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SAACB Audit Opinion on Final Accounts 2011

December – 2015

**Audit and Control for Building , Development and
Good Governance Enhancement**

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Introduction

The Bureau has audited the financial statements of Palestine National Authority, which contain the “Statement of Comparison between Budget and Actual” and “Consolidated Statement of Cash Receipts and Payments”, and 'detailed statement for all budget items included in the receipts/payments statement' for the year then ended December 31, 2011, and a summary of significant accounting policies and other explanatory notes.

PNA (Ministry of Finance) Responsibility for the Financial Statements

In accordance with law 7/1998 on budgeting and financial affairs (and respective amendments as per decree 4/2008), Palestinian Financial Ordinance of 2005 for ministries and public entities (and respective amendments), amended Basic Law and law of State Audit and Administrative Control Bureau 15/2004, Ministry of Finance is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector accounting standards -Cash basis. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error. Management responsibility includes selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Responsibility of SAACB

- Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with *INTOSAI (The International Organization of Supreme Audit Institutions) Fundamental Auditing Principles and Guidelines*, *ISSAI (International Standards of Supreme Audit Institutions)* and International Standards on Auditing. Those standards require we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risks assessments, internal control relevant to the MOF's preparation and presentation of financial

statements is considered in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of internal control. An audit also includes evaluating the appropriateness of accounting policies used, the reasonableness of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion

Basis of Qualified Opinion

Financial Qualifications

I. General Qualifications

1. MOF corrected errors and differences in the final accounts of 2011 in material and substantial values. MOF added Note #(25) to the financial statements of 2011 under 'Correction of errors and differences', for which impact was evident at the core of financial statements. Total corrections of cash balances, previous year's balances and opening balances errors reached an excess of one billion NIS (*absolute value*), where these substantial errors –form considerable percentage of total budget/spending of PNA-questioned the credibility of financial statements, 2011. The Bureau has asked MOF to present professional explanations to the nature and causes of these differences, which in turn presented the explanations as per official letters sent by minister of finance (letter 152/2015 on 31/08/2015) and Accountant General (letter 10413 on 01/09/2015). Following the consideration of these different explanations, the Bureau expressed qualifications on the following items of Note # 25:
 - “Cash balance at the end of period”.
 - “Difference of error correction after releasing final accounts” in the aforementioned value mentioned in the final account statements.
 - “Balance assessment difference as of 31/12/2010” in the aforementioned value mentioned in the final account statements.
2. Lack of proper financial management, supervision and clear instructions by MOF to responsibility centers, ministries and foundations that use consolidated accounting system IFMIS 'Bisan', regarding the transfer to chart of accounts on 'Bisan' IFMIS in 2011, and transfer accounts and balances, which led to substantial errors in values of expenditure, revenues and grants.
3. MOF adopted the trail balance as at 02/01/2011 instead of 01/01/2011 upon preparing 2011 financial statements, which violated all accounting/financial customs practices and norms, and substantially compromised accuracy and credibility of the financial statements regarding values of expenditures, revenues and grants.

II. Qualifications on Tax/Non-Tax Revenues & Receipts

- Clearance revenues & deductions/Note # (3)

The Bureau expressed qualifications for clearance revenues and deductions due to the following reasons:

1. Unfair clearance revenues disclosed in Note # (3) due to the following reasons:
 - Difference in 338,451,454 NIS between 'amount due to PNA from clearance revenues at the beginning of 2011' disclosed in Note # (3) of 2011 financial statements (637,831,990 NIS) on one hand, and the opening balance of the same account in Bisan software on the other hand. This substantial difference has not been explained.
 - There was a difference of 294,958,901 NIS between total clearance deductions done by Israelis during 2011 that appears in 'deductions on behalf of PNA' item, disclosed in Note # (3) of 2011 financial statements (964,459,600 NIS) on one hand, and amounts recorded on Bisan software on the other hand. MOF has not given reasons for this difference.
 - Failure to disclose and present an amount of 256,740,536 NIS (previous years' arrears) as part of clearance revenues in Note (3), which reduced value of clearance revenues (receipts) disclosed in Note # (3) in the aforementioned amount.
2. The Israelis unlawfully deducted tax value from some clearance invoices (P), and refused to return amounts deducted. An amount of 4,558,606 NIS has been deducted from the tax due to these invoices. Some of these invoices had their tax deducted previously (deduction twice), others are cancelled and legally outdated and others were issued by Palestinian dealers not registered in the Palestinian accounting system (SHA'AM)-un –authorized dealer.
3. There were clearance invoices (P) where tax has been deducted by Israelis (value of tax deducted in 2011 was 1,489,718 NIS). These invoices are still in possession of the Palestinian dealers and have not been returned to value added tax offices and value added tax had not been paid, despite being deducted by the Israelis. This has led to lack of follow up and collection of tax for these invoices.
4. Value of tax due to outstanding Israeli clearance invoices (I) (cancelled duplicated, lost, unregistered dealers) during 2011 reached 8,430,031 NIS. Central clearance department and provincial offices have not taken actions necessary to check accuracy of these invoices and follow up their collection, which caused the lack of follow up and collection for tax of these invoices.

5. The ledger account balance of 'clearance revenues / transfers from Israelis' did not match the balance of the clearance sessions reports in 2011. It turned out there was a difference of 24,448,979NIS more than stated in clearance sessions reports, which has not been disclosed in the ledger account of clearance revenues on Bisan software. MOF has not explained the aforementioned variation.
6. The Israelis deducted amounts from clearance revenues for several expenditures (electricity, water, sanitation, insurance, courts, treatment at Israeli hospitals) without all supporting documents and details for amounts deducted. Additionally, there has been frequent deduction(double) from some clearance invoices, which led to inaccurate lending amounts recorded for some local government entities and businesses. The Bureau could not check or verify validity and accuracy of amounts deducted, and details of deductions are as follows:
 - Lack (Absence) of clear basis to calculate the clearance deductions undertaken by the Israelis for treating wastewater, 2011(60,103,533NIS). Thus, details of balances could not be checked.
 - The Israelis deducted 7,171,491 NIS from clearance revenues in 2011 (salaries of the West Bank Water Department staff, Civil Administration) without accurate data about staff, actions they undertake and eligibility of these deductions.
 - The Israelis deducted 183,831,057NIS from clearance revenues in 2011 for Israeli hospitals without supporting documents at Ministry of Health, besides the lack of control system at MOF for these deductions, so the Bureau could not check their accuracy-non – availability of details.
- 7-There has been duplication in paying some electricity procurement invoices to the Israeli Electricity Company (2,313,469NIS), where they have been deducted from clearance invoices despite being paid to the National Electricity Company through Palestinian electricity distribution companies and local government entities, which led to amounts duplicated being lost from the Treasury and local government entities.
 - Municipal Own source revenues(property tax, operational licenses) / Note # (4)

The Bureau reached the following substantial qualifications until date of field work end through the audit of property tax, 2011:

1. There is not thorough follow up to collect financial receivables due on some taxpayers, which exceeded long periods of time. Number of licenses(taxpayers)with dues reached 13569 dealers(taxpayers), and dues of some licenses exceeded 100,000 NIS.
2. There have been differences between what is recorded in valuation(assessment)registers and what is recorded in the property tax software(application).
3. Errors have been noticed upon data entry in valuation registers, in addition to data crossed out so bad that some amounts could not be recognized, and damaged registers that need repair.
4. There are a great number of old chequesat Nablus property tax department, some of which date back to 2001, which have not been followed up, and legal actions necessary to collect them have not been taken.

- Revenues of central budget institutions (responsibility centers) / Note # (5)

- Revenues of civil affairs (departments), 2011 / Note # (5)

The Bureau expressed qualifications on revenues of civil affairs/departments disclosed in Note # (5) due to the following:

1. Suspicions of fraud for some stamp fees used in civil affairs application forms at an amount of 162,882 NIS (2009-2013) have been found through the audit undertaken at Ministry of Interior, Nablus department. This has been reported by the Bureau, and the case has been referred to competent authorities for legal actions.
2. Revenues collected are not audited by the financial auditor.

- Revenues of leasing state properties, 2011 / Note # (5)

Inaccurate and incomplete revenues from leasing state properties due to the following qualifications:

1. Responsibility centers in charge of running state properties failed to count and collect all revenues due for leasing state properties. It has been noticed there are leased state properties for which annual rentals have not been collected for years.
2. Inaccurate accounting recording and disclosure of actual account value (state properties leasing), where revenues of state properties collected by Land Authority were recorded in the 'land registration fees' account (25,274JD, 21,045USD, 10,432NIS). Additionally, value of state properties leasing for May 2011 (100 JD) has not been recorded.

