

FINANCIAL SECTOR DEVELOPMENT PROJECT (FSDP II)

**ASSESSMENT OF ACCOUNTABILITY AND
AUDITING STANDARDS IN THE PUBLIC SECTOR**

August 22, 1997

**Contract PCE-Q-00-93-0071-00
USAID Mission, Tel Aviv
Financial Sector Development Project II**

Maureen Berry

**Barents Group LLC
2001 M Street, N.W.
Washington, DC 20036**

The opinions, analyses, judgments and recommendations in this report are those of the author and do not necessarily reflect the policies or views of the Barents Group, USAID, or any other agency of the United States Government.

INTRODUCTION

Scope of Work

Summarized Background. In May 1997, the Palestinian Authority (PA) released a report issued by the PA's Auditor General Office. The report alleged many irregularities in spending and questioned decisions ranging from the rent one Ministry is paying to the number of duty-free vehicles allowed by the PA. The report served to heighten donor interest in the PA's level of public accountability. This interest is focused on internal control systems within the Ministries to monitor spending, as well as external audit procedures which would be similar to the audit function performed by the General Accounting Office in the United States. Also, both the PA and the Legislative Council established task forces, composed of private citizens and public officials, to review the report and recommend actions to be taken based on their reviews.

Summarized Objectives. The objectives of this activity are to assess the possibility of USAID-funded interventions for enhancing the accountability and transparency of the public sector, to assess the political implications of such support and to recommend a course of action in this area for USAID/West Bank & Gaza.

These objectives are to be achieved by the activities listed below. For purposes of this list, internal control systems are those used by a Ministry to monitor its own spending. External audit procedures refer to audit activities undertaken by a unit or office independent of the auditee.

1. Assess the internal control systems currently in use within the PA, focusing on the Ministry of Finance, and determine the improvements needed, if any.
2. Assess the proposed functions of the Fiscal Analysis Unit of the Palestinian Legislative Council's Budget Committee.
3. Assess the external audit practices currently in use within the PA and the capacity of the Auditor General's Office to fulfill the external audit function, including the implications of the current location of the audit function in that office.

4. Describe in detail the types of interventions (e.g. technical assistance) required, if any, to ensure successful implementation and use of external audit systems, as well as any constraints to successful implementation.
5. Describe in detail the types of interventions (e.g. technical assistance) required, if any, to ensure successful implementation and use of the internal control systems, as well as any constraints to successful implementation.
6. Assess how other donor/NGO assistance may affect the areas of PA audit controls, accountability systems, and accountability/transparency.

Item added by USAID on 5 August 1997:

7. List the policy concerns that US government officials should pursue with senior PA officials on the constraints to effective audit mechanisms. These should be policy issues that would clear the way for constructive assistance to be provided in this area.

Constraints on Implementing Scope of Work

This project did not benefit from official, advance clearance with promises of full cooperation from the public authorities involved. The field work therefore depended on receiving voluntary assistance through networks of personal contacts who provided cordial receptions, but information was limited to the extent that they felt personally free to make disclosures.

As a result, it was not possible, by direct observation:

- ◆ to determine, document, or test the systems of internal controls, if any, existing in the Ministry of Finance, in order to assess their adequacy and reliability (terms of reference 1); or
- ◆ to determine, document, or review the external audit practices of the Auditor General's Office in order to assess their impact on that Office's capacity to fulfill the external audit function (terms of reference 3).

Other less reliable and incomplete methods of data gathering were used to address these issues, as described in the relevant sections of the report dealing with terms of reference (1) and (3).

It was not possible to schedule a meeting with the Minister of Finance, together with a USAID representative, to discuss and clarify certain issues within his jurisdiction which are covered in this report.

The field work benefited, on the other hand, from access to documentation from surveys of the Ministry of Finance and the Auditor General's Office (General Control Office, GCO), conducted approximately one year ago, which were sponsored, respectively, by The World Bank and the United Nations Development Programme (UNDP).

Deep appreciation is expressed for the very helpful cooperation provided by USAID/WBG and the staff of Associates in Rural Development (ARD) located in Ramallah, West Bank: in particular Messrs. Basem Masry and Hanna Theodorie.

TABLE OF CONTENTS

| | |
|---|----|
| I. SUMMARY OF FINDINGS AND RECOMMENDATIONS | 1 |
| 1. Assess the internal control systems currently in use within the PA, focusing on the Ministry of Finance, and determine the improvements needed, if any. | 1 |
| 2. Assess the proposed functions of the fiscal analysis unit of the Palestinian Legislative Council's Budget Committee | 2 |
| 3. Assess the external audit practices currently in use within the PA and the capacity of the Auditor General's Office to fulfill the external audit function, including the implications of the current location of the audit function in that office. | 9 |
| 4. Describe in detail the types of interventions (e.g. technical assistance) required, if any, to ensure successful implementation and use of external audit systems, as well as any constraints to successful implementation. | 16 |
| 5. Describe in detail the types of interventions (e.g. technical assistance) required, if any, to ensure successful implementation and use of the internal control systems, as well as any constraints to successful implementation. | 17 |
| 6. Assess how other donor/NGO assistance may affect the areas of PA audit controls, accountability systems, and accountability/transparency. | 18 |
| 7. Policy concerns which should be pursued concerning the constraints to effective audit mechanisms which, if resolved, would clear the way for constructive assistance to be provided in this area. | 21 |
| II. MINISTRY OF FINANCE INTERNAL CONTROLS | 22 |
| A. The Internal Audit Function | 25 |
| B. The General Budget Department | 30 |
| III. THE BUDGET AND FINANCE COMMITTEE OF THE LEGISLATIVE COUNCIL | 33 |
| IV. THE GENERAL CONTROL OFFICE | 41 |
| A. Lack of independence | 41 |
| B. Lack of professionally qualified leadership | 43 |
| C. Lack of perceived reporting professionalism | 44 |
| D. Lack of prioritization of assigned duties | 45 |
| E. Other problem areas disclosed in the UNDP report of June 1996 (appendix 4) | 46 |
| APPENDIX A | |
| List of Contacts | 1 |
| APPENDIX B | |
| Palestine Liberation Organization Palestine National Authority Office of the President | |
| Decision No. (22) for the Year 1994 | 1 |
| APPENDIX C | |
| Law No. 17 for 1995 Concerning the General Control Commission | 1 |

APPENDIX D

Report of the UNDP-Sponsored Review
of the General Control Commission, June 1996 1

APPENDIX E

Selected Passages from:

Report of the Budget and Financial Affairs Committee on the General Budget Law of the Authority
for Fiscal Year 1997 1

I. SUMMARY OF FINDINGS AND RECOMMENDATIONS

1. Assess the internal control systems currently in use within the PA, focusing on the Ministry of Finance, and determine the improvements needed, if any.

Findings. The following weaknesses were disclosed through discussions and references to documentation, but not by direct observation, in the Ministry of Finance's internal controls:

- ◆ lack of written mandates and job descriptions;
- ◆ lack of a manual of operating procedures for the Internal Audit department; and
- ◆ lack of a clear organizational structure for the Ministry as a whole.

This situation should be remedied when the Government Financial Management Information System (GFMIS), funded by the World Bank (refer to item 6 below) is installed. It is hoped, perhaps optimistically, that a trial run of the system will be attempted in December 1997.

The GFMIS manual, of about 800 pages, was developed by the consulting firm of Arthur Andersen under a \$600,000 World Bank grant, and with technical assistance from the IMF, and includes all operating procedures and controls for sound financial management. After successful implementation in the Ministry of Finance it will be extended to other units of Government, commencing with the Ministry of Health. This manual has been in existence for about nine months and is still awaiting official approval.

The Ministry of Finance and its various functional units operate without written mandates and job descriptions. This situation constitutes a weakness in management controls in that necessary and documented benchmarks are absent against which to measure, inter alia, the nature and extent of Ministry units' objectives and responsibilities as well as their degree of success, if any, in meeting them.

The absence of a manual of operating procedures for the Internal Audit department constitutes an impediment to assessing its efficiency and effectiveness. The GFMIS manual contains, on pages E-15 and E-16, a detailed structure for the Internal Audit function and its operations.

The lack of a clear organizational structure, approved by the Council of Ministers, in the Ministry of Finance (and Planning also), as well as for the Executive branches of the PA as a whole, to provide the necessary basis for the salaries and wages budget, was cited by the Budget and Finance Committee (the Committee) of the Legislative Council in its report on the 1997 general budget proposal (refer to section III of this report and appendix 5).

The Financial Instructions for 1997 issued by the Minister of Finance, and the Budget Circular issued by the General Budget Department of the Ministry of Finance, are two potentially strong management and safeguarding internal controls, if their contents are as described and if they are fully implemented and adequately monitored. The IMF provided technical assistance in their preparation, according to its representative. Neither document has been examined. A copy of the first has not yet been located, while the second is restricted to official use. From descriptions of these documents, it appears that they could be drawn from the GFMIS manual, a copy of which was provided to USAID by the World Bank.

Recommendations. No recommendations are made for improvements, other than those already provided for under the GFMIS project.

It is, however, recommended that USAID, and/or other interested donor parties, try to determine what needs to be done to gain official approval of the manual expeditiously.

2. Assess the proposed functions of the fiscal analysis unit of the Palestinian Legislative Council's Budget Committee.

The nine-member Budget and Finance Committee (the Committee) of the Legislative Council (LC) was established in mid 1996. Its basic mandate is to review and analyze the executive budget and make recommendations on it to the LC. The Committee hopes to establish a small fiscal analysis unit in the fall of 1997 to assist it in carrying out its mandate.

The Committee currently has very few resources, that is, only one staff person and no access to any equipment. Much of the workload falls on the Chair, Dr. Sa'di Al Krunz, who performed virtually all the analysis of the 1997 Budget proposal. He also authored the Committee's review and

recommendations on the report issued by the General Control Office (GCO) in the late Spring of 1997, delivered at the Legislative Council assembly in late July 1997. Thus he has an excellent grasp of the sources and uses/abuses of public funds. He also claims to have developed good working relationships with valuable contacts such as the head of the budget department of the Ministry of Finance and the General Control Office (GCO) in the West Bank.

The fiscal analysis unit. The Committee hopes to establish a fiscal analysis unit (the Unit) in the fall of 1997, with a staff of possibly two or three persons, whose main tasks would be

- ◆ to review the annual executive budget;
- ◆ to track the budget revenues and expenditures monthly; and
- ◆ to maintain an overview of the public finances

In other words, the Unit would concentrate, on a current basis, on financial details directly related to the Committee's main tasks, relieving it of some of the burden and permitting it to extend its oversight activities. It would therefore supplement the accountability measures provided by the external and internal audit functions, and benefit from the particular advantage of being independent.

Since its formation, the Committee has not had either the ability or the capacity to review the budget comprehensively, instead it has had to select a few elements at a time on a cycle basis. The proposed Unit would, accordingly, relieve the Committee of some of the workload while enhancing its oversight capacities.

A basic consideration is whether the proposed Unit would have the necessary Committee support and interest to motivate the staff and ensure maximum use of its efforts. The Committee's recent activities are reassuring in that regard as it has taken a diligent, professional, and open approach to carrying out its mandate. The documented support for this assessment is provided by the Committee's report on the general budget law for fiscal year 1997 which is excerpted in appendix 5.

The Committee's oversight performance

To appreciate the Committee's contributions towards enhancing transparency and accountability in the public sector, it would be useful to review, very briefly and in highly summarized fashion, the control problems, and related recommendations, which the Committee highlighted in its report submitted to the LC on the proposed Budget for calendar year 1997.

Development expenditures. Neither the Ministry of Finance nor the financial departments of the particular Ministries involved, have any role in controlling and auditing development project expenditures that are financed by donors.

Committee recommendations. The Ministry of Finance should control the payment and spending on these projects in accordance with appropriate financial standards.

(This issue was discussed with the local IMF representative who stated that, although no mechanisms currently exist for integrating development expenditures into the general budget, it is hoped that efforts will be made to try and bring development expenditures under general budgetary control in the 1998 budget proposal. He acknowledged, however, that this would be challenging because:

- ◆ development projects are not centralized;
- ◆ there are various ways of contracting and making funds available; and
- ◆ the donors would have to agree to the payment arrangements.)

Violations of ethical standards

In its review of developmental expenditures with various Ministries and public institutions of the mechanisms for carrying out development projects, the Committee asserted that it had made the following determinations:

- ◆ Several senior Ministry officials (particularly from one identified Ministry) receive high additional salaries in return for position titles in these projects.

- ◆ There are employees assigned to these projects who receive salaries less than amounts allocated for them in the contracts they signed.
- ◆ In most cases, tenders are awarded to companies owned by senior officials in one (identified) Ministry, or working in other Ministries and public institutions.

These assertions raise the issue of the need for implementation of a code of ethics which would cover enforcement of sanctions for conflicts of interest and other misuses of public and donated funds.

Committee Recommendations

- ◆ The role of the Ministry of Planning and International Cooperation should be limited to the planning and preparation of studies for these projects, rendering necessary technical consultations, and following up with donors or financing countries to obtain the necessary financing for these projects.
- ◆ Personnel in government positions should not be permitted to work as consultants or employees in projects whatsoever.

General revenues

Not all fees, penalties, and fines were paid in to the Treasury. Also, the 1997 general budget proposal omitted revenues from the profits of the following:

The General Commission of Petroleum,

The Palestinian Company for Commercial Services (basically cement),

The Palestinian Monetary Authority (in accordance with the law, the General Commission for Tobacco, and other general commercial establishments registered in the name of the Authority).

Committee Recommendations. The Ministry of Finance should correct this situation, to ensure that all revenues are paid into the Treasury, and submit a report on this to the Council within three months from the date of ratification of the budget.

General expenditures

Salaries and Wages. The lack of certain basic internal controls was disclosed, in particular lack of management controls over the plan of organization and appropriate, qualified staffing to ensure that goals are met.

- ◆ Not all Ministries and public institutions have a clear organizational structure approved by the Council of Ministers. This applies to the Ministry of Finance and the Ministry of Planning and International Cooperation, where positions are filled and financial grades are determined accordingly;
- ◆ Most of the recruitment is not carried out in accordance with actual personnel needs or in accordance with organizational job descriptions, or subject to free competition under the equal opportunity principle;
- ◆ The size of senior positions at several Ministries and public institutions is inflated, creating budget burdens, making it difficult to prepare organization charts, and causing deterioration in functional performance. Organization charts should be reconsidered, based on actual needs and the ratified budget;

Committee Recommendations. The LC should finalize ratification of the Civil Service Law and request the Council of Ministers to provide the necessary reserve in the 1998 Budget for the Law's implementation.

The Minister of Finance should prepare an organization chart for the Authority's institutions and submit a report to the LC about this before 31 July 1997.

The Committee's General Comments and Recommendations. Selected comments by the Committee which address the needs for internal controls follow.

The absence of:

- ◆ The Council of Ministers' role in ratifying general regulations which regulate the work of Ministries and public institutions;
- ◆ Clear definitions of powers and responsibilities for each of them; and
- ◆ A work plan by the Council of Ministers;

contributed directly towards the continuation of conflict, interference and duplication in powers and authorities among various Ministries and public institutions. This situation generated several public institutions which cannot be justified and led to sizable cadres. It maintained the status of confusion in the organizational structure of all Ministries and public institutions in the PA, which increased the budget burdens, and caused ambiguity in the basis of expenditure allocations for each one of them.

Committee Recommendations. The Council of Ministers should complete the organization of positions for Ministries and official departments, hopefully before the preparation of the 1998 budget and the final accounts of the 1997, which shall be submitted in a timely manner as per the law.

The Ministry of Finance should develop its departments which deal with this issue, in terms of providing competent and qualified staff to perform this comprehensive process:

- ◆ Develop the General Budget Department in the Ministry of Finance, particularly the division which deals with the auditing and control functions, to follow up the implementation of each Ministry's budget, in a manner which guarantees internal auditing and permits quick action to prohibit and stop any violations or practices which are beyond the frame of the General Budget Law.
- ◆ Create a department which will be concerned with the preparation of regulations and executive instructions to regulate and specify the standards and basis for preparing budgets, as well as specifying responsibilities and authorities and bodies tasked to implement such regulations in each Ministry or public institution.

The Executive Authority should concentrate on administrative reforms, through establishing administrative systems, adopting modern technologies, providing training and rehabilitation opportunities, and decreasing non-necessary recruitment and hiring.

A mechanism needs to be adopted for submitting a quarterly report by the Ministry of Finance to the Budget Committee in the Council, about following up the implementation and execution of the General Budget Law.

Findings. The progress which the Committee has made to date in carrying out its main functions, despite its limited means, should augur well for the success of a fiscal analysis unit integrated into its operations.

The Unit should enhance public sector transparency and accountability by:

- ◆ contributing materially to maintaining current oversight of the use of public funds by constituting the necessary additional human resources; and
- ◆ expanding the Committee's ability to carry out its mandate by freeing up the Committee's time so as to allow it more options in performing its oversight function, as well as by providing it with an additional source of technical expertise.

Recommendation. It is recommended that USAID consider providing assistance to the Unit in view of its potential for enhancing the accountability and transparency of the public sector through its strengthening of the Committee's oversight role.

Constraints on the Unit's potential effectiveness

The Unit, as an integral part of the Committee, would not possess the same full and enforceable access to data needed to carry out its mandate as is enjoyed by the internal and external audit bodies. However, the Unit is intended to be functioning as an integral part of the Committee's oversight activities and not as an audit commission. The more professional the government internal and external auditors become, the less time the Unit and full Committee need to spend on re-examining audit

findings. This should allow the Committee more choices in concentrating attention on the sound management of public funds.

3. Assess the external audit practices currently in use within the PA and the capacity of the Auditor General's Office to fulfill the external audit function, including the implications of the current location of the audit function in that office.

Findings. External auditing is the prerogative of the General Control Office (GCO), headed by a Chairman, who styles himself Auditor General, located in Gaza, with a deputy, the General Director, heading up an office in Ramallah, West Bank. The GCO was established under Law no. 17 of 1995 Concerning the General Control Commission, issued on 31 December 1995 (refer to Appendix 3).

The GCO's mandate is (Law No. 17 of 1995, chapter one): “to achieve control over public money and to ensure its proper usage, and work to develop policies, administrative procedures, and the improvement of performance and productivity”.

Inadequacies or deficiencies in the existing external auditing function are classified as follows:

- A. Lack of independence
- B. Lack of professionally qualified leadership
- C. Lack of perceived reporting professionalism
- D. Lack of prioritization of assigned duties
- E. Other problem areas disclosed in the UNDP report of June 1996 (appendix 4)

A. Lack of independence.

The GCO should be completely independent of the executive and it should conform to internationally accepted general, field work, and reporting standards for Government auditing such as those promulgated by the General Accounting Office in the United States.

Although the GCO is an institution separate and distinct from the executive, it lacks the elements of personal, external, and organizational independence which are essential to the auditing function in both the public and private sectors. Under the enabling legislation, Law no. 17 of 1995:

Article (2) provides that the Commission is subject to the direct supervision of the President of the Palestinian Authority.

Article (3) stipulates that the Controller General (GCO Chairman) and his Deputy be appointed by the Authority President.

