State of Palestine

State Audit &Administrative Control Bureau

President Office

دولة فلسطين

ديوان الرقابة المالية والإدارية

ديوان رئيس الديوان

Report of Opinion Expressed by State Audit & Administrative Control Bureau (Independent Auditor) on Aggregate Financial Statements of the State of Palestine for Fiscal Years 2018 & 2019 Released by Ministry of Finance

December 27TH, 2021

Audit & Control for Construction, Development & Good Governance Enhancement

Ramallah - P.O Box 755 TEL. 02-2972289 – 93 FAX. 022967716

www.saacb.ps - facb@facb.gov

Abbreviations & Acronyms

ACC: Anti Corruption Commission
AFSED: Arab Fund for Social & Economic Development
AQF: al-Aqsa & al-Quds Fund
AU: al-Aqsa University
CEC: Central Elections Commission
CMA: Capital Market Authority
CWA: Cooperation Work Agency
CWRC: Colonization & Wall Resistance Commission
EIB: European Investment Bank
EMDOF: Establishment of Manage & Development of Orphans Funds
EUR: Euro
GBCD: General Border Crossings Department
GCP: General Commission of Petroleum
HEC: Hebron Electricity Company
ICHR: Independent Commission for Human Rights
IDB: Islamic Development Bank
IEC: Israeli Electric Corporation
IFMIS: Integrated Financial Management Systems
INTOSAI: International Organization of Supreme Audit Institutions
IPSAS: International Public Sector Accounting Standards
ISA: International Standard on Auditing
JD: Jordan Dinar
JDECO: Jerusalem District Electricity Company
JWU: Jerusalem Water Undertaking
KD: Kuwaiti Dinar
KfW: German Development Bank
LA: Land Authority
LC: Legislative Council
MoA: Ministry of Agriculture
MoE: Ministry of Education
MoF: Ministry of Finance
MoH: Ministry of Health
MoHE: Ministry of High Education
MoHEAR: Ministry of High Education & Academic Research
MoI: Ministry of Information
MoI: Ministry of Interior
MoL: Ministry of Labor
MoLG: Ministry of Local Government

MoNE: Ministry of National Economy
MoPW: Ministry of Public Works
MoPW&H: Ministry of Public Works & Housing
MoSD: Ministry of Social Development
MoTA: Ministry of Tourism & Antiquities
MoWA: Ministry of Women Affairs
MTIT: Ministry of Telecommunications & Information Technology
NIS: New Israeli Shekel
NQB: National Qatar Bank
NWU: National Water Undertaking
PADRRIF: Palestinian Agricultural Disaster Risk Reduction & Insurance Fund
PBC: Palestine Broadcast Corporation
PCMC: Palestine Capital Market Commission
PDF: Palestinian Development Fund
PDIC: Palestinian Deposit Insurance Corporation
PENRA: Palestinian Energy & Natural Resources Authority
PIEFZA: Palestinian Industrial Estates & Free Zones Authority
PIF: Palestine Investment Fund
PLA: Palestine Land Authority
PMA: Palestine Monetary Authority
PMF: Palestinian Maintenance Fund
PMHCO: Palestine Mortgage & Housing Co.
PNA: Palestine National Authority
PNF: Palestinian National Fund
PPA: Palestinian Pensions Authority
PSI: Palestine Standards Institution
PWA: Palestinian Water Authority
RMS: Revenues Management Software
SAI: Supreme Audit Institution
SAACB: State Audit & Administrative Control Bureau
SEC: South Electricity Company
SLF: Student Lending Fund
USD: US Dollar
VAT: Value Added Tax
WB: World Bank
WBWD: West Bank Water Department

Independent Auditor's (SAACB) Report

About Financial Statements of the State of Palestine for Fiscal Years Ended December 31st, 2018 & 2019

H.E. Mr. President of Palestine Mahmoud Abbas
H.E. Mr. Prime Minister Dr. Mohammad Shtayyeh
H.E. Minister of finance Shukri Bishara

Opinion:

We have audited the financial statements of the State of Palestine for fiscal years ended Dec 31st, 2018 & 2019, which comprise the '**consolidated statements of cash payments and receipts of the State of Palestine**', '**accounting policies and Notes**' and '**comparison figures between budget amounts and actual amounts**', for the years ended Dec 31st, 2018 and Dec 31st, 2019.

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements of 2018 & 2019 present fairly, in all material respects, the '**consolidated statements of cash payments and receipts of the State of Palestine**' and '**comparison figures between budget amounts and actual amounts**' for the years ended Dec 31st, 2018 & 2019. They also present the '**Notes of these financial statements and summary of significant accounting policies**', in accordance with the International Public Sector Accounting Standards (**IPSAS**), **cash basis**.

Basis for Qualified Opinion:

We conducted our audit in accordance with ISSAIs, where they require compliance with appropriate professional conduct, planning and audit to obtain reasonable assurance whether the financial statements of the State of Palestine for fiscal years ended Dec 31st, 2018 & 2019 are free of significant misstatements.

- ❖ Our responsibility in SAACB, as an entity independent from audited entities, according to provisions and amendments of law of the Bureau 15/2004, and according to ethical requirements (ISSAI 30-INTOSAI code of **conduct**) that are relevant to our audit of the financial statements, clarified in the '**Auditor's Responsibility**' paragraph in our report. We have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the evidence we have obtained is sufficient and appropriate to provide basis for our qualified opinion. These qualifications are attached to this report, which start with qualifications of SAACB to final accounts of fiscal years ended Dec 31st, 2018 & 2019, **pp. 14 - 42**.

Emphasis of Matter paragraphs:

❖ Summary of significant accounting policies, entities of report (Notes 1.7 & 1.8).

SAACB emphasizes that these consolidated *statement of cash payments and receipts* and the *statement of comparison with the State of Palestine budget of years 2018 & 2019* include entities of the report, which are stated in law 7/1998 on budgeting and financial affairs, in addition to these year's budgeting laws. This includes all government entities.

There are entities seen by law as independent from budget sector, but not included in Palestine National Authority budget. Their accounting processes are outside the consolidated financial software 'IFMIS', where the financial statements report does not include them. These entities are:

- Palestine Investment Fund (PIF),
- Palestine Monetary Authority (PMA),
- Palestine Capital Market Commission (PCMC),
- Palestinian Pensions Authority (PPA),

Entities above are independently responsible, by virtue of legal status, for preparation of their financial statements. MoF is not responsible for these statements.

❖ Summary of significant accounting policies, clearance deductions (Note 1.9).

- MoF did not disclose the amounts deducted by the Israelis from clearance (%3) in Note (3) on clearance revenues of financial statements 2018 & 2019. SAACB expressed qualifications to the Note on clearance and its deductions, where this has been referred to in the '*Basis of qualified opinion*' paragraph.
- MoF disclosed 624,069,583 NIS that have been illegally deducted from detainees' salaries from clearance in 2019.

❖ Summary of significant accounting policies, clearance.

In Note (1) on significant accounting policies, MoF disclosed the main causes of resorting to clearance with private sector companies, as below:

'The lack of cash and financial resources made some third parties, specifically private sector companies (hospitals, insurance companies, etc.) and financial and service corporations that provide PNA with goods, services, medicines and loans, do clearance for some of their due taxes (income tax, value added tax) off total liabilities on PNA'.

❖ Summary of significant accounting policies, exempt loans.

In Note (1) on significant accounting policies, MoF disclosed the exempt loans as follows:

'The Arab Fund for Social & Economic Development (AFSED): board of AFSED decided on November 27th, 2016 to stop calculating interest on loans given to the government of Palestine, and to exempt it from due interest as at date of decision (5,569,902 KD/69,327,961 NIS). The board also decided on March 2nd, 2017 to exempt the government of Palestine from due unpaid installments as at November 1st, 2016 (7,121,522 KD/85,420,952 NIS)'.

❖ Summary of significant accounting policies, in-kind grants.

In Note (1), MoF disclosed the accounting policy followed to present in-kind grants (disclosing part of which). This has been evaluated as per the Palestinian customs statements only, so

SAACB emphasizes that the adoption of an incomplete disclosure policy led to SAACB qualification to in-kind grants, as indicated in the '*Basis of qualified opinion*' paragraph.

❖ Summary of significant accounting policies, evaluation of going concern assumption.

MoF has evaluated the accounting going concern assumption, cash status and accumulative arrears from deducting clearance funds illegally and not transferring all financial rights of the Palestinian people since start of the year 2019 until date of our financial statements in the year 2021, as well as circumstances (clearance funds stopped, accumulative arrears) brought by the COVID-19 pandemic. Thus, there is a real challenge –as per standards- regarding the accounting going concern assumption and reality in light of the Palestinian funds being withheld.