- Revenues of leasing absentees' property, 2011/Notes (5, 8)

Inaccurate and incomplete revenues of leasing absentees' property due to the following qualifications:

1. All revenues of leasing absentees' property have not been collected, and all measures necessary have not been taken to collect them. Value of debts reached tens of thousands of shekels and dinars for the sample selected.
2. Failure to record value of absentees' property revenues for June 2011 (718NIS), and incorrect bank reconciliation for revenues bank account.
3. Lack of complete and updated database for absentees' property that enables access to highly accurate reports and ensures completeness of revenues collection.

- Revenues (fees) of Civil Defense, 2011/Note (5)

Inaccurate and incomplete revenues of the Civil Defense due to the following qualifications:

1. The Civil Defense does not have database showing –dealers-taxpayers (crafts, industries, professions, other activities), which led to ineffective follow up for general precautions and safety terms/procedures. This also affects complete fees collection.
2. Amounts of fees collected (crafts, industries, professions, other activities) do not match actual number of taxpayers, which indicates poor follow up procedures by Civil Defense stations to check general safety measures, and led to amounts being lost from the Treasury. Moreover, some professions are practiced without fulfilling general safety measures or paying fees due.
3. Despite letters sent to the Civil Defense to ask some elevator companies provide the Bureau with confirmation about fees paid in 2011 to Civil Defense, the latter refused to do so, unlike ISSAI 1505 (Scope limitation).

- Revenues of Ministry of National Economy (Gold examination fees, corporate registration fees), 2011/Note # (5)

Inaccurate and incomplete revenues (gold examination fees, mining/natural sources fees, corporate registration fees) due to the following qualifications:

1. Some bank accounts balances for service fees collected do not match collection reports issued by revenues system applicable at the Ministry, in addition to incorrect and inaccurate record in the collection system developed and used by the Ministry.
2. MONE failed to follow up license and collection of operation fees and annual license renewal fees for all quarries and stone crushers, where there are not manifests to that end, which led to incomplete collection.

3. MONE failed to follow up license and collection of license fees for all industrial facilities on annual basis, so there has been incomplete fees collection.
4. There are copies of some bank deposit vouchers in commercial agency files, with nothing to prove deposit in bank account for these revenues. MONE confirmed that this is the responsibility of previous management.
5. There are deposit vouchers bearing the same numbers, albeit with different data, which indicates risk of manipulation in deposit vouchers and failure to deposit amounts received in the bank account to that end. This had great impact on complete collection of these fees, and thus on fairness of balance for commercial agency registration account. MONE confirmed that this is the responsibility of previous management.

- Revenues of postal stamps, 2011/Note (5)

The Bureau reached the following substantial qualifications until date of field work end through the audit of postal stamps. The Bureau could not check completeness and accuracy of revenues of selling stamps:

1. There has not been any beginning balance for financial stamps and population registration that could be relied on in any stamp inventory count since PNA advent to date.
2. There are no records for Israeli stamps, which impedes inventory and balance check. This also weakens control measures.
3. It has been found through the audit of stamps at MOF that the latter does not record all stamps in stock, which rendered the Bureau unable to undertake inventories count for stamps in MOF possession.

As mentioned above, lack of stamps recording is a scope limitation (value of postal stamps: 3,255,290NIS).

- Revenues of court fines and traffic tickets, 2011/Note (5)

Inaccurate and incomplete court fines and traffic tickets fees and revenues due to the following qualifications:

1. Lack of segregation of duties, where the cashier released receipts and prepare financial reports for revenues collected at the same time.
2. Lack of sufficient control measures for court cashiers, which led to manipulation in receipt vouchers at some courts, and amounts misappropriated from revenues collected.
3. It turned out through the audit of receipt books used to collect court fees that cashiers at Bethlehem, Ramallah, Halhoul and Jericho courts misused their positions to manipulate receipt vouchers used in revenue collection from 2004-2014. Value of manipulation reached 6,165,603NIS and 10,095 JD, which led to suspected fraud in court revenues. The Bureau set four reports about volume of amounts misappropriated and means of misappropriation, and were referred to competent authorities

to carry out investigation necessary and take legal actions against criminals.

- Revenues of Ministry of Agriculture (veterinary fees), 2011/Note (5)

Inaccurate and incomplete Revenues of Ministry of Agriculture (veterinary fees) due to the following qualifications:

1. There has been difference between revenues deposited in the veterinary fees bank account and what was recorded in Bisan software and revenues reports prepared by the Ministry, so amounts disclosed in 'veterinary fees' (Note 5) were unfair. Moreover, the after mentioned account includes other revenues collected by Moa not only veterinary fees.
2. Bank account balance for veterinary vaccines reached 2,818,082NIS as at 31/12/2011, for which amounts have not been recorded in Bisan software and amounts balanced have not been deposited in the consolidated Treasury account. Account balance has not been disclosed in 2011 financial statements, and fees were understated in the said value.

- Departure fees (border crossings), 2011/Note (5)

The Bureau expressed qualifications to departure fees for the following reasons:

1. Incomplete departure fees transferred by the Israelis in 2011, where revenues transferred by the Israelis in 2011 –according to what is recoded at the departure fees account on Bisan software and note (5)-reached 17,442,629NIS. It turned out after recalculation that departure fees of 2011 according to numbers of travelers recorded at the Palestinian border crossing department should be 42,064,867NIS, so an amount of 24,622,238NIS was not transferred to the Palestinians. The Ministry did not explain whether that amount has been claimed or not, taking into account that the Ministry replied that amount due is 47,770,831NIS.
2. the Israelis increased departure fees more than once without consent from the Palestinians, and the Palestinians' share of these modified fees has not been calculated or transferred, unlike Paris Economic Protocols (half fees minus one dollar). Thus, the Palestinians incurred huge amounts without return to Treasury of State of Palestine.

- License fees, 2011/note (6)

The Bureau expressed qualifications to license fees for the following reasons:

1. It turned out through the audit of license fees that accounting treatment and classifications for some revenues is inaccurate. An amount of 72,801,723NIS (water selling) was recorded under 'profession practicing

license' and disclosed in 2011 financial statements as part of other licenses in note (6). An amount of 55,899JD (Ministry of Telecommunications licenses) was recorded in 'Post and other telecommunications account' instead of 'profession practicing license' account, and an amount of 16,878NIS was recorded in 'profession practicing license' account, despite the fact that this amount does not belong to profession license fees, which affected validity of presentation and disclosure of license fee in note (6).

2. Ministry of Finance and Ministry of Telecommunications & Information Technology failed to check validity of amounts collected as operational license fees of telecommunication companies in 2011. License fees of total operational deals (telecommunication services) were not recalculated, but recorded based on amounts mentioned in letters sent from telecommunication companies to Minister of Finance, which affected accuracy and completeness of license fees revenues for 2011.

- Receipts *reserved* (note 8) /refunds, note (17) /deposit accounts

The Bureau expressed qualifications to receipts reserved and refunds for the following reasons:

1. Rewards have been given (17,023NIS) to some pension authority staff from account of the Palestinian Pension Fund, so balance of this account is presented unfair.
2. Balance of the deposits account for Israeli stamps (2,777,263NIS) has not been presented and disclosed in the financial statements of year ended 13/12/2011, which affected validity and fairness of presentation/disclosure.
3. MOF recorded 19,229,538NIS (5 million USD) as a deposit for the benefit of the Palestinian Investment Fund; despite there were not any cash receipts received by MOF, so note value of the aforementioned amount has been overstated.
4. There were deposit accounts for Palestinian Broadcast Corporation (753,339 USD, 22,834NIS, 21,380Euro) that have not been recorded in Bisan software and have not been disclosed in 2011 financial statements, which reduced value of receipts and led to unfair/incomplete deposit accounts balances disclosed in 2011 financial statements.

- Bank returns & interest/Note (7)

The Bureau expressed qualifications to bank returns & interest for the following reasons:

1. Non- Disclosure of Palestinian Investment Fund earnings received in advance for 2011 of 74,500,000NIS (20 million USD), as part of PIF

returns in revenues Note (7), so receipts in amount above have been understated, which affected receipts and cash disclosed in note (25).

