



State of Palestine

**State Audit & Administrative Control
Bureau**

**Executive Summary
Annual Report
2014**

**Control for Development & Good Governance
Enhancement**

Vision

Typical and prestigious state audit institution that contributes to good governance enhancement.

Mission

Effective audit over public resources according to the best practices, and reporting to stakeholders to ensure accountability and transparency.

Core Values

Integrity

Transparency

Impartiality

Accountability

Cooperation

Independence

Professionalism

Excellence

Partnership

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Foreword

The role played by State Audit and Administrative Control Bureau is substantial to guarantee proper financial/administrative actions and appropriate use of public funds for designated purposes, and prevent misuse of public funds. Besides, it controls all aspects of professional conduct according to mandate and powers vested by SAACB law 15/2004, and a reflection of the Palestinian Basic Law (article 96).

The Bureau seeks sustainable improvement of performance through highlighting weaknesses and gaps that impede institutional progress, and to set solutions/suggestions to overcome, which brings and promotes transparency and integrity of public performance, as well as increased credibility and trust in financial/administrative/economic policies of public institutions.

The Bureau identifies entities and themes to be audited according to legal mandate, on basis of risk assessment at these entities and relative importance of audited components to reduce negative impacts brought by those risks. This is done through identification, analysis, measurement and categorization according to priorities and importance. Complaints, whistle blowing and issues affecting service provision are also taken into account in audit planning.

Audit undertaken by the Bureau intends to ensure that actions and procedures are according to laws, regulations and codes, and that recommendations/suggestions are made to address existing problems in order to avoid recurrence, so objectives would be realized and performance would be improved without the need to look for mistakes.

The Bureau gives out reports according to best international practices, especially standards set by the International Organization of Supreme Audit Institutions (INTOSAI), so reports produced are objective, with clear targets, constructive and contribute to state institutional stability and development.

Releasing audit findings to stakeholders and decision makers is a key objective for the Bureau, as this would increase recommendations follow up and promote audit culture at audited entities. This will support preventive measures meant to avoid misstatements, and enhance national responsibility towards public funds protection and performance improvement.

The Bureau seeks well-established professional future that constitutes the starting point for public performance promotion, in cooperation with all partners, in order to fight all kinds of financial/administrative corruption, and increase honest, transparent and accountable management of public funds which, in turn, supports confidence of the public and different stakeholders in performance of the Executive.

According to powers vested by law, I am pleased to present the annual report of 2014, with hope it would enable decision makers to turn recommendations into enforceable decisions that help draw policies capable of confronting challenges.

Respectfully Yours,

Counselor/Eyad Tayyem

President

State Audit & Administrative Control Bureau

Introduction

The annual report of 2014 is given out as stated by provisions of SAACB law 15/2004, especially article 8: '**President of the Bureau shall provide president of Palestine National Authority, Palestine Legislative Council and council of ministers with an annual report, or whenever requested, about actions and observations. The Bureau shall provide president of Palestine National Authority, Palestine Legislative Council and council of ministers with any data, information, studies or researches they request, and shall undertake any other actions tasked. The annual report shall be published in the official Gazette**'.

The report aims at presenting findings, key observations on audited entities according to vested mandate and recommendations. The report shows that state institutions performance is consistent with applicable laws, regulations, codes and resolutions, discloses financial/administrative deviations and suggests approaches to address and avoid them in the future.

The Bureau is a key foundation of good governance, as professional reports given out reflect the Palestinian democratic system, which consequently contributes to:

- Balanced discharge of responsibility.
- Hold the government and audited entities accountable for legal and responsible use/management of resources.
- Realize objectives set efficiently, effectively and reasonably.

Hence, the report is seen as an important tool to enhance credibility, confidence and transparency of institutional financial/administrative policies and raise efficiency of institutional performance, as it helps decision makers and different administrative levels to modify policies and take corrective decisions to address weaknesses, and promote Palestinian general policies.

The report is divided into three chapters; **first** of which shows key substantial findings reached at entities audited in 2014, summary of cases that involved corruption suspicions referred to Anti Corruption Commission to finish investigation, direct financial impact of actions, amounts lost from Palestinian treasury/NGOs/local government entities and key recommendations for performance improvement. The **second** chapter discusses synopsis of audit reports by sector and feedback. Chapter **III** talks about prominent achievements and actions nationwide and worldwide.

The increasing interest by partners, audited entities, the Palestinian people and civil society institutions in various audits delivered by the Bureau has become remarkably clear, which is manifested by increasing demand for audit by decision makers at audited entities to help assessment of regulatory actions effectiveness and guarantee proper management of financial/human resources.