Article (6) provides that the Authority President decides on the organizational structure of the GCO which the Chairman designs; and

Article (7), lists the parties subject to the Commission's control, and provides that “the Authority President may subjugate other institutions to the Commission's control, also he may exclude some parties from this control”.

The concept of independence also extends, inter alia, to freedom from personal impairments which could cause an auditor not to be impartial or to be perceived as not being impartial. The incumbent GCO Chairman is a close personal associate of the Authority President, his brother being married to the President's sister. Although the office of the Authority President is under the GCO's jurisdiction, it was not included, it is asserted, in the GCO's report.

Improvements needed. A Supreme Audit Authority should be established which is: completely independent of the Executive; accountable to the public, through its elected body; and carries out its functions in accordance with internationally acceptable government auditing standards, such as those promulgated by the General Accounting Office (GAO) in the United States.

A draft law which would create an independent Government audit function has been prepared by the Finance and Budget Committee (the Committee) of the Legislative Council (LC). This draft should be reviewed for technical adequacy by a professional familiar with the Government auditing function.

The enactment of such a law is provided for in article 93 of the Basic Law, which passed its second reading in late July, 1997. A copy of the draft of the proposed law was not available for review but, according to its author the Chair of the Committee, it provides for relocating the GCO's reporting responsibility to the Council and requires the Council's approval of the Authority President's nominees for GCO Chairman and Deputy.

Impediments to implementation. The draft law cannot embark on the legislative process until: (1) the Basic Law has been enacted; and (2) the draft has first been approved by the Authority President.

No estimate is available as to whether such a draft is likely to receive Executive approval or how long this entire process might take.

B. Lack of professionally qualified leadership

Findings. The candidates nominated for the offices of GCO Chairperson and Deputy should be professionally and personally qualified to perform their functions.

Neither of the two political appointees had prior experience in the Government auditing function, required in the US GAO's first general standard of government auditing, and needed for effective, qualified, professional leadership. However, they both have business experience.

It is debatable whether the Deputy Director, who has had no higher education, meets some of the hiring requirements of article (27) of Law no. 17 of 1995 (refer to Appendix 3) that apply to “whoever works in the control jobs”.

Improvements needed. All positions in government should be filled with technically qualified persons, following mandated civil services rules and regulations. These may or may not include requirements for tests of levels of competence. This is particularly critical for those in leadership positions. Some efforts in this direction appear to be made with respect to entry-level positions. According to the General Director, new hires for auditor positions, have to pass both a special written examination, encompassing a number of business-related topics, prepared by an academic commission, as well as an oral before an examination committee.

In its report on the general budget law of the Authority for fiscal year 1997 (refer to appendix 5), the LC Committee called on the Authority President to nominate professionals and technocrats to fill high government functions. The Committee repeated this call, it is asserted, in its review of the GCO's report which it submitted to the LC in late July, 1997.

Impediments to implementation. Power to change civil service employment practices is vested in the Center.

C. Lack of perceived reporting professionalism

One of the most visible activities illuminating the level of professionalism of a Supreme Audit Authority is its periodic report on government performance. According to the General Accounting Office's (GAO's) fourth reporting standard for performance audits:

“The report should be complete, accurate, objective, convincing, and as clear and concise as the subject permits.” It should also be widely distributed or otherwise made available to all interested parties.

It is asserted that the GCO's annual report issued to the Executive in the spring of 1997 does not meet these criteria. Specifically, that the report was put together jointly by the GCO Chairman, his secretary, and one other person and that no other members of the GCO were consulted before the report, together with the detailed data, were forwarded to the Executive Office.

The President forwarded the report, without the back-up, to the Legislative Council (LC) Committee charged with reviewing it. The Chairman of the GCO refused to provide this Committee with the back-up which it requested on the basis that it was up to the President to decide on the report's availability and distribution. So the back-up data, essential for analyzing the report, could only be obtained unofficially elsewhere.

Improvements needed. GCO audit reports should meet internationally acceptable reporting standards for financial and performance audits, such as those promulgated by the US GAO. Some of the widespread and deep concerns over the possible extensive misuse of public funds might have been

allayed, and independent investigations expedited, had such standards been followed in preparing the recent GCO report.

D. Lack of prioritization of assigned duties

The GCO's duties, as spelled out in article (9) of Law no. 17 of 1995, are wide-ranging, encompassing: (1) financial control; (2) administrative control and performance evaluation and follow-up for the execution of the plan; and (3) legal control. These duties are not prioritized, some could lead to duplication of functions, and others may not be appropriate for the government auditing function.

- ◆ Financial control is defined as including reviews of current activities which usually form part of the internal audit function, leading to duplication of effort;
- ◆ Following up execution of the (budget) plan is challenging in the absence of a Budget Law. However, the recent institution of the Budget Circular should be helpful for audit purposes in assessing compliance;
- ◆ Legal control vests the GCO auditors with “the character of court power” while discovering and investigating administrative and financial violations, and they “can seek help from the other judicial staff and experienced persons (article 12). Article (13) includes the GCO Chairman's right, or his Deputy's, to dismiss or suspend public employees “if the public good requires that”. Although they are "to issue the suspension order from the authorized party according to the laws and regulations," this could raise concerns about due process.

The list of auditees under the GCO West Bank's jurisdiction alone (Appendix 4, annex 5) exceeds that unit's capacity of 25 auditors to handle. Audit planning is negatively affected because, due to lack of human and physical resources, assignments are made more on the basis of urgency than rationalized.

Recommendation. The nature of the General Control Office's activities, as spelled out in the existing Law no. 17 of 1995, should be carefully analyzed to separate out duties that duplicate those of the internal audit function so that the two audit bodies perform complementary duties.

Action has already been taken in the GCO's West Bank Office which, the General Director asserts, is drawing up a program for cooperation and coordination with internal auditors.

E. Other problem areas disclosed in the UNDP report of June 1996

(Refer to appendix 4).

The operations of the General Control Office (GCO) were reviewed in June 1996 by a Senior Auditor from the Paris Office of the Court of National Audit. The general objective of this mission was to assist the GCO in designing its strategy regarding accounting control procedures and public policies audit in connection with a UNDP grant). Recommended improvements are detailed in the following section.

UNDP Consultant's Recommendations. The main recommendations contained in the UNDP Consultant's Report (Appendix 4) are as follows. The Palestinian GCO needs:

- ◆ better communication between the two branches of the General Control Office in order to achieve a unified, comprehensive and homogeneous auditing of Palestinian public accounts;
- ◆ training of staff to foster efficient auditing methods and implement value for money audits;
- ◆ reviewing of procedures both to consolidate GCO's status within the Palestinian Authority institutional framework and to set up a code of good audit practices which gives due consideration to the auditees' right of providing all explanations and relevant information and ultimately of being heard before the General Control Office finalizes its observations;
- ◆ provide GCO with equipments (sic) to receive, register, store, process and update information on accounts, with transportation facilities in order to carry out on site auditing;

- ◆ complement basic office furniture and equipments, both in Ramallah where the mission saw scant furniture and equipments (end note 20) and in Gaza where a new building is to be built for GCO.

Comments on the UNDP consultant's recommendations. Comments on the UNDP consultant's recommendations include, selectively:

- ◆ Better communication needed...

The report did not address the different sets of economic circumstances in Gaza versus the West Bank which might dictate different audit approaches as well as training needs.

- ◆ Reviewing of procedures...

Whether this recommendation was adopted in Gaza is questionable in light of some complaints voiced after the May 1997 GCO report that auditees had not been informed in advance of adverse findings. Procedures could be different in the West Bank from those in Gaza.

- ◆ Provide GCO with equipment, including transportation means..

The West Bank General Director claims that his activities are hampered by the lack of transportation for field auditors and listed automotive equipment to carry out on site audits as his first priority.

- ◆ Complement basic office furniture and equipment...

The lack of furniture and equipment at the Ramallah facility, cited in the Auditor's Report, is still in evidence. According to the West Bank General Director, Gaza seems to be the main beneficiary of the UNDP funding. Apart from obtaining qualified auditors, which is his second priority, he needs computers. It would be particularly useful, in his opinion, for his operations to be networked with the GFMIS.

4. Describe in detail the types of interventions (e.g. technical assistance) required, if any, to ensure successful implementation and use of external audit systems, as well as any constraints to successful implementation.

No intervention is currently recommended with respect to external audit systems, due to uncertainty about the potential for enhancing accountability and transparency in the public sector under existing circumstances. Specifically:

- ◆ The Authority President exercises direct supervision over the GCO, its executive staffing, its operating methods, and its reporting function. Any of these elements can therefore be changed, or modified, by Presidential decision, within the confines of legal limitations, at little or no notice. For example, key positions may be filled with appointees, qualified or otherwise, who cannot be terminated, or others may be vacated. Also the requirement that major decisions be made at the Center can significantly extend the time needed for implementing interventions.
- ◆ Certain basic legislation, such as a budget law and an accounting law, needs to be enacted and enforced in order for external auditing to become more effective. For example, the GCO's West Bank General Director estimates that 70 percent of audit effort is spent on trying to get the auditees' records into auditable condition.

Assuming away the element of financial and political risk associated with public sector interventions, the financial assistance required by the GCO's West Bank operations alone could be sizable. Its 25 auditors face a massive workload and have little in the way of transportation and computer equipment.

The West Bank's General Director does not have the facilities to support extra staff and does not know how to recruit them. A major disincentive for job applicants is that they would have to be hired under civil service rules, which generally limit auditors' salaries to about \$300 per month. Training costs are likely to be high because of the turnover due to better prospects in the private sector which also faces problems in recruiting qualified staff.

Recommendation. To alleviate the problems of the GCO's excessive workload and provide for increased audit coverage, the PA should be advised to give some consideration to the potential for

public audits to be contracted out to private firms of qualified accountants, as is common in the United States. Apparently, it may be legally possible, at least in the West Bank, for private certified auditors to audit the accounts of municipalities.

Two possible additional advantage of outsourcing the external audit function are related to the variety of accounting practices and procedures which exist and persist in the Palestinian Territories in the absence of an Accounting Law. Private practitioners may be more experienced in auditing wide varieties of accounting records. Further, the use of private practitioners should reduce the amount of resources spent on training.

Constraints to successful implementation. The quality of private sector audit services is uneven in and between the West Bank and Gaza due to the lack of uniform auditing standards, or an officially-recognized professional body of accountants to enforce them if and when promulgated. Safeguards would be needed to ensure that the public audits meet acceptable levels of quality.

Some private sector auditors may be reluctant to enter into public sector audits because of: (a) possible political ramifications of their determinations; and (b) uncertainty about whether or not they will receive payment.

5. Describe in detail the types of interventions (e.g. technical assistance) required, if any, to ensure successful implementation and use of the internal control systems, as well as any constraints to successful implementation.

No interventions are currently recommended with respect to internal control systems, due to uncertainty about the potential for enhancing accountability and transparency in the public sector under existing circumstances. Specifically:

- ◆ The experience of attempting to install the Government Financial Management Information System (GFMS) serves as a case study and object lesson in the delays and frustrations that can result when the legal and organizational infrastructure is not already in place. The project started at the end of 1995 and should have been operating by the end of 1996. It still has not been officially approved and the earliest that a trial run could be anticipated is estimated to be

the end of 1997. This seems optimistic because of procurement delays in letting a contract for the software.

- ◆ If and when the GFMS is installed, and operating as planned, it should, however, significantly enhance the internal controls of the Ministry of Finance.
- ◆ An internal function cannot be expected to operate effectively if it does not receive adequate recognition for its activities. Although the Ministry of Finance has had its own, understaffed internal audit function both in Gaza and the West Bank for two years, it has been dragging its feet with respect to recognizing and emphasizing the role of the internal audit function both internally and in general. Only lately have some measures been planned to place more emphasis on this area.

It is recommended that no interventions should be undertaken until or unless these various organizational changes have been implemented, and progress has been made on the installation of the GFMS. Only when the situation has stabilized to that point would providing intervention, such as staff training, be likely to enhance public sector accountability and transparency.

A further precondition for USAID intervention would be the existence of an appropriate internal control environment. That is, an environment in which management at all levels, and essentially at the top, must create, maintain, and require high ethical standards and impose sanctions for non-compliance with them.

6. Assess how other donor/NGO assistance may affect the areas of PA audit controls, accountability systems, and accountability/transparency.

There being no central registry of such information, the approach taken was to ask each person interviewed whether they were aware of other donors in the listed areas of interest. By this means, information was obtained about the World Bank funded GFMS project, described in item (1) of the terms of reference, and the UNDP Consultant's survey, in connection with the grant to the GCO, described in item (2) of the terms of reference. This does not preclude there being relevant activities by other donors that those interviewed were not aware of.

The following known or potential donors were contacted by telephone: the International Monetary Fund (IMF, Mr. Salam K. Fayyad); the United Nations Development Programme (UNDP, Ms. Iman El Wazir); and The World Bank (Mr. Ali Khader). Discussions generally focused on what each donor has already accomplished with respect to activities related to the subject matters of this report, what they plan to accomplish further, and which activities have fully-secured funding.

The International Monetary Fund. The most closely related IMF public sector activity has been technical, but not financial, assistance in the development of: the Government Financial Management Information System (GFMIS) World Bank project; the budget circular; and the financial instructions issued by the Ministry of Finance. Also, the IMF has provided the Budget Department of the Ministry of Finance with a full-time EDP expert, Mr. J. Tricot, as a technical advisor on the GFMIS. At the present time, no financial assistance is planned for activities related to public sector areas of interest covered by this report.

The United Nations Development Programme (UNDP). The most closely related UNDP public sector activities are the funding from Japanese sources, of public sector training, equipment, and technical assistance. One million dollars was already donated and expended on a TOCTIN program, whereby expatriates are brought in, usually on a short-term basis, as resident advisors. At present, there about 20 persons in Gaza serving under this program in various locations. A second one million dollars has been committed by the same source and the full amount is expected to be received by September 1997. Discussions are soon to be held with the donor regarding the possibility of obtaining an additional commitment.

The beneficiaries of the funding are, in addition to the TOCTIN program:

The General Control Office (GCO) (\$298,000);

The Secretarial Office of the Cabinet (headed by Mr. Ahmed Abdel Rahman);

The National Public Administration Center in the Ministry of Planning and International Cooperation;

The Personnel Council; and

The Internal Audit and Control department of the Ministry of Finance (\$15,000).

The General Control Office has been allotted \$298,000, in roughly equal monetary amounts, for training, equipment, including computers, and consultants.

Personnel from the Ministry of Finance's (MOF's) internal audit and control department have been, and will be, included in the GCO training activities under the GCO's allotment. To date, two persons at a time have been sent for training to Egypt and Jordan and more will travel soon for training by the Government's Control Office in Egypt.

It is planned to send 10-15 personnel from the MOF's internal audit and control departments in both Gaza and the West Bank for from one week to ten days training, separately from the GCO, in Egypt's Ministry of Finance. The allotment of \$10,000 to \$15,000 is based on a budget of \$1,000 per person and the timing is set for late September or early October so as to avoid the vacation season.

Any additional activities in the future will depend on whether more funding can be secured.

The World Bank. The most closely related public sector activities are those related to the GMIS project which is funded from the \$23 million Technical Assistance Trust Fund (TATF) administered by The World Bank. The Deputy Director will locate the funding details, not currently at hand, and inform USAID about the amounts separately allocated for the survey and technical manual and the Arabicized computer software (stated by Arthur Andersen to be \$600,000 and \$250,000 respectively), as well as an additional amount which has been allocated for hardware.

Regarding the status of the project, the 800-page manual has been completed for some time. (A copy was kindly forwarded to USAID by the World Bank on 7 August 1997). The software procurement has been delayed but it is hoped to enter into alternative arrangements that should resolve some issues within the month. No additional activities are contemplated.

7. Policy concerns which should be pursued concerning the constraints to effective audit mechanisms which, if resolved, would clear the way for constructive assistance to be provided in this area.

In the interests of promoting transparency and accountability in the public sector, a top-level commitment is needed to implement the following institutional arrangements:

- ◆ An independent external audit function should be established which is accountable to the Palestinian people through their elected representatives, has no personal, external, or organizational impairments, meets internationally acceptable standards for government auditing, and makes its reports available for public inspection, unless restricted by law or regulation.
- ◆ All government personnel, regardless of status but particularly at top levels of public administration, should be qualified to perform their functions. Civil services procedures governing recruiting and terminating, should be instituted, implemented, and applied across-the-board, including a requirement for examining job qualifications.
- ◆ A code of ethics, including prohibition of conflicts of interest, should be established and enforced for public employees.
- ◆ An appropriate control environment should be established to strengthen and support management integrity and provide for the imposition of real sanctions for malfeasance in office at all levels of government.

II. MINISTRY OF FINANCE INTERNAL CONTROLS

Definitions. The term “internal control systems” was defined in the terms of reference as “those used by a Ministry to monitor its own spending”.

More generally, internal control systems may be defined as those policies, procedures, and processes effected by an entity's governing body, management, and other personnel which are designed to provide reasonable assurance regarding: management controls, safeguarding controls, and controls over compliance with laws and regulations.

(Field work standard (3) for performance audits and field work standard (4) for financial and performance audits, Government Auditing Standards Manual (the Yellow Book), General Accounting Office, 1994 edition, pp. 38 & 77).

Management controls include, broadly, the plan of organization, methods, and procedures adopted by management to ensure that its goals are met. They further include:

- ◆ the processes for planning, organizing, directing, and controlling operations; and
- ◆ the systems for measuring, reporting, and monitoring program performance. (Yellow Book, pp. 77 & 78.)

Safeguarding controls relate to the prevention or timely detection of unauthorized transactions and unauthorized access to assets that could result in material losses as, for example, when unauthorized expenditures or investments are made, unauthorized liabilities are incurred, inventory is stolen, or assets are converted to personal use. Such controls are *not*, however, designed to protect against loss of assets arising from inefficiency or from management's operating decisions, such as incurring expenditures for equipment or material that proves to be unnecessary or unsatisfactory. (Yellow book, pp. 39-40.)

Internal controls in the Ministry of Finance. The following weaknesses were disclosed through discussions and references to documentation, but not by direct observation, in the Ministry of Finance's internal controls:

- ◆ lack of written mandates and job descriptions;
- ◆ lack of a manual of operating procedures for the Internal Audit department; and
- ◆ lack of a clear organizational structure for the Ministry as a whole.

This situation should be remedied when the Government Financial Management Information System (GFMIS), described below, is installed. It is hoped, perhaps optimistically, that a trial run of the system will be attempted in December 1997.

The Ministry of Finance and its various functional units operate without written mandates and job descriptions. This situation constitutes a weakness in management controls in that necessary and documented benchmarks are absent against which to measure, inter alia, the nature and extent of Ministry units' objectives and responsibilities as well as their degree of success, if any, in meeting them.

The absence of a manual of operating procedures for the Internal Audit department constitutes an impediment to assessing its efficiency and effectiveness. This situation would be remedied, if and when the manual developed under the GFMIS is approved and its procedures and controls implemented as it contains, on pages E-15 and E-16, a detailed structure for the Internal Audit function and its operations.

The lack of a clear organizational structure, approved by the Council of Ministers, in the Ministry of Finance (and Planning also), as well as for the Executive branches of the PA as a whole, to provide the necessary basis for the salaries and wages budget, was cited by the Budget and Finance Committee (the Committee) of the Legislative Council in its report on the 1997 general budget proposal (refer to section III of this report and appendix 5).