Thus, SAACB draws attention to the fact that the unrestricted and available for use cash is not enough to pay monthly salaries in case the clearance funds transfer block by the Israelis continues, without resorting to borrowing from banks. Hence, we emphasize that the unrestricted and available for use cash at MoF is not sufficient. Total unrestricted cash balances (available for use) in the form of unused balances from the overdraft accounts in the treasury reached, as at December 31st, 2018 & 2019, almost 20 million NIS and about 526 million NIS respectively. Average total monthly payroll and semi-payroll bill reached 612,284,177 NIS and 747,202,367 NIS in the years 2018 and 2019 respectively.

❖ Budgeting law, fiscal year 2019.

It has been disclosed in Note (23) that the budgeting law of fiscal year 2019 was not issued. Thus, the original public budget statements of the previous year (2018) were approved, based on Mr. President's decision 26/2019 on March 25th, 2019 on extension to spending with monthly appropriations at 1/12 (one out of twelve) rate per each of the previous fiscal year's months. The decision shall take effect as of date until approval of the general normal budget of the year 2019, with SAACB emphasis that budget of the year 2019 has not been approved.

Other matters:

SAACB draws users' attention to the following matters:

- The financial statements released for the fiscal years ended Dec 31st, 2018 & 2019 are the responsibility of the previous government (the eighteenth government).

- MoF issued financial statements of the years 2018 & 2019 on July 1st, 2021 as initial (draft) financial statements. Some adjustments have been undertaken to accounting records based on audit findings of SAACB in management letter out on September 09th, 2021. The financial statements in their final form were issued on November 14th, 2021.

- SAACB emphasizes the limited financial resources and lack of cash in the State of Palestine. We draw attention to the fact that the lack of resources and cash affects capacity of the State to fulfill its financial duties and responsibilities.

Thus, and based on financial statements released by MoF, we draw users' attention to some of the following matters:

- ❖ Borrowing from local banks and financial foundations increased in the year 2019 compared to the year 2018 (%810 increase). Value of borrowing reached 204,356,000 NIS during

2018 and 1,858,911,000 NIS in 2019, which is brought by withholding clearance funds by the Israelis, and by financing payrolls through bank loans.

- ❖ The financing gap, brought by the decrease in grants and assistance from donors to the government, has significantly widened in the years 2018 and 2019 compared to previous years. This has reduced the government's share in the public budget financing, and affected capacity to do its job and provide public services.
- ❖ Value of amounts deducted from clearance increased in the year 2019 compared to previous years.

- The accounting policy followed by MoF (disclose fuel excise and value added tax on fuel procurement from Israelis supplying companies) involves acknowledging the amounts received from the fuel excise and VAT as clearance revenues. These amounts were paid by General Commission of Petroleum (GCP) to supplying companies, where %97 of which is retrieved as part of clearance revenues, but the 'revenues collected through clearance' definition does not apply thereto. The Authority's procurement of fuel and gas, excise and VAT included, cost the treasury great amounts due to borrowing from bank to pay the supplying companies, and reduces cash held at the treasury. The Israelis deduct %3 off excise and VAT as collection fees, despite that MoF acknowledges action findings of GCP (payments to procurement and receipts of sales) in Note (18) on net cash flows to GCP. Table below shows value of excise and VAT on (total) fuel and gas procurement, and value of amount deducted as a result of collection by the Israelis at %3:

Item	2018 (NIS)	2019 (NIS)
Fuel procurement excise	**2,545,213,253**	**2,506,371,307**
VAT of fuel and gas procurement	**814,553,649**	**817,681,216**
Amount deducted by Israelis from excise and VAT to fuel and gas procurement (%3)	**100,793,007**	**99,721,575**
Interest expenditures incurred by GCP due to borrowing from banks and foundations	**44,604,755**	**52,295,484**

GCP took upon itself the interest cost to fuel suppliers due to delayed vouchers payment (over 17,000,000 NIS) in the years 2018 and 2019.

- All details of qualifications mentioned in our report are explained in detail in the management letter that has been released to MoF. The latter, as well as different line ministries, were given the legal term to respond. SAACB received their response to observations on November 14th, 2020, and the line ministries were written to, each as per respective observations, in the management letter. Responses were documented in the final management letter released by SAACB in December 2021, in addition to non-significant observations and other regulatory matters that did not appear in qualifications mentioned in our report, since they did not affect fairness of financial statements.

- MoF is responsible for other information, which include all information stated in MoF reports (except for financial statements and SAACB audit report).

Our opinion about financial statements does not include other information, and we do not express any confirmatory conclusion thereto.

Observations above in the 'Emphasis of Matters' and 'other matters' are not the reason for our qualifications.

Key audit matters:

Key audit matters are those matters, in our professional judgment, were the most significance in our audit of financial statements as at Dec 31st, 2018 & 2019. These matters were addressed in the context of our audit of financial statements as a whole, and in forming our opinion thereon, and we did not provide a separate opinion on those matters. We have identified key matters shown in table below in addition to qualifications referred to in the '*Basis of qualified opinion*' paragraph:

Significant audit matters	Audit procedures
Accounting policies followed in Note (1) Evaluate the accounting policies disclosed and used to prepare the financial statements of 2018 & 2019, and MoF compliance within the IPSAS framework. The accounting policies and financial statements framework are the basis to prepare financial statements, where disclosure helps users understand the financial statements.	**Audit procedures we carried out included:** - Consider and evaluate the compliance of accounting policies disclosed in Note (1) with what has been followed upon the preparation of financial statements and the accompanying Notes. - Evaluate the accounting policies disclosed upon preparation of financial statements, and their compliance with IPSAS. - Check that MoF is complying with all IPSASs (requirements part – cash basis). - Evaluate the validity of MoF compliance with IPSASs (encouraged additional disclosures – cash basis). - Evaluate the compliance of statements and other reports released by MoF with what has been stated in the financial statements.
Overdraft balances: As referred to in Note (10.a) on bank withdrawals and limits of debit facilities disclosed in financial statements of the State of Palestine, value of bank withdrawals during the years 2018 and 2019 reached 667,030,000 NIS and 679,318,000 NIS respectively. The overdraft balances are one of the significant audit matters due to their high risk, which is associated with item nature (cash), besides high cost incurred and balanced in the overdraft accounts. They include bank interest and accounting policy the MoF follows upon recording bank interest and commissions, which do not consider the separation between interest the government takes upon itself on overdraft balances and any other bank interest and commissions. We focused on this matter due to significance for the financial statements users and decision makers.	**Audit procedures we carried out included:** – Obtain confirmations and bank statements regarding overdraft accounts. – Determine the accounts recorded in books regarding overdraft, match and analyze book balances with bank confirmations and determine and analyze differences. – Review agreements signed with banks, and check that there are not differences between the agreements and what has been done in the accounting software. – Check that MoF complies with the public debt law and any other relevant regulatory decisions. – Recalculate the interest accrued on overdraft accounts by banks during 2018 and 2019, and validate calculation and record in books. – Validate the disclosure of accounts in financial statements of years 2018 and 2019 for the interest calculated regarding overdraft, and any other interest regarding public debt. **A qualifications has been expressed to the public debt statements, disclosed in financial statements released by MoF for the years 2018 and 2019.**