The report has been drafted with combined effort of Bureau staff according to international reporting criteria and guidelines. The Bureau welcomes feedback and suggestions to improve audit at Palestinian institutions and build the state of law.

Annual Report

2014

Executive Summary

The Bureau has given out the annual report of 2014 pursuant to article 8, SAACB law 15/2004: **'President of the Bureau shall provide president of Palestine National Authority, Palestine Legislative Council and council of ministers with an annual report, or upon request, on actions and observations. The Bureau shall provide president of Palestine National Authority, Palestine Legislative Council and council of ministers with any data, information, studies or researches they request, and shall undertake any other actions tasked. The annual report shall be published in the official Gazette'**.

Information included in report has been reached through audits undertaken at entities, where professional opinion has been expressed according to the international public sector audit standards, INTOSAI standards and ARABOSAI standards, taking into account observations based on feedback given by audited entities regarding reports of 2014.

The report handles all financial/administrative observations included in reports given out by the Bureau on economy, social/cultural services, infrastructure, security/governance, NGOs and local government sectors.

The report is divided into three chapters; **first** of which shows key substantial findings reached at entities audited in 2014, summary of cases that involved corruption suspicions referred to Anti Corruption Commission to finish investigation, direct financial impact of actions and amounts lost from Palestinian treasury/NGOs/local government entities and key recommendations for performance improvement. The **second** chapter discusses synopsis of audit reports by sector and feedback. Chapter **III** talks about prominent achievements and actions nationwide and worldwide.

The Bureau gave out 104 reports in 2014, took part in 676 bidding meetings as an observer and received 352 complaints, 300 of which were followed up by legal affairs and public complaints department in cooperation with competent audit departments. 23 cases were referred to Anti Corruption Commission during 2014.

Regarding direct financial impact, audits undertaken at different entities revealed fundamental financial misstatements that caused the loss of (3,747,730) USD from Palestine's treasury, in addition to (689,138)USD from local governments and (4,602) USD from NGOs.

When the Bureau's recommendations are observed and legal actions are taken, direct financial impact that could be retrieved reach (8,343,825) USD, of which there is (7,889,467)USD to Palestine's treasury, (174,928) USD to local government entities and (279,430) USD to NGOs.

Audits reports of 2014 revealed key financial/administrative misstatements and observations, besides public cases disclosed by audits that involve law violations in general, inefficient planning or public funds wasting. They are categorized according to the following sectors:

I. Economy

Audits have been undertaken at economy institutions (Ministry of Finance (with respective departments), number of ministries within the sector, Palestine Investment Fund (with affiliate companies)), which resulted in 11 reports. **Key findings include the following:**

- Budgetary Law of 2011 does not specify details of amounts for development projects according to responsibility positions and respective needs, which created a gap in control of budget execution. This has oriented the development expenses to cover expenses for which funds have not been stated in Budgetary Law, i.e.: a deviation from budget objectives.
- There were accounts and responsibility positions under disposal of MOF (financial reserves, contingency expenses, development expenses) from which spending has been done in 2011 for undesignated items (public servants, awards paid for MOF staff).
- Lack of clear standards to select NGOs and unions financed by public budget, in addition to lack of clear standards and instructions to prioritize institutions eligible for finance.
- Lack of electronic link between MOF customs software and vehicle registration software at Ministry of Transport. It has been also observed that no comparisons have been made and controls are weak, which led to registration of used and imported vehicles without customs been paid (7,299.055 NIS). It turned out that registration documents were forged, and that an amount of 8,998.301 NIS from fines of customs payment delay has been illegally reduced to %58.5.
- Lack of regulations, procedures and internal controls regulating Petroleum Authority, which led to random execution of tasked duties and lots of shortcomings in actions. This has led to unfair presentation of financial statements in fiscal year ended 31/12/2011, and inaccurate accounts receivable for some gas stations and accounts receivable of Israeli fuel companies. There are not control, protection and safety procedures at Authority's Neilin tanks, which caused differences in reserve of some petrol derivatives as on 31/12/2011, and maintenance card balance set in agreement between the Authority and a fuel importing company has been fully used, which caused loss of 984,587 NIS.
- Audit undertaken at MOF department of Excise and Tobacco revealed that cigarette labels have been printed, supplied and received from the printing house before final referral decision was made by bidding committee, prior to agreement signature with the printing house, and unlike volumes requested. It has been also found there were label papers kept by customs officer at a cigarette factory that have not been recorded in label register, in addition to variance between labels actually stored and those registered. There are not controls over labels printed, and they do not fulfill special technical specifications that prevent fraud.
- Incentive committee at Palestine Investment Fund does not adopt clear, specific and documented criteria for invested capital calculation, on which basis investment exemptions are granted. Invested capital –on which exemptions were given to some projects- has been inaccurately calculated.
- Monetary Authority has not transferred income tax deducted from Gaza staff salaries since 2007 to the treasury, where total deducted tax that has not been transferred reached 473,377 NIS.
- Ministry of Economy has granted and registered some commercial agencies despite the violation of law and some incomplete legal provisions in agreement contracts. Fees for publishing in industrial patent journal are collected before consent to deposit trademark is given, and patents are published in industrial patent journal without collecting publishing fees.
- Some vehicles are used after hours by managers at Ministry of Finance and Ministry of Agriculture unlike council of ministers resolution, and those managers are paid fixed transport allowance.
- Audit undertaken at general supplies department revealed incomplete supplies categorization system, failure to use supplies numeric coding system at responsibility positions and dissimilarity between some supplies at records of some responsibility positions on one hand and central records at MOF general supplies on the other hand. There is not match between government transport records and