A set of Financial Instructions for 1997, which usually constitutes a basic element of management control, was issued by the Minister of Finance and, assertedly, distributed for use by all Executive units of the Authority at the beginning of 1997. It is a slim volume, which appears to contain about 20-25 pages. Its table of contents was translated as follows:

| <u>Section</u> | <u>Title</u> |
|----------------|------------------------------------|
| 1 | Definitions of key terms |
| 2 | Financial and accounting rules |
| 3 | Vouchers and records |
| 4 | Revenues |
| 5 | Expenditures |
| 6 | Advances |
| 7 | Reimbursements |
| 8 | Administration of cash assets |
| 9 | Administration of government debts |
| 10 | Financial control |
| 11 | General rules |

Access to its contents was not obtained. The IMF resident representative stated that the easiest way to obtain a copy of the instructions would be through access to the General Budget bill enacted for 1997 in which they are incorporated. Efforts to obtain a copy of this bill were not successful and some question was raised, in discussion with ARD, which does not have a copy, as to whether it is publicly available. Several attempts were made, without success, to follow-up with the IMF representative as to possible additional leads.

The IMF resident representative stated that IMF technical assistance was provided in the preparation of the Financial Instructions and that they, together with the Budget Circular, discussed in part B of this section of the report, constitute an adequate set of controls over the finances, pending the installation of the Government Financial Management Information System (GFMIS), discussed below.

Implementation of the Financial Instructions, and monitoring for compliance with them, are critical internal control elements in view of the decentralization of spending which went into full effect in 1997, as discussed in part B below.

The two basic internal control mechanisms. The Internal Control and Audit department (based in Gaza and the West Bank) and the Budget department (based in Gaza) currently constitute the basic

internal control mechanisms within the Ministry of Finance. That is, they are the two organizational entities whose duties are formally concerned with monitoring management and safeguarding controls.

A. The Internal Audit Function

The internal audit function is an important element of management control as its main functions are, or should be, to check on whether the internal control system is operating as intended. In the context of Government financial management, one of its main activities is auditing actual revenues and expenditures as it is in the present case.

A law governing the internal audit function has not yet been enacted. It is among the pending financial legislation, which will contribute towards standardizing and organizing the financial aspects of the Authority's public administration, that the Committee recommended be finalized by the Council of Ministers in its report on the 1997 general budget proposal (refer to appendix 5).

The Department of Internal Audit and Control is an organizational unit of the Ministry of Finance with a combined total staffing of about 40 administrative and line personnel. Its General Director is Mr. Esaid Kassem El Kedra, whose office is located in Gaza. Ms. Mona Al Masri is the Director at the West Bank facility in Ramallah. She reports, unofficially and for geographical convenience, to the deputy minister of Finance although being, at the same time, in a subordinate line relationship to the Gaza general manager.

Background of Executives. Mr. El Kedra has been General Manager for the past two years and has little or no background in internal auditing. He was previously connected with the PLO's Palestinian National Fund (title?).

Ms. Al Masri has been the Director for two years and previously worked in the private sector. She has no previous experience in either government or in internal auditing. However, she graduated in accounting from Nablus University, and took a CPA review course, which included an overview of governmental accounting. She gained some additional theoretical understanding of the government internal audit function from a recent short training course held in Jordan, sponsored by the UNDP-Gaza (refer to term of reference (6)).

Staffing. The staffing in Gaza, of about 25 internal auditors, is roughly double that of the West Bank which has a complement of 12, to be increased to 15 in August. This ratio was queried on the grounds that Ramallah probably has more transactions than Gaza, requiring higher staffing levels.

One of the reasons put forward by the Director for the disparity in staffing levels was the fact that operations in Gaza are all manual and, therefore, more likely to be time-consuming. For example, about 90 percent of revenues flow into the MOF's bank accounts in Ramallah by electronic transfer. They are then transferred to the Ministry's main Treasury account in Gaza. (Most of the Authority's funds, it appears, are deposited in the Bank of Palestine.) Verifying revenues in Gaza, on the other hand, involves sorting large quantities of deposit slips.

Both the General Manager and the Director commented on the difficulty of finding staff with requisite internal auditing skills. Brief conversations were held with several staff auditors, specifically: three in the West Bank and two in Gaza, to learn something of their professional qualifications. The three West Bank internal auditors had higher education as follows: a Bachelor of Commerce from New Delhi, India; an accounting major in business from Birzeit University, and a management major in business from Nablus University. One of the two Gaza internal auditors had a business degree from Iraq, while the other obtained his business degree from Cairo University.

Staff duties. Based on information offered by the two executives, the internal auditors in each of the two locations carry out essentially the same duties. That is, they audit receipts of revenues as well as payments of salaries and other expenditures, for compliance with budgetary provisions as well as for clerical accuracy and completeness of documentation. The only area of government finances excluded from their review is that involving taxes, there being a separate group of tax auditors/inspectors employed in the two Ministry of Finance fiscal departments of (a) income taxes and (b) VAT and excise taxes.

According to the Director, the internal control department adheres to the relevant provisions of the Minister of Finance's Instructions for 1997 and checks for compliance by other governmental units as appropriate.

Two other MOF groups with whom the department of internal audit and control interacts are the Treasury and the Budget. The Treasury has three departments: revenues, expenditures, and accounting,

and their records are networked. Internal audit, however, is not on line with them. This entails physical checks etc. that networking would otherwise minimize, allowing for spot-checks, for example. This problem will be removed when the GFMIS, described below, is installed.

What is not known exactly is what specific procedures the Internal Audit department actually follow in carrying out their functions. Some changes must have taken place, however, since the Arthur Andersen survey in mid 1996, discussed below, because of a significant operating change which went into full effect at the beginning of 1997, that is: the decentralization of spending.

Decentralization of expenditures. Until the beginning of 1997, almost all financial operations were centralized in the Ministry of Finance (MOF). However, some expenditures (other than salaries) were made by four other Ministries: Local Government, Health, Education, and Economy. It is still the case, it is asserted, that only the MOF may pay salaries. As of 1997, however, the expenditures function, other than for salaries, has been decentralized and outlays by spending units external to the Ministry are subject to a pre-audit by the internal audit staff. Some of the controls over spending decentralization are described in part B of this section dealing with the Ministry's Budget department.

Recent attention to internal controls. The importance of the internal controls has apparently recently received increased official recognition. According to the Director of the Internal Audit department, the Minister of Finance recently circulated an internal memo, with a request for feedback, outlining some measures to emphasize and strengthen the internal audit function. Among the proposals were:

- ◆ the creation of an independent, internal audit function in each Ministry, reporting to the department of internal audit and control in the MOF. (It is not clear as to whose budget would be charged). This arrangement to commence when the necessary staff can be recruited;
- ◆ definition of the duties and responsibilities of the department of internal audit and control more clearly , including written job descriptions.

The first item was confirmed with the Head of the General Budget department, who stated that there are plans to add a few (i.e. a total of about five) internal auditor personnel slots to be located, on a trial basis, in some of the spending Ministries. These auditors would report to the Ministry of

Finance's Internal Audit department, not to the Ministry where they are located, and would, therefore be a part of that department's extended jurisdiction.

Perceived needs for technical assistance. The General Manager (Gaza) and the Director (West Bank) put forward the following wish list of needed technical or financial assistance:

- ◆ Fixed assets: Several computers as well as transportation so that staff can make on site spot checks;
- ◆ Software: (a) computer programs for networking with the budget and accounts departments; and (b) policies and procedures manuals for internal auditors; (NOTE: both these are already provided for in the GFMIS);
- ◆ Staff training: training courses in topics specific to the internal audit function.

The type of training most preferred would be internships for up to one month in the internal audit departments of Arab governments. Training courses should, preferably, be conducted abroad because: (1) participants would be more likely to take them seriously; and (2) they would not be distracted by business and family matters. Jordan would be preferable to Egypt because of cultural congruencies. Training courses should be given in Arabic and, if not abroad, in the West Bank and Gaza separately. It would not be feasible to try and hold joint sessions, due to difficulties in traveling. The General Manager was not at all interested in the TOCTIN program of having a resident long-term adviser.

The Government financial management information system (GFMIS). The Government financial management information system (GFMIS) is a project funded by the World Bank (refer to term of reference (6) below) and carried out by the Arthur Andersen consulting firm with technical assistance from the IMF, to design a Government Financial Management Information System (GFMIS) for the Ministry of Finance. Once installed and operating as intended, the system will be extended to include other units of Government, commencing with the Ministry of Health.

The deliverables are a systems manual, translated into Arabic, containing all necessary procedures and controls, funded at \$600,000, and full automation of the system, based on the manual and Arabicized,

funded at an additional \$250,000 for the software. According to a local World Bank representative, an additional amount (about which USAID will be notified directly) has been allocated for hardware.

As a necessary preliminary stage of the project, the consulting team conducted a full assessment of the internal control systems of the Ministry of Finance over a six-week period in the summer of 1996. According to a member of that team, the assessment determined that the Ministry's internal controls, at that time, basically consisted of simple procedures designed to try and prevent budget overspending. They were considered to be inadequate for use as a foundation for the GFMS and the system was designed from scratch.

An English-language 800 page manual was produced and, according to an Arthur Andersen representative, is pending approval: whether by the Minister of Finance or by the Executive Office is not certain, before translation into Arabic. A copy of the manual was provided by the World Bank and left with USAID at the conclusion of this assignment. The manual's table of contents is as follows:

Manual of Financial Management - Procedural Guidelines

- Part A - Introduction
- Part B - Financial Management and Accountability Framework
- Part C - Budget Preparation
- Part D - Expenditure Cycle
- Part E - Budget Monitoring
- Part F - Treasury Monitoring
- Part G - Monthly, Quarterly, and Annual Reporting
- Part H - Chart of Accounts
- Appendix I - Organizations Included in the Budget Sector
- Appendix II - Schedule of Devolutions
- Appendix III - Account Descriptions for Chart of Accounts (*In progress*)
- Appendix IV - Accounting Policies
- Appendix V - Glossary of Terms (*In Progress*)

GFMS Functional Requirements Specifications

GFMS Information Systems Plan

Budget Proposal Worksheet

A software company, with Arabicized products already used in other governments, was identified but PECDAR, the Palestinian investment procurement agency, would not agree to a sole source contract. So four other vendors were identified and PECDAR is going through the tender process. According to a World Bank representative (refer to term of reference (6) below), it is hoped to come to some arrangement to speed resolution of the procurement delay within the next month. A trial run of the system is hoped for, possibly optimistically, by the end of 1997. In the meantime, the project is dormant.

B. The General Budget Department

The General Budget Department (the Department) of the Ministry of Finance is headed by Ms. Ablla Nashashibi (the daughter of the Minister of Finance, Mr. Mohammed Nashashibi).

The enabling legislation under which the Department operates is, in the absence of a basic Budget Law, an organic budget law which will remain in force for one more year: that is, until the summer of 1998. A draft of the basic Budget Law has existed for some time but the Legislative Council (LC) proposed a new draft with some changes. Ms. Nashashibi asked for time to study it, then forwarded one copy to the Cabinet, which has not yet issued an approval, and a second copy to the LC's Budget and Finance Committee (the Committee) where it is under review.

As of the beginning of 1997, the Department changed its operations to conform to the Budget Circular. The Circular, so named because it is circulated to all spending PA institutions, consists of a set of instructions on the budgeting process and procedures, including copies of all the budget-related forms that have to be completed. The Circular was, it is asserted, put together in mid or late 1996 by a team which included Ms. Nashashibi, Ms. Al Masri the West Bank Director of the Internal Audit and Control department, a Mr. Prakash representing the IMF, and others.

Efforts to obtain a copy of the Budget Circular indirectly were not successful. When a contact person attempted a direct approach, Ms. Nashashibi's response, it was reported, was that she would consider the request if USAID were to send her an official letter stating why a copy of the Circular is required, the nature of the underlying project, and why acquisition of the Circular would further the project's objectives. It is likely, however, that the Circular was put together from relevant sections of the GFMIS manual, such as part C Budget Preparation, and Part E Budget Monitoring.

Spending was fully decentralized starting in 1997. Each month, the Department sends out monthly allotment notices, listing the line items which are covered and their budgetary code numbers. The notices are in four copies, distributed as follows: to the Treasury, authorizing payment; to the Internal Audit department, for monitoring; to the spending unit, for information and authorization; and for the Department's file.

The budgetary 10-digit code numbers are also used for accounting purposes. However, additional sets of 10 digit sub-codes are used for accounting purposes so as to provide for more details of particular line items. This budgetary and accounting system is computerized but it is considered to be temporary until the GFMIS is installed. (NOTE: according to the IMF resident representative, an IMF-funded EDP expert, Mr. Jean Tricot, is providing long-term technical assistance to the Department for eventual implementation of the GFMIS. He was observed occupying an office close to the Department head's office during the field trip to the Department.)

The accounting system is on a cash basis. To avoid the “use it or lose it” syndrome, any commitments entered into after the middle of November each year, as well as any other outstanding commitments entered into, will have to be included in the following year's budget proposals if not finalized by the end of the current year. Any budgeted revenues, not received by the end of the current year, will form part of the following year's budget proposals. The books are kept open for one month after the end of the fiscal (i.e. calendar) year so as to record, in the appropriate budget year, delayed information about transactions completed in the previous year.

A completely cash-based system was, it is asserted, insisted on by the IMF rather than a modified cash system whereby amounts not received or expended in one year could be carried forward to the next. The GFMIS manual follows the full cash basis approach, although stating that the general aim should be to move towards a full accrual system, and provides, in part H, for a chart of accounts. In addition to the cash basis, the manual's chart of accounts provides for application of the following key principles (Manual, p. H-3):

- ◆ Treasury Single Account and Fund operating structure for government finances;
- ◆ Consistency with Government Financial Statistics (GFS) classification system of the IMF; and
- ◆ Global chart structure that is determined by the Ministry of Finance. Budget sector agencies are only allowed flexibility of the global structure below the centrally determined level.

Periodic reporting on the Budget, also covered in the GFMIS manual, commenced at the beginning of 1997. However, according to the Department head, for 1997 it is being treated as a training exercise since it represents a learning experience for the participants. However, full implementation is expected for calendar year 1998. Theoretically, two reports are to be generated each month: one by each spending unit and submitted to the Ministry, and the other which the Ministry consolidates from the individual submissions.

The monthly reports are to have the following sections: (a) transfers received to date; (b) expenditures to date; (c) commitments to date; and (d) funds needed for the following month. Because the monthly reporting system is not yet fully implemented, it is not yet a prerequisite for obtaining the funds allotted for the following month.

Improvements needed in the Ministry of Finance's internal controls. The main improvements needed in the Ministry of Finance's system of internal controls are covered in the GFMIS detailed Manual of Financial Management which contains all necessary financial management procedures and controls. This manual should be implemented as early as possible: particularly since it has been waiting approval for about nine months.

Constraints to successful implementation of needed improvements. A question which naturally arises is why existing internal controls, inadequate though they may be, did not signal the alleged financial and operational irregularities disclosed by the GCO's report. While opinions vary, the situation points up the necessity for an appropriate internal control environment. When the environment is dominated by political considerations and lack of discipline and sanctions, rather than professionalism and high respect for management integrity, internal controls are likely to be ineffective.

III. THE BUDGET AND FINANCE COMMITTEE OF THE LEGISLATIVE COUNCIL

Background. The Budget and Finance Committee (the Committee) of the Legislative Council (LC) was established in mid 1996 and consists of the following members and their constituencies:

| | |
|---------------------------|---------------------------|
| Dr. Sa'di Al Krunz, Chair | Deiral Balah, Gaza Middle |
| Daoud Al Zeir, Secretary | Bethlehem |

Members

| | |
|---------------------|---------------------|
| Jawad Al Tibi | Khan Younis |
| Hikmat El Kilani | Jenin |
| Abdel Fatah Hamayel | Ramallah |
| Azmi Shuiabi | Ramallah |
| Fakhri Shaqoura | Gaza City |
| Yousef Abu-Safieh | Jabalia, Gaza North |
| Yousef Al Shanti | Gaza City |

The Committee's basic mandate is to review and analyze the executive budget and make recommendations on it to the LC. However, it has very few resources, that is, only one staff person and no access to any equipment. Much of the workload falls on the Chair who appears to be hard-working, persevering, professionally qualified for analytical studies, and committed to transparency in government financial management. He has undergraduate and graduate degrees in mathematics and a Ph.D. in statistics from Indiana University.

The Committee chair claims to have developed a good working relationship with the head of the budget committee of the Ministry of Finance as well as the GCO's West Bank office. He performed virtually all the analysis work on the GCO's report, delivered at the Legislative Council assembly in late July 1997, and thus has an excellent grasp of the sources and uses/abuses of public funds.

Associates in Rural Development (ARD), which has an office in Ramallah, West Bank, is assisting in developing the Committee's expertise. For example, in March 1997 it brought in a consultant to advise the Committee on review and analysis techniques in connection with its examination of the proposed 1997 budget. In a second phase, ARD will provide the Committee with training in advance of the next budget cycle which should commence in the fall of 1997.

Proposed fiscal analysis unit. ARD is also working with the Committee on plans to establish a fiscal analysis unit (the Unit) in the fall of 1997, with the help of an outside consultant. The aim is to form a staff of possibly two or three persons, whose main tasks would be

- ◆ to review the annual executive budget;
- ◆ to track the budget revenues and expenditures monthly; and
- ◆ to maintain an overview of the public finances

In other words, the Unit would concentrate, on a current basis, on financial details directly related to the Committee's main tasks, relieving it of some of the burden and permitting it to extend its oversight activities. It would therefore supplement the accountability measures provided by the external and internal audit functions, and benefit from the particular advantage of being independent.

Since its formation, the Committee has not had either the ability or the capacity to review the budget comprehensively, instead it has had to select a few elements at a time on a cycle basis. The proposed Unit would, accordingly, relieve the Committee of some of the workload while enhancing its oversight capacities.

A basic consideration is whether the proposed Unit would have the necessary Committee support and interest to motivate the staff and ensure maximum use of its efforts. The Committee's recent activities are reassuring in that regard as it has taken a diligent, professional, and open approach to carrying out its mandate. The documented support for this assessment is provided by the Committee's report on the general budget law for fiscal year 1997 which is excerpted in appendix 5. The progress which the Committee has made to date in carrying out its main functions, despite its limited means, should augur well for the success of a fiscal analysis unit integrated into its operations.

The Unit should enhance public sector transparency and accountability by:

- ◆ contributing materially to maintaining current oversight of the use of public funds by constituting the necessary additional human resources; and
- ◆ expanding the Committee's ability to carry out its mandate by freeing up the Committee's time as well as providing it with an additional source of technical expertise.

Recommendation. How, and to what extent, this Unit is to be financed is an open question. It is recommended that USAID give serious consideration to providing assistance to the Unit in view of its potential for enhancing the accountability and transparency of the public sector.

Constraints on the Unit's potential effectiveness. The Unit, as an integral part of the Committee, would not possess the same full and enforceable access to data needed to carry out its mandate as is enjoyed by the internal and external audit bodies. However, the Unit is intended to be functioning in an oversight role and not as an audit commission. The more professional the government internal and external auditors become, the less time need be spent by the Unit and full Committee on re-examining audit findings. This should allow for more concentrated attention to the wider implications of the sources and uses of public funds.

