



State of Palestine

State Audit & Administrative Control Bureau

Executive Summary Annual Report 2015

**Control & Audit for Construction, Development
& Good Governance Enhancement**

SAACB Strategy

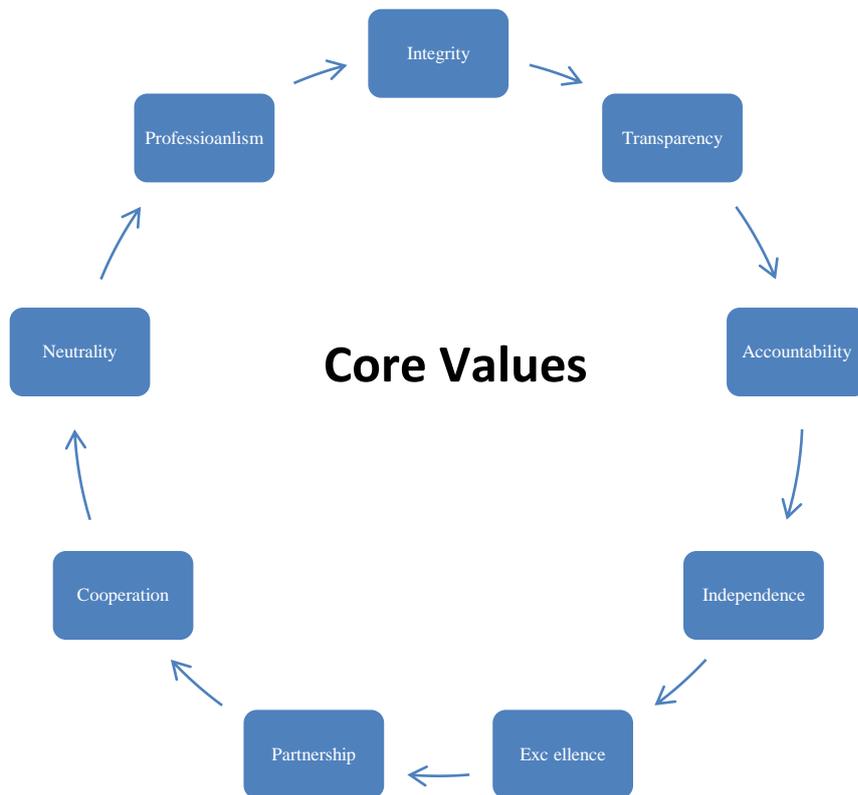


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Preface

We are pleased to present the annual report of 2015, which contains key achievements and outcomes of actions undertaken, driven by legal jurisdiction and based on powers and tasks vested by law 15/2004. Performance of duties is as provided by amended Basic Law of Palestine, article 96, as part of endeavor to safeguard public funds and promote performance, which in turn would bring comprehensive development and ensure public interest.

The report includes key output of 2015 (observations, violations of audited entities) reached by the audit of 121 entities, follow up 326 complaints/issues raised, technical support to audited entities (legal, accounting) and enhance internal control systems. The report has been presented with due professional care, and recommendations/constructive proposals have been given in order to improve performance and for better services to the Palestinian people.

Ensure proper financial administrative actions and proper use of public funds in designated purposes, prevent public fund misuse and control all disposal aspects are among essential goals the Bureau seeks to achieve, so this necessarily requires clear framework and features of the Bureau's relation with audited entities, which adopts a new approach based on constructive cooperation and error correction.

It has been evident for the Bureau the increasing interest by the partners (audited entities, the Palestinian people, civil society organizations) in audits it undertakes, which supports law enforcement by observation of recommendations (%60), and enhances national loyalty and citizenship through confidence in the Bureau's output and effectiveness. It actively seeks to increase trust, integrity, credibility and proper use of public funds, and keeps distance from all public administration components and the public, which makes the reports the mean of correction through findings and recommendations presented.

Our people's aspiration for freedom is as important as keenness and determination for the state of law and institutions. This is where the important role played by the Bureau comes; to follow up public action systems, prevent errors, reveal defects, take precautions to prevent misstatements and establish integrity, transparency and accountability of public funds management. All of which would reinforce structures/institutions of the state and society, in cooperation with all partners, to increase trust of the public and various stakeholders in public performance, and increase national responsibility towards public fund safeguard, ongoing performance improvement and ultimate quality and efficiency.