III. Qualifications on Grants & Donations 'note # 9'

The Bureau expressed qualifications on grants and donations disclosed in note (9) for the following reasons:

1. Some responsibility centers disclosed previous grant accounts (grants recorded before 2011) as grants for 2011, so grant balances of 2011 have been overstated and shown with value higher than actual (8,901,679NIS).
2. There are not agreements for Arab grants to PNA, and the Bureau has not been provided with external confirmation for all grants (limitation to audit scope).
3. Value of a bilateral grant agreement directly given to the Palestinian Central Bureau of Statistics has not been recorded in Bisan software, so they were not disclosed in 2011 financial statements as a result payments from third parties were presented unfair (note 9).
4. Incorrect and unfair balance for the Japanese grant disclosed in note (9), where an amount of 82,611,510NIS was disclosed as grants acquired through PNA in 2011 despite this grant has been acquired before that year, and recorded as opening balances. Additionally, an amount of 153,191,687PNA was not properly disclosed as grants acquired from third parties in 2011 despite paid by Japan for fuel from an Israeli fuel companies.
5. MOF failed to evaluate and record value of some in-kind grants that State of Palestine received, 2011. These were not disclosed in 2011 financial statements, so value of grant was not properly disclosed.
6. According to confirmation letters sent by donors to the Bureau for payments from third party, some grants presented by German Cooperation, Italian Cooperation, World Bank and Sweden (third party services) were not recorded in Bisan software and were not disclosed in 2011 financial statements, so grants presented from third parties (note 9) were not properly disclosed.

IV. Qualifications on Salary/Wage Expenditures, 2011 'Note 13'

The Bureau had the following qualifications through the audit of salary/wage expenditures:

1. Failure to disclose and report balance of some salary accounts in note (13) of 2011 financial statements. Total undisclosed amount of these accounts reached 159,495,208NIS, which affected correctness and fairness of wage/salary balance note (13), as well

as wage/salary amount disclosed in consolidated payments/receipts statement, 2011.

2. Net salary cash value disclosed in note (13) was overstated at 181,098,065NIS due to failure to deduct income tax due on salaries/wages from net value of cash salaries, so note #13 with value above has been overstated.
3. Lack of consistency in presentation and disclosure for some salary/wage accounts in financial statements from year to another, which made reaching accurate findings when comparing financial statement from year to another impossible, so consistent presentation, is absent.
4. Account of permanent staff was reduced in Advances account in the value of 31,811,956NIS by mistake, so salaries/wages disclosed in note (13) and consolidated payments/receipts statement have been understated.

V. Qualifications on Public Debt/Borrowing (Internal/External Loans & *Overdraft* Accounts, Loan Payments) 'Notes 10, 19, 20 & 22'

The Bureau had the following qualifications through the audit of borrowing (internal/external loans, *overdraft* accounts, loan payments):

1. Unfair presentation of note (10) regarding borrowing from local banks, 2011 due to loan disclosure as cash flow (receipts) in 2011, despite they have been acquired in 2010. This led to borrowing amounts of 2011 being amplified at 91,388,000NIS. Also, the value of some loans acquired in 2011 has not been disclosed, which reduced borrowing at 247,097,765NIS, so presentation of borrowing balance was unfair.
2. An account of “indirect funding account”(622,540NIS) was disclosed as part of bank cash withdrawals disclosed in note (10), taking in to account that this account is not at a bank (cash) but an account for third parties, which affected cash balances of 2011 disclosed in financial statements.
3. 'Tying/disclosing on negative difference' method has been used for local loans, which reduced borrowing value (receipts)—note (10)- that has been acquired with payments value, debit currency variation and due interest/installments.
4. Failure to disclose finance acquired by Orphan Funds Development and Management Institution and Alimony Fund (1,440,000NIS), and failure to disclose commissions paid to these two institutions in 2011 in the value of (1,671,250NIS), which reduced the amount of withdrawing/payment and led to inaccurate presentation thereto.
5. Unfair presentation of balance of loan payment (installments) and interest disclosed in note (20) due to failure to disclose all loan payment/installment accounts paid in 2011 (369,255,269NIS), which

reduced value of payments disclosed. Also ,Loan payments have been tied/disclosed to transactions of the currency variation account (1,655,804NIS), and led to unfair balance of note mentioned above.

6. Lack of clear accounting policies to record loan payment, where loan payments and due interests were calculated without being actually paid.
7. Interest of local bank loans was not tied (included) on debit and credit items of ledger account for loan interests and internal commissions. Note(19) was tied- included -to transactions belong to due unpaid interest, 2011, which led to unfair disclosure of payments/receipts balances.
8. Failure to disclose delay interest of local bank loans separately, so financial positions of PNA has not been shown in terms of liquidity deficit, which led to unclear payment priorities.
9. Unfair disclosure of cash balances for some banks in note (22) at 1,437,065NIS, where the latter has been tied –included -to positive balances of an intermediate account (indirect finance), which led to unfair disclosure of receipts/payments balances.
10. Failure to calculate and record the currency difference of some loans at end of 2011 in Bisan software, and wrong evaluation for other loans which reduced balance value of 'local bank loans ledger' account at 51,961,575NIS as at 31/12/2011, in addition to understatement “balance of local loans ledgers” in 16,438,500 so balance of bank accounts and cash was not presented fairly.
11. MOF wrongly recorded payment transactions for some loans in Bisan software (3,216,650NIS) despite they have not been actually paid, which wrongly present balances of interests disclosed in note(19) for interest payment unfair.
12. There has been difference between the balances of confirmation letters for some external loans and balances of loans recorded in Bisan software. The Bureau has not been provided with confirmation letters for some external loans despite of correspondence with lenders to that end.

Most of aforementioned variations were the result of the failure to exercise due professional care in setting final accounts, 2011.

VI. Qualifications on Lending (Local Government Entities, Water, Electricity, Re-Lending), 2011 'Note 15'

Unfair and inaccurate disclosure of local government lending (water, electricity distribution entities, re-lending) due to the following qualifications:

- Failure to disclose loans of 5,023,042NIS as part of lending components in Notes (15), and failure to disclose 5,828,710NIS as part of third party payments to Gaza Electricity Company (Egyptian grant), which affected fairness and correctness of financial statements.
- Failure to disclose pensioners' loans of 22,652NIS(government vehicles procurement)and loans for some PLC members of 270,916NIS, which reduced re-lending balance in note (15).
- Lending account balance for local government entities (electricity) does not match balance of electricity deductions report by MOF and balance of the National Electricity Company, where it turned out there are variations of 49,730,49NIS. The Bureau has not been provided with explanations for these variations/differences.

VII. Qualifications on Petroleum Derivatives, 2011 ' Note 18'

1. It has been observed through the audit that accounts of the General Petroleum Authority were combined in regular accounts, which led to confusion between cash basis expenses and accrual basis.
2. MOF failed to disclose petroleum derivatives accounts (have not been tied/linked or referred to any accounts), where payments/receipts amount was manually entered into note (18)/petroleum derivatives.
3. Incorrect payments/receipts amounts for petroleum derivatives disclosed in note (18), where it turned out there is difference of almost 58 million NIS that has not been disclosed in payments, in addition to approximately 161 million NIS that has not been disclosed in receipts. Thus, balance of note (18) was incorrect and unfair.
4. Misuse of Bisan IFMIS access to prepare and post accounting entries, which cut down46,045,683NIS from dues of some gas stations, and charged amounts decreased to dues account of fake gas station and an intermediate account (petroleum fees collection, Gaza), which raised corruption suspicions. The case has been referred to the Anti Corruption Commission for investigation.
5. Poor control procedures at the General Petroleum Authority, which led to misuse of access authorities to Bisan accounting software and manipulate financial transactions.
6. There were difference between *Account* balance in the confirmation letter received from some gas stations (for which the Bureau has a copy) and *Account* balance recorded in Bisan software used by the General Petroleum Authority. It turned out that balance of some approvals is higher than balance recorded in Bisan software, some less. The Authority failed to determine reasons of this difference.

7. The General Petroleum Authority determined *Account* balance in confirmation letters sent to gas stations, unlike the Bureau's request, which rendered confirmations worthless (determine balance due in stations' records to compare with Bisan balances), which posed limitation to audit procedures.
8. There was difference of 10,954,799NIS between *Account balances shown in confirmations given by an Israeli fuel company on one hand, and Account balances in Bisan software as at 31/12/2011 on the other hand (Accounts balance in Bisan is greater than Account balances in the confirmation). The Bureau* has not received any approvals from the other Israeli fuel company.
9. An amount of 12,339,712NIS has been spent in 2011 as fuel transport expenses, which has been recorded in the fuel excise account (revenues account) instead of the fuel transport expenses account, so this amount was incorrectly disclosed.
10. There was difference (deficit) in large quantities between the actual fuel inventory count (stock count) and the ledger fuel inventory balance recorded in Bisan software in 2011 and 2012, without expressing reasons of this difference to the Bureau.
11. The fuel inventory count at the end of 2011 and 2012 has not been recorded in Bisan software and transferred as opening balances at the beginning of the following year, according to correct actual balance. The fuel quantities balance was kept in Bisan without modify, which led to incorrect presentation of fuel balances.

