

**State Audit &
Administrative
Control Bureau**

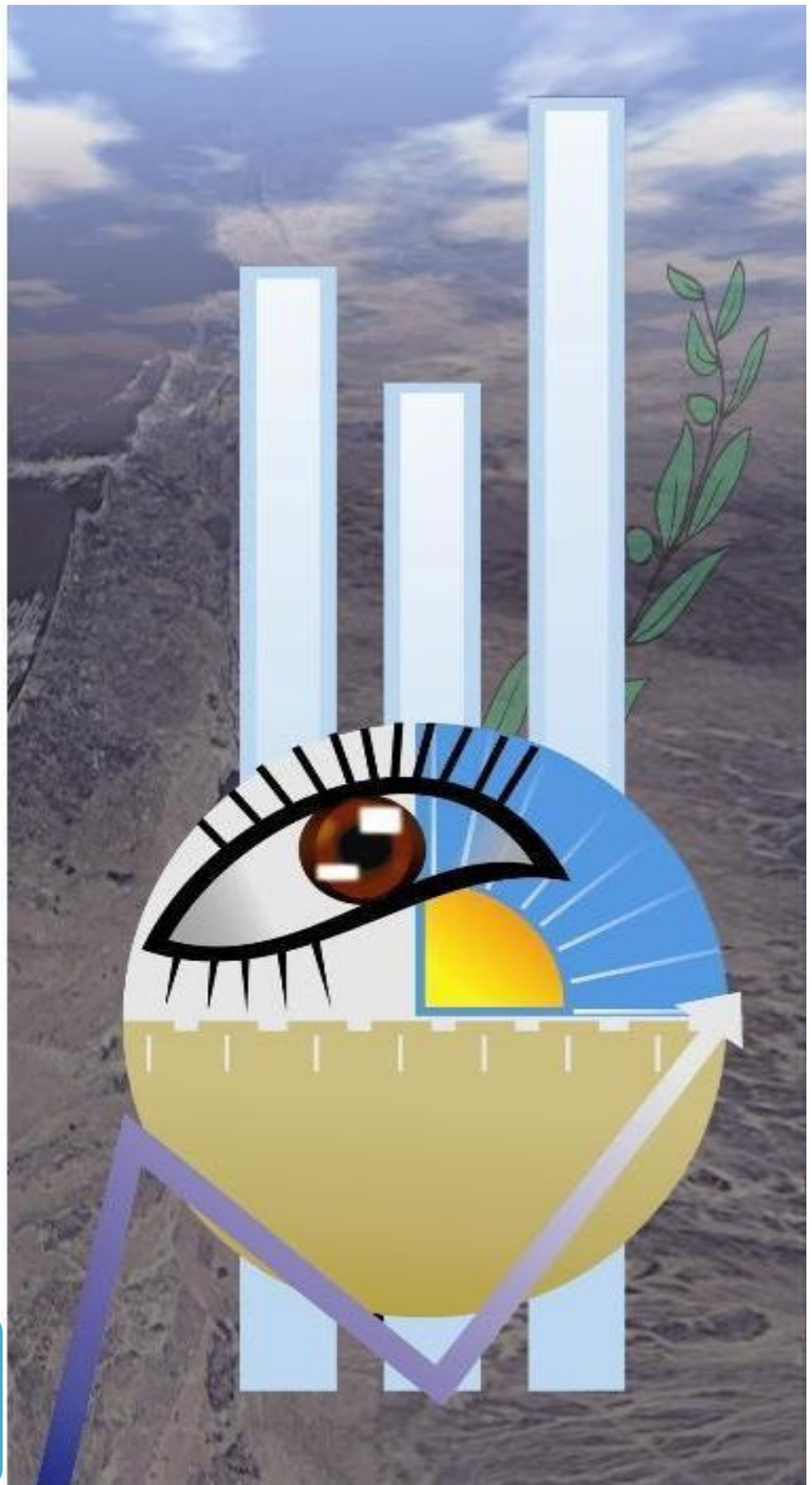
Annual Report-2009

Executive Summary

**Audit & Oversight for
Establishment,
Development &
Promotion of Good
Governance**

Ramallah-2009

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Preface

State Audit and Administrative Control Bureau is the supreme institution for oversight and external audit over actions of all audited bodies in accordance with provisions of law. Its actions are based on international standards of governmental audit, standards issued by the International Organization of Supreme Audit Institutions (INTOSAI) and the best international practices of audit and oversight.

