



## Improving Financial Reporting in Egyptian Universities: A Case Study

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**Abstract:** This article aims at providing an overview of financial reporting in Egyptian universities. This included financial as well as non-financial disclosure. The researcher first discussed the current status besides the current reform attempts of the Egyptian higher education system. Consequently, a field study was used to gather more detailed information concerning financial reporting. Interviews were conducted with representatives from the Egyptian ministry of finance concerning the budget of Cairo University. Moreover, non-financial information were determined through content analysis of Cairo University website. It was concluded that the BSC could be used to improve financial reporting in Egyptian universities, by including nonfinancial information besides financial ones.

**Keywords:** Financial Disclosure, Financial Reporting, Non-Financial Disclosure.

### Financial Reporting in Egypt

This section presents an overview of financial reporting in Egypt, including the Egyptian accounting standards, standard for not for profit organizations, standards for educational institutions (public and private). This discussion would help in understanding the basis upon which annual reports of universities is prepared and audited.

Egypt adopts Egyptian accounting standards EAS, which are modifications in the IAS. According to the Capital Market Law 95/1992, all listed companies are required to follow the EAS. Egypt made significant efforts to align corporate financial reporting requirements with the IFRS and to close the compliance gap in financial accounting practice. The Egyptian government has attempted to modify the law to achieve compliance with IAS. Consequently, important improvements

have been achieved in accounting and disclosure requirements for the publicly traded companies and financial institutions and in EAS as benchmarked against IAS (Akle, 2011).

Hassan (2008) aimed at explaining how the Egyptian Financial Reporting Regulations (EFRR) was developed consistent with IASs. The researcher discussed the institutional theory that provides different mechanisms to explain the forces behind the emergence and change in accounting systems. However, it was claimed that this theory was rarely applied in developing countries undergoing transition, like Egypt. The researcher views that Egypt has experienced a dramatic change towards democracy and transparency over the last few decades, while at the same time, it has developed domestic financial reporting regulations similar to that of the IASs. These changes



have been dynamic, evolving through different professional, legal, economic and political systems though within the framework of a continuous governmental intervention. The development of EFRR in Egypt reveals the complexity of the institutional change underlying the development of the EAS. However, the common influential force during the transitional processes is the government's power. At the same time, there has been a dramatic change in the Egyptian accountancy profession as the profession has moved from being a powerless group towards being a change agent promoting standards similar to that of the IASs. The EAS consists of 39 standards besides the framework.

### **Higher Education in Egypt**

In Egypt, higher education began in public universities, which aimed to provide educational services at free or low price. Providing educational service through the government increases the number of beneficiaries; as education is affordable by many citizens. Nowadays, sources of higher education expanded from public to private, when many private universities started operation. As long as a portion of the Egyptian budget is allocated to universities, it is important to find ways to improve accountability in those universities. This section provides an overview of the Egyptian universities, including public and private universities, current status as well as reform attempts.

### **The Egyptian Higher Education System**

Egyptian universities are governed by three bodies for governance and control: the ministry of higher education, the supreme council of universities (SCU), and the central administration of al-Azhar institutes. The ministry of higher education is

responsible for supervision and coordination of all post-secondary education, planning, policy formulation, and quality control. Moreover, it oversees teacher training for basic education. However, the supreme council of universities, founded in 1950, formulates the overall policy of university education and scientific research in universities and determines the number of students to be admitted to each faculty in each university.

According to the law 49/1972 (paragraph 12), universities should have a supreme board, called the supreme council of universities, located in Egypt, for the purpose of planning the general policy of operations, research, coordination between universities. The aim of this law is enhancing universities' independence.

The vision of the supreme council of universities is that education in universities would enhance the human development in order to effectively help in developing and achieving the country's economic development plans and applying modern technology. Moreover, the supreme announced for its mission through its website. First, achieving independence of universities and distinguished graduates with the ability of competing in the global market in such a way that provides a link between the education and the society and production. Second, developing and updating the universities' performance through applying performance evaluation tools and quality assurance. Third, achieving knowledge and encouraging innovation and creativity in the light of scientific competition based on distinction.