The Committee's performance. To appreciate the Committee's contributions towards enhancing transparency and accountability in the public sector, it would be useful to review the circumstances under which the Committee attempts to fulfill its responsibilities as well as what it has achieved.

First and foremost, no basic Budget Law has yet been enacted, one reason being that, as for any other piece of major legislation, the Basic Law must be enacted first. The Basic Law passed its second reading in the last week of July 1997, so it is in the final stages of the legal process. However, an organic budget law exists which is due to expire in one more year, that is, in mid 1998.

The drafting of a Budget Law commenced in late 1995, preceding the Legislative Council elections in January 1996. According to the head of the Budget Department in the Ministry of Finance, certain changes were made to the draft as a result of discussions between that department and the LC. The Budget Department then forwarded copies of the amended draft to the Committee and to the Cabinet, where it is still under review.

Under the existing legislation, the Ministry of Finance should have submitted the proposed budget bill for calendar year 1997 to the Committee on 1 October 1996. It was not submitted, however, until mid-March 1997. The proposed budget did not contain either an explanatory statement as to the assumptions, considerations, and philosophies underlying its preparation or detailed information. Accordingly, the Committee worked together with the Budget Department and the various Ministries to build up the data base for analysis and submission to the LC.

This process revealed that, generally, the budget proposals for the various Ministries were derived from negotiations of amounts, some of them completely undocumented to start with, between the individual Ministries and the Budget Department starting six months earlier in October 1996. The length of time which had elapsed since then called, therefore, for a re-examination of the proposed allocations.

Review of the 1997 proposed budget. In its report on the general budget bill for 1997 (refer to appendix 5), the Committee's findings and recommendations were mainly concentrated on the developmental expenditures, to be covered by foreign aids and grants, estimated at \$845.15 million, and the general revenues and expenditures, proposed at \$866 million.

The Committee made a general recommendation that **all** (emphasis added) expenditures mentioned in the bill be subject to oversight, auditing, and review by the Auditing department in the Ministry of Finance and the Financial and Administrative Auditing Bureau in the PA (the General Control Commission?), in implementation of the principles of financial transparency, clarity, and integrity. The emphasis on "all expenditures" refers to the following circumstances, which the Committee asserted it had established:

Development expenditures. Neither the Ministry of Finance nor the financial departments of the particular Ministries involved, have any role in controlling and auditing development project expenditures that are financed by donors. The Committee recommended that, in the absence of clear and accurate control over the tender and award process, the Ministry of Finance should control the payment and spending on these projects in accordance with appropriate financial standards. All foreign aids and grants should be paid into a special account in the Ministry of Finance's general Treasury, while spending and payment should be in accordance with contracts entered into with donor countries for each project, based on financial orders certified by the Minister of Finance.

This issue was discussed with the local IMF representative who stated that, although no mechanisms currently exist for integrating development expenditures into the general budget, it is hoped that efforts will be made to try and bring development expenditures under general budgetary control in the 1998 budget proposal. He acknowledged, however, that this would be challenging because:

- ◆ development projects are not centralized;
- ◆ there are various ways of contracting and making funds available; and
- ◆ the donors would have to agree to the payment arrangements.

The Committee further recommended that all foreign loans to the PA should come under the oversight of the Ministry of Finance. Loan contracts should be entered into with the Minister of Finance, and should be in accordance with a resolution issued by the Council of Ministers, based on a recommendation from the Minister of Finance, and approved by the Palestinian Legislative Council.

General revenues. According to the Committee, certain major budget categories were not included in the budgeted general revenues, and were not, therefore, under the control of the Ministry of Finance as they should have been. For example, not all fees, penalties, and fines were paid in to the Treasury. Also, the 1997 general budget proposal omitted revenues from the profits of the following:

the General Commission of Petroleum, the Palestinian Company for Commercial Services: basically cement, the Palestinian Monetary Authority: in accordance with the law, the General Commission for Tobacco, and other general commercial establishments registered in the name of the Authority.

The Committee required the Ministry of Finance to correct this situation, to ensure that all revenues are paid into the Treasury, and to submit a report on this to the Council within three months from the date of ratification of the budget.

Violations of ethical standards. In its review of developmental expenditures with various Ministries and public institutions of the mechanisms for carrying out development projects, the Committee asserted that it had made the following determinations:

- ◆ Several senior Ministry officials (particularly from one identified Ministry) receive high additional salaries in return for position titles in these projects.

- ◆ There are employees assigned to these projects who receive salaries less than amounts allocated for them in the contracts they signed.
- ◆ In most cases, tenders are awarded to companies owned by senior officials in one (identified) Ministry, or working in other Ministries and public institutions.

These assertions raise the issue of the need for implementation of an enforced code of ethics which would cover enforcement of sanctions for conflicts of interest and other misuses of public and donated funds.

Committee Recommendations.

- ◆ The role of the Ministry of Planning and International Cooperation should be limited to the planning and preparation of studies for these projects, rendering necessary technical consultations, and following up with donors or financing countries to obtain the necessary financing for these projects.
- ◆ Personnel in government positions should not be permitted to work as consultants or employees in projects whatsoever.

General expenditures

Salaries and Wages. The Committee comments disclosed the lack of certain basic internal controls, in particular lack of management controls over the plan of organization and appropriate, qualified staffing to ensure that goals are met.

- ◆ Not all Ministries and public institutions have a clear organizational structure approved by the Council of Ministers. This applies to the Ministry of Finance and the Ministry of Planning and International Cooperation, where positions are filled and financial grades are determined accordingly;
- ◆ Most of the recruitment is not carried out in accordance with actual personnel needs or in accordance in organizational job descriptions, or subject to free competition under the equal opportunity principle;

- ◆ The size of senior positions at several Ministries and public institutions is inflated, creating budget burdens, making it difficult to prepare organization charts, and causing deterioration in functional performance. Organization charts should be reconsidered, based on actual needs and the ratified budget;

Committee Recommendations

- ◆ That the LC finalize ratification of the Civil Service Law and request the Council of Ministers to provide the necessary reserve in the 1998 Budget for the Law's implementation.
- ◆ The Minister of Finance should prepare an organization chart for the Authority's institutions and submit a report to the LC about this before 31 July 1997.

The Committee's General Comments and Recommendations. Selected comments by the Committee which address the needs for internal controls follow.

FIRST. The absence of the Council of Ministers' role in ratifying general regulations which regulate the work of Ministries and public institutions, as well as the absence of clear definitions of powers and responsibilities for each of them, in addition the absence of a work plan by the Council of Ministers, contributed directly towards the continuation of conflict, interference and duplication in powers and authorities among various Ministries and public institutions. This situation generated several public institutions which cannot be justified and led to sizable cadres. It kept the confusion status in the organizational structure of all Ministries and public institutions in the PA, which increased the burdens of the budget, and caused ambiguity in the basis of expenditure allocations for each one of them.

Accordingly, the Committee recommends to the Council of Ministers to complete the organization of positions for Ministries and official departments. Further, the Committee puts an emphasis on this point and hopes that the council of Ministers will accomplish this task before the preparation of the 1998 budget and the final accounts of the 1997, which shall be submitted in a timely manner as per the law. In addition, the Committee recommends to the Ministry of Finance to develop its departments which deal with this issue, in terms of providing competent and qualified staff to perform this comprehensive process.

1. Develop the General Budget Department in the Ministry of Finance, particularly the division which deals with the auditing and control functions, to follow up the implementation of each Ministry's budget, in a manner which guarantees internal auditing and permits quick action to prohibit and stop any violations or practices which are beyond the frame of the General Budget Law.

2. Create a department which will be concerned in the preparation of regulations and executive instructions to regulate and specify the standards and basis for preparing budgets, as well as specifying responsibilities and authorities and bodies tasked to implement such regulations in each Ministry of public institution.

FIFTH: The Council ensures the necessity of the Executive Authority to concentrate on administrative reforms, through establishing administrative systems, adopting modern technologies, providing training and rehabilitation opportunities, and decrease non-necessary recruitment and hiring.

EIGHTH: The necessity to adopt a mechanism for submitting a quarterly report by the Ministry of Finance to the Budget Committee in the Council, about following up the implementation and execution of the General Budget Law.

IV. THE GENERAL CONTROL OFFICE

External auditing is the prerogative of the General Control Office (GCO), headed by a Chairman, who styles himself Auditor General, located in Gaza, with a deputy, the General Director, heading up an office in Ramallah, West Bank. The GCO was established under Law no. 17 of 1995 Concerning the General Control Commission, issued on 31 December 1995 (refer to Appendix 3).

The GCO's mandate is (Law No. 17 of 1995, chapter one):

"to achieve control over public money and to ensure its proper usage, and work to develop policies, administrative procedures, and the improvement of performance and productivity."

Inadequacies or deficiencies in the existing external auditing function are classified as follows:

- A. Lack of independence
- B. Lack of professionally qualified leadership
- C. Lack of perceived reporting professionalism
- D. Lack of prioritization of assigned duties
- E. Other problem areas disclosed in the UNDP report of June 1996 (appendix 4)

A. Lack of independence

The GCO should be completely independent of the executive and it should conform to internationally accepted general, field work, and reporting standards for Government auditing such as those promulgated by the General Accounting Office in the United States.

Although the GCO is an institution separate and distinct from the executive, it lacks the elements of personal, external, and organizational independence which are essential to the auditing function in both the public and private sectors. Details from the enabling legislation, Law no. 17 of 1995 (appendix 3) follow.

Article (2) provides that the Commission is subject to the direct supervision of the President of the Palestinian Authority. (In the United States, the General Accounting Office (GAO) reports to the Congress.)

Article (3) stipulates that the Controller General (GCO Chairman) and his Deputy be appointed by the Authority President. (In the United States, the Congress forwards three names of proposed candidates for the office of GAO Comptroller General to the White House, the President selects one and forwards the nomination to the Senate for confirmation).

Article (6) provides that the Authority President decides on the organizational structure of the GCO which the Chairman designs; and

Article (7), lists the parties subject to the Commission's control, and provides that "the Authority President may subjugate other institutions to the Commission's control, also he may exclude some parties from this control".

The concept of independence also extends, inter alia, to freedom from personal impairments which could cause an auditor not to be impartial or to be perceived as not being impartial. Under the second general standard of government auditing of the US GAO:

"personal impairments may include, but are not limited to, official, professional, personal, or financial relationships that might cause an auditor to limit the extent of the inquiry, to limit disclosure, or to weaken or slant audit findings in any way."

The incumbent GCO Chairman is a close personal associate of the Authority President, his brother being married to the President's sister. (Their son Nasser, who is the GCO Chairman's nephew, is the Palestinian Observer at the United Nations.) Although the office of the Authority President is under the GCO's jurisdiction, it was not included, it is asserted, in the GCO's report.

Improvements needed. A Supreme Audit Authority should be established which is: completely independent of the Executive; accountable to the public, through its elected body; and carries out its functions in accordance with internationally acceptable government auditing standards, such as those promulgated by the General Accounting Office (GAO) in the United States.

A draft law which would create an independent Government audit function has been prepared by the Finance and Budget Committee (the Committee) of the Legislative Council (LC). This draft should be reviewed for technical adequacy by a professional familiar with the Government auditing function.

The enactment of such a law is provided for in article 93 of the Basic Law, which passed its second reading in late July, 1997. A copy of the draft was not available for review but according to its author, the Chair of the Committee, it provides for relocating the GCO's reporting responsibility to the Council and requires the Council's approval of the Authority President's nominees for GCO Chairman and Deputy.

Impediments to implementation. The draft law cannot embark on the legislative process until: (1) the Basic Law has been enacted; and (2) the draft has first been approved by the Authority President.

No estimate is available as to whether such a draft is likely to receive Executive approval or how long this entire process might take.

B. Lack of professionally qualified leadership

The candidates nominated for the offices of GCO Chairperson and Deputy should be professionally and personally qualified to perform their functions.

Neither of the two political appointees had prior experience in the Government auditing function, required in the US GAO's first general standard of government auditing, and needed for effective, qualified, professional leadership. However, they both have business experience. The Chairman is reported to have many years of banking experience. The General Director stated that he has independent financial means and has practical experience in the family business: his father owns and operates a factory producing kitchen equipment as well as retail outlets.

It is debatable whether the General Director, who has had no higher education, meets some of the hiring requirements of article (27) of Law no. 17 of 1995 (refer to Appendix 3) that apply to "whoever works in the control jobs".

Improvements needed. All positions in government should be filled with technically qualified persons, following mandated civil services rules and regulations. These may or may not include requirements for tests of levels of competence. This is particularly critical for those in leadership positions.

In its report on the general budget law of the Authority for fiscal year 1997 (refer to appendix 5), the LC Committee called on the Authority President to nominate professionals and technocrats to fill high government functions. The Committee repeated this call, it is asserted, in its review of the GCO's report which it submitted to the LC in late July, 1997.

Impediments to implementation. Power to change civil service employment practices is vested in the Center.

C. Lack of perceived reporting professionalism

One of the most visible activities illuminating the level of professionalism of a Supreme Audit Authority is its periodic report on government performance. According to the General Accounting Office's (GAO's) fourth reporting standard for performance audits:

“The report should be complete, accurate, objective, convincing, and as clear and concise as the subject permits.”

For there to be transparency and accountability in the public sector, the GCO's annual report should be widely distributed, or otherwise made freely available, to all interested parties.

Whether or not the GCO's annual report meets this standard is debatable, at least with respect to whether it is complete, accurate, and objective and it has been challenged on all three points. It is asserted that the report was put together jointly by the GCO Chairman, his secretary, and one other person, from a considerable amount of detailed data. Also, that no other members of the GCO were consulted before the report, together with the detailed data, were forwarded to the Executive Office.

The President forwarded the report, without the back-up, to the Legislative Council (LC) committee charged with reviewing it. The LC committee chair then applied to the Chairman of the GCO for the

back-up, which was refused on the basis that it was up to the President to decide on the distribution. So the back-up data, essential for analyzing the report, was obtained unofficially elsewhere.

Improvements needed. GCO audit reports should meet internationally acceptable reporting standards for financial and performance audits, such as those promulgated by the US GAO. Some of the widespread and deep concerns over the possible extensive misuse of public funds might have been allayed, and independent investigations expedited, had such standards been followed in preparing the recent GCO report.

Impediments to implementation. Under Law no. 17 of 1995 (refer to appendix 3), the Chairman of the GCO reports directly to the Authority President, who decides on the nature and extent of the GCO report's distribution and availability.

D. Lack of prioritization of assigned duties

The GCO's duties, as spelled out in article (9) of Law no. 17 of 1995, are wide-ranging, encompassing: (1) financial control; (2) administrative control and performance evaluation and follow-up for the execution of the plan; and (3) legal control. These duties are not prioritized, some could lead to duplication of functions, and others may not be appropriate for the government auditing function.

- ◆ Financial control is defined as including reviews of current activities which usually form part of the internal audit function, leading to duplication of effort;
- ◆ Following up execution of the (budget) plan is challenging in the absence of a Budget Law. However, the recent institution of the Budget Circular should be helpful for audit purposes in assessing compliance;
- ◆ Legal control vests the GCO auditors with “the character of court power” while discovering and investigating administrative and financial violations, and they “can seek help from the other judicial staff and experienced persons (article 12). Legal control by government auditors is comparatively rare, except notably in France, where the public body constitutes a Court and

the auditors have legal training. Article (13) includes the GCO Chairman's right, or his Deputy's, to dismiss or suspend public employees "if the public good requires that". Although they are "to issue the suspension order from the authorized party according to the laws and regulations, this could raise concerns about due process.

The list of auditees under the GCO West Bank's jurisdiction alone (Appendix 4, annex 5) exceeds that unit's capacity of 25 auditors to handle. Audit planning is negatively affected because, due to lack of human and physical resources, assignments are made more on the basis of urgency than rationalized.

Improvements needed. The nature of the General Control Office's activities, as spelled out in the existing Law no. 17 of 1995, should be carefully analyzed to separate out duties that duplicate those of the internal audit function so that the two audit bodies perform complementary duties.

Action has already been taken in the GCO's West Bank Office which, the General Director asserts, is drawing up a program for cooperation and coordination with internal auditors.

E. Other problem areas disclosed in the UNDP report of June 1996 (appendix 4)

The operations of the General Control Office (GCO) were reviewed in June 1996 by a Senior Auditor from the Paris Office of the Court of National Audit. (The Consultant's report, provided by the General Manager of the GCO in the West Bank, is reproduced in Appendix 4.) The general objective of this mission was to assist the GCO in designing its strategy regarding accounting control procedures and public policies audit in connection with a UNDP grant (refer to item (8) of this section). Recommended improvements are detailed in the following section.

UNDP Consultant's Recommendations. The main recommendations contained in the UNDP Consultant's Report (Appendix 4) are as follows. The Palestinian GCO needs:

- ◆ better communication between the two branches of the General Control Office in order to achieve a unified, comprehensive and homogeneous auditing of Palestinian public accounts;
- ◆ training of staff to foster efficient auditing methods and implement value for money audits;

- ◆ reviewing of procedures both to consolidate GCO's status within the Palestinian Authority institutional framework and to set up a code of good audit practices which gives due consideration to the auditees' right of providing all explanations and relevant information and ultimately of being heard before the General Control Office finalizes its observations;
- ◆ provide GCO with equipments (sic) to receive, register, store, process and update information on accounts, with transportation facilities in order to carry out on site auditing;
- ◆ complement basic office furniture and equipments, both in Ramallah where the mission saw scant furniture and equipments (end note 20) and in Gaza where a new building is to be built for GCO.

It was not feasible to determine the extent, if any, to which the Auditor's recommendations have been adopted because a copy of the report was not received until two days after the field visit to the GCO's General Director in Ramallah. However, with an official and more concrete expression of potential financial assistance, the General Director would cooperate with a USAID assessment review.

Comments on recommendations. Some comments are offered on the UNDP consultant's recommendations.

- ◆ Better communication needed...

Although general, field work, and reporting standards as defined by the General Accounting Office apply universally, the report did not address the different sets of economic circumstances in Gaza versus the West Bank which might dictate different audit approaches as well as training needs. For example, about 90 percent of the payments into the Ministry of Finance in the West Bank are made by electronic transfer, versus a heavily manual system in Gaza.

- ◆ Reviewing of procedures...

Whether this recommendation was adopted in Gaza is questionable in light of some complaints voiced after the May 1997 GCO report that auditees had not been informed in advance of adverse findings.

The West Bank General Director claims to use a different approach than in Gaza which is more inclined to expedite submission of adverse findings to the President. He, on the other hand, sends the auditee a letter detailing adverse audit findings and stating a deadline for reply. If necessary, a second letter is sent. The status of the matter, resolved or not resolved, would be included in the materials for the GCO's annual report to the President.

- ◆ Provide GCO with equipment..including transportation means...

The West Bank General Director claims that his activities are hampered by the lack of transportation for field auditors and listed automotive equipment to carry out on site audits as his first priority.

- ◆ Complement basic office furniture and equipment...

The lack of furniture and equipment at the Ramallah facility, cited in the Auditor's Report, is still in evidence.

According to the West Bank General Director, Gaza is the main beneficiary of the UNDP funding. Apart from obtaining qualified auditors, which is his second priority, he needs computers. It would be particularly useful for his operations to be networked to the GFMIS.