Volume of work undertaken by the Bureau is not proportional with the great number of audited entities, especially in NGOs and local government sectors, and if we took into account the fact that the Bureau has only 70 auditors. Nevertheless, the Bureau could attain excellent audit/control achievements, as it attempts to develop auditors' skills, performance control in particular, in order to help audited entities exploit their resources economically, and to bring goals with less cost possible, taking into account the severe financial crisis (increased spending, social liabilities), not to mention scarce financial resources, budget deficit and limited resources in general.



Undertaking these tasks and responsibilities requires hard work and continuous follow up of the best and latest academic methods and best professional practices, keenness to make use of them and keep up with the latest in financial, regulatory and performance audit through participation in events held by specialized regional/international entities, all to acquire further professional experience/knowledge, build institutional capacity and enable technical staff apply the best professional methods effectively.

As the Legislative Council is still inactive (failure to undertake control actions and follow up reports/recommendations) and out of keenness to achieve audit objectives, the Bureau has made exceptional effort to follow up recommendations through preventive control, which help anticipate upcoming events and set necessary methods accordingly for handling and overcoming aspects of institutional performance weakness. Additionally, all cases involving corruption and public funds misuse have been referred to courts according to due procedures, in order to reduce financial crimes/violations and eliminate aspects of financial/administrative corruption.

Mr. President always asserts maximum importance of the role the Bureau plays as a substantial good governance foundation, and the need to establish its position and ensure independence to enforce provisions of law. Mr. President has set empowerment of the Bureau as a top priority, as well as observing needs and securing resources with due care and respect.

We have a clear vision ahead; to be a typical and esteemed audit institution with quality outcomes that helps realizing good governance, so the Bureau would be able to win a prestigious status among state audit institutions by adopting advanced modes of action in agreement with international standards/practices.

Based on powers vested in me by law, it's my honor and pleasure to present the annual report, 2015, hoping it would help decision makers adopt recommendations and take necessary corrective measures, which would help us achieve good governance.

Finally, I would like to extend sincere thanks and appreciation to the Bureau staff, who set and produced this report with faith and professional commitment, which reiterates great enthusiasm to contribute to better future, continuous development and enhanced status among SAIs regionally and internationally. It should be emphasized that interest must be directed to independence of the Bureau according to INTOSAI standards, to support role it plays in accountability, transparency and public fund protection.

'And say: Do as you will. Allah will observe your deeds, and (so will) his Messenger and the believers' - At-Taubah, 105

Respectfully Yours,

**Counselor Iyad Tayyem
President
State Audit & Administrative Control Bureau**

Introduction

The annual report, 2015 is published as provided by law 15/2004, article 8, stating that the Bureau shall present annual reports to President of the State of Palestine, the parliament and council of ministers.

The report intends to ensure appropriate financial actions, proper use of public funds, optimal effectiveness of spending and observation of internal/external laws and regulations, all within standards of economy, efficiency and effectiveness to bring the greatest performance quality possible. Additionally, unbiased professional opinion on audit findings has been expressed on basis of professional standards, so the audit would realize transparency and integrity in public performance, and enhance credibility and trust in financial/administrative/economic policies of the State of Palestine.

The report is essential as a tool for accountability and correction of audited entities. The Bureau provides administrations with information on effective execution of different audits, and shows degree of commitment to internal control system. In general, the report enables decision makers at official institutions and audited entities determine deviations, analyze strengths/weaknesses, reveal actual conditions at state institutions and highlight problems/misstatements that impede proper institutional performance and building, together with recommendations and directives that help fix deficits, bring financial discipline and support preventive measures to fight corruption and support national/social responsibility (public funds safeguard, performance improvement).

The report also aims at ensuring free exchange and flow of information, so information on institutions, with transactions and accounts, would be available to stakeholders without restrictions, which provides comprehensive adequate information to enable them follow up, control and ensure credibility of output. The report depended on data and information taken from reports set by field audit teams during 2015. Information was sorted, categorized and analyzed according to the best international practices through an updated academic methods.

The report consists of three chapters as well as appendixes. **Chapter (I)** presents audit themes selected. **Chapter (II)** has been divided into seven sections:

1. Final Accounts, 2011.
2. Key findings of regulatory audits at entities by sectors, key recommendations to correct performance.
3. Key findings of performance audits.
4. Financial impact of audit findings, amounts wasted from State of Palestine's Treasury, NGOs and local government entities.
5. Response of entities to reports given by the Bureau.
6. Cases with corruption suspicions.
7. Follow up of recommendations.