VIII. Qualifications on Bank Reconciliations & Accounts, 2011

Unfair cash balance in Notes 22 and 25 for the following reasons:

1. According to the confirmation letters sent to the Bureau by some banks, it turned out that 238 bank accounts have not been recorded in Bisan software in 2011. Some of these accounts is inactive and contain balances; others are active with several transactions, which substantially affected total receipts/payments, so cash balance and correctness/fairness of financial statements disclosed have been affected.
2. There has been substantial difference in banks opening balances of hundreds of millions as a result of accounts transfer from accounting software to another. Responsibility centers did not transfer correct opening balance in 01/01/2011 due to failure to set complete bank reconciliations of previous years, and failure to cancel bank accounts from Bisan 2011, which do not have any balances in banks. Opening balance has been transferred to 2011 before completing reconciliations and processing outstanding items in those accounts.

3. Bank balances have been posted based on bank statements at 31/12/2011 as opening balances in 2011, instead of posting these balances on basis of Bisan IFMIS as at 31/12/2011, so balances of cash beginning balances were incorrect and unfair.
4. Some bank balances have been posted to 2011 against expense and grants balances, instead of transfer against opening balances, which rendered disclosures and Notes of expenses/grants inaccurate.
5. Opening balances of bank accounts were recorded in Bisan 2011 after 01/01/2011 (first month of year), whereas these accounts have not been recorded in 2010.
6. Period beginning balances of 2011 posted to bank accounts did not match balances of 2011 end, which led to substantial differences of millions in note (25) of 2011 financial statements. Therefore, 2011 beginning balances were inaccurate and did not match bank statements, which affected cash ending balance at 2011, and made the Bureau express qualification on cash beginning balances of 2011.
7. Failure to handle bank accounts opened in Bisan 2010 books, which do not have actual accounts against them in banks, which affected fairness of cash.

IX. Qualifications on Preparation, Execution & Supervision of 2011 Budget (Budget Comparisons)

Unfair and inaccurate budget comparisons due to the following qualifications:

1. There have been errors in the total transfer and development expenditure in final budget (post modification) disclosed in note (23) on budget comparisons, which decreased total final budget allocations.
2. Currency used in financial statements is different from currency used for financial statements disclosures, besides the difference in rounding amounts used in report between what has been disclosed in note(1/9) and amounts disclosed in the remaining notes attached to financial statements, which showed amounts incorrectly.
3. There have been substantial difference between the original budget amounts (based on the General Budget Law, 2011) and final budget allocations recorded in Bisan software.
4. There has been spending for previous years arrears from 2011 general budget in 3,861,632NIS, unlike what has been disclosed by MOF in financial statements, Note#21 (other arrears), which confirmed the failure to spend for previous years arrears without an attachment to the budget, affecting fairness of 2011 financial statements.

5. The amount of some actual expenses recorded in Bisan software did not match what has been disclosed in the Statement of Comparison between Budget and Actual (extra operational expenditures of 70 million NIS, development expenditures of 20 million NIS in minus, extra transfer expenditures of 22 million NIS).

X. Qualifications on MOF Compliance with Financial Statements Framework, International Public Sector Accounting Standards (IPSAS), Cash Basis

The following qualifications outline MOF deviations from IPSAS, cash basis:

1. MOF ignored many compulsory IPSAS standards (cash basis) of Nonfinancial statements framework.
2. Failure to disclose 'nature and reason of errors' regarding note (25) on "Adjustment of errors and differences" and the corrections itself on the face of financial statements.
3. MOF failed to follow time schedule (6 months) to prepare/present financial statements according to IPSAS.
4. MOF failed to disclose cash balances kept by PNA as at 31/12/2011 properly, which are not available for use or under external restrictions, unlike IPSAS (article 1/4/9).
5. MOF failed to disclose accounts recorded on "accrual basis" such as loan interest, as the basis used to present financial statements is the cash basis, unlike article 1/3/4 (a).
6. Failure to explain variations between budget and actual, as required by compulsory standards.
7. Inaccurate processing of arrears (note (21): other arrears), where MOF disclosed that there was not any spending for arrears, 2011.
8. Cancelled external loans that have not been disclosed in financial statements, besides undisclosed obligations and debts.
9. Substantive differences between original budget allocations and final budget recorded in Bisan. IPSAS 23/9/1 states that the Ministry has to explain nature of changes between original budget and final budget in special note.
10. Failure to include grants and projects of El-Aqsa and El-Quds funds as payments from third parties in 2011 financial statements, unlike IPSAS (article 1/3/24).

XI. Qualifications on Opening Balances & Accounts Not Entered in PNA Consolidated Financial Statements (Accounts not disclosed with Financial Statements, 2011)

MOF launched new database in the financial system in 2011, where there was data transfer from the old accounting system to the new one, for which results were the following:

1. Some incorrect and unfair opening balances for fiscal year 2011 due to:
 - difference in balance transfer for some accounts from Bisan 2010 as at 31/12/2010 to Bisan 2011 as opening balances, 2011.
 - Balances of some accounts as at 31/12/2010 according to Bisan 2010, but not entered in Bisan 2011 and not transferred as opening balances to Bisan 2011.
2. Balances of some Accounts have not been transferred (posted) from Bisan 2010 as at 31/12/2010 as opening balances to Bisan 2011.
3. Financial dues from previous years have been disbursed for some Account during 2011 without opening balances in Bisan 2011, which led to incorrect balance presentation in Bisan, affecting correctness of Account balances.
4. Poor control procedures for opening intermediate ledger accounts (suspense account in accounting IFMIS), as well as transactions made, where entries of these accounts are not listed and audited by financial auditors, which led to misuse by responsibility centers (incorrect reconciliations/transactions).
5. There have been a number of accounts in the trial balance on Bisan 2011 that were not disclosed in 2011 financial statements, despite cash transactions in these accounts, so cash balance disclosed has been affected. Furthermore, complete balance of some accounts has not been disclosed in the trial balance (Bisan 2011) in 2011 financial statements, which affected their fairness.
6. There were transactions regarding receipts and payments that have been disclosed in 2011 financial statements, taking into account that they do not represent cash flows (the other end- entry side - is intermediate accounts), which affected balance of receipts/payments without affecting cash.

XII. Qualifications on Expenditures Other Than Salaries (Operational Expenses, Transfers Expenses, Capital Expenses) 'Note 14'

The Bureau expressed qualifications on the following expenditure items:

1. Failure to disclose complete balances of some expense accounts (other than wages) of 26,529,594 NIS in 2011 final accounts, besides duplication in tying (including) some operational expenditures (264,995,302 NIS) disclosed in note (14), which affected fairness and accuracy of expenses and 2011 financial statements.
2. There have been errors in accounting orientation (spending nature) for some expenses, where some disbursements have been recorded

into accounts that have nothing to do with spending nature, which affected correctness/fairness of financial statements presentation. For example: spending for travel missions that charged it to 'various general expenses' account, social assistance charged to financial reserves, medical treatment charged to 'financial reserves' account, etc.

3. MOF failed to provide audit team with some payment and journal vouchers selected as part of the audit sample. Thus, appropriateness of financial transactions done through these vouchers has not been checked or verified.
4. Advances are processed and closed incorrectly at some responsibility centers, where there are not clear policies/instructions by MOF regarding accounting registration/closure of advances.

Qualified Opinion

In our opinion, except for possible effect of the matter described in the basis of qualified opinion paragraph above, the financial statements fairly present, in all material respects, the financial status of PNA as 31/12/2011, and financial performance in the "Statement of Comparison between Budget and Actual" and "Consolidated Statement of Cash Receipts and Payments" and the 'detailed statement for all budget items included in the receipts/payments statement' for the year then ended December 31, 2011, in accordance with IPSAS (cash basis).

Emphasis of Matter or Case

The Bureau emphasizes on the following matters:

1. When publishing 2011 financial statements, MOF shall attach related explanations regarding the "Adjustments and correction of errors/differences" mentioned in letters to the Bureau (letter 1512/2015 on 31/08/2015 and letter 10413 on 01/09/2015).
2. Regarding 2010 comparative figures that are shown as a comparative amounts 'column' in the "Statement of Comparison between Budget and Actual" and "Consolidated Statement of Cash Receipts and Payments" for 2011', the Bureau would like to draw reader's attention to the following:
 - In 2011, MOF changed the financial statements currency from USD to NIS, which affected presentation of comparative amounts for 2010 (USD), and presented or transferred in 2011 final accounts into NIS based on fixed exchange rate (3.821) for majority of notes and the face of financial statements.
 - Regarding the comparison column, 2010 which is shown in the 'Statement of Comparison between Budget and Actual' of 2011, the comparative statements of 2010 are wrong and belong to 2009.

