

# Abstract

## **Introduction of double entry accounting at the Ministry of the Flemish Community**

*The Belgian Court of Audit sent a report to the Flemish Parliament in which it assessed the introduction of a double entry accounting at the Ministry of the Flemish Community. It welcomed the pioneering role played by the Flemish Government with this project among public authorities, but it also criticized the careless preparation and the deficient project implementation and follow-up. The new accounting system, the cost of which has already reached 30,3 million EUR, that is nearly six times as much as the price estimate, shows shortcomings that go beyond the usual teething problems to be reasonably expected from such projects. In the meantime, the administration has already done away with many shortcomings, but the quality of the accounting system is still liable for basic criticism.*

### **Pioneering role**

In May of this year, the Federal Parliament laid down general rules on the Community and Region budgets and accounting. The Flemish Government has, however, not awaited this new federal regulation to be introduced and has established a double entry accounting out of its own initiative. The Ministry of the Flemish Community (MVG) had already undertaken the preparatory work in 1996. In early 1999 it subcontracted the computing side of the project and, at the same time, selected a new accounting software. The initial starting date of the new accounting system was to be 1st January 2001 but it had to be postponed several times because of various problems. Even after it was effectively introduced on 1st October 2001, there was still a need for plenty of adjustments.

### **Audit**

The Court examined whether the double entry accounting at the MVG was introduced in a legal and efficient way within the constraints of the budget proposal. It assessed the quality of the preparatory work and the project management and examined whether the new system could cater to the need for a functional accounting and a reliable rendering of the accounts.

### **Preparatory work**

The basic criticism was levelled at the preparation of the project of double entry accounting: no plan stating basis assumptions, objectives, content, risks, costs, profit and planning had been approved by the Flemish Government. Alternative solutions were not examined and the project has been incorporated into the IT-outsourcing without any further analysis.

## **Unclear project requirements**

The expected result was vaguely described and the requirement platform for the new accounting system was incomplete and inadequate. It was thus unclear what reports had to be produced. The MVG's contribution itself was not specified and the contracts contained no adequate measurement method. As a result, the contractor could provoke intricate discussions and shirk result commitments. Moreover, there was no 'escape system' in case the new accounting system failed to be introduced in time.

## **Negotiation procedure**

The ministry awarded significant consultancy contracts as part of the project without abiding by the rule on competition and confined itself to a negotiated procedure. No adequate price enquiry had preceded the awarding of these consultancy contracts. Several commitments were fixed only after the contract had been largely executed. While the project was carried out the MVG did not call upon the specialised section responsible for the legal supporting arrangements of public contracts.

## **Project organisation**

The project organisation structure did not operate properly. Only in the latest stage were the tasks and responsibilities of the various project groups clearly described. The Flemish Government took a range of essential decisions in an early stage but did not refer the matter to these groups and during the analysis stage the project steering group was not even convened.

## **Project implementation**

The Ministry had to face a staff shortage to implement the project. Because of a high job turnover, it had to do without much expertise. Besides, the project leader did not have sufficient powers to command a consensus from the decision-making bodies or to effectively mobilize the collaborators who had supposedly been set to this task in the various departments.

## **Tight budget**

The original budget was undervalued. The MVG started the project without a clear insight into its financial impact and without a specific, overall budget for the project. The real cost price of the project went up in the meantime and amounted to 30,3 million EUR, as against the original estimate of 5,2 million EUR. The cost evaluations were drawn up by external consultants. The MVG had itself too little expertise to scrutinize these budgets.

## **Tight time planning**

The original deadline, that is 1st January 2001, was premature. Because of time constraint and insufficient expertise, the MVG accepted the functional analysis file and the developed system proposed without any further comment in spite of numerous uncertainties. Afterwards it had to threaten to sue the service provider not less than three times. The MVG did not even have its own comprehensive, central project file.

## **System flaws**

According to the Court, the new accounting system, by and large, meets most general directives governing a financial system designed for public authorities, but shows essential shortcomings, among others in the field of a strict management of the budget appropriations or reporting thereof. Many adjustments were necessary to make sure that reporting obligations were in line with the present legislation.

## **General account**

The general account for the year 2001, which had to be derived from the accounting, was submitted late to the Court due to problems linked to the accounting system. The first Court's audits showed that budget implementation data were missing or were unsure. Moreover this submission took place at a time when the MVG had not yet introduced all corrections in the accounting system. The reports about the operations of the accounting officers were not available on time and were not entirely correct either. Moreover, the audit on the changes of assets was also extremely difficult to perform in the new system.

## **The minister's response**

The Flemish Finance minister replied that the audit contained precious recommendations, which will be useful to prepare the implementation of the new Flemish accounting decree, which is being drawn up. In the future, one accountable minister will be responsible and this should rule out an implicit decision-making, as was the case for this project.