Chapter (III) deals with key non-audit achievements/activities (institutional building, capacity development, public relations, internal resources).

The report has been set with integrated effort by the Bureau's staff, and according to international standards/instructions. The Bureau always accepts observations and suggestions that help develop and support audits at Palestinian institutions, and reach the state of institutions and law.

Annual Report

Executive Summary

2015

The Bureau presented the annual report, 2015 pursuant to law 15/2004, article (8): **‘President of the Bureau shall present annual report or report upon request containing actions and observations to Palestine National Authority President, Legislative Council and council of ministers. President of the Bureau shall provide Palestine National Authority President, Legislative Council and council of ministers with any data, information, studies or researches asked, and shall undertake any actions they assign. The annual report shall be published in the official gazette’**. The report has been also given driven by the Bureau’s commitment to present data and information on actions undertaken to enhance transparency and accountability.

Data and information contained in the report have been reached through audits at entities, and professional opinion was expressed according to public sector international audit standards, INTOSAI standards and ARABOSAI standards, taking into account observations brought by audited entities’ responses to reports given in 2015.

The reports handles all key financial/administrative observations mentioned in other reports on sectors of economy, social/cultural services, infrastructure, governance/security, local government and NGOs.

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The Bureau has given 118 reports in 2015, with 3 environment audit reports. The Bureau was present at 348 bidding sessions, and received 360 complaints, of which 321 complaints (%89) have been followed up by legal affairs department in cooperation with audit departments in question. Cases referred to Anti Corruption Commission in 2015 reached 27.

Regarding direct financial impact, audits undertaken at entities disclosed substantial financial misstatements resulted in wasting 19,314,951 USD from the Treasury of Palestine, 895,409 USD from local government authorities and 105,944 USD from NGOs. Financial impact that could be retrieved if the Bureau’s recommendations are observed and legal actions are taken will reach 57,097,402 USD.

Key financial/administrative misstatements and observations, public issues disclosed by audits that involve legal violation in general or incompetent management or public fund waste at audited entities were taken from audit reports given in 2015, and sorted out by the following audit sectors:

I. Economy

The economy sector in Palestine has been audited in 2015 (Ministry of Finance with respective departments, related ministries, Palestine Investment Fund with subsidiary companies), where 9 reports were made. **Key audit findings are as follows:**

1. The Bureau expressed qualifications on financial statements of Palestine National Authority (final accounts), 2011 due to poor adherence to policies, procedures and standards that govern organization/presentation of financial statements and accounts. Major qualifications include Ministry of Finance correction of errors and variations in accounts and balances, 2011 at very high substantial values exceeding one billion NIS, besides many financial qualifications and compliance qualifications on laws/regulations regarding revenues, bank accounts/reconciliations, expenses, grants, donations, budget, public debts/loans, petroleum derivatives and salaries.
2. Grand Park Hotels & Resorts Co. Ltd was uncertain about ability to continue business (lack of confirmations and guarantees), as it concluded subcontracting agreements without feasibility studies, causing financial losses to some subcontracted projects. The Company has not adopted clear vision when selling old assets of the hotel.
3. Poor management and regulation of electricity sector, in addition to insufficient internal control procedures that render performance ineffective. This was evident through audits undertaken at the Electricity Sector Regulatory Council, Hebron Electricity Company and South Electricity Company:
 - Poor follow up by the Electricity Sector Regulatory Council to collect revenues due for operational licenses of electricity distribution companies, where total due revenues, 2014 reached 4,060,042 NIS, of which only 656,602 NIS have been collected. The board of directors also violated legal provisions regarding regular meetings and reporting to responsible authorities:
 - In 2014, Hebron Electricity Company kept monthly payments to Hebron Municipality without controls, which badly and greatly affected Company's capacity to pay bills each month to the National Electricity Company. The Company failed to present tax declarations and reconcile taxes for fiscal years from 2005-2014, as well as poor actions taken by the Company to collect due accumulated amounts on subscribers.
 - Lack of good governance and management has been observed in South Electricity Company, 2014 at 28,627,392 NIS, whereas deficit accumulated since the Company established until end of 2014 reached 59,395,327 NIS. An increase of electricity losses (%36) has been observed. The Company also transferred amounts from its accounts to shareholder municipalities without profits that can be distributed.
4. Ministry of Finance deducted 7,226,492 NIS for Palestinian cell phone bills due on Ministry of Finance staff during clearance process done between them, and exceeding ceilings adopted by finance minister for some staff. It has been found that some staff do not have financial ceiling adopted by finance minister to cover JAWWAL cellular phone bills they have, for which amounts have not been deducted until date of audit. Besides, Ministry of Finance spent on other