The supreme council of universities includes 4 committees: equivalency, cultural relations, planning



for higher education sectors and faculty staff promotion. In addition to 3 supreme councils for education and student affairs, post graduate studies and research, community service and environmental development.

In Egypt, there are 24 public universities (one of which has special feature: Egypt- Japan university of science and technology), 20 private universities, 18 public institutes and 83 private institutes. Public universities operate under law number 49/ 1972; whereas private universities operate under law number 101/1992 and its executive regulations number 355/1996.

#### **Difference between Public and Private Universities Operating in Egypt**

Public and private universities operating in Egypt have some similarities as well as differences. Although both of them are under the supervision and control of the ministry of higher education and are subject to the law of re-organization of universities, there are some differences.

Public higher education has its roots since the establishment of al- Azhar University in 969, where Cairo University was then established in 1908. However, private higher education began in 1992. Public universities are under government administration, However, Private universities are either Egyptian or foreign and are accredited from the Egyptian supreme council of universities every 3 years besides the accreditation from foreign educational bodies in Europe.

Public universities get their funding from the state; as they are state-owned. While private universities receive no state funding and depend on their

resources besides supporting foundations and societies.

Public Higher education is free; as education in Egypt is free by law. However there are very small fees paid for enrollment. Egyptian students only pay registration fees, while non-Egyptian students pay full tuition. On the other hand, private universities have a much higher tuition rate.

Admission to public universities and institutions operates through a centralized office, based on the general secondary education exam. Students with higher scores have a better chance, where others may seek admission to private universities. On the other hand, for admission to private universities, a student applies to a specific university and goes through its admission process. However, restrictions to certain schools are put by the ministry of education; to add some balance and equality between the rich and the under-privileged, by putting a minimum score limit for each discipline.

Accordingly, public institutions, with few exceptions, are generally overcrowded with several thousand students. However, private ones have a much smaller number of students. According to the central agency for public mobilization and statistics in the university year 2012/2013, the number of students enrolled in governmental universities was 1,650,000 students (95%), while 94,500 students (5%) in private universities.

Although the number of students in public universities is much greater than that in the private ones, this number has been decreasing since the last 4 academic years. The rate of reduction is about 14% since 2008/2009



and 1% since the previous year. As for private universities, the number of students is increasing by 58% since 2008/2009 and 24% since the previous year. This is also true regarding the number of graduates, where public universities have 32,540,000 graduates (about 100%) compared to 13,800 in private universities, taking into consideration the long period between

starting of both universities. Reasons for the great increase in the public sector should be investigated.

This article is concerned with public universities; because they need more attention as they are state owned and are funded by the country. The following table summarizes some differences between public and private universities:

| S.No | Point of comparison          | Public universities   | Private universities  |
|------|------------------------------|---|---|
| 1    | Number of students           | Large.  | Less than those in public universities.   |
| 2    | Governance                   | Egyptian supreme council of universities only.  | Besides accreditation from the Egyptian supreme council of universities, some gets the accreditation from foreign educational bodies.   |
| 3    | Law governing                | Law number 49/ 1972   | Law number 101/1992 and its executive regulations number 355/1996   |
| 4    | Funding                      | From the state, based on the budget allowed to education.   | Based on their resources and supporting foundations and societies.  |
| 5    | Financial reporting standard | Universities organization law, financial regulation<br>اللائحة المالية, in addition to any related law. | IFRS  |
| 6    | Financial statements         | Revenue and expenses are shown at the end of the financial year, were the surplus/deficit is shown.     | Balance sheet, statement of income, cash flow statement, statement of changes in head office current account, statement of cash flows, notes to the financial statement (as private companies). |
| 7    | Reporting bodies             | Ministry of finance.  | Board of trustees.  |
| 8    | Auditing                     | Central auditing organization.  | Private auditing firms, according to the international auditing standards.  |

Table (1-1): Difference between public and private universities operating in Egypt (Source: The researcher).