1. Bank reconciliations MoF releases financial statements according to cash basis of IPSAS. The cash balance of fiscal years ended December 31st, 2018 and 2019 has been presented in Note (22) at 1,130,987,000 NIS as at December 31st, 2018 and at 450,810,000 NIS as at December 31st, 2019. Bank reconciliations are among the significant audit matter due to high risk associated with item nature (cash), besides that they are among the significant audit procedures that involve validity of cash balance disclosure. Bank reconciliations were a matter of focus and seen as a significant audit matter due to variety of revenues and deposits collection processes by most of line ministries , which use their own different records and programs, besides the variety of payment processes, as below: Received cash flows of revenues collection are done through collection with payment vouchers, manual receipt bonds, computer-issued receipt bonds, cash register machine, bank transfers and cheques. Policy followed by MoF to record received amounts involves recording an accumulative entry each month in the accounting software, which increases risk of invalid cash records of receipts. Cash outflows from bank accounts include bank transfer, cheques, promissory notes and letters of credit, all centrally done with IFMIS. We also focused on this matter due to size of reconcile items in bank reconciliations (transfers not paid), which have their cash impact reflected on cash balances and receipts/payments accounts in other Notes. A number of bank accounts, with their subsidiaries, is so vast, which are managed by line ministries and MoF.	**Audit procedures we carried out included:** − Obtain confirmations and bank statements regarding bank accounts of the State of Palestine. − Match book balances with bank statement balances, determine and analyze differences and book and bank reconcile items. − Validate the accounting records and reconciliation balances in IFMIS. − Select an audit sample to undertake significant examination, and validate the bank reconciliations preparation and the compliance with the applicable Palestinian financial regulations. − Check the compliance of MoF and line ministries with the applicable Palestinian financial regulations. − Validate the cash balance disclosure in financial statements of the years 2018 and 2019 released by MoF, in terms of book balances match with financial statements that have been disclosed. − Validate the cash balance disclosed in financial statements of the years 2018 and 2019, **taking into account a qualification was expressed to the cash (restricted and available for use), disclosed in financial statements of the years 2018 and 2019 released by Ministry of Finance**.
Lending and re-lending in financial statements: As referred to in Note (15) on lending and re-lending disclosed in financial statements of the State of Palestine, net (cash) lending of the year 2018 reached credit 326,792,000 NIS and credit 177,889,000 NIS in the year 2019. Net lending circulation reached 555,814,000 NIS in the year 2018 and 1,207,863,000 NIS in the year 2019. Regarding re-lending, net cash flows reached 7,309,000 NIS in the year 2018 and 9,169,000 NIS in the year 2019. Opening balances and final balances of lending and re-lending were not presented in the Note, but transactions made to lending and re-lending accounts during the years 2018 and 2019 were presented. Most of the lending balance is formed of clearance deductions by the Israelis, as a result of electricity, water and wastewater consumption by the Palestinians (companies, entities, individuals), which are not effectively collected from beneficiaries, which leads to lending balance being increased year after year. Based on our professional judgment, we focused on this matter due to significance of the lending balance, the accumulated deducted amounts in the balance and the exhaustion of part of the State's resources by lending. Thus, this matter is significant to users of financial statements and decision makers. Regarding re-lending (development loans of the State re-lent to entities for development purposes), it was regarded a key audit matter due to	**Audit procedures we carried out included:** - Obtain confirmations from local entities (municipalities, village council) regarding their water, electricity and wastewater indebtedness. - Understand how to record opening balances and indebtedness of lending. - Understand vouchering and recording process at West Bank Water Department, and how to communicate and coordinate with MoF regarding the records of water lending on receivables. - Review some agreements signed between MoF and stakeholders regarding lending, re-lending, respective accounting records and how to record indebtedness. - Review lending accounts, references (receivables) and how to use and record in receivables. - Review adjusting entries made to lending accounts, receivables and accounting guidelines. - Require confirmations from borrowing entities as part of re-lending. - Review re-lending records of accrued entries of installments and interest. - Review the classification of transactions as part of the Note. **A qualification has been expressed to the opening balances as part of the trial balance and transactions during the years 2018 and**

significance of the lending balance, lack of agreements for a number of loans and failure to effectively collect re-lending from all borrowing entities, so payment of loans granted to the treasury was proven difficult.	**2019, as appear in the 'Basis of qualified opinion' paragraph regarding Note (15).**
Note (13) on payrolls Net value of payrolls was disclosed at 6,424,599,000 NIS and 7,459,034,000 NIS, in financial statements of the years 2018 & 2019 respectively. Financial statements are processed by migrating them automatically from Oracle payroll software to IFMIS software. We focused on this matter as payroll payments form the biggest percentage of total expenditures from the government's annual budget.	**Audit procedures we carried out included:** − Check the data migration process from Oracle into IFMIS. − Check classification validity of payroll-related expenditures in Note (13), as defined and identified in laws. − Check the completion of amounts paid and presented in Note (13) on payrolls. − Review presentation and disclosure process of net value of payroll, as well as statements disclosed (discounts, bonuses, salaries) based on legal references of spending. − Perform analysis necessary to obtain indicators about significant changes in value of accounts and transactions to these accounts regarding payrolls. − Match the amount paid from banks for payrolls recorded as 'due for payment from banks' with what has been disclosed as net payrolls in Note (13). − Check control systems over programs used to set monthly payroll vouchering process.
Expenditures other than payrolls **Value of the expenditures other than payrolls was disclosed in amounts below:** Operational expenditures: 1,311,300,000 NIS and 1,038,822,000 NIS in the years 2018 and 2019 respectively Transfers and assistance: 3,399,729,000 NIS and 3,631,761,000 NIS in the years 2018 and 2019 respectively Capital expenditures: 32,443,000 NIS and 28,349,000 NIS in the years 2018 and 2019 respectively Development expenditures: 1,046,121,000 NIS and 851,933,000 NIS in the years 2018 and 2019 respectively Expenditures payment is done based on procedures of the Palestinian financial regulations. These procedures are determined according to nature of expenditure, and these expenditures items are associated with different line ministries.	**Audit procedures we carried out included:** - Validate the classification and disclosure of operational, transfer, development and capital expenditures based on nature of expenditure and form of finance. - Perform significant examination of a sample of expenditures to check that all supporting documents of spending are present, and based on nature of expenditure. - Check that value of expenditures associated with arrears financing in Note (21) is separated from expenditures disclosed in Note (14). - Check that supporting documents are present, and that advances paid from expenditures accounts are followed up and closed as per laws and regulations. - Check the existence, completion, accuracy, cutoff procedures and classification of account amounts disclosed in Note (14) by re-tying the accounts as per financing (operational, transfer, capital, development) in the Note on expenditures other than payrolls, and validate the accounting processing upon disclosure of advances recorded in the expenditures accounts.
Budget vs. actual comparison statement IPSAS require the need to prepare the 'budget vs. actual comparison' statement on comparable basis between the amount (original budget, final budget, actual amount). This statement is important for financial reporting for users about deviation from the approved budget items and changes to the original budget. Thus, it is necessary to obtain reasonable assurance about validity of amounts in this statement.	**Audit procedures we carried out included:** - Validate the presentation of budget expenditures items' value as per budget allocations in the statement (original budget, final budget, actual amount). - Check the presentation of budget expenditures items between amounts (original budget, final budget, actual amount) on comparable basis as indicated by IPSAS.
Advances	**Audit procedures we carried out included:**

We focused on and considered advances a significant audit matter due to the payment process approved by line ministries. The advance amount is attached to the budget expenditures accounts, and the form is identified (advances, errand advance) to be closed later when all supporting documents are available. Line ministries paid through advances for a large number of transactions in high amounts, delayed closure to subsequent years and paid several advances to the same beneficiary without closing some previous advances, which affects completion and accuracy of expenditures accounts.	− Review a sample of previous years' advances at some line ministries until the audit date. − Trace some payables/receivables that obtained advances in previous years (2018 & 2019), but previous years' advances were not closed − Review a sample of advances closure entries and their impact on accounts and budget

Responsibility of MoF for financial statements:

MoF is responsible for the preparation and fair presentation of the financial statements of the State of Palestine is according to IPSAS Cash Basis for financial reporting, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. Responsibility includes selecting and following appropriate accounting policies, and making reasonable accounting estimates according to conditions.

SAACB responsibility for the Audit of the Financial Statements:

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole 'accompanying final accounts' are in general free from material misstatements, whether due to fraud or error, and to issue an audit report that contains the opinion regarding audited financial statements. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of these financial statements.

Regarding reports released by MoF, with exception of what has been audited by us, we do not have confirmation on whether they are free of any significant misstatements.

As part of an audit in accordance with ISSAIs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the MoF and line ministries' internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by MoF.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of fiscal years ended Dec 31st, 2018 & 2019 and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication
Audit findings regarding compliance of line ministries mentioned in general budget law with laws, regulations and instructions of financial management:
As part of our financial audit, we point out a limited assurance about the compliance of line ministries mentioned stated in general budget law with laws, regulations and instructions of financial management that govern their action, such as –but not limited to-:
- Budgeting and financial affairs law 7/1998 and amendments.
- Decree law 1/2018 on general budget of fiscal year 2019.
- Public debt law 24/2005.
- Council of ministers decision 43/2005 on financial regulations for ministries and public entities with amendments.
- Decree law 8/2014 on public procurement, with regulations.
- Precious metals hallmarking and control law 5/1998.
- Civil service law 4/1998, with amendments and executive regulations.
- Decree law 8/2011 and amendments on income tax with respective instructions.
- President decree 18/2007 on fees exemption to citizens in southern districts.
- Presidential decree 22/2017 on the cancellation of legislations regarding exemption of tax and service fees in southern districts.
- Law 16/1985 on fees over local produce.
- Corporate law 12/1964 with amendments.
- Council of ministers decision 17/2010 on executive regulations regarding allowances for official errands and courses abroad, Palestinian security forces.
- Instructions 11/2012 on tax installments.
- Any other relevant laws, regulations and instructions.
With exception to what we have not audited, the conclusion of our audit depends on ISSAI-4000 on the audit of compliance of line ministries stated in general budget with effective laws and regulations.
We obtained limited assurance through our audit of financial statements as described above, and respective control procedures. We do not have a judgment as to compliance thereto. Audit

findings about compliance accompany our report, which start with qualifications on compliance with laws, regulations and legislations **(pp. 43 – 47)**.