3. Final accounts of 2011 set by MOF included many errors as a result of failure to exercise due professional care for financial statements and various notes. The following are some of these errors:
 - According to note (1), article 8.1, it has been wrongly disclosed that currency used to set financial statements is USD. Through analysis of the 'Statement of Comparison between Budget and Actual “for year ended December 31st, 2011, it turned out that amounts disclosed in notes are in NIS.
 - According to note (1), article 9.1, it has been disclosed by mistake that amounts used to set the financial statements were rounded to the thousandth NIS. Through analysis of the Statement of Comparison between Budget and Actual for year ended December 31st, 2011, it turned out that amounts disclosed in some notes have been rounded to the millionth NIS, whereas amounts disclosed in some notes were rounded to the thousandth NIS, so presentation was inconsistent and wrong.
 - There were many errors in clerical accuracy (summing). For example: there were errors in total transfer/operational expenses in the final budget (post transfers) disclosed in note (23) on budget comparisons.
 - Currency of the consolidated statement for receipts/payments, 2011 was set by mistake, where the true currency (NIS) was determined in heading of the aforementioned statements as USD.
4. MOF took more than three years to issue 2011 final accounts from the end of 2011, which increased number of subsequent events.
5. All details on the aforementioned qualifications are comprehensively shown in the management letter sent to minister of finance, 06/09/2015, where MOF and different responsibility centers were given legal period to respond. The Bureau received their response to observations, whereas some observations contained in the management letter have not been responded to.
6. Limited financial resources and unavailable liquidity at PNA.
We emphasize that limited resources and unavailable liquidity affect PNA capacity to undertake financial duties/responsibilities- going concern.

The aforementioned observations are not the reason for our qualification.

Qualifications on Compliance & Other Legal/Regulatory Criteria

Reporting and compliance with other legal/regulatory criteria:

MOF and PNA shall observe the following laws, regulations and decisions:

- General supplies law 9/1998.
- Public debt law 24/2005.
- Precious metals hallmarking and control law 5/1998.
- Tourism law 45/1965.
- Natural resources law 1/199?
- Industry law, 2011.
- Traffic law 5/2000.
- Decree law 5/2011 on general budget, 2011.
- Government works bidding law 6/1999.
- Civil service law 4/1998 and amendments.
- Budgeting law 7/1998.
- Civil defense law 3/1998.
- Palestinian financial ordinance for ministries and public entities, 2005 and amendments.
- Council of ministers decision 22/2010.
- Council of ministers decision (م.و.س.ف/12/92/12/2009) on approving civil defense service fees.
- Council of ministers decision 1/1999 on fees of hallmarking, analysis and examination of precious metals and licenses thereto.
- Council of ministers decision 17/2008 on licensing regulations issued by the General Petroleum Authority.
- President decree 18/2007 on fees exemption to citizens in southern provinces.
- Council of ministers decision (م.و.س.ف/13/63/01)/2010 on selling government vehicles.
- Council of ministers decision 23/2010 on monthly salaries for prisoners.
- Council of ministers decision 17/2010 on executive regulations regarding amounts for official missions and foreign courses, Palestinian security forces.
- Council of ministers decision 335/2005.
- Instructions 11/2012 on tax installments.
- Executive regulations of civil service law 2/1999.
- Paris Economic Protocols.
- General supplies instructions.
- Any other laws, regulations, codes or decisions regulating actions of PNA.

Management Responsibility for Compliance

In addition to the responsibilities for the preparation and presentation of the financial statements described above, the management is also responsible for ensuring execution of financial transactions and information contained in the financial statements according to laws they govern.

Responsibility of the Bureau

In addition to express opinion on the financial statements describes above, our responsibility also includes express opinion on whether financial transactions and information contained in the financial statements are , in all material respects, in compliance with governing legal/regulatory rules. This responsibility incorporates undertaking procedures in order to acquire audit evidence whether PNA expenditures and revenues have been used in purposes designated by PLC and council of ministers. Such procedures include the assessment of the risks of material non-compliance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a Basis for our qualified opinion.

Basis of Qualified Opinion on Compliance

The Bureau expressed qualification on PNA compliance with applicable laws, regulations, codes and decisions as follows:

I. Qualifications on Compliance

1. General qualifications

1. Financial statements release was greatly delayed by MOF, where they were presented to the Bureau thirty seven months after end of fiscal year, 2011, and 25 months after term set forth in SAACB law and the general budget law.
2. Failure to enforce some previous recommendations given by the Bureau, which led to continuous weaknesses and frequent previous practices.
3. Poor control procedures over revenues/fees regarding calculation, record and collection, in addition to lack of role played by internal control units regarding regular control over these revenues/fees.

II. Qualifications on Compliance Regarding Tax/Non-Tax Revenues & Receipts 2011

- Local tax/income tax, note (2)

The Bureau reached the following qualifications by end of field work through audit of income tax, 2011:

1. There was liabilities recorded on income taxpayers (dealers) according to the Tax information system 'SHA'AM', which was the result of an *absolute (final) taxes* per agreement with tax payers, absentia assessment(03, 04) and setting or parameters automatically recorded on taxpayers by 'SHA'AM' due to failure to undertake any kind of assessment, which indicates poor follow up procedures to liability of taxpayers. Thus, PNA was unable to realize development plans and objectives, and resorted to borrowing to cover the treasury deficit.
2. There has been inadequate follow up to collection of returned (bounced) *cheques*, where it was noticed that some cheques have been bounced for long periods of time, and all necessary procedures have not been taken against holder of those cheques.
3. Income tax departments made agreements with some taxpayers (dealers) to pay for previous years in installments without calculating delay fine and the installments interest, which encourages taxpayers' failure to pay tax on time, especially that such fines are an important tool to stress commitment.
4. Quittance (disclaimer) certificate and deduction at source certificates are released to taxpayers who presented Returned bounced cheques and failed to pay tax due and reconcile tax years that have not been assessed because of failure to present tax declarations.
5. Lack of supporting documents for assessment officer working papers, besides lack of fixed/consolidated standards for estimation officers when negotiating value of taxable income to use in estimates (assessments), as negotiations depend on officer's capacity and personal discretion.
6. Poor follow up procedures for taxpayers who ceased presenting tax declarations in 2011. Percentage of taxpayers in question is relatively high, plus the decrease of files considered and assessed, which badly affected collection and PNA capacity to fulfill economic and social commitments, compromised the Treasury and, in turn, led to financial deficit.
7. Balance sheets and financial statements are presented by taxpayers but unsigned by certified auditor, unlike provisions of property tax law, which raised suspicions regarding correctness of amounts stated in the financial statements.
8. Some audit divisions at tax departments failed to audit deduction reports (declarations), and ensure tax calculation and comparison of amount in question with what has been paid by taxpayers.
9. There were taxpayers who got investment exemptions and have not been assessed/reconciled with taxpayers. Legal measures have not been taken against taxpayers (dealers) with such exemptions who failed to present tax declarations, which impeded procedures

necessary to oblige them to present tax declarations and reconcile tax conditions.

10. There were blank agreements signed with taxpayers without filling the assessment declaration and minutes forms, which state value of taxable income and value of due tax.
11. Some taxpayers (dealers) have been given quittance (disclaimer) and deduction at source certificates without applications filed by taxpayers (dealers) to that end with all approvals from different divisions at the tax department to ensure there are not any commitments due on taxpayers, which encourages tax evasion.
12. Taxpayers (dealers) have been given quittance (disclaimer) certificates despite failure to pay tax and reconcile their files, which increases tax evasion and public funds waste, especially that those certificates are the tools to oblige taxpayers reconcile their conditions.
13. Some taxpayers have been recommended for quittance (disclaimer) and deduction at source certificates based on inaccurate (wrong) information given by deduction division and Tax assessment officer. Those certificates are also given as per personal pledges to reconcile tax conditions given by taxpayers.
14. Tax assessment officers failed to undertake field visits to action sites of taxpayers during legal term stating that at least one visit shall be undertaken every three years.
15. There were cheques received from taxpayers but have not been admitted into the collection system.

The aforementioned qualifications pose breaches to the income tax law, and related regulations/instructions.

- Tobacco & liquor excise/note (2)

The Bureau reached the following qualifications by end of field work through audit of tobacco and liquor excise, 2011:

1. Lack of a receipt committee for Banderole stamps (of some customs duties on tobacco and liquor) formed with a resolution from stakeholders, unlike the general supplies law 9/1998, article (29).
2. There are not technical specifications or control regulations for Banderole stamp shape to ensure protection against fraud, in addition to failure to include any technical specifications in tender documents for stamp printing.
3. Some customs officers positioned at tobacco factories are paid each month by those factories as an extra duty salary, without coordination with MOF and without written consent (conflict of interests).
4. There is not follow up to collection of raise difference in customs tariff due.