responsibility positions from Ministry of Finance account, and Ministry of Finance managers use government vehicles in way violates council of ministers decision in this regard (after hours, to and fro home) despite they are paid fixed transport allocation.

- 5 Contract staff was hired unlike civil service law. Most of contracts made are not in agreement with provisions regulating contracting, as per council of ministers resolution.
- 6 Substantial variations (deficit) have been observed in balances of some petroleum derivatives at the General Petroleum Authority, especially between actual balance and ledger balance recorded in Bisan accounting software.

II. Governance (civil, security)

The governance audit department gave 21 reports in 2015 as a result of audits undertaken at security sector (sovereign ministries, security agencies, courts). **Key audit findings are as follows:**

- 1 Poor internal controls at courts that led to revenues misappropriation, where it has been found that 4 employees at some courts misused position to manipulate receipt vouchers used to collect fees and fines.
- 2 Borders and crossings department has not received tickets and receipt books with entry vouchers, unlike financial ordinance.
- 3 Responsibility positions at the Prime Minister office has been included in the annual budgeting law, which violates the Palestinian Basic Law.
- 4 Some borrowing instances violated law provision stating that entities that could be lent shall be limited. Budget of these entities fall in the general budget, and they are considered government entities or entities within projects of lending institutions.
- 5 Poor management for service years calculation of Palestine Liberation Organization staff, where it has been found there is not an entity to refer to regarding letters of accreditation, which state that a person has joined the Palestinian revolution before, as well as some inaccurate and unreliable corroborating documents. Furthermore, all decisions given by the service years calculation committee were considered illegal due to lack of quorum, as provided by code 20/2008.
- 6 Many audited entities failed to set a register for government vehicles.
- 7 Prime Minister office disbursed assistance to patients with coordination with Ministry of Social Affairs and Ministry of Health as competent entities.
- 8 Poor warehouse management at some security agencies in terms of use necessary records/forms approved.

III. Social & Cultural Services

The social and cultural audit department gave 16 reports in 2015 as a result of audits undertaken at social and cultural services sector. **Key audit findings are as follows:**

- 1 Ministry of Health has revenues that have not been deposited in the general revenue account, where some expenses are covered from there, unlike provisions of the Palestinian financial ordinance.

- 2 Poor observation of laws, regulations and instructions regarding hajj seasons, especially Waqf and Islamic affairs law 26/1966 and amendments, and code 142/1966 and amendments. Some hajj security-deposit amounts were used to cover other expense for the Ministry. Persons have been accepted for hajj (2014/1435 AH season) as special cases without clear approved standards to regulate selection of such cases. Poor regulation necessary to manage pilgrims accommodation.
- 3 Medical referrals committees failed to consider medical files and final vouchers, and failed to ensure proper complete procedures and proportion of value of vouchers given by hospitals with service provided to patients.
- 4 Services provided by hospitals suffer great pressure, the bed-to-doctor ratio decreased and the nurse-to-doctor ratio went down too, which indicates poor organization and distribution of medical staff. Shortage of medical equipment and lack of necessary maintenance on time at some hospitals.
- 5 Rewards have been disbursed to members and supervisors of bidding committee, Ministry of Education, unlike general supplies law.
- 6 School donations are used to cover some operational/development expenses of MOE, unlike spending items determined by the school donation collection code.
- 7 The high committee for non-Palestinian certificate equivalency, MOE accredited lots of diplomas despite the lack of attendance and residence conditions. Lack of clear method to calculate term of attendance and residence by the high committee for non-Palestinian certificate equivalency, especially for universities whose regulations do not require attendance in order to grant PhDs.
- 8 Poor financial/administrative regulations at Palestine Technical University (Khadouri) regarding advanced given from revenues, calculation of after-hours, employment process on daily-paid basis, direct employment of sons/relatives of some staff.
- 9 Orphan cases have been approved by Ministry of Social Affairs unlike conditions of guarantee, and spending for orphans who were discharged off guarantee due to age. Lack of determined and approved conditions/standards for orphans project, MOSA, causing errors upon determining beneficiaries and term of project.
- 10 There are some public servants who have full time jobs at ALQUDS University. Likewise, public servants who work half-time at the same university failed to obtain consent from their government departments.