Ramallah
December 27th, 2021

Counsel Eyad Tayyem
President
State Audit & Administrative Control Bureau

Qualifications of SAACB to financial statements for fiscal years 2018 & 2019

- **SAACB expresses qualifications to the compliance of MoF with IPSAS-Cash Basis in financial statements of the years 2018 & 2019 for the reasons explained below:**

1. The consolidated aggregate financial statements of the State of Palestine of the years 2018 & 2019 have been issued the year during 2021 after the allowed term (6 months from date of report) has been exceeded. This is indicated in the IPSAS (4.4.1), as below:

'The usefulness of the financial statements are impaired if they are made available to users within a reasonable period after the reporting date. Any entity should be in a position to issue its financial statements within six months of the reporting date, although a timeframe of no more than three months is strongly encouraged. Ongoing factors such as complexity of an entity's operations are not sufficient reason for failing to report on a timely basis. More specific deadlines are dealt with by legislation and regulations in many jurisdictions'.

SAACB law 15/2004, article (34) states that the deadline for MoF to deliver the draft financial statements to SAACB is 'one year': 'Based on the draft statements prepared as per article (33), MoF shall prepare and forward a copy of the draft financial statements to SAACB within one year from the end of fiscal year for consideration and presentation of observations to the Legislative Council'.

2. Presentation and comparison of the aggregate financial statements (the years 2018 & 2019) of the State of Palestine are not consistent with financial statements of 2018 and the comparison year (2017). MoF made the necessary adjustments to the draft aggregate financial statements of the years 2018 & 2019, and reissued the financial statements based on the management letter of SAACB, without reclassifying the financial statements of the comparison year (2017) as recommended by IPSAS. This has affected the following notes:

- Note (13) on payrolls,
- Note (14.1) on operational expenditures and Note (14.2) on transfer expenditures (expenditures other than payrolls),
- Note (10.a) on bank withdrawals and limits of facilities,
- Note (18) on net cash flows of General Commission of Petroleum,
- Note (22) on cash (reserved and available for use)

3. Some comparative figures in the financial statements of the year 2017, disclosed in the consolidated aggregate financial statements of the State of Palestine (years 2018 & 2019), were not presented another time in order to correct misstatements of previous periods. MoF stated in Note (4.1) that the reason behind not presenting financial statements of comparison year (year 2017), disclosed in the consolidated aggregate financial statements of the State of Palestine (years 2018 & 2019), is time gap and cost benefits, contrary to IPSAS.

4. The whole in-kind grants were not disclosed in the consolidated aggregate financial statements of the State of Palestine (years 2018 & 2019). Note (25.1) on in-kind grants (summary of significant accounting policies in financial statements) states that disclosure of these grants is not complete, as follows:

'MoF should comply with encouraged disclosure that recommends the presentation of in-kind grants and donations in the financial statements. The in-kind grants in Note (12) only represent part of what has been determined and evaluated as per Palestinian customs statements only, so they are not complete'.

The incomplete disclosure of in-kind grants is contrary to IPSAS, cash basis (1.3.32), which states: **'*Where an entity elects to include in its financial statements any disclosure encouraged in Party 2 of this Standard, those disclosures shall comply with the requirements of paragraph 1.3.27 above*'. Standard 1.3.27 states: '*Financial information shall present information that is:***

- ***(a) Understandable;***
- ***(b) Relevant to the decision making and accountability needs of users;***
- ***(c) A faithful representation of the cash receipts, cash payments and cash balances of the entity and the other information disclosed in the financial statements in that it is:***
  - ***(i) Complete;***
  - ***(ii) Neutral; and***
  - ***(iii) Free from material error***
- ***(d) Comparable;***
- ***(e) Timely; and***
- ***(f) Verifiable***

Constraints on information included in financial statements are that it is material, satisfies a cost-benefit assessment, and achieves an appropriate balance between the qualitative characteristics identified in (a) and (f) above'

5. Value of clearance revenues was presented in net, without disclosing what is being deducted by the Israelis from collection fees (%3), and without disclosing the deduction amount (collection fees) as part of the deductions item associated with clearance revenues.

6. The consolidated aggregate financial statements of the State of Palestine (years 2018 & 2019), specifically in Note (13) on payrolls, does not disclose details of salaries. They include salaries of civil employee (with bonuses and deductions), security forces salaries (with bonuses and deductions), pensioners, salaries of ministers and legislative council members, salaries of the national fund, etc.

The accounting cash basis standard, paragraph (1.3.2), indicates the following:

'Financial statements result from processing large quantities of transactions that are structured by being aggregated into groups according to their nature or function. The final stage in the process of aggregation and classification is the presentation of condensed and classified data that form line items either on the face of financial statements or in the Notes. If a line item is not individually material, it is aggregated with other items either on the face of the financial statements or in the Notes. An item that is not sufficiently material to warrant separate presentation on the face of the financial statements may nevertheless be sufficiently material that it should be presented separately in the Notes'.

7. Value of payrolls item was disclosed in actual amount for the year 2018 in the consolidated financial statements of the State of Palestine (years 2018 & 2019) based on salary payment date, which presented the actual amount value from December 2017 to November 2018 in the

financial statements. However, the budgeting law sets the budget value for payrolls item based on fiscal year that starts on January 1st and ends December 31st, contrary to the accounting cash standard. Paragraph 1.7.41 of IPSASs, cash basis states the following:

'The actual amounts presented on a comparable basis to the budget in accordance with paragraph 1.7.25 shall, where the financial statements and the budget are not prepared on a comparable basis, be reconciled to total cash receipts and total cash payments, identifying separately any basis, timing and entity differences. The reconciliation shall be disclosed on the face of the statement of comparison of budget and actual amounts or in the notes to the financial statements'.

8. Some amounts were presented in the 'budget vs. actual comparison' statement in the consolidated financial statements of the State of Palestine (years 2018 & 2019) on incomparable basis between original budget, final budget and actual amount, due to different classification of items and the different accounting basis between what has been presented in the total receipts statement and the budget basis. Below are the details explained:

- Value of the original budget was understated in the 'budget vs. actual comparison' statement (payrolls) for the years 2018 & 2019 at 22,301,015 NIS.
- Value of the original budget was understated in the 'budget vs. actual comparison' statement (transfer expenditures) for the years 2018 & 2019 at 2,148,379 NIS.
- Value of the actual amount was understated in the 'budget vs. actual comparison' statement (payrolls) at 106,227,463 NIS in the year 2018, and was overstated at 96,009,619 NIS for the year 2019.
- Value of the actual amount was overstated in the 'budget vs. actual comparison' statement (operational expenditures) at 97,772,558 NIS and 90,052,173 NIS in years 2018 & 2019 respectively.
- Value of the actual amount was understated in the 'budget vs. actual comparison' statement (transfer expenditures) at 146,249,901 NIS and 234,515,152 NIS in the years 2018 & 2019 respectively.

9. Note (18) on cash flows of the GCP was presented in net in the aggregate consolidated financial statements of the State of Palestine (years 2018 & 2019), contrary to IPSASs (cash basis). Standard 1.3.12 of cash basis states the cases where presenting the value in net applies, as below:

'Total cash receipts of the entity showing separately as sub-classification of total cash receipts using a classification basis appropriate to the entity's operations'.

MoF presented Note (18) on inflow and outflow cash of the GCP without a sub-classification of total cash receipts and payments, as required by the standard mentioned above.

10. International accounting standards were not observed upon the processing of loans that have been re-lent, due to not recording the value of loan amount at date of granting, installments and interest due, which violates the basis that states: '**Accrual basis** means a basis of accounting under which transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events

are recorded in the accounting records and recognized in the financial statements of the periods to which they relate', as per definition stated in standard (1) of IPSASs.

❖ Qualifications to Note (2) on local tax:

Net revenues from local tax reached 2,882,361,000 NIS during the year 2018 and 2,669,882,000 NIS during the year 2019, according to what has been disclosed by MoF in financial statements (years 2018 & 2019).