general supplies records for government vehicles assigned to public officials, and some of the latter failed to record supplies purchased or donated at central records of general supplies department. Some public officials failed to carry out annual inventories.

II. Governance (civil & security)

16 reports were released on governance sector during 2014 following audits undertaken at sovereign ministries, security agencies and the judiciary. **Key findings include the following:**

- Executive regulations for security personnel service law 8/2005 have not been given out.
- Some provisions of the Palestinian financial ordinance have not been observed. This was manifested by payment of more than 1000 NIS, and cashier of petty cash does not keep books for petty cash. Some procurement operations have been broken down into several invoices to evade stamping by VAT department, and some expenses were shifted from one item to another.
- Some provisions of general supplies law 9/1998 have been violated through failure to register supplies in warehouse log. Minutes of receipt are not kept and supplies/fixed assets records, as well as personal custody logs, are not used.
- There has been reservation to revenues balance declared by civil defense as a result of inaccurate amounts collected because of errors in calculating fees of variable revenue by area. Incomplete registration of all amounts has been observed, and fees collected are not mentioned in law but are based on council of minister resolution.
- There is not an approved consolidated system to register items confiscated by public prosecutor offices, and some of them failed to admit items they confiscate into MIZAN software.
- High Sharia Court has been instated by virtue of a decree unlike articles 97 and 101 of the Basic Law, and article 6, clause 1 of the Judiciary law. Personal status prosecution office has been instated unlike articles 97, 101 and 108 of the Basic Law and article 6, clause 1 of the Judiciary law.
- Violations have been observed in spending of Istiqlal University, as well as major shortcoming in payroll system where salaries are illegally calculated. Non-refundable advances at 3,729.703 NIS have been granted.
- There have been suspicions of counterfeit fee stamps at 162,882 NIS used at civil affairs departments from 2009-2013.

III. Social/Cultural Services

16 reports were released on social/cultural services sector during 2014. **Key findings include the following:**

- Poor internal controls applied at Palestine Medical Complex, whether in terms of failure to enforce some financial ordinance provisions, disburse specialty allowance without legal reason, opening bank accounts unlike law and continue payment of an off-duty doctor salary (305,049 NIS) unlike civil service law.
- Ministry of Health donated medical equipment unlike general supplies law, and there has been breach to council of ministers powers in this regard.
- There have been some financial/administrative misstatements and poor controls at Hebron health department, Dr. Thabet Thabet Hospital and Salfet health department.
- There has been duplicity in appointment standards for some staff on-contract at Ministry of Education, and complete procedures for education posts applicants (2014) have not been observed. Also, there were some errors and modifications made to appointment exam while in progress.
- Poor internal controls over Ministry of Education tenders in 2014, in terms of incomplete bidding files and receipt of some project tenders without complete fulfillment of obligations.
- There has been variance in implementing graduate certificates system on similar cases, where some certificates are accredited and some are not in the 'legal term' item regarding living abroad.