### **The Current Status and Reform Attempts in the Egyptian Higher Education**

In this section, the researcher presents studies concerning the current status of Egyptian universities as well as reform attempts and suggestions for enhancing Egyptian higher education.

EI Sebai (2006) discussed the problem of decreasing the quality of the Egyptian higher education system and aimed to propose solutions for better quality. First, the author pointed to president's Mubarak electoral platform in 2005 concerning developing higher education and establishing a link between education and the labor market. Then, the author identified the main driving forces in the society in the 21st century, showing how they affected higher education. This was followed by a background about the Egyptian education system which helped in identifying the main challenges facing it. After that, the author moved to presenting a range of possible futures, followed by a set of probable ones, from which a preferable future was defined based on several criteria. Consequently, the author suggested short term as well as long term actions. The former dealt with management and governance of the system besides the curricula and evaluation, while the latter considered the funding and enrollment. The author concluded that current Egyptian higher education system required immediate actions by the state and other actors; to enhance the quality and, in turn, to be able to compete in the current and future international environment.

Kenawy (2006) aimed to narrow the gap between the demands of the labor market and the poor efficiency and skills of university graduates. The author

viewed that the recent development in university education was mainly quantitative not qualitative, where this presented a burden on the state, which might not be able to fund education. Moreover, it was questioned how necessary the participation of the private sector in funding education will be in the future. The author discussed the relationship between university education and development, the problems and challenges faced by university education, the relationship between the university education system and the labor market, the return of and cost of university education and scientific research in comparison with other countries. As for the problems of university education, the author mentioned administrative problems, legal and legislative problems, financial problems and educational problems. It was concluded that the goals and philosophy of university education are not clear. The author suggested reducing the quantitative expansion of university education, activating the relationship between university education and the labor market needs, and increasing the scientific research funding through the effective contribution of the private sector.

Ahmed (2009) investigated achieving Egyptian higher education institutions' excellence through the application of the European foundation for quality management excellence (EFQM) model. First, the author highlighted that higher education quality became a topic of interest; as it presents a challenge to higher education institutions worldwide. The author viewed that the Egyptian higher education institutions need to constantly determine their current performance status against a business excellence scale



and identify the strengths as well as the areas of improvement. A survey was carried out; to identify the most significant enablers that would increase the performance of Egyptian higher education institutions. Data was collected and analyzed. It was revealed that Egyptian higher education institutions have core enablers that directly impact the results. Accordingly, the author concluded that improving these enablers would consequently improve the overall excellence.

According to the Egyptian ministry of higher education, the higher education enhancement project (HEEP) aims to create the conditions fundamental to improving the quality and efficiency of the higher education system in Egypt through legislative reform, institutional restructuring, and establishment of independent quality assurance mechanisms and monitoring system. The project has three main components: the global development of the governmental management and the relevance of the higher education system, improving the quality and relevance of the higher education and improving the quality and relevance of the mid-level technical education.

The ministry defined six priority projects for the period 2000-2007, reform of faculties of education project (FOEP), restructuring middle technical institutes project (ETCP), faculty development and leadership development project (FLDP), information and communication technology related projects (ICTP), higher education enhancement project fund (HEEPF) and quality assurance and accreditation project (QAAP). However, a modification was made in 2004; to cope with the requirements of quality assurance and accreditation, as well as

the governmental efforts to enhance the higher education and scientific research. This was done by adding two extra paths: the enhancement of the post graduate studies and scientific research and giving more attention to students' activities.