Based on audit findings evaluation, which are based on audit evidence regarding Note (2) on local tax in financial statements (years 2018 & 2019), SAACB expressed qualifications to the Note above due to the following reasons:

1. The decline of local collection amounts, which negatively affects the treasury and increases indebtedness on taxpayers, through the poor procedures followed by tax departments:

- Poor follow up to bounced cheques at VAT department and income tax department. Number of bounced cheques as at June 3rd, 2021 reached 4345 with total value of 33,686,016 NIS.
- Poor follow up to regular unbalanced statements (634) (amount paid less than the amounts that should be paid as per statement). Value of tax differences to be collected to the treasury's benefit from the unbalanced regular statements presented from the years 2000-2020 reached 594,261,446 NIS, as at audit date.
- Poor coordination among tax departments (income, VAT) to close tax files. There are 13,779 tax files closed at VAT department despite they are active at income tax department, where total debit cash balances to the treasury's benefit for these files reached 534,407,110 NIS.
- Poor collection and follow up to indebtedness of tax files closed at income tax and VAT departments. Total indebtedness of closed filed that have not their indebtedness collected reached 45,776,222 NIS as at Dec 31st, 2019.
- Poor follow up to taxpayers' files, which have differences between their declarations in regular statements and value of clearance vouchers of sales tax (P), extracted from the Revenues Management Software (RMS). This has caused funds loss from the treasury due to Palestinian taxpayers' failure to pay the actual tax on clearance vouchers (P), which the Israelis deducted from during clearance meetings. Tax differences during the years 2018 & 2019 reached 15,041,526 NIS.
- Income tax department did not process salaries of staff who get several payments, and did not put their sources of income in one tax base. This has cost the treasury funds due to failure to combine income sources of taxpayers in on tax base, so tax exemption granting, stated in income tax law, would be duplicate.
- Income tax department did not process tax declarations presented by electricity distribution companies, despite the latter pay due advances and received promotional discounts.
- Poor follow up to customs statements that have not been presented, and failure to pay tax and customs differences, if any.
- Poor follow up to tax files of taxpayers who ceased presenting declarations to income tax department and VAT department. Poor follow up to the unresolved statements paid by taxpayers, but were not recorded in the cash statements of taxpayers.

- The follow up by tax departments to closed files that have assets, stock or debit/credit balances is not sufficient.
- Income tax department did not follow up some management estimates and did not take legal action thereto. The department did not calculate the delay penalty on some taxpayers who are required to present tax declarations, but did not do so on time.
2. Reconcile items were not processed on regular basis, and cancellation entries to payment vouchers were not made, and without taking into account the separation between fiscal years. Cancellation entries as cash transactions in Note (2) on local tax in financial statements of year 2019 were not disclosed, which understated the cash payments in tax refunds account from VAT at 774,201 NIS in the year 2019, and overstated at the same amount in the year 2018.

❖ Qualifications to Note (3) on clearance revenues:

Total clearance revenues disclosed in Note (3) of financial statements reached 8,095,444,000 NIS during the year 2018 and 8,622,246,000 NIS in the year 2019. The clearance deductions disclosed in financial statements in Note (3) reached 1,509,577,000 NIS in the year 2018 and 2,449,663,000 NIS in the year 2019.
Based on audit findings evaluation**,** which are based on audit evidence regarding Note (3) on clearance revenues in financial statements (years 2018 & 2019). SAACB expressed qualifications on the Note above due to reasons below:
1. Lack of supporting documents of some financial transactions regarding clearance revenues disclosed in the financial statements in Note (3) on clearance revenues:
- Recognition of revenue due to the treasury for income tax deducted from payments to the Palestinian workers inside 1948-occupied territories, without details about individuals who received transfers and without settlement of these amounts with the Israelis, and actual amounts to be transferred by coordination between MoF and Ministry of Labor (MoL).
2. Accounting records of clearance revenues and deductions were not complete, so presentation and disclosure of Note (3) on clearance revenues were incorrect in financial statements of the years 2018 & 2019:
- Incomplete presentation of clearance revenues in terms of actual revenues value and deductions value of collection fees, by failure to disclose the collection fees amounts (%3) as part of clearance deductions (water, electricity, hospitals, etc.), besides the accounting recording about them in the accounting records.
3. SAACB qualifications on deductions regarding medical treatment at Israelis hospitals, and Ministry of Health (MOH) actions thereto:
- The Palestinian MoH did not form a medical team to follow up cases that have been transferred to Israeli hospitals, in order to determine medical needs of patients, and whether they need to stay in Israeli hospitals or if there is possibility to continue treatment in the Palestinian hospitals.
- MoH did not check that all vouchers and claims from the Israelis belong to Palestinian patients who have been admitted to Israeli hospitals, based on medical referrals released from the service procurement department at MoH.

- An amount of 534,361,501 NIS was deducted during the years 2018 & 2019 without MoF coordination with MoH, in order to audit and validate the amounts deducted each month, and to validate vouchers and financial claims released from Israeli hospitals.

4. MoF did not follow up some amounts deducted by Israelis from the clearance revenues. MoF was not provided with necessary supporting documents for the deducted amounts:

- An amount of 3,050,730 NIS was deducted during the years 2018-2019 from clearance to the benefit of Mikorot Co., in exchange for bills of electricity to operate water wells, which pump water to West Bank Water Department. The electricity deduction of these water wells was not validated to ensure authenticity of deduction.
- An amount of 203,181,377 NIS was deducted by the Israelis in exchange for wastewater processing that run from the West Bank, including Israelis settlements that sit on West Bank lands, and without a reference to explain how and legality of amounts deduction. Water processed is used by the Israelis for the Israeli agriculture sector without any economic benefits for the Palestinians.
- An amount of 27,398,988 NIS was deducted during the years 2018-2019 by the Israelis, in exchange for salaries of the civil administration staff who work in water sector in the West Bank. The West Bank Water Department was not provided with numbers, work nature and salary value of employees, and the Water Authority did not provide SAACB with the agreement signed between the two parties, which allows the Israelis to add civil administration staff salaries to water bill, besides the failure to provide MoF with the agreement, as stated in their response.
- An amount of 837,938 NIS was deducted during the years 2018-2019 by the Israelis to the benefit of Mikorot Co., in exchange for the delay interest for water bills payment, whereas the bills are being deducted from clearance revenues on monthly basis.

❖ Qualifications to Note (4) on absentees' properties, property tax and operational licenses in Note (8):

Value of revenues collected from property tax and operational licenses reached 15,783,000 NIS in the year 2018 and 17,246,000 NIS in the year 2019. Value of the received deposits from absentees' properties reached 103,000,000 NIS and 89,000,000 NIS respectively:

Based on audit findings evaluation, which are based on audit evidence regarding Note (4) on property tax and operational licenses in financial statements (years 2018 & 2019); SAACB expresses qualifications to the Note above due to the following reasons:

1. Poor controls and procedures followed by the general property tax department and some departments upon the management and follow up of leased properties, absentees' properties and profession licenses files:

- Lack of complete and updated database of absentees' properties. Data of absentees' properties is not linked to the software (PTX) used by property tax department. Digital database has not also been established.

- Lack of clear and written process and standards for the valuation of leased buildings and lands. The valuation committee depends on the highest valuation price in a certain area, on which the valuation is based.
- Lack of a record for objections to valuation at Nablus property tax office, which shows the objections filed at the office and the objections that have been looked into (accepted, denied), as well as unresolved objections.
- Poor coordination among income tax, VAT and property tax departments upon files opening and closing. Some profession and craft files of some taxpayers have been closed based on letter from the municipality, without asking taxpayers to present documents stating settlements of tax at income tax and VAT departments, and that tax files of professions were closed. Additionally, there are profession licenses files opened at property tax department during the year 2018, but not registered at income tax and VAT departments, where the property tax department neither validated they opened tax files, nor wrote to tax departments about citizens who have profession licenses, in order to follow them up.

2. Poor collection by property tax department of amounts due on tenants and amounts due from absentees' properties to be deposited in the treasury:

- Amounts due on tenants that should be deposited in the treasury are not complete. No financial liability certificates were given to some tenants of absentees' properties despite they did not pay due amounts. No financial liability certificates have been also given to taxpayers despite they have bounced cheques from property tax installment process. No financial liability certificates were given to some taxpayers despite there are profession and craft licenses that had their payment due.
- Collection of due amounts on tenants that should be deposited in the treasury is not complete, where the size of indebtedness increased. Procedures followed to collect amounts due on tenants of absentees' properties are poor, where some debts date as far as more than 20 years ago.
- Collection of due amounts on tenants that should be deposited in the treasury is not complete, where the size of indebtedness increased. Some property tax offices approved leasing contracts of some taxpayers who have unpaid financial dues.
- Collection of due amounts (profession and craft fees, property tax) that should be deposited in the treasury is not complete. Some property tax offices renewed profession and craft licenses for some taxpayers without collecting due indebtedness recorded in the property tax software. Some debts have been piling up for more than 20 years. Profession license fees were not collected from date of work initiation for some taxpayers.

3. Lack of necessary supporting documents regarding management of leased property and closure of some profession licenses files:

- The valuation objections committee at Nablus property tax office understated the valuation value for some taxpayers without supporting documents, which state reasons for objection to value of valuation. The committee did not require taxpayers to present documents that support their objections, and did not perform field visits to estates.