Culture of audit and oversight has become an integral part of institutional work within Palestinian governmental and non-governmental institutions, especially after decision makers were convinced that it is important to have an effective, robust and sound internal control system that has confidence upgraded to 'excellent'. This is what audited bodies have been doing over the past four years, convinced of the need to greaten measurable accumulative value added in sustainable administrative construction that is consistent with best international practices of internal control systems.

SAACB aims at gradual shift from internal control system audit to performance audit so that quality of governmental services could be assessed a well as measurable actual value added for sustainable institutional construction.

Use of Excellence Model adopted by the European Foundation for Quality Management (EFQM) might be an effective measure tool for implementation extent of strategic and annual plans, especially cabinet plan to end occupation and establish state of law and institutions. It is noteworthy that SAACB started implementing that Model for all actions as the first Palestinian civilian institution, since SAACB staff is convinced that governmental sector could provide quality services and compete with the private sector.

Introduction

This report comes as a commitment to Act of State Audit and Administrative Control Bureau No. 15 of 2004, which stipulates that "**The Bureau President shall submit to both of the President of Palestinian National Authority, the Palestinian Legislative Council and the Cabinet, annual report, or upon request, about its works and observations which were executed by it .he should also submit for the president, PLC, The cabinet any data, information, studies and researches demand from it and, he should conduct any request from any of them, the annual report of the Bureau should be promulgated in the Official Gazette**".

Year of 2009 was full of audit and non-audit activities, where 123 audit reports were issued which include all governmental sectors (civil and security), local government and non-governmental organizations on one hand, and overloaded with challenges that SAACB staff faces (shutdown of Gaza offices-holding back audit operations at Gaza provinces-PLC failure to assume legislative and audit role-constant absence of high and special positions) on the other hand.

This report aims at identifying strengths in actions of audited bodies, that is, internal control systems and their reliability, in addition to disclosure of financial and administrative institutional weaknesses, improvement opportunities and gradual shift to performance audit.

Importance of this report comes from depending on INTOSAI international standards for drafting and publishing annual reports so as to provide decision makers at governmental and non-governmental bodies with objective data and information, which will help policy drawing and decision making.

SAACB depends during annual and audit reports drafting on standards and principles of the INTOSAI, Arab Organization of Supreme Audit Institutions (ARABOSAI) and international governmental accounting standards for drafting guideline of audit observations and reports. On the basis of SAACB strategic and annual plans, it designated action and relations mechanisms with audited bodies, so that it specifies audit subject matter and auditing primary plan, and then a letter is sent to audited body to inform it that SAACB will carry out an audit to set a date. Having auditing done, a report draft is discussed with body officials and minutes are made, and the draft is forwarded to target body which responds to report and observations within one month as stated by law. Reply is then discussed with competent body if necessary and modified after checking observations before release of final version.

This report reviews SAACB audit and control achievements throughout 2009, and it is divided into two chapters, and they are listed among audit sectors (governance 'civil and security', social and cultural services, local government bodies, NGOs, legal affairs and public complaints) where the most positive developments and improvement opportunities were clarified for each sector, plus essential outcomes and recommendations and direct financial impact. All audit reports were listed for all sectors exactly as issued by SAACB.

This report was done by combined efforts of all SAACB staff according to adopted guidelines for annual reports drafting. SAACB staff welcomes any constructive remarks and opinions to reinforce audit and control at Palestinian institutions to fulfill the cabinet plan "**to establish law and institutions state**".

Executive Summary

The report contains audit actions and activities done during 2009, where outcomes were sorted out according to specialized sectors (6 audit sectors plus legal affairs). Light has been shed on the most important positive developments and changes at audited bodies, substantial financial and administrative violations and expected financial impact as a result of recommendations execution, and then all report details were included according to each sector as issued by SAACB, besides feedback from audited bodies.