According to the program of continuous improvement and qualification for accreditation in higher education institutions, development of education in Egypt had two phases: (2002-2007) started with spreading the culture of quality assurance, developing internal systems to manage organizations inside educational institutions and universities in addition to preparing academic measures through educational sectors. The second stage is considered complementary; in order to achieve the participation of all higher educational institutions in quality assurance besides the development projects for continuous improvement and accreditation.

To sum up, it is clearly declared that the current Egyptian higher education system needs improvement. Moreover, the ministry of higher education started actions towards enhancing performance; including improving financial reporting.

### **Financial Reporting in Egyptian universities**

In order to improve financial reporting for Egyptian universities, the current status should be analyzed first. The researcher depends on the inductive approach, through discussing the current procedures for financial reporting in Egyptian universities with the aim of identifying the problems and shortcomings. Consequently, steps for improvement would be identified.





### **Current Financial Reporting Procedures in Egyptian Universities**

Primary as well as secondary data was used. Primary data was obtained through conducting interviews with the preparers of financial statements as well as auditors in the central auditing organization and representatives from different departments in the ministry of finance. Secondary data was obtained from audited financial statements, in addition to websites of Egyptian universities.

#### **Data collection:**

1. Interviews was conducted with representatives from different departments in the ministry of finance concerning the budget of higher education, including the following points:
  - a. Budget preparation.
  - b. Division of responsibilities.
  - c. Division of budget between different universities.
  - d. Authorities of different parties.
  - e. Budget compliance.
  - f. Corrective actions.
  - g. The relied upon standards in preparing as well as auditing financial statements.
  - h. Regulatory bodies and reporting parties.
  - i. Various stakeholders of public universities.
  - j. The reporting period.
2. Content analysis of public universities annual reports and websites. This aimed to examine the reporting practices and identifying

whether there is a relationship between universities' ranking and good disclosure practices. Content analysis included:

- a. Financial and non-financial data.
- b. Disclosure through website and reports.

#### **Results of the interviews:**

1. Interviews with representatives from different departments in the ministry of finance revealed the following points. The gathered information will be classified into 5 stages: budget preparation, budget approval, budgetary control, yearend reports and budget compliance.

#### **I. Budget preparation.**

1. Each faculty determines its needs at the year end and sends them to the ministry of finance to determine the appropriate budget. The minister of finance approves the budget according to the available country resources. Sometimes negotiations take place.
2. The budget is prepared based on the previous year budget in addition to new needs for the current year.
3. The general department of budget, Cairo University is responsible for preparing the budget based on the needs of different faculties as well as preparing the year end (in June) report, that shows the actual usage of the resources.

#### **II. Budget approval.**

1. The ministry of finance approves the budget for the whole university, where the head of the university is responsible on dividing it among different faculties, according to the needs of each university.



### III. Budgetary control.

1. There are two ways of budgetary control. The first is before using outlays, through a representative from the ministry of finance in each faculty (monetary unit). The main role of the ministry of finance representative is ensuring that the element to be expensed is within the budget limit. The second is after the expenditures, through the central auditing organization; in order to ensure compliance with the laws.

2. Representatives of the ministry of finance change regularly; in order to ensure independence. However, this might cause some delay in the work; as it takes some time to understand the work flow.

3. There is no deviation; as the budget is considered the upper limit for expenditures.

4. The role of the central auditing organization is ensuring compliance with various laws and regulations; including: universities organization law, financial regulation, in addition to any related law.

5. If there is a criminal contravention, the auditor raises the issue to the prosecution. Whereas a financial contravention is discussed with the representative of the ministry of finance, where amendments would take place.

6. The report prepared by the central auditing organization is raised to the university head.

7. The statistics division (higher education research development center), of the supreme council of universities prepares the following reports:

- Presentation of the expenses from the appropriations for each element of the budget.

- Appropriation in the beginning as well as end of the academic year, for public universities.

- Beginning and ending of academic year, divided by elements of the budget.