- Palestine Technical University (Khadouri) violated statute of state universities in terms of staff assignment procedures, allowance payment and appointment procedures.
- Waqf and religious affairs council has not been instated unlike Waqf and religious affairs law 26/1966 and amendments.
- Poor follow up to adherence of some guards at religious tombs, which made those guards fail to observe duty.
- Poor financial controls for Waqf properties (inappropriate action procedures, failure to appoint external auditor, failure to observe custody allocation).
- Inappropriate follow up to leasing agreement signed between ALQUDS University/Abu Dis and Waqf Ministry in terms of paying liabilities of both.
- Poor financial management of World Food Program at Ministry of Social Affairs, lack of documented criteria for beneficiary selection, duplicity of benefiting from assistance and some people received assistance on behalf of others.
- Vacancies have not been announced and employment exams/interviews have not been conducted for World Food Program.
- Poor coordination in giving health insurance for social cases (Ministry of Health, Ministry of Social Affairs), where major difference has been observed in number of health insurance documents between ministries above, and the result was disclosure of 22,198 illegal health insurance documents.

IV. Infrastructure

10 reports were released on infrastructure sector during 2014. **Key findings include the following:**

- Lack of comprehensive system regulating government vehicle use, which led to multitude of resolutions and instructions in this regard, expensive maintenance at some ministries and public institutions and poor control by competent entities over use after hours, and according to council of ministers (م.و.س.ف/13/63/01).
- Huge outstanding financial advances at Palestine Broadcast Corporation from 2010-2013, for which actions have not been taken.
- Finishing works at PBC building have been delayed for almost four years.
- Poor legal actions taken against constructions in violation of labor law.
- Lack of special code for award payment at ministries and public institutions, as awards are paid without clear standards.
- Complete failure to observe traffic law 5/2000, respective executive regulations and procedural guideline regarding driver licenses and vehicle technical registration.
- Ministry of Public Works announced tenders for some projects without financial balance, and contractor claims have not been settled by date mentioned in Palestinian contractor code by MOF.
- Huge losses incurred by West Bank Water Department due to water loss and breaches against water sources.
- MOF failed to control revenues of postal authority unlike provisions of Palestinian financial ordinance and amendments (article 39).
- Failure to observe civil service law and respective executive regulations regarding adherence to official hours at Ministry of Public Works, and legal actions have not been taken.
- Failure to observe general supplies law by Ministry of Public Works in terms of registration of inventory and release of admission/discharge documents regularly.

V. Local Government

The Bureau has given out 25 reports and processed 64 complaints as a result of audits undertaken at municipalities, local/village councils, project committees and joint service councils. **Key findings include the following:**

- Lack of internal control at some local government entities and lack of robust internal control system that safeguards assets.
- Many local government entities have been found in violation of laws, regulations and ordinances that regulate budget and revenues/expenses measurement.
- Some local government entities failed to fulfill obligations due to poor collection, especially for water and electricity projects, in addition to scarce sources of income.
- Accounts of local government entities are unreliable and raise doubts about accuracy, authenticity and occurrence because of lack of corroborating documents and regulating documentation cycle.
- Some local government entities failed to collect fees set in applicable laws and regulations, especially fees of billboards, crafts and industries.
- Accountants at some local government entities manipulated financial statements through fake invoices in order to cover deficit.
- Misuse of funds at some local government entities by staff and heads.
- Staff and members of some local government entities misused position to bring material or moral benefit for themselves or for relatives, especially in human resources employment and tenders.
- Most of local government entities do not have a methodology to study financial impact of projects and analyze/select proper alternatives, and do not analyze findings and achievements against approved financial resources.
- Lack of transparency and impartiality at some local government entities upon observing recruitment and employment procedures set in local government staff code 1/2000.
- Some local government entities failed to observe a code on supplies and contracting in terms of tender opening/presenting, guaranties required and initial/final receipt minutes.
- Some local government entities failed to observe buildings and planning code 5/2011 regarding licenses for proposed buildings, legal actions taken against violators and deny building permissions unless they are licensed.
- Accounting software at some local government entities do not fulfill their needs as they do not include actions and do not assign user authorities, which led to financial statements exposure to loss, damage and deletion, and raise doubts about credibility and fairness.

VI. NGOs

23 reports were released on NGOs sector during 2014. **Key findings include the following:**

- Financial statements do not fairly express financial position and cash flow of some associations in terms of failure to prepare/close balance sheets regularly by fiscal year end, variance between amounts received and spent according to invoices on one hand and amounts declared in financial statements prepared by auditor on the other hand, and inaccurate asset balance declared in financial statements.
- Poor financial/administrative regulation and internal controls at some associations, where it has been noted the lack of accounting system and robust/clear documentation cycle to control financial operations, documentation cycle only includes manual invoices, poor administrative regulation at some associations and overlapping powers/responsibilities.
- Failure to observe internal laws/regulations and effective instructions, and that includes incomplete corroborating documents for spending and procurements made without source discount certificate attached.