- Some profession licenses files were closed at property tax department without supporting documents, such as a letter from the municipality stating file closure, where files closed are still active as per records of Nablus Municipality.

❖ Qualifications to Note (5) on revenues of line ministries:

Total value of these revenues reached 1,070,668,000 NIS in the year 2018 and 1,004,813,000 NIS in the year 2019.

Based on audit findings evaluation, which are based on audit evidence regarding Note (5) on revenues of central budget institutions in financial statements (years 2018 & 2019); SAACB expresses qualifications to the Note above due to the following reasons:

1. Invalid disclosure in Note (5) revenues of line ministries:

- Revenues value of line ministries disclosed in Note (5) was understated at 47,068 NIS during the year 2018 and at 35,782 NIS during the year 2019, due to incorrect accounting guidelines upon recording of some of Ministry of Education (MoE) revenues. The deposited amounts were recorded in the bank account by understating the expenditures accounts.
- Revenues value of line ministries disclosed in Note (5) was understated at 213,512 NIS during the year 2018, by not separating between fiscal years upon making some adjusting entries of some transfers out from the Palestine Standards Institution (PSI) to MoF.
- Incorrect disclosure of the land registering fees revenues account no. (142204) in Note (5) on revenues of line ministries, due to recording the adjusting entries of previous years in this account, which understated the land registering fees revenues in financial statements of the year 2018.

2. The different revenues account:

- MoF recorded the cash collections through 25 bank accounts for different revenues during the years 2018 & 2019, without validating the nature of cash deposits in bank accounts and knowing origins of bank transactions, entities depositing in banks and receipt vouchers released by line ministries, which affected validity of receivable accounts and revenues accounts.

3. MoF did not comply with the Palestinian local entities law 1/1997, which understated the value of road transport deposits, regarding the local entities' share of fines, and overstated the revenues of line ministries.

4. Failure to audit the deposits in the courts’ boxes, for which the right to claim has been forfeited, so they will be transferred to the treasury in case holders did not refer to the enforcement department to claim within five years. This leads to loss of part of the treasury’s revenues, and also overstates the liabilities at courts due to failure to follow up deposits’ accounts at courts.

❖ Qualifications to Note (6) on license fees:

Total value of license fees revenues reached 368,023,000 NIS during the year 2018 and 267,301,000 NIS during the year 2019.

Based on audit findings evaluation, which are based on audit evidence regarding Note (6) on license fees in financial statements (years 2018 & 2019); SAACB expresses qualifications to the Note above due to the following reasons:

1. MoF recorded 195,296,750 NIS during the year 2018 and 94,971,250 NIS during the year 2019, in exchange for license fees of JAWWAL Co. and PAL Tel Co., but Ministry of Telecommunications & Information Technology (MTIT) did not validate the amounts due on these two companies, and did not set reconciliations for settlement amounts deposited in the treasury at %7 of total operational deals from telecommunications services. The value of these fees was recorded based on letters sent from these companies to MoF, claiming the value of due fees.
2. MTIT collected revenues of frequencies used by radio stations without finishing legal action of licensing.
3. MTIT did not withdraw frequencies from radio stations that have been referred to the public prosecution because of not paying financial dues to the treasury, contrary to provisions of the telecommunications law 3/1996, article (31.c).

❖ Qualifications to Note (8) on withheld receipts:

Based on audit findings evaluation, which are based on audit evidence regarding Note (8) on reserved receipts in financial statements (years 2018 & 2019); SAACB expresses qualifications to the Note above due to the following reasons:
1. Failure to process and follow up some deposits accounts, which led to accounts with 'inactive' balance for years, besides some deposits accounts that appeared unlike their nature, which indicates misstatements in the accounting records and lack of reconciliations for these accounts. This, in turn, will affect the validity of the associated accounts balances and financial statements accuracy. Table below shows some deposits accounts that appear unlike their accounting nature:

Name of account	Balance as at Dec 31st, 2018	Balance as at Dec 31st, 2019	Currency
Israeli stamps deposits	529,723	529,660	NIS
Pension Fund deposits	544,269,309	544,269,309	NIS
Other deposits	11,195,482	10,971,423	NIS
Land Authority deposits	1,365,296	852,978	NIS

2. Value of credit deposits receipts and payments was overstated during the year 2018 at 1,200,000 USD (4,422,360 NIS). Internal transactions among line ministries have been frequently disclosed in notes of the financial statements of the year 2018, by disclosing a spending voucher prepared by Ministry of Agriculture (MoA), which has been disclosed in Note (14) on expenditures. Additionally, a spending voucher and an accounting entry set by MoF were disclosed in Note (8) on deposits.
3. Not all transactions were recorded on some bank accounts of deposits at date of depositing, due to poor controls of bank accounts and reconciliations. This has led to inaccurate disclosure of deposits in the financial statements (years 2018 & 2019).

4. Inaccurate accounting records on several deposits accounts, as below:

- MoF recorded the amounts withheld as deposits on monthly basis with a total accounting entry for amounts deposited in the bank account, without tying these deposited amounts with the reference. The released amounts are tied with the beneficiary reference upon payment which shows names of entities to which the deposits were refunded, and also leads to the audit of deposits being difficult.

- Some adjusting entries were recorded in the deposits examination account for the SI without separating between fiscal years, which overstated the amounts disclosed at 213,512 NIS during the year 2018 and 34,909 NIS during the year 2019, for deposits that belong to previous years.
- Deposited amounts were recorded by mistake in the bank account of land registering fees revenues, instead of depositing them in the bank account of the Land Authority (LA) deposits. Thus, they were registered as part of land registering fees instead of the LA deposits. When the deposit is returned, it is entered from the land registering fees account, which understates the amount disclosed in the received deposits in the year when the receipt process was recorded, and understates deposits paid in the year when the deposit is refunded.
- Recording was done on the used government vehicles sale deposits account, instead of recording in respective revenues account. Vehicles were also bought in for several line ministries, and the spending item was added to the government vehicles sale deposits account instead of the relevant expenditure account. The deposits account was disclosed in the year 2019 through the account difference, contrary to the policy followed to disclose the deposits account by disclosing the credit side as receipts and the debit side as payments. All of the above had overstated the value of deposits receipts and understated the revenues value at 14,048,286 NIS in the year 2018 and 10,081,812 NIS in the year 2019. Value of the deposits payments was overstated and value of expenditures was understated at 3,485,030 NIS during the year 2019, in addition to exceeding the limits of budget allocations for some accounts.

5. MoF did not comply with the Palestinian local entities law 1/1997, which understated the value of road transport deposits regarding the share of local entities from fines.

6. Lack of controls over the deposits accounts of the Anti Corruption Commission (ACC). ACC did not respond to SAACB correspondence, which was asking to be provided with confirmation to deposits balances of ACC, which does not give assurance about validity of the deposits balance of ACC. There were also account transactions regarding cash deposits, the cases associated with those amounts have not been disclosed, and SAACB was not provided with case numbers, which leads to inability to validate the account balance.

7. Failure to set reconciliations for deposits accounts, as below:

- Failure to audit deposits in the courts' boxes, for which the right to claim has been forfeited, so they will be transferred to the treasury in case holders did not refer to the enforcement department to claim within five years. This leads to loss of part of the treasury's revenues, and also overstates deposits at courts due to failure to follow up deposits' accounts at courts.

- Lack of coordination between al-Aqsa University (AU), Student Lending Fund (SLF) and MoF regarding the amounts deposited as deposits in the deposits account of (AU). Reconciliations and matches were not made between these parties on regular basis, which would cause items that are left unsolved, and affects accuracy and validity of the financial statements presentation.

8. The balance with withheld deposit (%10) of PRICO CO. and Sigma Arabesque Consulting Engineers was not processed. The incomplete recording in the accounts with retention deposit led to incorrect balances of companies' payables on IFMIS.

9. SAACB expressed qualifications to the opening balances of some payable/receivable accounts and commitments, due to lack of reconciliations thereto (e.g.: staff payables/receivables, Pal Tel payables/receivables, JAWWAL payables/receivables, payroll accounts/deductions, advances account, lending accounts, deductions accounts, deposits accounts).

❖ Qualifications to Note (9) on grants and assistance & Note (12) on in-kind grants:

According to financial statements (years 2018 & 2019), total grants and assistance to the Palestinian government reached 2,369,440,000 NIS and 1,857,331,000 NIS in the years 2018 and 2019 respectively. Value of in-kind grants disclosed in Note (12) on in-kind grants reached almost 16,000,000 NIS and about 9,000,000 NIS in the years 2018 and 2019 respectively.