IV. Infrastructure

The infrastructure audit department gave 13 reports in 2015. **Key audit findings are as follows:**

- 1 SAACB showed qualification to expression of financial opinion regarding financial statements of Ministry of Telecommunications and Information Technology revenues, 2014 due to a plus variation at 592,568.9 NIS between revenue records and license manifest of 2014, in addition to a minus variation

at 1,485,185 NIS between revenue report of population registration stamps, 2014 and trail balance.

- 2 SAACB refrained from expressing financial opinion on financial statements regarding MOT revenues, 2011 due to limited evidence regarding variation of revenues.
- 3 Civil servants have been seconded to projects financed by donors and undertaken at government entities unlike law.
- 4 Absence of approved investment policy at the Palestinian Road Accident Victims Compensation Fund, where the management only deposits surplus cash at banks.
- 5 The cost of living allowance has been unduly disbursed for some reporters abroad, as a result of lack of coordination beforehand with the General Personnel Council, along with lack of follow up by Ministry of Finance to closure procedures for respective advances.
- 6 The Employment & Social Protection Fund violated council of ministers decision (م.و.ر.ح/16/27/06), 2014 on termination of contracting with retired civil servants.
- 7 Ministry of Transport failed to observe provisions of traffic law 5/2000 and respective regulations, as well as procedure manual approved to organize actions of car rental companies, driver licenses and vehicle licenses.
- 8 Palestine Broadcast Corporation failed to use available resources optimally (human, logistic) upon execution of some TV shows produced by media production companies. Non-closed financial advances are not settled with poor follow up procedures to collect revenues due.

V. Local Government

The local government audit department gave 37 reports in 2015 as a result of audits undertaken at municipalities, local/village councils, project committees and joint service councils. **Key audit findings are as follows:**

- 1 Defect in accounting system and lack of accounting cycle at some local government entities, especially regarding control/recording of revenues and accounts payable/receivable.
- 2 Some local government entities have unreliable accounts due to lack of necessary corroborating documents and accounting cycle.
- 3 Suspected manipulation and fraud of statements/records of some local government entities, which intend to hide financial deficit or misuse of financial variation for personal interest.
- 4 Suspected fund misuse at some local government entities, especially by mayors and members.
- 5 Many local government entities failed to observe laws, regulations and instructions governing spending. Also, there has been lack of adequate spending-related corroborating documents. Some supplies/services procurements are made without invitations to bidding or quotes.
- 6 Some local government entities spent for items not regarded among legal spending themes, without budget allocations and without approval from Ministry of Local Government.

- 7 Many local government entities neglected to collect revenues/fees according to powers vested by law, especially fees of billboards, crafts and building licenses.
- 8 Increased indebtedness to national electricity company as a result of failure of many local government entities to pay electricity bills, which incurred them huge amounts as delay penalties.
- 9 Increased losses percentage in water and electricity projects at many local government entities.
- 10 Some mayors and local entities members misused position to bring material/moral benefit.
- 11 Poor administrative organization at some local government entities, and overlapping of powers/responsibilities.
- 12 Poor warehouse management at most of local government entities.
- 13 Transparency and integrity were not observed for many recruitments, promotions and allowances at some local government entities.
- 14 Absence of planning at some local government entities necessary to determine development projects, execution priorities and fair distribution to all geographical regions within local entities' boundaries.
- 15 Some local government entities bought and acquisitioned lands/real-estates without following all legal procedures.
- 16 Lack of protected accounting systems and database mainframes at some local government entities.