### IV. Yearend reports.

1. There are three kinds of reports that shows the actual expenditures (uses).

- i. Monthly reports for each faculty.
- ii. Quarterly report (each 3 months).
- iii. Annual report for the whole university; that comprises the details of all faculties.

2. There is a standard report that each faculty fills each month. It comprises the uses for the current month, previous months and the total. It is sub classified into the main elements of the budget, including the uses, resources and balance. All information included are financial. It is noted that preparing this report in a standard format facilitates aggregating the included information in the overall university report. In addition to this, it would be a step to developing BSC for the faculties, from which a university BSC would be constructed.

### V. Budget compliance.

1. The university should abide by the budget; as it is the maximum limit for expenditures. However, there is an exception for salaries that should be paid in all circumstances.





2. In most cases, there is no surplus in the budget.
3. Deficit mainly results from obligatory expenditures such as maintenance, salaries.
4. Deficit is financed from the government, after being expensed.

**Results of the content analyses:**

A. Content analysis of the budget of Cairo University revealed the following information:

- The budget is prepared in accordance with the budget rules of the ministry of finance.
- For the purpose of this research, the main 9 points in the budget are divided into financial and non-financial information as follows:

| Financial information  | Non - Financial information  |
|--|--|
| <ol style="list-style-type: none"> <li>1. Note for head of university</li> <li>2. Sources and uses for Cairo university</li> <li>3. Sources and uses for Cairo educational division</li> <li>4. Form 8: calculation of salaries difference</li> <li>5. Inevitable modifications for budgets elements</li> <li>6. Suggested investment plan</li> <li>7. Loans, installments and interest</li> </ol> | <ol style="list-style-type: none"> <li>1. Academic titles</li> <li>2. Decisions of the head of the university</li> </ol> |

- Budget of Cairo University for the academic year: 2009/ 2010 includes seven main chapters for the budget: (1-6) (8) it includes 6 of the 12 chapters of the government budget.
  1. salaries
  2. cost of purchasing products and services
  3. external interest
  4. Support, grants and social benefits.
  5. Other expenditures
  6. investments
- 7. Repayment national and foreign loans
- Sources and uses:
  - B. Sources:
    1. Taxes
    2. Grants
    3. Others
  - C. Uses
    1. Expenditures:
      - a. Salaries and employees compensation
      - b. Products and services purchases



- c. Interests
- d. Support, grants and social benefits
- e. Other expenditures
- f. Purchase of non-financial assets (investments)
2. Owning financial national and foreign assets
3. Repayment of national and foreign loans

The difference between sources and uses: surplus/ deficit

- Subdivisions of the budget:

The suggested budget increase in each of the 8 budget elements are divided among the following 4 main subdivisions of Cairo University:

1. Cairo educational division
2. Khartoum educational division
3. Cairo university hospitals
4. New Kasr el Aini educational hospital

B. Content analysis of the year-end report of Cairo University, prepared in the year ending 2008/2009 for the 4 divisions revealed the following information:

1. Note for head of university
2. Total expenditures
3. Total uses and sources
4. Detailed presentation of uses and sources
5. Notes and memo
6. Modifications / amendments
7. Inventory records
8. Assets in stores

C. Contents analysis of the website of Cairo university revealed the following points:

- a. Disclosure includes non-financial information only.

- b. There is not information concerning university performance.

- c. Information on the website is available to all stakeholders.

- d. Disclosure is limited to Cairo educational division and Cairo university hospitals. There is no information related to Khartoum educational division (no link).

- e. El Qasr El Ainy New Educational Hospital is included in the Website of Cairo University, under the title: healthcare.

- f. The website is composed of 8 main categories, under which information is disclosed:

1. Academic affairs.
2. Research.
3. Community services.
4. Student life.
5. Cairo University staff.
6. Guest services.
7. Cairo University in Egypt.
8. Publications.