Based on audit findings evaluation, which are based on audit evidence regarding Note (9) on grants and assistance in financial statements (years 2018 & 2019); SAACB expresses qualifications to the Note above due to the following reasons:

1. Incorrect disclosure of in-kind grants in Note (12), where the value of in-kind grants were disclosed in the years 2018 & 2019 based only on the Palestinian customs statements that have been determined and evaluated. MoF disclosed this policy in Note (1) on summary of significant accounting policies. Thus, SAACB emphasizes that the adoption of an accounting policy that does not fairly present in-kind grants is not acceptable.

2. Value of grants disclosed in Note (9) on grants and assistance was overstated with grants and assistance in financial statements of the year 2019 at 790,300 NIS, by not disclosing grants of Ministry of Social Development (MoSD).

❖ Qualifications to Notes (10, 19 & 20) on public debt:

Total borrowing disclosed in Note (10) in the financial statements of the years 2018 & 2019 reached 893,356,000 NIS and 3,175,059,000 NIS respectively, distributed as follows:

1. Local borrowing during the years 2018 & 2019: 204,356,000 NIS and 1,858,911,000 NIS respectively.

2. Foreign borrowing during the years 2018 & 2019: 9,682,000 NIS and 649,118,000 NIS respectively.

3. Cash withdraws (overdraft) during the years 2018 & 2019: 679,318,000 NIS and 667,030,000 NIS respectively.

Total public debt disclosed in monthly reports that accompany the financial statements reached 11,726,600,000 NIS and 14,178,500,000 NIS as at December 31st, 2018 and December 31st, 2019 respectively, distributed as follows:

- Local borrowing as at December 31st, 2018 & 2019: 5,034,000,000 NIS and 5,451,800,000 NIS respectively.
- Foreign borrowing as at December 31st, 2018 & 2019: 3,882,100,000 NIS and 4,210,200,000 NIS respectively.
- Balances of arrears as at December 31st, 2018 & 2019: 2,810,500,000 NIS and 4,516,500,000 NIS respectively.

Based on audit findings evaluation regarding the public debt Note (10) on borrowing, Note (19) on interest and Note (20) on public debt payments, in financial statements (years 2018 & 2019), which are based on audit evidence; SAACB expresses qualifications to the Notes above due to the following reasons:

1. Qualifications to monthly public debt reports disclosed in financial statements (years 2018 & 2019) (according to MoF, they publish the internal and external public debt statements each month in the monthly report, which represent the status of internal and external public debt each month, and includes the following):

- Table (7.a) / public debt (loans from local and foreign banks and local foundations).

- Table (3) / part of arrears (includes aggregate statements of financial transactions – revenues, expenditures and financing resources 'cash basis and compliance basis').

The disclosure of public debt balances as per accounting cash basis of IPSASs falls within the encouraged part, not the mandatory. However, law 7/1998 on budgeting and financial affairs states the disclosure of net public local and foreign debt, with associated obligations originated from loans given in article (65).

Qualifications to monthly reports (December 2018 & 2019) accompanying the aggregate financial statements of the years 2018 & 2019:

- **MoF did not disclose the source of statements and basis of the reports mentioned in Note (10) on public debt, as per the monthly report of December 2018 & 2019 that accompanies the financial statements, as disclosed in the financial statements.**
- **SAACB could not audit balances of hospitals disclosed in monthly reports of financial statements of public debt (years 2018 & 2019), due to lack of clear accounting policy for disclosure of due balance (obligation) of hospitals and payables in a certain date. Thus, SAACB could not match the balance to validate what is mentioned in the public debt reports that accompany financial statements. SAACB was not also provided with worksheets for calculation of the hospitals' payables and the presentation process in the financial statements (years 2018 & 2019), which represents a limitation on the audit scope upon possibility to validate and match amounts presented with confirmations from hospitals.**
- **MoF did not disclose the indebtedness due to some entities and foundations in the financial statements (years 2018 & 2019), as below:**

- MoF did not disclose the indebtedness due to the Palestinian Pension Agency (PPA) as part of amounts due on the treasury, originated from not transferring amounts deducted from public employees and the government contribution to the contributions and benefits system of PPA in the years 2018 & 2019. Balance of this indebtedness reached 7,978,295,078 NIS according to report of the external auditor to PPA for the fiscal year 2017, as at Dec 31st, 2017 (the last audited financial statements). A reconciliation has not been reached regarding the mentioned balance between the PPA and MoF as at audit date, whereas SAACB was not provided with financial statements (years 2018 & 2019) of PPA (report of external auditor was not issued as at audit date).
- Amounts due to the PPA, originated from not transferring amounts deducted from security forces staff and government contribution, were not disclosed. There is not data at PPA about security forces staff, amounts deducted from their salaries, government contribution and amounts due to PPA about security forces staff. Transfer of staff data with their dues –according to pension law- was not initiated, and a settlement was not reached regarding balance due to PPA.
- The amount due on MoF to the Palestine Monetary Authority (PMA) was not disclosed (2,130,287 JD/11,305,859 NIS as at Dec 31st, 2018 and 2,130,287 JD/10,386,214 NIS as at Dec 31st, 2019).
- The amounts due on the GCP to fuel supplying companies were not disclosed (692,262,724 NIS as at Dec 31st, 2018 and 737,106,712 NIS as at Dec 31st, 2019), according to approval received from the supplying companies.
- The amount due to the Palestinian Investment Fund (PIF) on MoF (90,162,517 USD/339,263,520 NIS) has not been disclosed as at December 31st, 2018. The amount due to the Fund as at Dec 31st, 2019 reached 103,617,739 USD (358,175,438 NIS), according to confirmations we received from PIF. The due balance to PIF recorded in IFMIS at MoF reached 86,655,023 USD (326,065,521 NIS) as at Dec 31st, 2018 and reached 102,279,561 USD (353,549,759 NIS) as at Dec 31st, 2019. A foreign exchange rates entry has not been set at Dec 31st, 2018.
- MoF did not disclose the payable of the Palestinian Deposit Insurance Corporation (PDIC), in terms of the unpaid amount from the MoF's contribution to the PDIC capital. It reached 7,615,186 USD (28,654,422 NIS) as at Dec 31st, 2018 and reached 7,615,186 USD (26,323,413 NIS) as at Dec 31st, 2019, in addition to the due delay penalties from not paying the amount due to PDIC (500 USD per each day of delay), according to the PDIC Law, article (29), for the period from Jan 1st, 2015 – Dec 31st, 2018. Days of delay reached 1460, so MoF should pay 730,000 USD (2,746,844 NIS). Value of fine for the period from Jan 1st, 2015 – Dec 31st, 2019 (1825 days) reached 912,500 USD (3,154,239 NIS).
- MoF did not disclose deposits due to local entities as part of monthly report of public debt. They include property tax deposits, road transport deposits and profession licenses.

- MoF did not disclose agreements of significant impact, such as the agreement signed with the Israelis regarding the treasury incurring the cost of amounts due on Jerusalem District Electricity Company (JDECO), other local entities, some other electricity companies and individuals, which originated from aggregate electricity consumption indebtedness on the Palestinians not paid to the National Electricity Co. (1,344,100,594 NIS), and subsequent events to the agreement signing.

- **The value of payables on the government, accompanying the financial statements (years 2018 & 2019) and disclosed in Note (10) as part of public debt reports, was understated by:**

  - MoF failure to disclose the amounts of payables associated with payrolls due to others as part of public debt reports, taking into account that necessary settlements were set for these accounts.

  - MoF failure to disclose the credit balance of payments and deductions account (clearance meeting 322803) as part of the public debt reports (410,011,465 NIS as at December 31st, 2018 & 2019), taking into account that necessary settlements for this account were not set, and we were not provided with the confirmation letter to this balance.

- **Balances of some loans and overdraft accounts recorded in the accounting records do not match what has been disclosed in public debt reports, which led to inaccurate public debt reports disclosed in Note (10) as at December, 2018 & 2019:**

  - Total differences between what has been disclosed in public debt reports of December 2018 & 2019 and accounting records regarding the overdraft account at Bank of Jordan (JB005801) reached 1,269,494 NIS as December 31st, 2018 and 1,207,547 NIS as at December 31st, 2019.

- **Balances of some foreign loans do not match between what has been recorded in the accounting records and what has been presented in Notes (10, 19 & 20) of the years 2018 & 2019, with balances of these loans from confirmations received. Total differences between what has been disclosed in public debt report of December 2018 & 2019 and accounting records regarding the foreign loans reached 51,268,173 NIS as at December 31st, 2018 and 80,452,197 NIS as at December 31st, 2019. Examples of mismatch include:**

  - Total differences between what has been disclosed in public debt reports of December 2018 & 2019 and the accounting records of al-Aqsa & al-Quds Fund (AQF) loan reached 24,698,192 NIS as at December 31st, 2018 and 22,752,918 NIS as at December 31st, 2019.