VI. NGOs

The NGOs audit department gave 22 reports in 2015 as a result of audits undertaken at NGOs. **Key audit findings are as follows:**

- 1 Competent ministries failed to undertake all follow up NGOs tasks/responsibilities vested by association law 1/2000 and executive regulations.
- 2 Several financial/administrative violations at the Palestinian Center for the Independence of the Judiciary and Legal Profession (MUSAWA) in the fiscal year, 2013. Competent authorities have been communicated to correct these misstatements, where the Bureau received replies from entities reached, such as the Anti Corruption Commission, which stated that corruption suspicions do not exist. However, this does not mean there are not violations at the Center, which need to be addressed and corrected.
- 3 Defect and inaccurate calculation of salaries at some associations.
- 4 Some boards of directors failed to undertake tasks/responsibilities vested by their statutes and association law, besides disbursing amounts to board members without legal basis.
- 5 Financial statements do not fairly show financial position and cash flow of some associations.
- 6 Some NGOs failed to include foreign donations in final accounts.
- 7 Poor financial/administrative organization and internal control procedures at some NGOs.

- 8 Failure to observe internal regulations and effective instructions regarding inclusion of all corroborating documents for spending.
- 9 Salaries, paid vacations, overtime and loans have been spent for some staff, and without adequate corroborating documents to prove eligibility.
- 10 Poor internal control regulations over revenues of some NGOs, evidenced by failure to observe procedures and instructions, inaccurate recording and insufficient deposit in the main revenue account.
- 11 Suspected conflict of interest, credit misuse and violation of funds/assets at some NGOs.
- 12 Poor control procedures over bank accounts and reconciliations, and inaccurate balances disclosed in financial statements.

VII. Legal Affairs & public Complaints

The Bureau received 360 public complaints in 2015, which included public complaints on violations and negligence of public duty performance, in addition to reports published by the media on negligence, misuse of position and mismanagement, of which 321 complaints have been followed up (%89 of total complaints received).

The legal affairs and public complaints department and competent audit departments followed them up as per subject and nature, where related and competent entities have been communicated regarding the follow up findings. A number of reports has been released as appropriate, others were referred to the Anti Corruption Commission as they contained corruption suspicions.

76 legal consultations have been offered, and observations were presented to council of ministers general secretariat regarding 16 draft laws and resolutions of different ministries.

VIII. Tenders

The Bureau participated in 438 tender meetings at the central bidding committees as an observer in 2015, and they included Ministry of public Works, general supplies department, local government entities and various state departments. Key observations are as follows:

- 1 Ministry of Health failed to choose the cheapest item, based on unclear technical committee reports.
- 2 Central bidding department violated conditions of tenders and specifications for determining brand names to be supplied, unlike provisions of public works law 6/2009, article 5.
- 3 Ministry of Tourism and Antiquities has been found in violation of law 6/1999 on government works bidding in terms of determining percentage of bidding admission guarantee and formation of bidding committees (shall include head of committee and the undersecretary), in addition to violation of regulations set in law1/1999 regarding specifications of the bidding box, as the latter does not meet required purpose.

Recommendations

The Bureau intends to enable management of audited entities to observe audit findings and take proper corrective measures to raise effective and transparency of public performance, all to follow laws, regulations and decision applicable in Palestine, and in agreement with SAI international standards. The Bureau recommends the following proper and effective measures in order to address all violations and observations mentioned in this report:

1. Ministry of Finance shall set final accounts of the State of Palestine with high professionalism and quality as set forth in law, so it fairly expresses financial status of Palestine according to terms set in law.
2. All audited entities shall observe the following:
 - Provisions of applicable laws and regulations.
 - Address and correct all violations/observations included in the report to raise public performance and bring declared objectives.
3. All audited entities and stakeholders shall follow up retrieval of all funds lost from entities referred to in this report, which have been found throughout course of audits undertaken.
4. Effective, reliable and enhanced internal control systems shall be completed.
5. All competent entities shall enforce accountability procedures against violators of public funds.
6. Good governance for electricity sector management shall be enhanced to ensure well-functioning and optimal use of resources.
7. Sufficient controls for public revenues management shall be increased and enhanced.
8. Competent ministries and boards of directors shall follow up, supervise and control NGOs.
9. Petroleum warehouses, Ministry of Finance, shall be controlled and regulated to ensure efficient operation.
10. Capacity of local government entities shall be increased to enable them undertake actions at very high quality away from conflict of interest and misuse of position.
11. Transparent management of hajj shall be observed through clear adopted procedures/criteria.
12. Transparency and integrity shall be ensured upon appointment, promotion and allowance award procedures, in addition to follow up official hours and prevent professional duplication.