APPENDICES

APPENDIX A

List of Contacts

A. Direct Contacts

Allied Accountants
Certified Public Accountants
(A Member Firm of Andersen Worldwide)
P.O. Box 851
Ramallah, West Bank
Mr. Maher S. Al-Sayyed
Consulting Division
Tel: (02) 9986056/9986057
Fax: (02) 9986058

ARD
Associates In Rural Development, Inc.
P.O. Box 51962, Jerusalem
P.O. Box 2080, Ramallah
Tel/Fax: 02-995 7765
Areej Daibas, Administrative Assistant/Translator
e-mail: ardwbg1@netvision.net.il

Basem Masry, Senior Technical Advisor
mobile phone: 052-865518
e-mail: ardwbg1@palnet.com

Keith Schulz, Legal Advisor
Tel/Fax: 02-995 3669, mobile: 050-462174
e-mail: ardwbg@netvision.net.il

Hanna Theodorie, Office Manager
Residence phone: (02) 582 7291; (father - same building: 581 3236)
e-mail: ardwbg1@netvision.net.il

General Control Office - PNA
Ramallah - P.O. Box 755
Beituna Industrial Zone, (UNRWA Bldg. 1st floor), West Bank
Ziad Abu Ein, General Director
Tel: (02) 998 5667; (residence: (02) 995 6313); (cell phone: 050-481440)
Fax: (02) 998 5666

Qais Ichalil, Auditor
Local Councils Control Department, Division Head
Tel: (02) 998 5667

International Monetary Fund
West Bank and Gaza Strip
Salam K. Fayyad
IMF Resident Representative
Tel: 07-825-913; Residence: 02-828-401; Cell phone: 050-53-86-41;
Fax: 07-825-923

Ministry of Finance - Gaza
Said Awaida, General Director
Tel: (07) 827202; (residence: (07) 823411); (cell phone: 050-502911)
Fax: (07) 822853

Esaid Kassem El Kedra, General Manager of Supervision and Auditing
Tel: (07) 829423; (residence: (07) 825016); (cell phone: 050-523936)

Mohamed Jarada, Director - Audit of Revenues
Tel: (07) 829423

Ms. Ablla Nashashibi
Director, Department of the Budget
Tel: (07) 825942

Ministry of Finance-West Bank
P.O. Box 795, Ramallah, West Bank
Dr. Atef Alawneh, Deputy Minister
Tel: (02) 998 5881/4; 998 6650, 998 6649/6648
Fax: (02) 998 5880

Ms. Mona Al Masri, Director, Internal Audit and Control
Tel: (02) 998 5881/4; (residence in Nablus: (09) 381871)

Palestinian Legislative Council
Dr. Sa'di Al Krunz, Chairman
Finance and Budget Committee
Tel: (07) 823180/824020/824010
Fax: (07) 823180/824613

Abdul Karim Abu Salah, Chairman
Legal Committee
Tel: 050-534017; (residence: (07) 854448)
Fax: (07) 853250

Mohamed A. Saadeh & Co. (Ernst & Young, International)
P.O. Box 1373, Al-Salam Building, 2nd floor
Birzeit Road, Ramallah, West Bank
Mr. Hanna Quffa, CPA
Tel and Fax: (02) 998 0080; (cell phone: 050-379983; residence: (02) 995 1065)
e-mail: hquffa@hotmail.com; hquffa@commerce.birzeit.edu

United Nations Development Programme (UNDP)
Gaza Office.

Mr. Khaled Abdel Shafi, Research and Liaison Officer
Tel: 07-822-167; Residence: 07-824-617

Ms. Iman El Wazir, Programme Management Officer
Tel: 07-822-167

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Josie Bassinette, Country Officer, West Bank and Gaza
Tel: (202) 458-0240
Fax: (202) 477-7511
e-mail: jbassinette@worldbank.org

Mr. Ali Khader, Deputy Director,
World Bank West Bank
Tel: 02-574-6500

B. Other

(not contacted)

Government Integrated Financial Management Information System (GIFMIS)
for Ministry of Finance - PNA (contracted to Arthur Andersen)

(a) Project coordinator:

The World Bank
1818 H Street, NW
Washington, DC 20433
David Sewell
Infrastructure Unit, Technical Department
Europe and Central Asia, Middle East and North Africa Regions
Tel: (202) 473-2982
Fax: (202) 477-1523
Telex: MCI 248423

(b) Major participant (Retired Arthur Andersen partner)

Mr. Bert Edwards
7805 Stable Way
Potomac, MD 20854-1790
Tel: 301 983-0285
Fax: 301 983-1872

APPENDIX B

Palestine Liberation Organization Palestine National Authority Office of the President

Decision No. (22) for the Year 1994

Chairman of the Executive Committee of the Palestine Liberation Organization
President of the Palestinian National Authority

According to the Authorities delegated to him and for the necessities of the general interest

DECIDE THE FOLLOWING:

1. To establish the General Control Commission within the jurisdiction of the Palestinian National Authority.
2. The G.C.C. will be under the direct supervision of the President of the P.N.A.
3. This decision is valid from this date.

Gaza, 30 September 1994

YASSER ARAFAT
Chairman of the Executive Committee of the PLO
President of the Palestinian National Authority

APPENDIX C

Law No. 17 for 1995 Concerning the General Control Commission

Chairman of the Executive Committee, Palestine Liberation Organization (PLO)
President of the Palestinian National Authority (PNA)

After viewing

Law No. 5 for 1995 concerning the transfer of authorities and mandates...

and Decision No. 1 for 1994 concerning the continuation of applying the Laws which were issued before 5 June 1967...

and Article No. 68 of the Constitution for the Gaza Strip issued in 1962...

and the Law of Accounting Bureau No. 28 for 1952 and its amendments that is in effect in the West Bank...

and the Decision (of PNA President) No. 22 for 1994 concerning the establishment of the General Control Commission...

and the Decision (of the PNA President) No. 112 for 1994 concerning the appointment of the General Secretary of the General Control Commission.

Following the approval of the Palestinian Authority Council
and

based on the Public Interest

we have issued the following Law:

CHAPTER ONE

DEFINITIONS AND GENERAL RULES

Article (1)

In this Law, the following words and expressions wherever mentioned, designate the following specific meanings unless it is indicated otherwise.

| | |
|--------------------------------|---|
| AUTHORITY | Palestinian National Authority |
| AUTHORITY PRESIDENT | President of the Palestinian National Authority |
| COMMISSION | General Control Commission |
| CONTROLLER GENERAL | Chairman of General Control Commission |
| COMMISSION DEPUTY PRESIDENT | Deputy President of General Control Commission |

Article (2)

The General Control Commission is an independent Public Commission, with considerable character, which follows the Authority President and is subject to his direct supervision, and performs its mandate in accordance to this Law.

The Commission aims to achieve control over public money and to ensure its proper usage, and works to develop policies, administrative procedures, and the improvement of performance and productivity.

CHAPTER TWO

ESTABLISHING THE GENERAL CONTROL COMMISSION

Article (3)

The Commission is formed of the Controller General, his Deputy and an adequate number of control jobs and assistant jobs.

The Controller General and his Deputy will be appointed by a decision taken by the Authority President.

Article (4)

It is forbidden for the Controller General or his Deputy, during his appointment, to have any other public job.

Also, it is forbidden for him, even in an indirect way, to buy or to rent money from the Authority's money, even through a general auction, as well as to rent it, sell it or to barter with it, from his own money.

Also, it is prohibited for him to participate in any contractual liabilities done by the authority, the public institutions and establishments, and to combine between his job and membership of a board of trustees of any company, establishment or organization.

This prohibition is not applicable to dealings that are done according to general rules that is apply to the rest.

Article (5)

The Controller General supervises the administrative, financial and technical activities of the Commission and its employees and take necessary decisions to organize and manage its works. He represents the Commission in courts and in relationship with others. During his absence, or in case of vacancy of his position his Deputy replaces him.

Article (6)

The Controller General forms the organizational structure of the Commission and specifies its essential and helping units, and specifies their job descriptions.

A decision by the Authority President is issued on this organizational structure.

CHAPTER THREE

PARTIES SUBJECT TO COMMISSION CONTROL

Article (7)

The following parties are subject to the control of the Commission,

1. ALL Authority Ministries and various agencies.
2. Public organizations and establishments, unions, associations, societies and syndicates of all kinds and levels,
3. Private institutions and establishments which the Authority shares in, or receives assistance from it, or the establishments which were licensed to exploit or manage any public facility for the Authority.
4. Units of the local governance represented by the municipalities, village councils, and others.

The Authority President may subjugate other institutions to the Commission's control, also he may exclude some parties from this control.

Article (8)

The Commission audits and examines the accounts and the works of any party that is not subject to the Commission control according to the by-laws of this Law by special authorization from the Authority President or by a decision from the Ministerial Council, or if another law requires that. The Commission may include in its Annual Report any observations of the accounts and works referred to.

CHAPTER FOUR

STARTING COMMISSION'S MANDATE

Article (9)

Without any infringement on right of the administrative party to control, the Commission practices the following control functions:

1. Financial control
2. Administrative control and performance evaluation and follow-up for the execution of the plan
3. Legal control

Article (10)

Within the scope of financial control, the Commission practices its mandate as follows:

1. Control the accounts of the parties subject to the control of the Commission, excluding item (3) of Article (7) of this Law, by auditing the vouchers, books, and records of the revenues and expenditures and to make sure that the financial dealings and the accounting records concerning the collection or spending has been done in a proper systematic method according

to the laws, accounting and financial regulations and acceptable standard procedures in accounting systems and general rules of the budget.

2. Checking and auditing the accounts of the salaries, compensations, insurance spending, social security, and aids, and to make sure that it coincides with the laws and regulations which organize it.
3. Control of the parties mentioned in item (3) of Article (7) of this Law which includes auditing the closing accounts, the finance positions and the budgets to make sure of its good standing, and that it represents the real activity according to the known accounting systems and to offer observations concerning the mistakes, irregularities and shortcomings, and negligence in applying the rules of law, regulations and decisions. To make sure of the proper usage of the accounting rules and its correct books and the perfect confirmation of directing the different operations to coincide with the basic acceptable accounting to achieve the proper financial results.
4. Reviewing special decisions dealing with affairs of PA employees with regard to appointments, salaries, compensations, promotions, raise in salaries and any other substitutions and what is equivalent to it, to make sure it coincides with general budget, and the laws and regulations, and the decisions practiced.
5. Auditing the scholarships, donations and gifts offered to the institutions, under the supervision of the Commission to make sure it agrees with the laws and regulations, as well as with the loans, advance payment and trust facilities which the Authority contracted, and requires to be sure of bases for the advance payment source and its value for the Authority Treasury in case it is a loan.
6. Auditing contracts, tenders and the contracted agreements with the institutions under the Commission's jurisdiction.
7. Checking the storage conditions and auditing its books and records.
8. Auditing the final accounts and the general budget of the Authority, and for the various institutions under the Commission's jurisdiction.
9. Auditing and checking any vouchers, records or any other documents which were not mentioned in the previous articles, items, and checking the financial and accounting transactions at any stage of its registration. The Commission employees have the right to communicate directly with the employees responsible for these accounts.

Article (11)

Within the scope of the administrative supervision and performance evaluation, the Commission practices its duties as follows:

1. Following up the execution of the laws and make sure that the decisions, the by-laws and valid rules and regulations are sufficient to achieve its goal.

2. Searching and detecting on the reasons of insufficient deficiencies in work and productivity including detection of deficiencies in the administrative and financial systems which obstruct the flow of organized work of the general departments and to suggest ways to eliminate them.
3. Follow-up the execution of the plan and to check the extent of its success in achieving the specified goals.
4. Discovering administrative and financial violations done by the employees during their practice of their duties and as a consequence to it.
5. Making sure that the internal control agencies in the institutions under the supervision of the Commission are executing their duties in proper and effective way, and to study the rules which organize its work to make sure of its efficiency and accuracy in achieving its assigned goals.
6. Following up and evaluating the performance of the institutions under the jurisdiction of the Commission and controlling the usage of the public funds on the basis of economical, efficient and effective criteria.
7. Following up the execution of investment projects to make sure that it is within the estimated expenses and within the time limit specified for it, and as it has been specified in the plan.
8. Following up the movement of goods and services prices, especially supply and consumption goods and others and to compare it with the prices in previous periods.
9. Following up the execution of loans and donations agreements with countries, regional and international organizations and banks.
10. Following up the changes in national consumptions, savings and income and to make sure that such changes are taking place according to the plan.

Article (12)

Within the scope of legal control the Commission practices its jurisdictions as follows:

1. Discovering and investigating administrative and financial violations which occur within the institutions under the supervision of the Commission to audit, review and verify the decisions taken by authorized personnel in these matters to make sure that proper procedures are made with regard to those violations. The Commission auditors for the purposes of practicing their duties above-mentioned have the character of court power and can seek the help from the other judicial staff and experienced persons.
2. The Institutions under the supervision of the Commission should report to the Commission all administrative and financial infractions which are done by the employees and the procedures taken against them within thirty days from the date it is discovered.
3. Should the Commission decide there is a need to question an employee, the concerned party should take needed procedures within thirty days of the Commission's demand date and to report to the Commission what decision was taken with regard to it.

Article (13)

The Commission in order to perform its duties may:

1. Study the complaints submitted by the citizens regarding the negligence in the performance of their duties and suggestions for what they feel or know with the aim to improve services and organizing work operations and quick performance. Also, researching and studying what the press publishes of citizens' complaints or journalistic investigations which deal with negligence, recklessness or mismanagement or abuse of power, also what the other means of communication exposes in this matter.
2. The right to ask and look at or hold any files, documents or papers and to take copies of it from these institutions under the Commission's control, even that information considered secret and to summon whom the Commission considers needed to take their statements in accordance to the effective laws and regulations.
3. It is allowed for the Controller General or his deputy to suspend an employee from his work or to leave his work temporarily if the general good requires that and to issue the suspension order from the authorized party according to the laws and regulations.
4. It is allowed for the Commission to practice its control directly using its different means whenever it sees a need for that. Should the surveillance result in matters which requires criminal investigations, then the case may be transferred to the public prosecutors by approval of the Commission's Controller General. Should the employee who is to be subjected for investigation be in the level of general director or above, it is required to secure the approval of the Authority President to do so. In all cases, the public prosecutors must report to the Commission the results of the investigations.
5. If it is clear to the Commission, as a result of the investigations, that there were administrative or financial violations or infractions or negligence in the performance of duties within any institution under the control of the Commission, the Controller General shall send a letter to this institution showing the kind of infraction or negligence and giving his own opinion on the subject.

CHAPTER FIVE

FINANCIAL INFRACTIONS

Article (14)

The following is considered financial infractions in implementing the rules of this Law:

1. Violation of the financial rules and procedures stipulated in the laws and regulations practiced.
2. Violation of the rules and procedures related to the execution of the annual General Budget of the Authority and the control on its execution.

3. Violation of the rules and procedures related to the purchase, sale, and storage affairs and also all the rules and procedures of the effective accountancy and financial systems.
4. Every wrong act done intentionally or in negligence or which results in spending an amount of the Authority's money without justification or which results in the financial loss of the Authority's financial rights, or any public establishment or organization or others of those parties under the jurisdiction of the Commission, or affects its financial or economical interests.
5. Failure to supply the Commission with a copy of the contracts, agreements or tenders which the execution of this Law requires it must be provided to the Commission.
6. Failure to supply the Commission with the accounts and results of the work and supportive vouchers in the approved dates, or whatever papers, decisions, minutes, documents or others which the Commission has the right to audit or examine according to this Law.

Article (15)

Any employee who commits, helps or assists in any financial violation or assists in doing it, or facilitates its doing or harbors the one who did it, or show any slack to report it, will be disciplinary punished, without affecting the right to sue in court on a criminal or civil charges whenever necessary.

In all cases, the authorized parties should take whatever procedures necessary to regain the amounts of money which have been spent without proper cause.

Also, to oblige the infraction to reimburse the stolen money, or the amounts which he caused its loss to the Authority Treasury, or to any other institution under the Commission's control.

Article (16)

The employee is not pardoned from a disciplinary punishment based on an order by his supervisor, unless he can prove that the violation done was a direct result of a written order to him from his supervisor, and even after he warned in writing this supervisor of the violation. In this case, the responsibility will fall on the person who issued the order.

Article (17)

All institutions under the jurisdiction of the Commission should inform the Commission, the Ministry of Finance, and the General Employees Bureau immediately following the discovery of any financial violation, or any incident which may cause financial loss to the Authority, or may expose its fixed or transferable assets to damage or loss in any way, in order to take the necessary measures according to this Law, without infringing on the procedures these institutions need to take.

ADMINISTRATIVE INFRACTIONS

Article (18)

1. Not to reply to the Commission's notes, reports or correspondence in general of the delay in replying on the decided dates specified in this Law, without an acceptable excuse and responding in a way with the aim to procrastinate is considered as not responding.
2. Concealing information requested by the Commission employees or refusing to give it or to show it to them, whatever its nature, also who refuses to execute the call to attend.
3. Unexcused delay of informing the Commission within the date specified in this Law of the decision taken by the authorized party with regard to the financial violation reported to it by the Commission.

CHAPTER SIX

OBLIGATIONS OF THE PARTIES UNDER THE COMMISSION'S JURISDICTION

Article (19)

1. The Ministry of Finance should submit to the Commission the final accounts of the Authority and its detailed data and the proposed laws attached to it.
2. The parties under the Commission's jurisdiction should submit to the Commission's supervision its budgets and the final accounts and whatever additional adjustments and amendments, the quarterly and monthly financial accounts, and the result of the yearly stock of its storage and all the performance reports.

Article (20)

The representatives of the Ministry of Finance to the parties under the jurisdiction of the Commission and the finance personnel in these institutions, should inform the Commission of all spending cases which contain financial violations within one month from the date of occurrence.

Article (21)

The Heads of the parties under the Commission's jurisdiction should inform the Commission of what occurs in stealing, squandering their institutions of embezzlement, waste, burning, or negligence and other such incidents, the day of discovery and they should also notify the Commission of all decisions concerning them as soon as they are taken. Also:

- A. Supply the Commission with the data and needed indications to follow up the execution of the plan and to evaluate performance according to the systems and forms which the Commission prepare.

- B. Respond to the Commission notes within one month from the date this party has been informed of it.
- C. Supply the Commission with all the laws, decisions, regulations and instructions which those parties issue.

Article (22)

The parties which execute investment projects should supply the Commission with a copy of the feasibility study for every investment project, also any amendments which are made to those studies and the reasons for it during the execution of the project.

Article (23)

The Commission employees do their work in their offices or in the offices of the related institutions or in the fields of work. All the parties under the Commission's jurisdiction should prepare a suitable accommodation for the Commission's employees in their offices whenever it has been asked to do that, and should furnish them with all means of comfort and the various administrative services as it furnishes its own employees.

Article (24)

The parties mentioned in Item (3) of Article (7) of this Law should submit the observations of the Commission to its Board of Directors within one month at the most from the date it was informed of it and to its general assembly when it convenes.

CHAPTER SEVEN

COMMISSION REPORTS

Article (25)

- 1. The Commission will supply the Authority President with any data, information or studies which he requests and with any other additional work he delegates to it.