5. Customs statements for some tobacco import and manufacture companies have not been presented as per the customs system or application "Tawasoul", where there is not following up with stakeholders.
6. There are not effective controls for banderole stamps by MOF due to the following:
 - Banderole Stamps are printed without print or purchase order by the customs and excise department as per volumes needed, which compromises controls over printing and volumes printed.
 - Presses failed to print Banderole stamp rolls as per volume set for each roll, where fluctuation has been noticed in volume of stamps per roll, in addition to unusable rolls.
 - There is not segregation of duties between rolls procurement, receipt, collection, revenue delivery to companies and related records/warehouses management.
 - There were Banderole stamp rolls in possession of the customs officer at a local tobacco company that have not been recorded in registers, which occurred as a result of extra volume of rolls delivered by presses. The additional volume was not returned to customs and excise department.
 - There were damaged rolls received from presses and a local tobacco company that have not been recorded in registers.
 - Actual balance of rolls in warehouses did not match balance in books-register.
 - Banderole rolls were sold and delivered to companies, and related cheques were received without filling necessary forms and recording in registers.
 - A customs officer at a tobacco factory reported that there were cigarette packs with Banderole stamps stating different prices, some with no prices at all and stamps manually placed on some packs, which were torn off of other damaged packs.
 - Value added tax/Notes (2, 3)

The Bureau reached the following qualifications by end of field work through audit of value added tax, 2011:

1. Poor follow up procedures for collection of returned /bounced cheques presented by value added taxpayers (dealers), which badly affected collection to PNA treasury.
2. Returned/Bounced cheques are kept in provincial value added tax departments despite bounced for long period of time, without contacting the general department in this regard to follow up collection as per legal procedures.

3. Collateral cheques are accepted from some taxpayers, unlike terms set forth in the Palestinian financial code. Collateral cheques are not used for designated purpose in case taxpayers have not processed/reconciled outstanding issues in tax files.
 4. Some taxpayers (dealers) failed to present regular tax declaration statements, and taxpayers who ceased presenting these statements (high percentage) are not followed up.
 5. Failure to deposit clearance invoices in banks on regular basis.
 6. It has been found through Returned/bounced cheques count that a cheque of 2,066,632NIS has been lost and never retrieved to date of this report discussion with general VAT department, which indicates poor procedures followed to keep and process cheques, which resulted in loss of the aforementioned cheque.
 7. There are not serial numbers printed on the quittance (disclaimer) certificates released by VAT department, and there is not special log for certificates given to taxpayer, which made follow up difficult, in addition to increased risk of manipulation.
- Clearance revenues &deductions/note (3)
- The Bureau reached the following qualifications through audit of tax clearance revenues and deductions:
1. Poor follow up control for some Palestinian clearance invoices (P) in possession of Palestinian taxpayers, where tax due was deducted by Israelis in clearance sessions. Tax attributed to these invoices reached 1,489,718NIS, 2011.
 2. The Israelis deducted 561,779,936NIS off clearance revenues during 2011 for the benefit of Israeli National Electricity Company, due to failure of electricity distribution companies and local authorities to pay electricity bills, in addition to lack of direct control BY MOF over these deductions. MOF did not take any effective actions to reconcile these dues, which led to delay interest in huge amounts and incurred the Treasury great financial losses that affected capacity to fulfill obligations to various sectors.
 3. There have been tax differences as a result of Israelis' tax deduction from some Palestinian clearance invoices (P) in amounts greater than those declared by Palestinian taxpayers. Central clearance department has not contacted provincial offices in this regard.
- Municipal Own Source Revenues (property tax, operational licenses) /note (4)

The Bureau reached the following qualifications by end of field work through audit of property tax, 2011:

1. Failure to close some profession licenses on property tax application despite that all conclusion procedures and necessary documents were fulfilled.
 2. There has been difference in the 'profession licenses' item paid by businesses that share the same sector, which led to unfair fees collection and fee variation from one taxpayer to another.
 3. Lack of serial number for profession licenses on property tax software, and huge gap between license numbers given in some property tax provincial offices (licenses do not exist in software).
 4. Minister of finance has not approved the valuation/objection committee at the time.
 5. There have been objection applications accepted after expiry of legal term, taking into account that these application are not signed by members of the objection committee and do not have filing date. Valuation has also been decreased without objection application filed.
 6. Quittance (disclaimer) certificates have been given to taxpayers despite the amounts they owe.
- Revenues of central budget institutions/note (5)
State property leasing, 2011/note (5)

The Bureau expressed qualifications on revenues of the state property leasing due to the following reasons:

1. Database of state properties is incomplete and not updated to include all state properties leased and not leased, in addition to details on these properties. Moreover, management of state properties is jointly handled by Ministry of Transport, general state property department (Ministry of Finance), general state properties department (Land Authority) and Ministry of Endowment(Waqf), which affects accuracy and completion of leasing revenues.
2. Failure to review leasing contracts made during Israeli occupation era, where long time elapsed since these contracts were concluded, and rent value of some contracts is set in the discontinued Israeli Lira.

Absentees' property leasing, 2011/notes (5, 8)

The Bureau expressed qualifications on revenues of the absentees' property leasing due to the following reasons:

1. There are properties belong to absentees that have been handed to owners without collection of due debts by MOF before handover.
2. Failure to review leasing contracts made during Israeli occupation era, where long time elapsed since these contracts were concluded, and rent value of some contracts is set in the discontinued Israeli Lira.

Civil Defense fees, 2011/note (5)

The Bureau expressed qualifications on revenues of the Civil Defense due to the following reasons:

1. Poor coordination between Civil Defense and local government authorities regarding public health and safety licenses, resulting in approvals given to building, profession and craft licenses without fulfilling all health and safety requirements, in addition to failure to collect service fees completely.
2. Licenses given by Civil Defense are printed out through 'Access' software, where personal details are entered. However, the licenses do not have serial numbers, so there are not effective control procedures thereto.
3. The Bureau could not ensure accurate calculation of service fees due to failure to keep building schematics, based on which the health and safety licenses are given.
4. Incorrect calculation of some fees for high-rise buildings, public facilities and all crafts/industries/other professions, where calculation has been done unlike fees stated in the council of ministers resolution (م.و.س.ب/12/92/12), 2009.
5. Civil Defense failed to take legal measures necessary to collect due fees from some elevator companies, despite having elevators checked without collecting fees due for previous years.
6. Failure to keep carbon copies in payment slip books.
7. There is not financial auditor to audit revenues collected.

Archaeological sites fees, 2011/note (5) /other licenses (6)

The Bureau expressed qualifications on revenues of archaeological sites due to the following reasons:

1. There are 50 hotels operating without Ministry of Tourism classification as at 04/01/2015, unlike the tourism law 15/1965 and regulations thereto.
2. Internal control unit at the Ministry does not undertake any control activity regarding revenues of archaeological sites.
3. Poor follow up procedures for collection of financial dues (profession practicing licenses) from some tourist business, so this sector could not be regulated in terms of illegal practices of some business, with subsequent failure to completely collect fees of profession licenses.
4. Modes of action and procedures used to collect fees of archaeological sites do not guarantee fees collections from all visitors coming into these sites.

Revenues of Ministry of National Economy (gold examination fees, corporate registration fees), 2011/note (5)

The Bureau expressed qualifications on revenues of gold examination and corporate registration fees due to the following reasons:

1. There is not comprehensive, updated and approved database for goldsmiths at the general department for precious metals, which impedes follow up and control of some workshops and makes it impossible to know production volume, which provides the possibility to market some products without fulfilling necessary specifications, hallmarking and without fees paid.
2. Lack of executive regulations for the precious metals control and hallmarking 5/1998, which makes enforcement of some articles unclear.
3. Ministry of National Economy does not have comprehensive updated database for quarries, which includes numbers/details of each business in the sector. Lack of database led to ineffective follow up and regulation of natural resources search and mining, and collection of fees thereto.
4. Some quarries are operating without license, which brings environmental and health risks and leads to waste of fee amounts.
5. Failure to set bank reconciliations for accounts of revenues collected by the Ministry vs. the Ministry's collection application.
6. Precious metals hallmarking fees include just gold, where silver and other gems are not hallmarked and respective fees are not completely collected.

Revenues of postal stamps, 2011/note (5)

The Bureau reached the following qualifications through the audit of postal stamps revenues by date of field work end:

1. MOF failed to control revenues of the general postal authority, unlike the Palestinian financial ordinance, article (39)/paragraphs (4, 5), and respective amendments.
2. The Bureau could not ensure availability of control tools over stamps in possession of the Palestinian National Fund, Jordan.
3. There has been deficit in the custody of Ramallah and Jericho post offices, where amounts were withdrawn from revenues account to cover certain expenses, unlike the financial ordinance for ministries and public entities, 2005 and amendments, article (23)/paragraph (1). Therefore, actual balance of the stamp revenues collected has not been disclosed, and that caused deficit or surplus in the cashier's custody and lack of control measures over these custodies.