Data listed in this report have been reached from checking at all audited bodies, and professional opinions were expressed according to international governmental audit standards and standards of INTOSAI and ARABOSAI, taking into account observations resulted from responses received from audited bodies to reports of 2009. As for direct financial impact, audit and oversight actions -and due to financial and administrative violations disclosure- have resulted in retrieval of 42,848,345.4 USD for PNA treasury in exchange of spending 3.8 USD as SAACB budget for 2009. From audit and oversight reports issued in 2009 (116), the following positive developments and substantial financial and administrative violations were observed according to sectors:

Governance sector (civil and security):

General department for governance audit (civil and security) issued 27 reports in 2009, that is, 23% of total reports issued by SAACB.

The following important positive developments in governance sector have been observed from the audit reports of 2009:

- Majority of institutions responded to SAACB recommendations in terms of dealing with weaknesses and correcting financial and administrative violations.

Most important development opportunities seen at audited bodies:

- Weak commitment to some Palestinian financial codes as for controlling and organizing financial matters and spending without references.

- Violations against some provisions of budget and financial matters organization law regarding commitment to spending provisions according to accredited budget.

- Many promotions and recruitments for high positions were done without declarations and exams, which violates principles of competitiveness, justice and equal opportunities.

Direct financial impact

When realizing recommendations and correcting financial violations and errors mentioned in audit reports concerning this sector, 76,543 USD will be retrieved to PNA treasury.

Economy sector

General department for economy audit issued 13 reports in 2009, that is, 11% of total reports issued by SAACB.

The following important positive developments in Economy sector have been observed from the audit reports of 2009:

- Ministry of Finance issued financial statements draft on time as stated by article 66 of budget organization law No. 7 of 1998.

- The Petroleum Authority took necessary measures in order to collect accumulated debts of gas stations and managed to reduce them.

- Realizing 100 % value added as said by agreements made regarding Russian assistance to the Palestinian people in 2006 and 2008 to support PNA balance, from which the Palestinian people benefited to the fullest.
- Executing most of SAACB report recommendations.

Most important development opportunities seen at audited bodies:

- Termination of Petroleum Authority partnerships with gas stations without clear data about termination mechanism and fate of PNA rights.
- Palestinian Fund for Employment and Worker Social Protection did not achieve general goals for which it was established.
- Disbursement of fixed transportation allowance was not suspended for some public servants who use governmental vehicles after work hours.
- There was difference between value of revenues registered in general accounts and reports made by responsibility circles.
- Financial controller does not audit most of projects carried out at various responsibility circles.

Direct financial impact

When realizing recommendations and correcting financial violations and errors mentioned in audit reports concerning this sector, 14,509,603 USD will be retrieved to PNA treasury.

Infrastructure sector

General department for infrastructure audit issued 13 reports in 2009, that is, 11% of total reports issued by SAACB.

The following important positive developments in Infrastructure sector have been observed from the audit reports of 2009:

- Ministry of Transport issued directions to staff to reveal all concessions, services or granted written permits.
- Development of Arabic licensing software and linkage with all departments as well as MOT main offices.
- Improvement in actions of land authority in terms of the electronic archiving system, public receiving mechanism and increased staff.
- Formation of investigation committees within land authority concerning trespassing of governmental lands.

Most important development opportunities seen at audited bodies:

- Land Authority does not have statistics and comprehensive survey for trespassed governmental lands and additional copies of land files, either hard or electronic copies.
- No industrial zones have been established in the West Bank.
- There are a huge number of unlicensed communication providers, and no statistics of their numbers were prepared.
- MOT does not have a system to regulate, administer, and follow up use of governmental vehicles.

Direct financial impact

When realizing recommendations and correcting financial violations and errors mentioned in audit reports concerning this sector, 24,960,956 USD will be retrieved to PNA treasury.

Social & cultural services sector

General department for social & cultural services audit issued 24 reports in 2009, that is, 21% of total reports issued by SAACB.

The following important positive developments in social & cultural services sector have been observed from the audit reports of 2009:

- Approved organizational structures have been found at audited bodies.
- Clear recruitment mechanism.

Most important development opportunities seen at audited bodies:

- Weakness in effectiveness and efficacy of hardware and equipment management in health sector.
- Multitude was observed at entities responsible of scholarships abroad at high education sector.
- It has been found that there is no clear mechanism to grant permissions to local radio stations at cultural services sector.
- Lease of pilgrim premises was not done according to laws and rules during 2008 hajj season.
- Weakness was spotted in cash advances closure system at Ministry of Prisoners.