The Controller General, within his jurisdiction, may provide the Ministers and Heads of the other institutions, organizations, establishments, associations, companies, municipalities and rural councils with any data, information or studies related to their work.

- 2. The Controller General would submit to the Authority President quarterly reports in which he writes his observations, and suggestions of the parties subject to his control, indicating the violations done and the responsibility resulting from it, in order for him to take whatever (sic - steps?) he sees fit. The Controller General may at any time present special reports to the Authority President about matters he considers dangerous and important enough to require speedy action.

3. The Controller General may present to the Authority President the results of the auditing of the budget, the final accounts and bills, and to the Ministry of Finance and the concerned parties.

CHAPTER EIGHT

COMMISSION EMPLOYEES ADMINISTRATION

Article (26)

The jobs within the Commission's structure are divided into the following categories:

- a. Control jobs
- b. Assistant jobs

Article (27)

Whoever works in the control jobs should fit the following provisions:

1. He should have a Palestinian citizenship from parents holding this citizenship and enjoying civil qualifications.
2. He should have high qualifications from one of the recognized universities or academic institutions.
3. He should have good behavior and reputation.
4. He should not have been condemned in a criminal case for a misdemeanor or dishonorable act, or dishonesty even should he be rehabilitated.
5. He should not be married to a foreigner unless he has gotten a permission from the Authority President.

Article (28)

The Authority President, based on the suggestion of the Controller General, shall issue regulations organizing the affairs of the employees in the control jobs such as appointments, transfers, training promotions, salaries, termination of service, disciplinary actions and others.

Article (29)

Employees in the assistant job fall under the rules of the Civil Service Law.

Article (30)

The Controller General and his deputy shall take immediately before assuming office the following legal oath in front of the Authority President:

“I SWEAR BY ALLAH THE ALMIGHTY THAT I WILL PERFORM MY WORK LOYALLY AND SINCERELY AND TO SERVE MY NATION AND NOT TO VIOLATE THE LAWS AND REGULATIONS”.

The other control employees take this legal oath in front of the Controller General.

CHAPTER NINE

FINAL RULES

Article (31)

The Controller General should put the special rules to organize the Commission's accounts, the spending regulations and taking the stock and other managerial and financial matters. Also, he will make a detailed budget proposal for the Commission and send it to the Authority President for discussion and approval, then the Finance Minister will include it in the budget of the Authority.

Article (32)

The Controller General shall have the same authorities delegated to the Finance Minister stipulated in the laws and regulations which are decided in the Commission's budget and in its organization, and administering its business and whatever matters which concern the affairs of the employees.

Article (33)

In case any conflict occurs between the Commission and any party under its control, the subject of conflict will be presented to the Authority President for his final judgment.

Article (34)

The mentioned Accountancy Bureau Law No. (28) for the year 1952 will be canceled and the duties and jurisdictions of the Accountancy Bureau will be given to the Commission. Also, any rule that contradicts with this Law will be canceled.

Article (35)

The Controller General shall issue the necessary regulations and decisions to execute this Law after having it approved from the Authority President.

Article (36)

All authorized parties, each in its field of authority, shall execute the rules of this Law which shall become effective thirty days from the date of publishing in the Official Gazette.

Issued in Gaza City on 31 December 1995

Yasser Arafat
Chairman of the Executive Committee of the PLO
Palestinian National Authority President

APPENDIX D

Report of the UNDP-Sponsored Review of the General Control Commission, June 1996

(Notes:

1. Translations vary as to the title of the Palestinian Supreme Audit Authority, for example, General Control Office/Commission/Institution.
2. End notes, so identified, replace the footnote references in the original text.)

MISSION TO THE GENERAL CONTROL OFFICE OF THE PALESTINIAN AUTHORITY June 1996

Report

Georges Capdeboscq
Senior auditor, French National Court of Audit, Paris

Terms of reference and acknowledgments

1. The terms of reference (annex 1) are spelled out in a memorandum dated 3 June 1996 from Mr. Edouard A. Watez, Special Representative of the United Nations Development Programme (UNDP), Programme of Assistance to the Palestinian People (PAPP), to the French Ministry of Foreign Affairs (Mission multilateral). They originate in the programme of technical assistance for capacity building prepared by the United Nations Department for Development Support and Management Services (end note 1), as a result of the seminar on Palestinian administrative, managerial and financial needs and challenges convened in Paris (June 1965) by the Committee on the Exercise of the Inalienable Rights of the Palestinian People.

The purpose of the mission was to assist the General Control Office (GCO) in designing its strategy regarding accounting control procedures and public policies audit, and specifically:

- ◆ review the counterpart situation and make recommendations regarding the structural organization of the GCO;
- ◆ review the on-going control procedures and propose a rationalized and efficient auditing policy;
- ◆ assess the relevance, operational and implementation needs and capacities of the GCO to further proceed with efficient auditing procedures.

2. Most efficiently organized by Mr. Jerome Leyraud, UNDP programme officer, the mission was carried out, under the supervision of Ms. Valerie Cliff, Head of Governance and Public Sector Unit, UNDP, in Jerusalem, Gaza and Ramallah from 6 to 13 June 1996.

The officers of the General Control Office and of the relevant ministries and agencies of the Palestinian Authority were both exceedingly courteous and helpful (end note 2). Special thanks, although largely insufficient, are due to Mohammed Omar Daoudi, Senior Adviser, UNDP.

Summary of findings and recommendations

Structural organization of the GCO

3. An inventory of the authorities, public bodies and organizations subject to the control of the GCO, updated at regular periods, is a prerequisite for efficient programming of audit activities (^8).

Helping to create conditions conducive to the appointment of women in control jobs within the GCO would be consistent with UNDP's goal of mainstreaming gender (^9).

All auditing directorates should be able to carry out performance evaluations or efficiency audits (^10). Follow-up and Legal Departments should operate in close relationship with the Auditing Departments (^11).

Emphasis should be put, through planning, training and documentation, on the implementation of homogeneous audit procedures, guidelines and goals in all GCO offices (^11).

On-going control procedures and auditing policy

4. GCO should organize itself to follow up timely submission of accounts and prepare audit work on these accounts by a comprehensive registration. Revenues and expenditures accounts should be routinely forwarded to the GCO by a direction of the Ministry of Finance, as part of standard accounting procedures (^14).

The primary assignment of the GCO to be developed as regards administrative supervision and performance evaluation seems to be controlling the usage of the public funds on the basis of efficient criteria. In this respect, GCO needs a reliable and comprehensive information on donors funds channeled to the West Bank and Gaza Strip through various operators and on their utilization in order to audit effectively investment and development projects (^15).

Provisos regarding legal control on administrative infractions related to slowness in administrative work and bad service performance should be made more precise and specific (^16).

GCO should, whenever it is necessary, obtain copies of reports drafted by the internal audit services that several ministries have already set (^17).

GCO should draw up annual programs of verifications, included in a multi-annual program (3-5 years) aiming to cover the controls which GCO has a mandate to carry out and prioritizing audit themes according to rational selection standards (^18).

Devising a code of good audit practices might prove very useful and conducive to firmly substantiated findings and to relevant recommendations. It would also be both fruitful for GCO and protective of auditees' rights to allow them to be heard by GCO whenever a request

of an employee's suspension is considered. GCO might explore the ways of widening peer review and discussion on findings and recommendations within the Commission itself. Audit letters should be finalized and sent only after the explanations of the Minister or the institution have been checked up against the evidence collected in the course of the audit. There again, hearings on far-reaching findings might prove most useful (^19). An annual report is a key element of financial accountability and transparency (^20).

Operational and implementation needs and capacities

Better communication between the two branches of the General Control Office, in order to achieve a unified, comprehensive and homogeneous auditing of Palestinian public accounts, might be sought by complementing communication equipments of the two sites (Gaza and Ramallah) and developing joint training programmes of auditors (^24).

Efficient auditing methods should be fostered by a training policy selecting priority areas and adapted methods through discussions with heads of department and elicitation of wishes from staff. Case studies could be drawn forth and put together from GCO's significant audits. A study tour exposing GCO's heads of department and experienced auditors to what other National Audit Institutions do to cope with similar audit issues might prove a profitable way of checking GCO's methods against those of other institutions (^25).

GCO should conceive and compile an audit manual offering its staff members both a legal framework to conduct audits and practical guidelines to control efficiently the main public programs with an emphasis put on value for money audits (^26).

GCO needs equipments for communication, registry and storage, word and data processing, office furniture and transportation facilities. These needs should be assessed by UNDP-PAPP on site. The issue of electronic systems implementation might fruitfully be included in the study tour suggested above (^27).

I. Structural organization of the Palestinian General Control Office

The General Control Office (or Organization, or Commission, or Institution) was established under the direct supervision of the President of the Palestinian Authority in September 1994 by decision of the President. A law on the GCO was issued in December 1995. It was the first legal document enunciating its mandate (end note 3). Previously, Jordanian rules were applied in the West Bank.

The GCO is an independent commission. It “aims to achieve control over public money and to ensure its proper usage”. It also “works to develop policies, administrative procedures and the improvement of performance and productivity”.

Institutions under the control of the General Control Office

7. The GCO has mandate to control: (I) “All Authority Ministries and various agencies”, (ii) “Public organizations and establishments, unions, associations, societies and syndicates of all kinds and levels”, (iii) “Private institutions and establishments which the Authority shares in or receives from, or the establishments which were licensed to exploit or manage any public facility for the Authority”, (iv) “units of the local governance represented by the municipalities, village councils and others” (Law no. 17, art. 7).

It was explained that unions (ii) included PLO branches which had not been incorporated into ministries and agencies, and that GCO should control the entirety of the operations of private institutions (iii) whenever the Palestinian Authority has a share but that it should limit its control to the utilization of the grant when the institution of the establishment receives such aid.

“The Authority President may subjugate other institutions to the Commission's control, also he may exclude some parties from this control.” (art. 7) GCO General Manager for the West Bank sought and secured approval from the President of the Palestinian Authority, in October 1995, to audit cooperative Palestinian non-governmental organizations and their projects (end note 4). The opinion was voiced that such an organization was in fact not needed and that NGOs fell straightforwardly within the scope of the GCO. But the reference to NGOs is not explicit in article 7 of the law and the decision clarifies the matter.

No public institution has been excluded from GCO's control by a decision. For instance the Police Department may be audited (no audit has taken place until now).

8. A first inventory of the parties subject to the control of the GCO in the West Bank was carried out in June 1996 for the mission. The list is attached (annex 5). GCO considers that it is 800 p. 100 accurate. *An inventory of the authorities, public bodies and organizations subject to the control of the GCO, updated at regular periods, is a prerequisite for an efficient programming of audit activities.*

The list includes inter alia the Office of the President, 20 ministries, 9 administrative or judicial institutions (such as Employees Bureau, Supreme Judge Bureau or PEC DAR (end note 5)), 3 National Authorities (such as the Palestinian Energy Authority), 150 ministry directorates in the main cities, 260 hospitals and clinics, 5 public colleges and 2,000 schools, 10 income tax and VAT centers, 10 labor offices, 70 training centers and 23 non-government organizations (such as the Red Crescent Association).

GCO in the West Bank informed the mission that they were considering for the future to open, feed and update files on the institutions subject to control. *This documentation would facilitate also shaping a rational audit policy.*

Staffing table

9. “The Commission is formed of the Controller General, his Deputy and an adequate number of control jobs and assistant jobs.” (Law no. 17, art. 3).

42 persons are in charge whether of direction or control: 23 in Gaza where the GCO was established in September 1994, 19 in Ramallah where an office was set up in December 1994 (staffing table attached, annex 6). They are assisted by other staff members: 8 in the Gaza Strip, 10 in the West Bank.

The appointment of 168 more persons was requested by GCO in November 1995. The recruitment of 40 persons was granted. GCO voiced itself the opinion that it could not in fact take and train more persons.

The President of the Commission, his deputy and all other employees are sworn in their office. The legal oath - by Allah - is spelled out in article 30 of Law no. 17. It does not include an explicit commitment to secrecy, which is usually found in a professional oath.

Gender balance

The staffing table does not indicate gender balance among the persons in charge of direction or control. The information was supplemented to the mission that no woman has been appointed to a control job within the General Control Office until now. Although Article 27 of the law, which states the provisions that “whoever works in the control jobs should fit”, refers only to “he”, the mission did not understand that the absence of women in control jobs derived from a legal provision. *Helping to create conditions conducive to the appointment of women in control jobs within the GCO would be consistent with UNDP's goal of “mainstreaming gender”.*

Organization charts

10. “The Controller General forms the organizational structure of the Commission and specifies its essential and helping units, and specifies their job descriptions. A decision by the Authority President is issued on this organizational structure.” (Law no. 17, art. 6)

The organization chart effective in June 1996 for the Gaza Strip is attached (annex 7). Also attached (Annex 8), the drafted organization chart for both Gaza Strip and West Bank is based upon the assumption of a staffing table of 220. Its main features are the Presidency Committee and five general directorates: Planning and administration (54 staff members), Legal affairs (27 staff), Administration and performance evaluation (33 staff), Control of municipalities and institutions (45 staff), Financial control on ministries (47 staff).

The mission did not discuss the second chart thoroughly since it was based upon a staffing table not yet effective. Some remarks may nevertheless be put forward.

- I) The Precedence Committee would indeed not only help the President of the GCO but also bring about coordination and cross-fertilization of the various directorates, which are key issues in an audit institution. It might also usefully concern itself with planning of audits and training of staff;
 - ii) *Performance evaluation should be viewed not so much as a specific department but rather as a resource center on evaluation methods and achievements for other directorates. All auditing directorates should in fact be able to carry out performance evaluation if need be;*
 - iii) *A reappraisal of staffing in General Directorates for control on municipalities and institutions and on ministries (92) and in General Directorates for Planning and administration, Legal affairs and Performance evaluation (114) might be useful.*
11. In the West Bank there does not exist yet a real organization chart, due to the limited number of staff. A tentative chart presented to the mission is attached (annex 9).

6 heads of department (Grade A) would be in charge of administration, planning-research-training, auditing and investigation, legal department, public relations, follow-up. It was

understood that public relations might be a section in the planning-research-training department, rather than a distinct department, *which appears indeed appropriate.*

Follow-up and Legal Department, which are core functions in GCO, should operate in close relationship with the Auditing and Investigation Department, and rely on the documentation center run by the Planning-Research-Training Department. They should not require numerous appointments, but attract experienced staff with an in-depth knowledge of auditing.

As regards the projected planning-research-training department, it was understood that its responsibilities would include documentation, which is indeed a basic support service as well for planning as for auditing. *It should be clear that audit planning cannot be the responsibility of a single department. It is rather a collective process which should involve departments in charge of auditing and follow-up. The ways of eliciting and fostering the participation of other staff members (heads of sections, auditors) might also be checked up on fruitfully.*

The mission listened with attention and interest to the explanations on the research aspects. *A close attention should be paid to the risks of overlapping on academic research in public management. On the other hand, steady links with Academic or Governmental research would be beneficial to audit planning and auditors' training.*

At the time of the mission a detailed chart had been devised only for the projected Auditing and Investigation Department. It is built on a geographical structure: North, Center, South. The choice of such a geographical division stems from the project of setting up two new offices in Nablus (North) and Hebron (South). The three offices would have a similar sectional structure: local government, ministries, other organizations. *The mission stresses the emphasis to be put, through planning, training and documentation, on the implementation of homogeneous audit procedures, guidelines and goals in all GCO offices.*

II. Auditing policy and procedures of the Palestinian General Control Institution

Legal mandate of the GCO

12. Fostering and strengthening auditing policy may be viewed as part of the “steps taken by the Palestinian National Authority to rebuild the legal system (end note 7)” and to seek “accountability and transparency (end note 8)”.

The GCO's mandate encompasses “1. Financial control, 2. Administrative control and performance evaluation and follow-up for the execution of the plan, 3. Legal control” (Law no. 17, art. 9).

Financial control

13. Financial control implies inter alia: 1. to “control the accounts of the parties subject to the control of the Commission”, to make sure that the financial dealings were “done in a proper systematic method according to the laws, accounting and financial regulations and acceptable standard procedures in accounting systems and general rules of the budget”, 8. to audit “the final accounts and the general budget of the Authority, and for the various institutions under

the Commission's jurisdiction”, 9. to check “the financial and accounting transactions at any stage of its transaction” (Law no. 17, art. 10).

Three points may be made:

- I) The proviso “at any stage of its transaction” (art 10 ^9) is understood as enabling GCO to audit proposed agreements and tenders, hence to audit “before, during and after spending” as was explained to the mission. Audit institutions usually restrain their jurisdiction to a posteriori control, whilst internal audit and financial control deal with current operations;
- ii) The distinction between a posteriori audit and financial control before spending or during spending is not totally clear in GCO's audit experience. It seems that GCO intends to assume also financial control to a certain extent (see also observation 27);
- iii) Implementing its mandate was made difficult for GCO in the absence of a budget law. The mission was presented with the table of categories of expenditures utilized since 1995 (annex 10) and with the draft law on Budget Preparation and Execution which is pending discussion and execution (annex 11 (end note 9)).

Obligations of the parties under the Commission's jurisdiction are described in Chapter VI of the Law (articles 19 to 24). Crucial provisos are found in article 19:

“The Ministry of Finance should submit to the Commission the final accounts of the Authority and its detailed data and the proposed laws attached to it.

“The parties under the Commission's jurisdiction should submit to the Commission's supervision their budget and the final accounts and whatever additional adjustments and amendments, the quarterly and monthly financial accounts, and the result of the yearly stock of their storage and all the performance reports.”

Ensuring that such accounts are submitted in time and in proper format should be a key function of the Legal department, assisted by a registry. It seemed to the mission that GCO was not in possession of all relevant information on these reporting procedures, especially in the West Bank as regards the accounts of the Authority.

Accounts themselves and documents are conveyed to the GCO through the Minister of Finance to whom queries from the GCO are addressed; *revenues and expenditures accounts should be routinely forwarded to the GCO by a direction of the Ministry of Finance, as part of standard accounting procedures.*

The GCO should organize itself to follow up timely submission of accounts and prepare audit work on these accounts by a comprehensive registration.

Administrative supervision and performance evaluation

15. The administrative supervision and performance evaluation covers inter alia: 1. “following up the execution of the laws” in order to “make sure that the decisions, by-laws and valid rules and regulations are sufficient to achieve its goal”, 3. “follow-up the execution of the plan”, 4. “discovering administrative and financial violations done by the employees”, 6. “following up

and evaluating the performance of the institutions under the jurisdiction of the Commission and controlling the usage of the public funds on the basis of economical, efficient and effective criteria”, 7. “following up the execution of investment projects to make sure that it is within the estimated expenses and within the time limit specified for it”, 8. “following up the movements of goods and services prices CEOs”, 9. “following up the execution of loans and donations agreements with countries, regional and international organizations and banks”, 10. “following up the changes in national consumptions, savings and income” (Law no. 17, art. 11).