Revenues of court fees & traffic tickets, 2011/note (5)

The Bureau expressed qualifications on revenues of court fees & traffic tickets due to the following reasons:

1. Magistrate court of first instance, Bethlehem disposed receipt vouchers of traffic tickets up until March 2013 before expiry of legal terms set in the financial ordinance for ministries and public entities, article (12).

Civil department fees/petition clerks licensing fees, 2011/note (5)

The Bureau expressed qualifications on civil department fees due to the following reasons:

1. Failure to include name and number of bank account for petition clerks licensing fees in the deposit slip at banks, which led to deposit of some fees in another account. The Bureau could not undertake inventory count of amounts collected as MOF records revenues each month based on bank statement, so balance of civil affairs department fees account was unfair.

Revenues of Ministry of Agriculture/veterinary fees, 2011/note (5)

The Bureau expressed qualifications due to the following reasons:

1. Failure to collect fees set for paid veterinary vaccines as per law, as Ministry of Agriculture illegally decreased or increased vaccine prices.
2. There is no detailed list for paid laboratory examinations undertaken by the laboratory that shows farmers' name and number of examination fees receipt.
3. Record of intestinal poisoning vaccine handed to farmers in some provinces bears some deletion and modification. There is not data on some farmers, and the latter did not sign receipt documents.
4. Internal control unit failed to audit bank accounts, bank reconciliations and revenue collection during 2011.
5. A copy of financial receipt has not been attached to medical certificate release transactions.
6. Veterinary certificates and some other applications do not have serial numbers.

License fees, 2011/note (6)

The Bureau expressed qualifications on license fees due to the following reasons:

1. Many gas stations are operating illegally (not licensed), and the General Petroleum Authority does not keep files for some of them. Additionally, there are expired licenses that have not been renewed to date of audit end, so license fees disclosed in note (6) are incomplete.

Revenues of Ministry of Transport, 2011/note (6)

The Bureau expressed qualifications on revenues of Ministry of Transport due to the following reasons:

1. Poor internal control procedures for MOT revenues, where there are not revenue comparisons with stakeholders to acquire reasonable confirmation for accuracy.
2. The Bureau could not review many licenses and receipts due to bad archiving at Ramallah department warehouse.
3. Exemptions of personal license fees were given to some people in southern provinces, unlike provisions of presidential decree 18/2007.
4. MOT collected some fees with value higher than stipulated, unlike traffic law 5/2000, article (92).
5. Inaccurate license recording by the bank and traffic departments.

III. Qualifications on Salary/Wage Expenditures, 2011 'Note 13'

The Bureau expressed qualifications on revenues salary/wage expenses due to the following reasons:

1. MOF kept paying duplicated monthly salaries to some military and civilian staff imprisoned by Israel, without controls to stop this duplication.
2. Some advances have been exceptionally closed without supporting documents, which compromises transparency/integrity of spending on one hand and affects validity/fairness of financial statements presentation on the other hand.
3. The Bureau concluded to the following qualifications through the audit of contracts staff (Compliance of council of ministers resolution # 335/2005 provisional, unplanned or seasonal contracting)
 - Contract staff was hired unlike civil service law 4/1998 and amendments, article (27). Most of contracts made are not in agreement with provisions regulating provisional (temporary), unplanned or seasonal contracting, as per council of ministers resolution 335/2005 (purpose of contracting).
 - There has been variation from a ministry to another in amounts of contacts made to fill the same position. For example: a data entry employee has been contracted by MOF, 2011 at monthly salary of 1500 NIS, but a contract was made for the same position at another ministry at 2500 NIS.
 - Some ministries and government entities failed to observe deadline set to present annual need of local or foreign experts, and positions needed to undertake unplanned or seasonal actions for General Personnel Council (no later than October each year).
 - There is not job description for some 'expert' positions filled with contracts determining duties, responsibilities and terms thereto.

- Some ministries and public entities failed to provide General Personnel Council with all data, terms and experience that candidates of 'expert' position should fulfill.
- Some ministries and public entities renewed provisional employment contracts for some positions for more than two years in coordination with General Personnel Council, which disagrees with purpose on which the legislator depended upon approving procedures and terms of contracting, and incurs the Treasury great financial losses.
- Salaries kept paid for some deceased contracted staff, where ministries and public entities failed to take necessary follow up procedures.
- Some contracts have starting dates that precede concluding dates (retroactive dates).

IV. Qualifications on Compliance of Public Debt/Borrowing (Internal/External Loans & Overdraft Accounts, Loan Payments) 'Notes 10, 19, 20 & 22'

The Bureau expressed qualifications on borrowing due to the following reasons:

1. The public debt balance (as at 31/12/2011) is more than it was at end of 2010 at 1,159,444,000NIS (%16 raise), which leads to risk of inability to fulfill the debt and to incur additional liabilities (delay interest), subsequently adds further liabilities to the Treasury, and poses a violation against provisions of public budget law, 2011.
2. Implicit borrowing has been used in 2011 from the Palestinian Pensions Authority in order to finance budget execution, where the liability balance increased to reach around 3.5 billion NIS by end of fiscal year, 2011, a substantial increase at percentage higher than it was at beginning of year, unlike the public budget decree law 5/2011, article (4) on budget of fiscal year, 2011.
3. Borrowing agreements have been made with local banks during 2011 without council of ministers approval to some of which, or at least subsequent approval, taking into account that council of ministers resolution to authorize minister of finance to make/sign these agreements was given on 04/05/2011.
4. MOF allowed responsibility centers to overdraft zero expenses accounts at Bank of Palestine during 2011.
5. MOF raised overdraft ceiling from banks in 2011 without council of ministers approval.
6. MOF and General Petroleum Authority failed to recalculate interests on local/foreign loan accounts and overdraft accounts, but recorded

debt interests instead through bank statements, which impede error disclosure if occurred at banks.

Council of ministers resolution (م.و.س.ف/13/89/01)/2011 on authorizing minister of finance to enter into/sign such agreements has been given on 04/05/2011.

V. Qualifications on Compliance of Lending (Local Government Entities, Water, Electricity, Re-Lending), 2011 'Note 15'

The Bureau expressed qualifications on borrowing due to the following reasons:

1. The Israelis deducted electricity dues on local government authorities and electricity distribution companies from clearance revenues without a process regulating deduction, which drained PNA financial resources.
2. Some local government authorities and electricity distribution companies failed to pay amounts due to MOF for electricity deductions from clearance amounts due to lack of effective follow up to debt scheduling/collection. This increased financial liabilities on the Treasury and badly affected state's ability to fulfill obligations.
3. MOF failed to disclose electricity liabilities on local government authorities and electricity distribution companies recorded on Bisan software, as they are recorded using Excel sheets, which leads to inaccurate amounts shown in borrowing accounts (electricity).
4. Lack of detailed statement for debt scheduling agreements, 2011 with local government authorities, which led to poor follow up procedures, and audit procedures were proven difficult.
5. Local government authorities and some subscribers failed to pay amounts due to the West Bank Water Authority. Balance of accounts receivable for selling water to local government authorities through WBWA reached almost a billion NIS as at 31/12/2014, of which 68,771,131NIS in 2011, where the authorities failed to pay.
6. The Israelis deducted 175,207,343NIS from clearance revenues for water dues, 2011. MOF failed to record and follow up water dues on local authorities and some subscribers on Bisan software.
7. WBWA failed to communicate with local authorities to schedule water dues on some local authorities, where authorities for which debts have not been scheduled reached %45 of total authorities, despite the huge debts they incur up to the date of audit.
8. Some local government authorities failed to observe debt scheduling agreements made with WBWA.
9. There have been Returned /bounced cheques of 25,984,849NIS in possession of WBWA given by some local government authorities as

a result of the failure to observe debt scheduling. Subscriber services division at WBWA failed to follow up collection of these cheques.

10. The National Israeli Electricity Company provided electricity to some private sector electricity companies and normal people and deducted service amounts from clearance revenues, which formed indirect lending by MOF. The latter failed to take legal measures necessary to collect amounts due on these companies and people.