Direct financial impact

When realizing recommendations and correcting financial violations and errors mentioned in audit reports concerning this sector, 278,178 USD will be retrieved to PNA treasury.

Local government sector

General department for local government audit issued 25 reports in 2009, that is, 22% of total reports issued by SAACB.

The following important positive developments in local government sector have been observed from the audit reports of 2009:

- Most of local government bodies responded to SAACB recommendations.

Most important development opportunities seen at audited bodies:

- Weakness in audit regulations that govern spending, which resulted in weakness in availability of tight internal control system.
- Most local government bodies spend funds on aspects which local government bodies financial codes do not consider as grants and assistance from municipalities accounts to institutions and individuals without approval from Ministry of Local Government, and without allocations in the adopted balance.
- Most municipal councils took and executed decisions unilaterally which resulted in huge financial impact without referring to Ministry of Local Government for endorsement.
- Weak commitment of most local government bodies to provisions of supplying code and execution of actions at Palestinian local government bodies, and that weakness reflected on availability of integrity, transparency and strengthen of legitimate competitiveness.

Direct financial impact

When realizing recommendations and correcting financial violations and errors mentioned in audit reports concerning this sector, 2,825,500 USD will be retrieved to PNA treasury.

NGOs sector

General department for NGOs audit issued 14 reports in 2009, that is, 12% of total reports issued by SAACB.

The following important positive developments in NGOs sector have been observed from the audit reports of 2009:

- There has been tangible improvement in level of confidence in internal system components at most audited NGOs.

Most important development opportunities seen at audited bodies:

- There are no internal control units at most audited NGOs.
- Most audited NGOs do not have annual estimated budget.
- Most competent ministries do not follow up actions of affiliated NGOs.

Direct financial impact

When realizing recommendations, 197,565.4 USD will be retrieved to PNA treasury and 19,993.81 USD to NGOs.

General department for legal affairs & public complaints

The department received 196 complaints and grievances in 2009, of which 181 were done, 37 were reserved as 'completed', 86 were reserved by outcomes of follow up, 25 were reserved for ineligibility and inaccuracy, 9 were reserved for going to court, 7 were turned into audit reports in cooperation with competent audit department, 14 still being followed up (suspended), 2 were reserved for lack of jurisdiction and 1 was withdrawn by complainant.

Summary of follow-up outcomes:

- Complaints according to procedures taken and follow-up outcomes

1- Percentage of complaints reserved as 'completed' because of SAACB follow-up was 18%. Completion means accuracy of complaint and fulfillment of follow-up purpose, and this percentage resembles that of reservation for inaccuracy, which could be explained by SAACB dependence on examination and execution of complaint content.

2- The biggest portion went to reservation by follow-up results (46%), which could be explained by ignorance of SAACB recommendations by audited bodies, although SAACB conducted procedures, follow-up and correspondence. These observations were listed as violations in SAACB annual plan according to its Act.

- Complaints according to type and nature

1- Weakness in corruption whistleblowing and prevalence of individual grievance as a result of weak administrative system, general grievance system or internal control systems.

2- Complainants were unconvinced that there is legal protection for corruption whistleblowing, and prevalence of corruption trivial rumors without evidences, support documents and audit.

3- Rumors about corruption are not reflected by classification of whistleblowing size.

4- Weak capabilities and newness of 'oversight of public' concept prevented public communication, awareness-raise and encouraging people to report corruption cases.

5- Lack of cooperation from audited bodies staff concerning implementation of SAACB Act about what they hear of financial or administrative violations as stated by articles 35 and 36, which stipulate that auditors and spending commissioners should report violations within two weeks of occurrence date.

- Complaints according to audited bodies

1- Most complaints were related to Ministry of Finance as a result of prevalence of grievances.

2- Follow-up results show there is weakness in unified procedures system and Civil Service Act as regards big ministries. After follow-up, it has been established that similar execution of provisions is not possible between small and big ministries or institutions, as most complaints have to do with delay in following up staff affairs by Ministry of Education for instance at MOF.

3- Follow-up results show large size of complaints, audit reports and consultations in local government sector as a result of general weakness in internal control systems at local government bodies and failure to enact laws and regulations to govern their actions, which caused state of confusion in this sector.