On this core function of the GCO, the mission wishes to make four points:

- I) *items are unequally strategic for auditing policy*: “Following up the execution of the laws” (^1) seems also within the competence of the Legislative Council and its commissions. *GCO should be careful not to overlap on the competencies of the Legislative Council in this field.* “Following up movements of prices or changes in national income” (^8 & 10), critical though it may be, does not clearly fall within the jurisdiction of a board of auditors on public accounts. There again, *GCO should be careful to avoid overlapping on the mandate of other Public institutions*;
- ii) discovering and bringing out to the forefront administrative and financial misdemeanors (^4) come under financial control rather than performance evaluation;
- iii) following up the execution of investment projects and of agreements with donor countries or institutions (^7 & 10) raises the key issue of the availability of financial data on these projects and agreements (end note 10). Funds which should be audited by the GCO are channeled through a multitude of operators (agencies, local authorities, NGOs) and remain, in fact, largely unknown of the GCO, in spite of the efforts of Donor Coordination Mechanisms (end note 11). *Ensuring a reliable and comprehensive information of Palestinian Institutions, and particularly of the GCO, on these funds and on their utilization seems a prerequisite for an efficient auditing on investment and development projects.* This goal is consistent with the Palestinian Authority's strategy of using donor-financed development projects as “primary vehicles for strengthening sector institutions (end note 12)”. The mission is fully aware that the issue is one of inter-institution coordination rather than of the scope of GCO's audits. *It stresses however the usefulness of GCO's endeavors in the Gaza Strip to obtain relevant information from donors.* DDSMS Mission already underlined that “it is probable that a significant proportion of total aid is recorded neither in the Palestinian Authority budget nor in the accounts (end note 13);
- iv) *the primary assignment of the GCO as regards administrative supervision and performance evaluation seems to be “controlling the usage of public funds on the basis of economical, efficient and effective criteria” (^6) which is often referred to as “value for money audit”.*

Legal control

16. Legal control is primarily concerned with “discovering and investigating administrative and financial violations”, that institutions under GCO's supervision are obliged to report to it, and making sure “that proper procedures are made with regard to those violations” (Law no. 17,

art. 12). In this respect, GCO auditors “have the character of court power” (art. 12¹) (end note 14). Very few incidents were reported to the GCO, West Bank.

Financial and administrative infractions are described in articles 14 to 18 of the Law. In the mission's opinion, *provisos under paragraphs 4 and 5 of article 18 on Administrative infractions: “4. Slow in the administrative work”, “5. Bad service performance” should be made more precise and specific.*

Legal powers of the GCO

17. The General Control Office, in order to perform its duties has “the right to ask and look at or hold any files, documents or papers and to take copies of it from these institutions under the Commission's control” (Law no. 17, art. 13²).

It was understood by the mission that GCO has also access to all premises occupied, rented or possessed by audited institutions. As a matter of fact, written denial by a head of department in the Gaza Strip of the right of the GCO to reckon by tally stocks of public pharmacies was referred to the Minister and overruled.

The President of the Commission may request the suspension of an employee “if the general good requires that” (art. 13³). Failure to supply the Commission with accounts or information is a financial or an administrative infraction (Law no. 17, articles 14⁵ & 6 and 18^{1, 2&3}).

It should also be understood that, whenever it is necessary, *GCO may obtain copies of reports drafted by the internal audit services that several ministries have already set up (e.g. Ministry of Finance, Ministry of Education).* Such communication would facilitate GCO's investigations on related subjects and preclude duplication of auditing.

More generally, relations between GCO West Bank and services of the Ministries should be intensified for a better information on both sides (end note 15).

Audit programming

18. There does not seem to exist yet an annual audit programme. In the West Bank, it was explained to the mission that GCO decides to control offices, municipalities or directorates on the basis of information channeled to it or collected through various ways. A three-month audit programme is thus drafted. But the Office stresses that its staff and facilities are very limited.

GCO should draw up annual programs of verifications, taking into consideration any requests for investigations that might be submitted to it by the Palestinian Authority or the Legislative Council. The annual verification program should be included in a multi-annual program (3 to 5 years) aiming to cover the controls which GCO has a mandate and an obligation to carry out.

A three-step process of audit programming might be experienced:

- I) delineating fields of audit: public monies involved, issues arousing high public interest, organizations included, previous audits;*
- ii) wording a rationale: audit theme selection standards, prioritization of audit items or themes, linkages between audits, articulation of thematic (project-wise) and organic (agency-wise) audits;*
- iii) phasing annual verifications: items, calendar, identification of auditors, manpower allocation.*

Audit procedures

19. Models of audit reports were presented to the mission in the West Bank (end note 16). They duly summarize findings, qualification with regard to legal provisions, recommendations and comments, list of supporting documentation. Models exist also for checks on stocks.

Whenever the investigations bring to light “administrative or financial violations or infractions or negligence in the performance of duties within any institution under the control of the Commission”, the Controller General “shall send a letter to this institution showing the kind of infraction or negligence and giving his own opinion on the subject” (Law no. 17, art. 13⁵).

The procedure in the Gaza Strip may be summarized as follows. Investigations are often carried out by teams (2 or 3 auditors). Once finalized, reports are reviewed by heads of department with a perusal of substantiating documents and clarification by the Legal Department if need be. The matter is then referred to the President of the GCO to whom a draft audit letter is submitted. The audit letter - which may be substantially rephrased (end note 17) - is sent to the Authority President with a copy to the Minister or head of institution concerned. In the West Bank, draft audit letters are usually sent first to the President of the GCO, but some letters are sent directly to the Authority President.

The mission wishes to make three points on this matter:

- I) there should be discussion with audits in the course of the audit, and at least before the report is finalized in order to fully enable the auditees to state their position on the findings. In fact, devising a code of good audit practices might prove very useful and conducive to firmly substantiated findings and relevant recommendations. The mission was informed that steps had already been taken in this direction last April in the Gaza Branch. It might also be both fruitful for GCO and protective of auditees' rights to allow them to be heard by GCO whenever request of an employees' suspension is considered;*
- ii) in an audit institution internal review of findings is a key factor of quality and relevance. GCO might explore the ways of widening peer discussion on findings and recommendations within the Commission itself;*
- iii) a double level of audit letters might be set up: in the first place, notification of findings to the Minister or the institution concerned; the audit letter would be finalized*

and sent only after the explanations of the Minister or the institution have been perused and checked up against the evidence collected in the course of the audit. There again, hearings on far-reaching findings might prove most useful.

Reporting

20. “The Commission may include in its Annual Report any observations of the accounts and works referred to.” (art. 8, Law no. 17) The mission tried to ascertain that elements for *such an annual report - which is a key element of financial accountability and transparency -* were already available.

The Chairman of the GCO provided the mission with reports on audit letters sent in the Gaza Strip in 1995 and from January to mid-June 1996:

in the Gaza Strip, the GCO sent 165 letters in 1995 and 183 in the first half of 1996 (annex 12 (end note 18));

GCO Gaza Strip records also audit letters according to public institution audited (annex 13 (end note 19)); 16 letters were sent about the Office of the President, 177 about 22 ministries (among others 32 about the Ministry of Finance, 31 about the Ministry of Education, 27 about the Ministry of Health), 21 about seven government agencies (e.g. Tax Department, Palestinian Energy Commission), 23 about municipalities and village councils, 3 about universities and 2 about Associations.

GCO West Bank completed 96 audits in 1995 (Annex 14): 60 on ministries (among others 15 on Ministry of Waqf and Religious Affairs) or directorates (among others 12 Health directorates), 15 on governmental agencies or administrative units, 17 on hospitals and clinics, 3 on municipalities and 1 on a college. *The number of audits on municipalities seems low.*

Impact of GCO audits

21. The Chairman of the GCO and the Manager general for the West Bank stressed that GCO's audits are not restricted to transaction checking. They insisted on the weight that its findings and recommendations carry with the Palestinian Authority. Following cases may exemplify this point:
- ◆ investigation in the Gaza Strip on used cars allowed to enter the country when Nationals come back to Palestine brought out to light deceitful practices and the GCO recommended that Finance regulations which were unduly applied be canceled;
 - ◆ an enquiry, also in the Gaza Strip, on management of Government cars led GCO to inform the President of the Palestinian Authority on cases of misuse of Government property and put forward relevant suggestions;
 - ◆ in the West Bank, the Ministry of Tourism benefited from undue secondment of municipality staff;

- ◆ GCO West Bank found a high percentage of overhead costs in an NGO. It recommended that the Ministry of Health be more involved in the activities provided by the organization.

Follow-up function

22. GCO Gaza Strip maintains and updates a double system of filing for audit reports and letters: in a general and chronological filing, each file bears identifiers providing the keys for a thematic filing by departments and institutions audited.

The Chairman of the GCO informed the mission that he had set up a follow-up procedure on audit letters when he was appointed in Gaza, in December 1995. He added that he had taken steps to prompt ministers and head of audited bodies to answer within the ascribed time limit (1 month or 15 days). He mentioned delays exceeding three months for answers from the Ministry of Finance.

III. Operational and implementation needs of the Palestinian GCO

23. Needs such as the mission perceived them may be summarized as follows:
 - ◆ better communication between the two branches if the General Control Office in order to achieve a unified, comprehensive and homogeneous auditing of Palestinian public accounts;
 - ◆ training of staff to foster efficient auditing methods and implementation value for money audits;
 - ◆ reviewing of procedures both to consolidate GCO's status within the Palestinian Authority institutional framework and to set up a code of good audit practices which gives due consideration to the auditees' right of providing all explanations and relevant information and ultimately of being heard before the General Control Office finalizes its observations;
 - ◆ provide GCO with equipments to receive, register, store, process and update information on accounts, with transportation facilities in order to carry out on site auditing;
 - ◆ complement basic office furniture and equipments, both in Ramallah where the mission saw scant furniture and equipments (end note 20) and in Gaza where a new building is to be built for GCO.

Communications between the two branches of the General Control Office

24. Restrictions of circulation between the Gaza Strip and the West Bank bear heavily on the General Control Office which is organized in two branches. Alleviation of this constraint might be sought:

- ◆ by complementing communication equipments (telephone, fax) of the two branches;
- ◆ by developing joint or identical training programmes of auditors so as to push for homogeneous standards of audit within the Palestinian supreme audit institution;
- ◆ through the setting up of simultaneous audits on same institutions or programs, and the exchange of copies of audit letters sent by each office, so as to benefit from the methods and findings of the other branch (see also ^11).

Training of General Control Office's staff

25. Training of staff is a core function within the General Control Office as within any national audit institution. There should be a training policy, selecting priority areas and adapted methods through discussions with heads of department and elicitation of wishes from staff (control jobs and other staff) (end note 21);

- ◆ audit methods and procedures (with a priority given to value for money audits, cost-benefit analysis, public programs evaluation methods),
- ◆ fields of audit (e.g. personnel, public properties, current expenses, tenders, public-owned corporations, computerized management, NGOs, donor-financed projects),
- ◆ general training (e.g. financial rules, Palestinian Authority institutional framework and legal system, public programs),
- ◆ tools (e.g. foreign languages, using computers, using data bases, drafting audit reports) (end note 22).

The mission wishes to make two points and add a suggestion:

I) Best training is secured through working on case studies. The Palestinian General Control Office has already carried out numerous audits, highlighting far-reaching findings and leading to significant changes in the management of audited departments or institutions. *Case studies could easily be drawn forth and put together from GCO's significant audits;*

ii) A training session usually articulates case studies, presented by auditors in charge, with general clarification and updating on legal, financial, economic or accounting aspects, which are asked to other members of the institution or to external resource persons (from Government departments, Local authorities or University). *GCO might avail itself of this opportunity to strengthen its relations with other Palestinian Institutions and Departments.*

Since the General Control Office has already heaped up a sizable experience in auditing, it would be very fruitful to *expose in a study tour its heads of department and experienced auditors to what other National Audit Institutions do to cope with similar audit issues.* They would check GCO's methods against those of foreign audit institutions. It would be all the more productive as it would have been organized beforehand with tailor-made sessions addressing the issues which the GCO is confronting.

Reviewing and consolidating GCO's procedures

26. Reviewing and strengthening audit procedures is an on-going process, and a strategic function of the Presidency of the General Control Office and its Legal Department (see also ^19).

In the mission's opinion, focal issues for GCO are:

- ◆ unifying audit procedures in the Gaza Strip and the West Bank and developing efficiency and value for money audits;
- ◆ ensuring that financial accounts of the Ministries and agencies are submitted to GCO in time and in proper format;
- ◆ developing relations between GCO and Ministries, as well as with internal audit services in the Ministries, for a better information of both sides;
- ◆ drawing up programs of verification;
- ◆ offering auditees the possibility of putting forward all relevant explanations, adjust opinion gaps over project evaluation, program results assessments, in short try to contradict substantiated audit findings;
- ◆ widening within the GCO the peer review and discussion on observations and recommendations spelled out in the drafted audit letters.

The aim of the General Control Office in this field might be to complement the Law concerning the GCO (Law no. 17) by:

- ◆ an efficient procedure, devised with the Ministry of Finance, for a timely submission of revenues and expenditures accounts;
- ◆ *a code of audit procedures* (or of “good practices”);
- ◆ *an audit manual offering to auditors both a legal framework to conduct the audits, and practical guidelines to audit efficiently the various institutions subject to the GCO's jurisdiction and the main public programs, with an emphasis put on value for money audits* (end note 23).

The study tour suggested above should incorporate briefing on audit programming procedures and practices in the visited national audit institutions.

The mission was informed that UNDP-PAPP was considering recruiting for a year or so a resource person. *An Arabic-speaking resource person, with good training in legal matters and experience in auditing (e.g. from a North African national audit institution), based in UNDP but available to GCO, might indeed bring forth a valuable contribution to GCO's drive towards unification of legal procedures, rationalization of audit methods and standards, efficiency in program evaluations.*

Complementing GCO's equipments

27. As already noted, the mission concluded from what it saw in Gaza and Ramallah that GCO needs equipments for communications, registry and storage, word and data processing, office furniture and transportation facilities. These needs should be assessed by UNDP-PAPP on site.

The mission wishes to make two points:

- I) The present situation in the Gaza Strip and the West Bank has a direct bearing on which equipments should be granted priority;
- ii) *The issue of electronic systems implementation might fruitfully be included in the study tour suggested above.* The General Control Office would gain valuable information from what other National audit institutions have programmed, and how they use the equipments they acquired (end note 24).

Other remarks

28. Beyond its terms of reference, the mission wishes to mention three points which surfaced during its talks with Palestinian officials:

I) the issue of creating financial control and internal audit system within spending departments is crucial. The creation of such a system is provided for in the Tripartite Action Plan (end note 25). But “the placement of financial controllers in the spending ministries and agencies under the control of the Ministry of Finance” was still pending implementation in April 1996 (end note 26). Western countries have a rich experience in this field (end note 27). Ways of gaining from this experience might be fruitfully assessed;

ii) the status and functions of finance officers in ministries should also be reviewed, as part of the same reappraisal of budgetary control procedures;

iii) the procedure of advance payments to ministries and clearance through financial audit should be reviewed and streamlined. Capitalizing on its achievements might help implementing a budgetary procedure that widens the responsibility of Ministers for longer-term action. There again, experience of other countries might prove helpful.

29. For the sake of comparison a paper on the French Financial Jurisdictions (National and Regional Courts of Audit) presented to the United Nations Seminar on Palestinian Administrative, Managerial and Financial Need and Challenges is attached (end note 28) (annex 17).

END NOTES

- 1 UNDDSMS, Aid management and coordination resource mobilization and fiscal management in the Palestinian Territories, Evaluation mission, September-October 1995 (Tony Bennett, Sheldon Cohen and Muna Jawhari), see inter alia ^5,66,73,102-104, 120.
- 2 A list of persons met with Mr Leyraud is attached (annex 2).
- 3 Decision no. 22, September 30, 1994 and Law no. ‘17, December 31, 1995 attached

(annex 3).

- 4 Decision dated 12 October, 1995, attached (annex 4).
- 5 Palestinian Economic Council for Development and Rehabilitation.
- 6 The table records 22 staff members with auditing or direction responsibilities and 6 other jobs, but the mission was informed by the GCO West Bank that the actual figures were 19 and 10.
- 7 Mr Ibrahim Al Daghma, Chief, Legal Advice and Legislation Department, *Palestinian Authority, Establishing a legal framework in the West Bank and the Gaza Strip*, United Nations Seminar on Palestinian, Managerial and Financial Need and Challenges, convened by the Committee on the Exercise of the Inalienable Rights of the Palestinian People in Paris (UNESCO), 28-30 June, 1995.
- 8 Dr. Atef K. Alawneh, Deputy Head of Finance Department, Palestinian Authority, *West Bank and Gaza Strip Tax Administration Action*, UN Seminar, June 1995.
- 9 Appendix !! to IMF Aide-Memoire on Budget preparation in WBSG, March 5, 1995.
- 10 Estimating the number of staff funded through donor projects in West Bank and Gaza Strip stumbles against identical difficulties, as underlined by the *Aide-Memoire of the World Bank Mission on Civil Service in West Bank and Gaza - Study and Technical Assistance* (Messrs Dominique Pannier, David Wood, Michael Fergus and Assad Maalouf, February 15, 1996, ^5).
- 11 As reported in *Partners in Peace, Organizational Structure of Donor Coordination Mechanisms in the West Bank and the Gaza Strip, and a profile of the Sector Working Groups*, The United Nations and The World Bank, October 1995.
- 12 *A preliminary statement on Palestinian development strategy* (presented to the Conference on Assistance to the Palestinians, Paris, January 1996), Gaza, December 27, 1995.
- 13 *Aid management and coordination resource mobilization and fiscal management in the Palestinian Territories* (T. Bennett, S. Cohen and M. Jawhary, September-October, 1995, ^52).
- 14 In France, a Court of budgetary and financial discipline was set up in 1948 beside the National Court of Audit.
- 15 Discussions with officials from the Ministries of Finance and Education in Ramallah evidenced scarce relations between the Ministries and the GCO West Bank up to the time of the mission.
- 16 and obligingly translated by Mr Omar Daoudi, Senior Adviser.
- 17 The mission was presented with specimens of drafts largely rewritten by the President of the GCO.

- 18 N.B.: the figure for 1996 is 183 instead of 207 and the grand total is 348.
- 19 The total (242) is the sum of the letters sent in 1995 (165) and the first three months of 1996 (77).
- 20 Two computers (used for word processing) and one small photocopier.
- 21 For instance in the French National Court of Audit, a training committee chaired by a senior auditor and directly answerable to the President of the Court, includes members from the various units, expressing needs of the units and categories of staff.
- 22 For instance, the 1996 brochure describing the various training sessions open to staff in the French National Court of Audit includes 52 items (to which tailor-made training sessions may be added if specific needs are identified during the year).
- 23 For instance, the French National Court of Audit complies with a Code of Financial Jurisdictions, enacted by law, and provides its members with a Practical manual of audit (3 volumes, compiled and regularly updated by various auditors).
- 24 For instance the French National Court of Audit is completing the fifth stage of a seven-stage Electronic System Programme Implementation of Financial Jurisdictions (national and regional courts of audit). A recent internal memo on this programme is attached (annex 15).
- 25 Paragraph 1-A-6 of the Tripartite Action Plan on Revenues, Expenditures and Donor funding for the Palestinian Authority, February 1996.
- 26 *West Bank and Gaza Strip - Report on Fiscal Developments during October 1995-February 1996 and on Preliminary Macroeconomic Outcome for 1995*, April 8, 1996 (attachment III).
- 27 In France financial control in ministries was set up in 1922 by a law still in force (annex 16).
- 28 Round Table II Laying the foundation for a public financial management: *Constitution of mechanisms for the verification of public accounts - The French accounting magistrate* (UNESCO, Paris, 28-30 June 1995).

