ICR Review
Operations Evaluation Department

Report Number : ICRR11079

1. Project Data:		Date Posted :	08/09/2001	
PROJ ID :	P004019		Appraisal	Actual
Project Name :	Accountancy Development II	Project Costs (US$M)	33.9	23.99
Country :	Indonesia	Loan/Credit (US$M)	25.0	19.64
Sector(s):	Board: FSP - Central government administration (100%)	Cofinancing (US$M)		
L/C Number :	L3801			
		Board Approval (FY)		95
Partners involved :		Closing Date	07/31/2000	12/31/2000

Prepared by :	Reviewed by :	Group Manager :	Group :	
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2. Project Objectives and Components

a. Objectives

The Second Accountancy Development Project (GAS II) was intended to support the Government's strategy to modernize government accounting information systems, and enhance the credibility and usefulness of financial information for private and public sector enterprises through implementation of rigorous qualifying examinations for public accountants and a comprehensive set of accounting and auditing standards, and through the enforcement of these standards.

b. Components

(1) Improve the timeliness, accuracy, and completeness of financial reports to policy -makers, modernization of governmental accounting through enhancement and implementation of a new accounting system (building on the system originally designed in 1985 and implemented under the First Accountancy Project, GAS I); 75% of project expenditures;

(2) Enhancement of private and public sector accounting, auditing, and standard-setting and enforcement, to assure (a) that internationally-accepted accounting and auditing standards are issued and enforced for privately -held and publicly-listed companies; and (b) the further development of the quality and credibility of professional accountants; 25% of project expenditures.

c. Comments on Project Cost, Financing and Dates

Total project costs were US$23.99 million, compared to US$33.9 million that was envisioned. The Bank provided US$19.64 million of the planned US$25 million ((79%), and the GOI expended US$4.35 million of an intended US$8.9 million ((49%). Some portion of this reduction was a result of the government's decision to reduce all borrowing in the wake of the Asian financial crisis, and was not related to the project status . The project became effective on 12/20/1994, and closed on 12/31/2000, 5 months later than planned.

3. Achievement of Relevant Objectives:

(1) Modernization of governmental accounting : The project was an effort to upgrade with modern automated tools the accounting system developed under GAS I. However, a number of GAS I design and implementation weaknesses were carried over in a detrimental manner into the design of GAS II. These initial design flaws, together with poor implementation by the consultant and Bank staff, combined to produce a highly unsatisfactory outcome to the first component (modernization of government accounting), with virtually no development benefits achieved by the first component. **(2) Enhancement of private and public sector accounting** : This component focused on developing regulations and standards, and enhancing the technical competence of the Capital Markets Supervisory Agency (BAPEPAM). Twenty-five accounting and 17 auditing standards were approved and issued, compared with the 40 accounting and 16 auditing standards envisioned; a professional accounting examination was developed and is being actively utilized; a continuing professional education program was implemented; a professional accounting magazine was initiated; and training was provided to BAPEPAM staff. However, insufficient attention was paid to the enforcement of standards. Overall, achievement of this component was moderately satisfactory .

4. Significant Outcomes/Impacts:

- The Indonesian accountancy profession was significantly strengthened
- BAPEPAM benefited by the enhancement of staff technical competency .

5. Significant Shortcomings (including non-compliance with safeguard policies):

- The modernization of the Government Accounting System has still not been realized even after 12 years of work on GAS I and GAS II. The old, pre-GAS I manual system is still in use by the State Financial Accounting Agency (BAKUN) to produce reports for Government and Parliament
- The design and implementation of GAS I had severe deficiencies, and these were apparently carried over into GAS II without critical examination. Deficiencies included lack of tight controls over: account coding; timely transmission of data from thousands of local agencies to the Central Accounting System; and reconciliation with a parallel Treasury system. Additional problems were caused by the fact that GAS I: required the use of double-entry bookkeeping, whereas Government and the Parliament used a single-entry system; and GAS I required that expenditures be distinguished between capital and current items at the program level, whereas budget appropriations did not make that distinction.
- During the design of GAS II, the Bank should have recognized the problems inherent in GAS I, which was then substantially delayed, taken into account the lack of accounting and IT expertise in the country, and advised the Government to significantly modify GAS II, or delay implementation until GAS I could be shown to work effectively.
- The design of GAS II was flawed; it did not recognize changes in government structure since 1998; delays built into the reporting structure virtually preclude the provision of timely information; the design required prompt cooperation of all units to verify data and provide quick feedback on errors, which is unlikely. Finally, the consultant did not deliver standard operating procedures or reconciliation programs.
- Bank supervision was deficient; ratings were overstated, there was insufficient emphasis on development impact, and process and output indicators were emphasized to the detriment of outcome. Despite major difficulties, the project was never rated "at risk" by the Bank.
- While Component 2, Enhancement of Private and Public Sector Accounting, had a substantial impact on the Indonesian accountancy profession, it did not contain mechanisms by which to assure the enforcement of the new standards developed. In particular, it had no means at all to assure the application of the new standards to privately-held companies.
- The GAS II terms of reference allowed the consultants to complete their contract well before the start of live implementation, and the procedures for acceptance testing were inadequate to detect programming/systems errors.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Unsatisfactory	Unsatisfactory	
Institutional Dev.:	Modest	Negligible	The modest achievements of component 2 were outweighed by the virtually total lack of benefits produced by component 1.
Sustainability:	Unlikely	Unlikely	
Bank Performance:	Unsatisfactory	Unsatisfactory	
Borrower Perf.:	Satisfactory	Satisfactory	
Quality of ICR:		Exemplary	

NOTE: ICR rating values flagged with ' * ' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

- In a project designed to improve public sector accounting, the Bank team should have an appropriate mix of IT and public sector accounting skills. At various stages of this project, it appears that none of the team members had the requisite public sector experience.
- A country's human resource capacity should be carefully assessed before the provision of Bank advice on modernization and reforms. The objective of this project was beyond the technical and human resource capacity of the Government.
- The key objectives of a project should be reflected in its performance indicators, which should focus on output and outcome rather than inputs and processes.
- In IT projects, use of off-the-shelf software is greatly preferred. If modifications are made, pilot testing should be required as a risk mitigation strategy where implementation capacity is limited.
- In IT projects, the definition of "system implementation" should specify that software consulting services should cover at least one full production cycle (3 months) of live production. System acceptance should not be signed off until the system has been implemented in a production environment, which was not done for the GAS II project.
- Supervision of all projects, especially those involving multi-year systems development, should be frequent and rigorous. If an objective assessment, such as an ICR, had been performed on GAS I, the flaws and hidden complexity of the original design might have been detected earlier.

8. Assessment Recommended? ○ Yes ● No

9. Comments on Quality of ICR:

The ICR is exemplary in every respect. It is admirably frank, incisive, and comprehensive. It presents considerable evidence to substantiate its conclusions, and is presented in a very logical and readable manner. The lessons learned are outstanding.