In addition to this, other disclosed information includes:

1. University's mission (excellence in education).
2. News concerning: scholarships and research grants, conferences, head of university, research projects, social responsibility, activities,



competition, university decisions and staff members.

3. Statistics.
4. Cairo university hospitals includes the following information:
  - 1- El Manial Academic Hospital.
  - 2- Obstetrics and Gynecology Hospital.
  - 3- Internal Medicine Hospital.
  - 4- Pediatrics New Academic Hospital.
  - 5- External Clinic.
  - 6- El Qasr El Ainy New Educational Hospital.

- Under each one, some related information are disclosed as follows:

Subcategories include: on-campus residences, student services, international student, activities, healthcare, security and safety, scholarships, events calendar, students in faculties.

- It should be noted that the categories are permanent, whereas the other information might change frequently according to the news.

The researcher views that the 8 categories of information as well as the detailed information included could be classified into the balanced scorecard (BSC) perspectives follows as shown in table.

### **Problems and Shortcomings of Current Financial Reporting in Egyptian Universities**

Measurement and disclosure problems in universities' financial reporting might affect accountability. Based on the interviews and the content analysis, the researcher identified the following Table: balanced scorecard

shortcomings concerning financial reporting in Egyptian universities:

1. Budgets focus on financial information only, whereas disclosure through websites mainly includes non-financial information.
2. The four categories of the budget are not given the same importance through online disclosure.
3. There is no definite identification of various stakeholders and their information needs. The researcher suggest that stakeholders of the university include: the government, ministry of finance, central auditing organization, students and their parents, professors, employees, suppliers, funding organizations, the community and others.

Each disclosure practice addresses different kind of stakeholders: the budget and related reports are raised to the government (ministry of finance), head of university, supreme council of higher education, whereas website disclosure addresses students, their parents, and other interested parties. **Conclusion**

In Egypt, the role of universities together with its quality is deteriorating. Besides, the private sector has grown dramatically which increased the competition. There are recently various reform attempts to gain accreditation and improve the ranking of public universities. The researcher believes that one of the areas that require improvement is financial reporting. The researcher views that Egyptian public universities should focus on non-financial disclosure, through university website, besides financial disclosure, represented in the budget.



| Perspective                     | Category                   | Information disclosed   |
|---------------------------------|----------------------------|---|
| Financial perspective           | None                       |   |
| Customer perspective            | Student life.              | On- campus residences, student services, international student, activities, healthcare, security and safety, scholarships, events calendar, students in faculties.        |
|                                 | Guest services.            | Visiting the university, shopping at Cairo University, activity calendar, Cairo University job vacancies.   |
| Internal business process       | Academic affairs.          | Faculties and institutes, academic services, undergraduate programs, graduate programs, academic calendar, university decisions.  |
|                                 | Cairo University staff.    | Facilities and operation, Cairo University support grants, HR and recruitments, medical services, staff clubs, staff contacts, Cairo University staff, FAQ.               |
|                                 | Cairo University in Egypt. | Cairo university leaders, quick facts, governance and administration, university policies, honorary degrees and prizes university site seen, Cairo University history.    |
| Learning and growth perspective | Research.                  | Research centers, research projects, libraries, publications, research plans, workshops, previous vice presidents, calendar, theses, research awards.                     |
|                                 | Publications.              | Cairo university books, Cairo university journal, Cairo University catalogs, Cairo University e- periodicals.   |
| Social perspective              | Community services.        | About community service, centers and units, environmental projects, sector achievements, news and events, housing project, contact with sector, Cairo University housing. |

The BSC could be used in this essence, as it includes financial as well as non-financial information.



#### **Suggestions for Future Research:**

The researcher suggests developing a framework for the balanced scorecard (BSC) to be used for financial reporting for Egyptian universities. This framework could be applied to different universities as well as to different faculties of one university. The use of the BSC would allow considering nonfinancial information besides financial ones. In addition to linking performance management with financial reporting.

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