LIST OF ANNEXES

1. Terms of reference.
2. Persons met by the mission.
3. Decision September 1994 and Law 31 December 1995.
4. Decision 12 October, 1995.
5. Inventory of parties within jurisdiction of the GCO, West Bank.
6. Staffing table of GCO, source: GCO Gaza
7. Organization chart of GCO, Gaza Strip, effective June, 1996.
8. Draft organization chart, GCO WBG staff 220.

9. Draft organization chart, GCO West Bank.
10. Categories of expenditures, table July 21, 1994.
11. WBGS: Draft Law on Budget Preparation and Execution (Appendix III to International Monetary Fund Aide-Memoire on Budget Preparation in WBGS dated March 5, 1995).
12. Audit letters, GCO Gaza Strip.
13. Audit letters, GCO Gaza Strip: Public bodies concerned.
14. List of Departments visited in 1995 by GCO West Bank.
15. Schema directeur informatique des juridictions financieres. Les plans d'actions (Brief on the present stage of the Electronic System Programme Implementation of French Financial Jurisdictions (national and regional courts of audit)).
16. Loi du 10 aout 1922 relative a l'organisation du controle des depenses engagees (French Law on budgetary control, setting up financial controllers in Ministries).
17. The French accounting magistrate (paper submitted to the United Nations Seminar on Palestinian Administrative, Managerial and Financial Needs and Challenges convened in Paris, June 1995, by the Committee on the Exercise of the Inalienable Rights of the Palestinian People).

Annex 1

Government of France Ministry of Foreign Affairs

United Nations Development Programme Programme of Assistance to the Palestinian People

Mission to the General Control Office of the Palestinian Authority

**West Bank and Gaza Strip
6 June 1996 - 13 June 1996**

Terms of Reference

Background and Justification:

Since the Oslo agreements, an increasing part of the responsibility and authority regarding the daily life of the Palestinians, the future of the West Bank and the Gaza Strip as an autonomous entity, and the improvement of the peace process itself lies with the Palestinian Authority. Besides the continuation of the political process, the Palestinian Authority is faced with the challenge of gradually assuming the complete set of governmental task. Perhaps the Palestinian Authority's greatest challenge is to fully develop the administrative structures, the technical capacities and the means necessary to perform civic and public functions and deliver public services. Thus, one of the first priorities of the Palestinian Authority has been to organize an effective core public administration.

The General Control Office (GCO), was established through a Presidential Decree issued in September 1994, and is operating under the direct supervision of the President. According to its mandate, which was spelled out in the General Control Commission Law of 1995, the GCO "aims to achieve control

over public money and to ensure its proper usage, and works to develop policies, administrative procedures, and the improvement of performance and productivity". In fact, the scope of institutions which are subject to the control of the GCO is extremely broad, ranging from all Palestinian Authority ministries and agencies, public organizations and establishments, unions, associations, societies, and syndicates; all private institutions and establishments which the Palestinian Authority shares in or receives assistance from; as well as municipality and villages councils.

The Law gives the GCO a broad range of "control" functions, including financial control, administrative control, performance evaluation, and legal control. To discharge these control functions the GCO primarily checks and audits the accounts and uses of funds of the public sector institutions. Thus, the GCO serves as the primary auditor of the use of the public funds put at the disposal of the Palestinian Authority.

Terms of Reference:

The purpose of the Mission is to assist the GCO in designing its strategy regarding mainly Accounting Control Procedures and Public Policies Audit.

The mission will:

- ◆ Review the counterpart situation and make specific, concrete recommendations regarding the structural organization of the GCO.
- ◆ Review the on-going control procedures and propose a rationalized and efficient auditing policy.
- ◆ Assess the relevance, operational and implementation needs and capacities of the GCO to further proceed with efficient auditing procedures.

Output:

Redaction of a comprehensive Project Proposal, identifying the specified priorities (and requirements for technical assistance) to further strengthen the General Control Office by providing start-up assistance (primarily capital expenditures) and technical assistance, primarily in the training of the auditors as well as advisory support in carrying out its mandate.

Mission Composition:

The Mission will consist of Mr Georges Capdebosq, Senior Auditor in the French National Court of Audit.

Mission Duration:

The duration of the Mission will be eight days beginning Thursday 6 June 1996 and ending Thursday 13 June 1996.

Administrative Arrangements:

The Mission will conduct its work in close consultation with UNDP-PAPP Jerusalem and will benefit of all the administrative support required.

Annex 2

List of persons met

United Nations Development Programme (UNDP), Jerusalem

Mr Edouard Wattez, Special Representative
Mr Omar Daoudi, Senior Adviser
Ms Valerie Cliff, Head of Governance and Public Sector Unit
Mr Jerome Leyraud, Programme Officer

UNDP, Gaza Office

Mr Khaled Abdel Shafi, Research and Liaison Officer
Mrs Iman El Wazir, Programme Management Officer

General Control Institution/Office (GCO), Gaza

Mr Jerar Qudwah, Chairman
Mr Hjazy Qarsheldy, Legal Adviser

GCO, West Bank, Ramallah

Mr Ziyad Aby Ein, General Manager
Dr Eyad Rammal, Vice-General Manager
Mr Mahmoud, Manager
Mr Mohammed Abu Rahma, Legal Adviser
Mr Shehadah Alawneh, Auditor
Mr Tareq Abu Baken, Auditor
Mr Haythem Amr, Auditor
Mr Suhail Mayaleh, Auditor

Ministry of Finance

Mr Sami Ramlawi, General Director, Ramallah
Mr Rezek Abu El Kas, Deputy General Director, Research and Studies Department,
Gaza
Mr Esaid Kassem El Kedra, General Manager of Supervision and Auditing, Gaza
Mrs Mona Masri, Director, Inner Control Audit C, Ramallah

Ministry of Education and Higher Education, Ramallah

Mr Sadi Wihidi, General Director, Internal Control
Mr Khalil Mahshi, General Director, Cultural Affairs and Public Relations

International Monetary Fund, Gaza

Mr Salam K. Fayad, IMF Resident Representative West Bank and Gaza Strip

Annex 5

LIST OF INSTITUTIONS UNDER THE CONTROL OF GCO IN WEST BANK

1. Local Government Ministry with:
 - 29 municipalities
 - 82 village councils
 - 347 village committees
2. Ministry of Health with:
 - 10 Health Directorates in different cities
 - 10 hospitals
 - Not less than 250 health clinics
 - Central medicines storage
3. Ministry of Finance with:
 - 10 Income and VAT Tax Centers in different cities
4. Transportation Ministry with:
 - 10 Directorates in different cities
5. Housing Ministry with:
 - 10 Directorates in different cities
6. Labor Ministry with:
 - 10 Labor Offices in different cities
 - Not less than 20 vocational training centers
7. Post and Communication Ministry with:
 - 10 Communication Directorates
 - Not less than 50 medium and large post offices in different villages, cities, and towns
8. Religious Affairs Ministry with:
 - 10 Directorates in main cities
9. Tourism Ministry with:
 - 10 Directorates in main cities
10. Justice Ministry with:
 - 10 Directorates in main cities
 - 10 different courts
11. Youth and Sports Ministry with:
 - 10 Directorates in main cities
12. Economy, Industry, and Commerce Ministry with:
 - 10 Directorates in main cities

13. Social Affairs Ministry with:
 - 10 Directorates
 - 20 Youth Training Centers (boys)
 - 20 Girls' Training Centers
 - 10 Training Centers for released prisoners
14. International Cooperation and Planning Ministry
15. Information Ministry
 - Palestine Broadcast Organization
16. Education and Higher Education Ministry with:
 - 10 Directorates in main cities
 - Not less than 2,000 schools
 - Not less than 5 public colleges
17. Interior Ministry with:
 - 10 Directorates
18. Agriculture Ministry with:
 - 10 Directorates
 - 2 agricultural colleges
 - 1 agricultural research center
19. Culture and Arts Ministry with:
 - 10 Directorates in main cities
20. Ministry of Civil Affairs and Coordination with Israelis with:
 - 10 Directorates in main cities
21. Employees Bureau.
22. Supreme Judge Bureau with:
 - Not less than 20 forensic courts in main cities and towns
23. Palestinian Energy Authority
24. Water Supply Organization
25. General Petroleum Organization
26. Injured Institution
 - (for those who will be rehabilitated by the Authority because of their injury.)
27. Housing Council
28. Palestinian Economic Council for Development and Rehabilitation (PECDAR)
29. Land Registration Bureau

30. Medical Clinic for Highways Accident Prevention
31. Ministry of Supply
32. Forensic Medical Center
33. Public Works and Highways Ministry
34. Red Crescent Association (NGO)
35. Palestinian Central statistics Bureau
36. Palestinian Energy Research Center (NGO)
37. Agricultural Relief Association (NGO)
38. Not less than 20 more NGOs
39. The Office of the President

Annex 6

STAFFING TABLE

| <u>Position</u> | <u>Gaza</u> | <u>West Bank</u> | <u>Total</u> |
|---|-------------|------------------|--------------|
| President | 1 | | 1 |
| Assistant to President | 1 | | 1 |
| General Director | 1 | 1 | |
| Vice-General Director | | 1 | 1 |
| Communications Advisor | 1 | | 1 |
| Deputy General Director | 1 | | 1 |
| Legal Advisor | 1 | | 1 |
| Director | 4 | 1 | 5 |
| Head of Department | 1 | 5 | 6 |
| Legal Assistant | 1 | 2 | 3 |
| Auditor | 12 | 12 | 24 |
| Administrative and secretarial Service | 4 | 4 | 8 |
| | <u>4</u> | <u>2</u> | <u>6</u> |
| Totals: | <u>31</u> | <u>28</u> | <u>59</u> |

APPENDIX E

Selected Passages from:

Report of the Budget and Financial Affairs Committee on the General Budget Law of the Authority for Fiscal Year 1997

Review of the 1997 proposed budget

In its report on the general budget bill for 1997, the Committee's findings and recommendations were mainly concentrated on the developmental expenditures, to be covered by foreign aids and grants, estimated at \$845.15 million, and the general revenues and expenditures, proposed at \$866 million.

The Committee made a general recommendation that all expenditures mentioned in the bill be subject to oversight, auditing, and review by the Auditing department in the Ministry of Finance and the Financial and Administrative Auditing Bureau in the PA (the General Control Commission?), in implementation of the principles of financial transparency, clarity, and integrity.

A. Developmental Expenditures:

In its review with various Ministries and public institutions of the mechanisms for carrying out development projects, the Committee asserted that it had made the following determinations:

1. Neither the Ministry of Finance nor the financial departments of the particular Ministries involved, have any role in controlling and auditing project expenditures.
2. Several senior Ministry officials (particularly from one identified Ministry) receive high additional salaries in return for position titles in these projects.
3. There are employees assigned to these projects who receive salaries less than amounts allocated for them in the contracts they signed.
4. There is no clear and accurate control over the tender and award process. In most cases, tenders are awarded to companies owned by senior officials in one (identified) Ministry, or working in other Ministries and public institutions.

Recommendations:

5. The role of the Ministry of Planning and International Cooperation should be limited to the planning and preparation of studies for these projects, rendering necessary technical consultations, and following up with donors or financing countries to obtain the necessary financing for these projects.
6. Projects should be executed in cooperation between the Ministry concerned and the Ministry of Finance. The Ministry of Finance should control the payment and spending on these projects in accordance with appropriate financial standards, while the Ministry concerned should supervise the project's technical aspects.

7. All foreign aids and grants should be paid into a special account in the Ministry of Finance's general Treasury. Spending and payment should be in accordance with contracts entered into with donor countries for each project, based on financial orders certified by the Minister of Finance.
8. All foreign loans to the PA should be in accordance with a resolution issued by the Council of Ministers, based on a recommendation from the Minister of Finance and approved by the Palestinian Legislative Council. Contracts should be entered into with the Minister of Finance.
9. Personnel in government positions should not be permitted to work as consultants or employees in projects whatsoever.

B. General revenues and expenditures

The report on the \$866 million General Budget contains important critical observations together with recommendations, some of which are presented below:

REVENUES

1. Taxes on income and profits (Budget: \$60.6 million, = percent)

Expansion of the income and profit taxes bases should not be limited to those who work in Israel. This would provide increase both revenue and equity in bearing the tax burden and should be accompanied by developing the staff in charge of tax collections.

2. Customs duties and Vat taxes (Budget: \$642 million = 78.9 percent)

The majority of these taxes are collected by Israel and transferred to the PA by clearance. There should be a system which provides for cooperation between the PA and its citizens to ensure that the entitlements from both source reach the PA Treasury.

3. Non-tax revenues (Budget: \$110.6 million = percent)

This category basically consists of (a) fees, violation penalties, fines; and (b) profits from official agencies and authorities, as well as PA-owned companies.

Findings:

- (I) Not all fees, penalties, and fines were paid in to the Treasury as they should be.
- (ii) This budget category omitted revenues from the profits of the following: the General Commission of Petroleum, the Palestinian Company for Commercial Services: basically cement, the Palestinian Monetary Authority: in accordance with the law, the General Commission for Tobacco, and other general commercial establishments registered in the name of the Authority.

Recommendations:

The Ministry of Finance is required to correct this situation, to ensure that all revenues are paid into the Treasury, and submit a report on this to the Council within three months from the date of ratification of the budget.

EXPENDITURES

4. Salaries and Wages

The Committee commented as follows:

- (I) Not all Ministries and public institutions have a clear organizational structure approved by the Council of Ministers. This applies to the Ministry of Finance and the Ministry of Planning and International Cooperation, where positions are filled and financial grades are determined accordingly;
- (ii) Most of the recruitment is not carried out in accordance with actual personnel needs or in accordance in organizational job descriptions, or subject to free competition under the equal opportunity principle;
- (iii) The size of senior positions at several Ministries and public institutions is inflated, creating budget burdens, making it difficult to prepare organization charts, and causing deterioration in functional performance. Organization charts should be reconsidered, based on actual needs and the ratified budget;

Recommendations:

- (iv) That the LC finalize ratification of the Civil Service Law and request the Council of Ministers to provide the necessary reserve in the 1998 Budget for the Law's implementation.
- (v) The Minister of Finance should prepare an organization chart for the Authority's institutions and submit a report to the LC about this before 31 July 1997.

5. Operational expenditures

This category includes travel in official missions; rents; water and electricity; post, telegram, and telephone; fuel; stationery and office supplies; maintenance, repairs, and accessories; consumables; vehicle expenses; and other. Included in the Committee's analyses were the following:

- (a) **Travel in Official Missions**

Findings:

This category of expenditures is misused by Ministry persons in charge. Most of the allocations are spent on certain persons, with little for professionals serving Ministry objectives and purposes.

Recommendations:

- (I) The Council of Ministers should be requested to prepare special regulations for travel in internal and external missions, and determine the ground rules and the mechanism upon which assignments and spending will be based.
- (ii) The number of delegation members traveling in foreign missions related to Ministry work should not, in general, exceed three on any one trip, with any exception to be justified by a resolution from the Council of Ministers.
- (iii) Each delegate should submit a detailed report about his/her mission and accomplishments and there should be a follow-up mechanism.

(b) Rents**Findings:**

- (I) Huge amounts of money are spent on renting government buildings. For some Ministries and public institutions, rent constitutes over 36 percent of operational expenditures. Over a four-year period, amounts expended on building rentals would be sufficient to build permanent complexes for the PA's Ministries and public institutions.

Recommendations:

- (ii) The Executive Authority should be asked to start construction of governmental complexes immediately under a five-year development plan to be designed for this purpose. Thereafter, rentals should appear in the General Budget only in temporary and emergency cases.
- (iii) The Executive Authority should follow up on excessive spending on furniture and furnishing in some offices and implement a rationalization policy with respect to such outlays.
- (iv) The Executive Authority should be asked to stop payment of housing allowances to Ministers and the like immediately, provided that this topic is legally regulated.

© Post, Telegram, and Telephone:**Findings:**

- (I) In the absence of clear and binding instructions, office telephones have been misused and the number of telephone lines and mobile telephones has been unjustifiably increased in all Ministries and public institutions.

Recommendations:

- (ii) A clear, detailed, and binding regulation should be issued, specifying the permissible ceiling for each telephone, number of telephone sets, and to whom they are issued.

The number of mobile telephones should be restricted to three, one each for three top level executives, except for the Ministries of Health and Civil Affairs.

- (iii) The practice of paying private telephone bills for Authority officials, including Ministers, should be stopped.
- (iv) International lines in government offices should be canceled, except for one line in the central offices: such as the Minister's and this line should be strictly controlled.

The Committee's General Comments and Recommendations. Selected comments by the Committee which address the needs for internal controls follow.

FIRST. The absence of the Council of Ministers' role in ratifying general regulations which regulate the work of Ministries and public institutions, as well as the absence of clear definitions of powers and responsibilities for each of them, in addition the absence of a work plan by the Council of Ministers, contributed directly towards the continuation of conflict, interference and duplication in powers and authorities among various Ministries and public institutions.

This situation generated several public institutions which cannot be justified and led to sizable cadres. It kept the confusion status in the organizational structure of all Ministries and public institutions in the PA, which increased the burdens of the budget, and caused ambiguity in the basis of expenditure allocations for each one of them.

Accordingly, the Committee recommends to the Council of Ministers to complete the organization of positions for Ministries and official departments. Further, the Committee puts an emphasis on this point and hopes that the council of Ministers will accomplish this task before the preparation of the 1998 budget and the final accounts of the 1997, which shall be submitted in a timely manner as per the law. In addition, the Committee recommends to the Ministry of Finance to develop its departments which deal with this issue, in terms of providing competent and qualified staff to perform this comprehensive process.

1. Develop the General Budget Department in the Ministry of Finance, particularly the division which deals with the auditing and control functions, to follow up the implementation of each Ministry's budget, in a manner which guarantees internal auditing and permits quick action to prohibit and stop any violations or practices which are beyond the frame of the General Budget Law.
2. Create a department which will be concerned in the preparation of regulations and executive instructions to regulate and specify the standards and basis for preparing budgets, as well as specifying responsibilities and authorities and bodies tasked to implement such regulations in each Ministry of public institution.

SECOND: The Committee recommends to complete the financial legislation which will contribute towards standardizing and organizing the public administration of the Authority in the financial aspects. The Committee asks the Council of Ministers to complete the following financial legislation in particular:

- ◆ Budget and General Finance Law
- ◆ General Supplies (Procurement) Law

- ◆ Increments and Allowances Law
- ◆ Internal Auditing Law
- ◆ Lands and Survey Law
- ◆ Civil Service Law
- ◆ Financial Law
- ◆ Transportation and Travel Law
- ◆ Government “Public” Works Law
- ◆ Income Tax Law
- ◆ Free Zone Law
- ◆ Insurance and Retirement Law

FIFTH: The Council ensures the necessity of the Executive Authority to concentrate on administrative reforms, through establishing administrative systems, adopting modern technologies, providing training and rehabilitation opportunities, and decrease non-necessary recruitment and hiring.

EIGHTH: The necessity to adopt a mechanism for submitting a quarterly report by the Ministry of Finance to the Budget Committee in the Council, about following up the implementation and execution of the General Budget Law.