- Failure to deduct income tax payable from staff at some associations, failure to procure according to original tax bills and failure to announce procurement tenders and quotations according to NGOs financial regulation requirements.
- Deficiency in salary payment and inaccurate wage calculation at some associations, as it turned out lack of deposits at bank accounts for refunds by some staff members, inadequate controls over refunds, duplicity of salary payment, payment of fake salaries and upload and cancel some salary expenses for some projects, and then account them for other projects incorrectly.
- Inaccurate revenue record and failure to observe regulations and internal control procedures in this regard, as it was noted that some associations failed to release invoices for some cash deposits earned on bank statements, amounts that have not been declared and recognized in financial reports, poor controls over returns of cash donations and lack of power separation between returns collection, record, deposit and spending.
- Suspicions of corruption, fraud and funds misuse at some association, as expenses balance deduced from invoices and amounts withdrawn from bank accounts do not match. Moreover, there have been shortfalls in revenue fund, cash and material volume at some associations, and misuse of cheques as some of them bear names non-beneficiaries, while others are endorsed to staff members.
- Inaccurate receivables/payables balance at some associations, duplicity in registering some accounts in names of the same legal person in accounting software.
- Boards of directors failed to undertake tasks and duties set in law, where they failed to assume supervision responsibilities, while chairman of board acted as an executive director.

VII. Legal Affairs & Public Complaints

Legal affairs and public complaints department received **243** complaints in 2014, which involved misstatements, negligence in professional performance and articles published by the media on irresponsible conduct or misuse of powers. Complaints followed up in 2014 reached **181**, and findings include the following:

- There have been too many complaints about personal grievances that have not observed grievance provisions stated in civil service law.
- Failure to pay the private sector dues (contractors, service providers in supplies and public works sectors).
- Unreliable salary payment mechanism and other allowances for prisoners and freed prisoners.
- Exceptions have been granted without regulating legal provision, which constitutes a violation.
- Lack of clear system setting standards and basis of medical referrals for MOH's service purchase department.
- Lack of clear legal mechanisms to count labor rights emerging from contracts made by public entities.
- MOF has been found in violation of law following direct deduction from public servant salaries, with entities guaranty, for the benefit of cell phone companies.
- Lack of proper and transparent basis for procurement in local government entities, especially the small and medium ones.
- Legal actions for staff recruitment at local government entities have not been observed, in addition to the large number of grievances about structure placement mechanisms.
- Provisions of expropriation law have not been observed and compensations have not been accounted after expropriating lands from citizens.
- Some public officials were removed from their positions to General Personnel Council; however, their privileges are still active.
- MOF failed to observe executive responsibilities regarding administrative resolutions given by ministers and duly approved by General Personnel Council.
- Unclear action mechanisms for certificate accreditation committee, Ministry of Education.

- Public entities failed to observe experts employment, especially for staff at the same public entity who are going to retire but do not fulfill expert requirements.
- Lack of legal provisions regulating assignment for vacant legal positions.
- Failure to obey final court rulings by public entities under pretext of legal misinterpretation.
- Lack of clear legal basis for transport allowance of public servants, and different value of which from employee to another despite living in the same city/town.

VIII. Tenders

The Bureau took part in 676 bidding meetings as an observer at central bidding committee. Tenders included Ministry of Public Works, general supplies department, local government entities and different departments.

Key observations were as follows:

- Some members of central bidding committee (Ministry of Public Works) failed to show up on time set in bidding invitation; others have not shown up at all. This delay impedes actions of the committee.
- Some members of central bidding committee failed to sign all bidding papers, an action set in public works bidding law 6/1999, article 21.
- There have sometimes been clear differences between offer prices and estimated cost of public works tenders.
- There have been reports presented to technical committees (Ministry of Health tenders) that did not fulfill technical specifications of procurement in formal and objective senses.
- There has been direct procurement or invitation for quotations by a central bidding committee decision, not at request of minister in question and council of ministers approval, unlike general supplies law 9/1998, item 1, clause b, article 12.
- There has been delay to sign some tender agreements, which confused procurement procedures.
- Term of technical study for some tenders is longer than term of tender guaranty coverage, and without an extension before legal term elapsed. This has caused the risk of failure to observe prices if bidder did not wish to renew guaranty.
- There have been errors in volume required when inviting some tenders.
- Specifications have been modified by beneficiary after signature of contract and before supply, unlike terms specified in tender.