VI. Qualifications on Compliance of Petroleum Derivatives, 2011 'Note 18'

The Bureau expressed qualifications on petroleum derivatives due to the following reasons:

1. Lack of internal regulations, procedures and controls for actions of General Petroleum Authority, which means that actions are undertaken without organization and based on staff personal discretion, and leads to many shortcomings.
2. General Petroleum Authority failed to claim debts due on gas stations before 01/07/2003 (84,460,511NIS), as these debts were generated by MOF purchase of stations' indebtedness from the Israeli company that used to provide stations with fuel. Furthermore, balances of *liabilities due* on gas stations have not been transferred to the new software, as actions started at the time in zero balance for all gas stations.
3. Some liability balances have not been transferred on 01/05/2009 from the old accounting software 'Bisan DOS' to the new one 'Bisan Enterprise', which belong to some people, buildings, companies, factories and gas stations. MOF failed to follow up and collect these liabilities, where new liabilities were opened without reconciling old balances.
4. Poor controls over fuel volumes bought from the Israelis, where measurement of fuel received depends on fuel tanker gauge, and there are not meters to measure fuel when delivered at the Authority's Ni'lin tanks, which makes measurement of fuel received doubtful.
5. Lack of all control and protection means at Ni'lin tanks, where there are not gas valve locks and surveillance cameras for tank pressure gauges, pumps, scale and gas weight/pressure measuring monitors. There is not tanks insurance, and calibrations are not regularly carried out for pressure gauges and gas scale. Recommendations of the Bureau were taken into account at field work end.
6. MOF has undertaken deletion entries for bank transfers on Bisan software without ensuring availability of the deleted transfer amount (books), without complete signatures to deletion entries, without clarifying reasons of deletion and without all supporting documents to delete those entries.

7. Inaccurate and incomplete bank reconciliations for revenue zero-based accounts, where MOF records all deposits in zero-based accounts for expenses through an entry at the end of each month, in the total of credit transactions stated in bank statement for that month, then amounts are transferred to the general revenues account, without referring to revenue reports of responsibility centers and comparing them against bank statement and consider variations.

VII. Qualifications on Compliance of Bank Reconciliations & Accounts

The Bureau expressed qualifications on bank reconciliations and accounts due to the following reasons:

1. Letters of credit have been opened at local banks and customer pledges have been given for guarantees without finance minister approval. Thus, liabilities have been established on the Treasury in agreement with other stakeholders without previous consent of minister of finance, unlike the Palestinian financial ordinance for ministries and public entities, 2005 and amendments, article (115)/paragraph (3).
2. Poor controls over bank reconciliations, which brought substantial errors in cash, where internal control unit does not audit all bank reconciliations, besides the delay to prepare some bank reconciliations, failure to prepare some of them or prepare them just for comparisons. Additionally, bank reconciliations were not closed on monthly basis, introducing continuous modifications and lack of effective controls over outstanding items, which led to poor follow up thereto and affected correctness/fairness of cash, expenses, and revenues disclosed in financial statements.
3. Lack of coordination means between MOF and responsibility centers regarding bank accounts of projects, where bank accounts of some projects have not been recorded in Bisan software, so they were not disclosed in the financial statements, 2011.
4. MOF failed to provide the Bureau with some bank reconciliations selected as an audit sample. MOF also failed to provide the Bureau with some expenditures vouchers and entries asked from staff to be audited, as well as letters regarding opening/closing some bank accounts.

VIII. Qualifications on Compliance of Preparation, Execution & Supervision of 2011 Budget

The Bureau expressed qualifications on budget preparation, execution & supervision due to the following reasons:

1. Introduction of responsibility centers into Bisan software that are not accredited in the law budget for 2011, which indicates poor control procedures over budget admission into Bisan.
2. Failure to disclose some responsibility centers in note (1.2.1) that presents components of the final accounts, even though there are financial allocations in the general budget law, 2011.
3. Budget Transfer Vouchers (varmint) have been done among chapters of the original budget without fulfilling all necessary approvals, and without explaining why. Thus, these transfers are illegal as they have not been approved by the legislative.
4. There has been a breach to ceiling of final budget allocations approved for spending in millions for some responsibility centers, plus the amplification of allocations approved in final budget with substantial amounts, where MOF attributed that to Budget Transfer Vouchers (varmint).
5. Failure to disclose development expenditure for each responsibility centers in the 2011 budget, where the general budget law, 2011 has not set development expenditures at responsibility centers level. The expenditures were presented in budget as total amount, taking into account that the general budget law, 2011 incorporates project proposals without respective allocations, unlike the budgeting law 7/1997, article (32), resulting in the Bureau's qualification on development expenditures.
6. The 'development expenditures' item for each responsibility center has been entered into Bisan software without determining means/standards used to set these allocations, resulting in the Bureau's qualification on development expenditure.
7. Spending has been carried out from financial reserves and public spending provisions for expenses that do not fit the nature of the provision.
8. Invalid transfers for some Budget Transfer Vouchers (varmint), where transfers were done for cases other than those stated in the decree law 5/2011 on the general budget for fiscal year, 2011.

IX. Qualifications on Compliance of Expenditures Other Than Salaries (Operational Expenditures, Transfers Expenditures, Capital Expenditures)

The Bureau expressed qualifications on expenditure other than salaries (operational expenditures, transfers expenditures, capital expenditures) due to the following reasons:

1. MOF spent from transfer expenditures provisions in 2011 for (social benefits) expenditures which are not in agreement with nature of transfers expenses, and without approval of social affairs minister.

Spending has been done for plane tickets, travel missions, rentals, social benefits and medical treatment for staff of MOF and other ministries.

2. Spending has been carried out for some expenses without complete necessary supporting documents, unlike Palestinian financial ordinance for ministries and public entities, 2005 and amendments, article (55)/paragraphs(a, b), which impedes confirmation of spending process.
3. Some development and transfers expenses have been spent as advances, not current expenses.
4. MOF exceptionally closed some advances during 2011 despite lack of corroborating documents, so confirmation of activities for which advances were spent was not possible.
5. There has been variation between amounts spent by MOF for damage/destruction reimbursement on one hand, and amount estimated by Ministry of Public Works on the other hand.
6. Failure to observe allocations approved in budget to procure some lands/real estates, and failure to observe decisions of valuation committee and valuation amounts, where a building has exceptionally been bought with a price higher than valuation (419,351USD), which made the Treasury incur amounts higher than fair value of estates.
7. Expenditures have been disbursed for people and government entities/staff from the 'responsibility centers' item vested in and managed by MOF (financial reserves, contingency expenses, development expenses) without legal basis or clear standards, which led to mismanagement of those accounts and poor execution of general budget.
8. Lack of control and clear standards upon selecting NGOs and unions supported by the general budget, in addition to lack of clear standards/instructions to determine eligibility for government support. The applicable financial ordinance, article (66) has been violated regarding means of support for NGOs, where total amount spent on NGOs and unions, 2011 reached 25,052,770NIS over 179 NGOs, taking into account that the general budget law, 2011 allocates only 8 million NIS for that purpose.
9. Some spending processes have been undertaken unlike provisions of the general supplies law 9/1998 and respective regulations, regarding failure to invite to tenders or acquire quotes, so procurements were done without observing competition basics and without getting the best quotes.
10. Some expenses have been disbursed without complete necessary signatures and approvals for some financial claims, so controls over spending were poor. Some claims have not been signed by staff who

set, approved and reserved the budget, as well as the program manager. The ones who prepared and approved bonds were the same person.

11. Rewards have been disbursed to a head of an institution at 20,000 USD for attending meetings of the board of directors, without an agreement regulating reward value or legislative basis for calculating the amount per meeting.
12. Spending has been done from the 'social benefits' account, Ministry of Social Affairs for cases that failed to prove eligibility, but spending was done with an exceptional approval by former Prime Minister.
13. Rentals have been covered for some ministers over the ceiling set by the Palestinian financial ordinance for ministries and public entities, 2005 and amendments.
14. Palestine Broadcast Corporation spent from deposits account outside the public general budget, unlike budgeting law 7/1998, article (11.6).
15. Palestinian Water Authority carried out direct procurement without the council of ministers approval, in addition to lack of manifests of vehicles filled with petrol from PWA own tank.

X. Qualifications on Compliance of Information Systems

1. Through the Bureau's audit of subsequent events and Data migration of taxpayers' (dealers') data from the old Israeli tax management 'SHA'AM' and 'PATEX' software to the new consolidated Revenues Management System (RMS), it has been observed that some taxpayers' data on RMS are not accurate, besides lack of accurate reconciliations, due to malfunction in data transfer process from 'SHA'AM' and 'PATEX' systems to RMS.
2. Lack of computerized systems for revenues of Ministry of Agriculture, which furnish reports on services provided, and there are not detailed reports showing all kinds/amounts of revenues collected by the Ministry. The latter failed to present these comparisons and reasons/solutions of (differences).
3. Revenues of some ministries and public entities are recorded using several unreliable software, so ability to access and alter database is compromised, which affects accuracy and completeness of procedures.

Qualified Opinion on Compliance

In our opinion, except the qualifications above , as stated under the 'Basis of Qualified Opinion on Compliance', in all material respects the activities and transactions contained in the PNA financial position as December 31, 2011, and financial performance in the financial status of PNA stated in "Statement of Comparison between Budget and Actual" and "Consolidated Statement of Cash Receipts and Payments" and the 'detailed statement for all budget items included in the receipts/payments statement' are in compliance with the regulating laws which govern them.

Counselor Eyad Tayyem
President
State Audit & Administrative Control Bureau

Ramallah
30/12/2015