<td>26,1</td>
<td>76,9</td>
<td>79,4</td>
<td>29,4</td>
<td>23,7</td>
</tr>
<tr>
<td>Revenue from exchange transactions, %</td>
<td>30,3</td>
<td>24,9</td>
<td>66,4</td>
<td>30,8</td>
<td>73,9</td>
<td>23,1</td>
<td>20,6</td>
<td>70,6</td>
<td>76,3</td>
</tr>
</tbody>
</table>

All the analyzed universities undertake educational programs of higher education. Financing of educational activities is carried out at the expense of state subsidies for the fulfillment of government assignments. Most universities disclose these subsidies as a part of revenue from non-exchange operations. At the same time, a significant share of revenue from exchange operations is represented in financial statements of - National University of Science and Technology MISIS (66.4%), University of Tyumen (76.3%), Tomsk Polytechnic University (73.9%).

This is due to the fact that universities use different approaches to revenue disclose, which ultimately makes it difficult to provide revenue information to users of financial statements for correct comparison. Therefore, it is required additional access to the information disclosing the financial reporting.

For example, the following explanation is given in the notes to the financial statements of Tomsk Polytechnic University. Management of the TPU consider that the state's obligation to provide free higher education implies the appointment of a subordinate institution (i.e. TPU) to fulfill government assignment. Thus, since the grant for the fulfilment of the state assignment is provided by the TPU to fund the costs associated with this activity, and the provision of free higher education is an obligation of the state, it should be regarded as an exchange operation.

It should be noted that the financial sustainability of universities largely depends on the amount of funds that are provided by the Ministry of Education and Science of the Russian Federation, which acts as a founder within granting for financial support for the fulfillment of the state assignment for the provision of public services.

IPSAS 23 does not contain specific guidance regarding to qualification of an operation. According to IPSAS only a study of content of operation will determine whether it is an exchange or non-exchange transaction. However, IPSAS 23 defines that transfers correspond to the definition of non-exchange transactions, because the transferring party provides resources to the recipient without receiving in return equivalent compensation. If the agreement provides that the recipient should in return provide approximately equal compensation, such an agreement is not a transfer agreement, but an exchange transaction agreement which should be considered in accordance with IPSAS 9. The organization should analyze all conditions contained in the transfer agreements for determination of whether it is assuming obligations when receiving the transferred resources [IPSAS 23].

In our opinion, for the purpose of uniform approach to the presentation of information on revenues from non-exchange transactions, it should be subdivided into the following classification groups:

- revenue from non-exchange transactions with conditions
- revenue from non-exchange transactions with restrictions
- revenue from subsidies in case of obligation to transfer the asset to third parties
- revenue without conditions and restrictions.

The classification developed and proposed by us is systematized in Table 3.
Table 3 Proposed classification of revenue from non-exchange transactions for presentation in the statement of financial performance of Russian universities

<table>
<thead>
<tr>
<th>Revenue from non-exchange transactions</th>
<th>Definition</th>
<th>Sample revenue list</th>
</tr>
</thead>
<tbody>
<tr>
<td>with conditions</td>
<td>These types of revenues contain conditions for universities to fulfill the requirements for using the received assets in an established manner. In other case assets should be returned to the transferring party</td>
<td>Subsidies for the development of university; Subsidies for state support of leading Russian universities in order to increase their competitiveness among the world's leading research and educational centers; Grants in form of subsidies within federal targeted programs; Subsidies for state support of scientific research, leading scientific schools in form of grants; Subsidy for the creation and equipment of existing educational and scientific laboratories; Grants of Skolkovo, the Russian Science Foundation, the Russian Foundation for Basic Research</td>
</tr>
<tr>
<td>with restrictions</td>
<td>The restriction on the transfer of assets is the requirement of their use for certain purposes in the absence of the requirement that the transferred asset should be returned to the transferring party in case of its non-targeted use</td>
<td>Transfers in form of subsidies for the fulfillment of state assignment; Subsidies for scientific research (fundamental scientific research, applied scientific and experimental research and development); Subsidies for organizing socially significant events in the field of education, science and youth policy</td>
</tr>
<tr>
<td>in case of obligation to transfer the asset to third parties</td>
<td>As a result of the receipt of assets universities are required to transfer them to third parties</td>
<td>Grant for scholarship of students in institutions</td>
</tr>
<tr>
<td>without conditions and restrictions</td>
<td>As a result of the receipt of assets there is no obligation to return them</td>
<td>Voluntary donations from individuals and legal entities</td>
</tr>
</tbody>
</table>

Based on the economic essence of operations, we believe that subsidies for the implementation of government task should be reported as revenue from non-exchange transactions. These subsidies represent transfers of founder from the federal budget funds on a gratuitous and irretrievable basis for the fulfillment of state assignment for educational services. Unused funds in the current year are transferred to the next financial year, where they are utilized in accordance with financial plan of economic activities of universities. At the same time, the universities do not provide services directly to the founder as a reward for the received financing.

In accordance with the requirements of IPSAS 23 "Revenue from Non-Exchange Transactions (Taxes and Transfers)" revenue from such services is recognized as revenue from non-exchange transactions. This conclusion is based on the provisions of Guidelines on Implementation of IPSAS 23, where transfers to a public university with restrictions are considered as revenue from non-exchange transactions.

The notes to the financial reporting of universities require detailed disclosure of information on the revenue from non-exchange transactions. Disclosure of the main revenue categories will help users to make informed judgments about the specific types of revenue generating by universities.
Conclusion

In conclusion, we hope that results of our research will help to develop and improve the quality of financial reporting preparation of Russian universities in the process of adoption of IPSAS.

References