  - Total differences between what has been disclosed in public debt reports of December 2018 & 2019 and the accounting records of the World Bank (WB) loan reached 19,395,037 NIS as at December 31st, 2018 and 24,044,435 NIS as at December 31st, 2019.

- Total differences between what has been disclosed in public debt reports of December 2018 & 2019 and the accounting records of the Italian loan reached 4,807,144 NIS as at December 31st, 2018 and 31,161,134 NIS as at December 31st, 2019.

- Total differences between what has been disclosed in public debt reports of December 2018 & 2019 and the accounting records of the Islamic Development Bank (IDB) loan reached 1,288,442 NIS as at December 31st, 2018 and 2,054,091 NIS as at December 31st, 2019.

- The value of finances from local foundations (Establishment of Manage & Development of Orphans Funds 'EMDOF', Palestinian Maintenance Fund 'PMF') disclosed at 1,550,000 NIS has been understated. MoF did not disclose the amounts due to PMF, originated from renewing the investment agreement at PMF, which reached 1,500,000 NIS during the year 2018, in addition to the due profits. MoF disclosed in the public debt report of December 2018 the loans of local entities at 50,700,000 NIS, whereas the value of local loans from local foundations reached 52,237,500 NIS.

- MoF cancelled the disclosure of the Chinese loan (18.9 million NIS) from the monthly financial reports of MoF without documents to support the cancellation. MoF used to disclose the loan value in monthly reports it issued before 2016.

2. The guarantees balance regarding loans (IDB, AQF) disclosed in Note (10) of financial statements (years 2018 & 2019) do not match MoF records and confirmations balances that SAACB received.

3. Financial statements of Note (10) on borrowing are not complete. The borrowing and rescheduling payments of local loans principle were not disclosed in the years 2018 & 2019.

- Amounts closed from the undue loan balances and borrowing amounts in loans rescheduling with new loans (loans restructuring) were not disclosed in the years 2018 & 2019. The rescheduled loans balances (borrowing) reached 624,939,289 NIS in the year 2018 and 246,704,676 NIS in the year 2019. Total rescheduling payments of the local loans principle reached 367,758,186 NIS during the year 2018 and 212,251,000 NIS during the year 2019.

4. The value of operational expenditures (interest on local banks loans and interest on foreign debt 'cash, clearance') was not disclosed, in addition to amounts recorded as per accrual basis (commitment) upon determining the actual amount in the aggregate 'budget vs. actual comparison' statement of the years 2018 & 2019 of the operational expenditures item, which led to:

- Understated value of operational expenditures regarding interest on borrowing and bank facilities as per accrual basis (141,225,933 NIS during the year 2018).

- Value of operational expenditures of interest on borrowing and bank facilities as per accrual basis reached 144,703,800 NIS during the year 2019.

5. Balances of some intermediate accounts recorded in accounting records of public debt and some deposits accounts were not correct as at December 31st, 2018 & 2019.

6. SAACB qualifications on unwithdrawn foreign loans in Note (10.b):

- The balance of indirect foreign loans account (321235) is not correct in the accounting records. The expenditures of projects financed by indirect foreign loans are recorded in a year different from the year when the payment transferred by donors to third party is recorded. This has led to the account appearing with credit balance at end of fiscal year, despite that the balance of the intermediate account should be zero at end of fiscal year. Expenditures of the year when expenditures were recorded have been overstated, where the balance reached 1,014,672 EUR (4,366,133 NIS) as at Dec 31st, 2018 and 2,357,275 EUR (9,131,611 NIS) as at Dec 31st, 2019.

- Disclosure of indirect foreign loans in the financial statements was not correct, as the indirect foreign loans balance of the Italian loan (support to housing sector, Gaza 'indirect') in the accounting records did not match the confirmation balance received from the Italian government as at December 31st, 2018. Payments that belong to the year 2018 were recorded in the year 2019, where the amounts transferred from donor to loan as per confirmation from the Italian government for the year 2018 reached 1,056,334 EUR (4,545,398 NIS), not as presented at 3,594,996 NIS, with an amount that has not been entered in the year 2018 but in the year 2019 (196,651 EUR/846,189 NIS).

- Disclosure of indirect foreign loan from the German Development Bank (KfW) / Palestinian Industrial Estates & Free Zones Authority (PIEFZA), disclosed in financial statements for the year 2018, was not correct in financial statements. Balance of the indirect foreign loan recorded in IFMIS did not match the transfers statement from donor, due to delayed recording of payment amounts transferred from donor in accounting records. The amounts were transferred from donor for the indirect loan in the year 2017, and the amounts were recorded in the year 2018. The value of amounts transferred from donor for the Jenin industrial estate loan, as per transfers statement from donor for KfW loans of the year 2018, reached 158,815 EUR (663,084 NIS), not 1,409,956 NIS as presented. There are amounts that belong to the year 2017 but entered in the year 2018 at 181,269 EUR (746,871 NIS).

- Transfers from donor to the KfW (indirect) were not recorded during the year 2019, so the disclosure of the mentioned loan statements in the financial statements was not correct. Amounts transferred from donor during the year 2019 at 2,768,374 EUR (10,724,127 NIS) were not disclosed as part of the Note on unwithdrawn foreign loans.

- Records of the KfW loan / PIEFZA were not correct. Amounts of payments transferred from donor were entered in accounting records without entering expenditures amounts done to the loan during the years 2018 & 2019.

- The National Qatar Bank (NQB) loan was disclosed at 250,000,000 USD (940,700,000 NIS) in unwithdrawn foreign loans Note of the year 2018, taking into account the loan was granted in the year 2019.

7. Overstating (understating) the value of withdraws and payments disclosed in Note (10.a) on bank withdraws and limits of credit facilities in financial statements (years 2018 & 2019), through the following:

- Overstating the value of borrowing and withdraws disclosed in Note (10.a) at 6,041,605 NIS and 11,752,154 NIS as at December 31st, 2018 & 2019 respectively, as MoF did not record revenues of received interest in courts deposits at the National Bank. The amounts transfer was recorded from the National Bank account to the Bank of Palestine account only.

- Overstating the value of borrowing and withdraws disclosed in Note (10.a) at 8,888,217 NIS and 8,466,841 NIS as at December 31st, 2018 & 2019 respectively, as MoF did not reconcile bank accounts of the Palestine Broadcast Corporation (PBC) in books despite actually being closed at banks in the accounts PL001803, PL001804, PL001801 and PL001802.
- Overstating the value of borrowing and withdraws disclosed in Note (10.a) at 42,181 NIS and 38,750 NIS as at December 31st, 2018 & 2019 respectively, in bank account (AG055803). It was classified as part of the negative bank accounts in Note (10), despite that adjusting entries were made to account on Jan 1st, 2020 without reflecting the financial impact of adjusting entries on financial statements (years 2018 & 2019).
- Overstating the value of borrowing and withdraws disclosed in Note (10.a) at 163,148 NIS as at December 31st, 2019 in bank account (CA889803). It was classified as part of the negative bank accounts in Note (10).
- Overstating the value of borrowing and withdraws disclosed in Note (10.a) at 83,063 NIS as at December 31st, 2018 by invalid bank reconciliations of the consolidated revenues accounts PL000001, PL000002 and PL000003.

❖ Qualifications to Note (13):

Based on audit findings evaluation, which are based on audit evidence regarding Note (13) on payrolls in financial statements (years 2018 & 2019); SAACB expresses qualifications to the Note above due to the following reasons:

1. MoF did not disclose payrolls statements in Note (13) on payrolls in financial statements (years 2018 & 2019) in a more detailed fashion, which ensures that the financial statements would be more appropriate for financial statements users. IPSAS 1.3.32 (cash basis) requires complete and understandable statements that are relevant to of decision-making and accountability needs of users.
2. Total value of payrolls was overstated in fiscal year 2019 at 555,864,230 NIS, besides overstatement of total payroll deductions at 77,014,046 NIS. This was reflected by the overstated net payroll (cash) at 478,850,184 NIS, because of adding the annual payroll vouchers with thirteen months for fiscal year 2019, by recording and disclosing the December 2018 voucher in accounts and statements of the financial statements of the year 2019.
3. Rewards were paid to MoF staff at 3,163,890 NIS and 2,328,692 NIS in the aggregate financial statements of the years 2018 & 2019 respectively. Value of these rewards was added to the payroll item (211), instead of adding them to the budget item for rewards by recording the value of these rewards in accounts associated with the payroll item, which led to amounts paid as rewards in way violates the budgeting law. It states: ‘no expenditure shall be made and no advance shall be paid without an allocation thereto in this decree law. Compliance with any amount that exceeds these allocations shall not be made’.
4. Some records and disclosures in Note (13) of the year 2019 were not correct, as below:

- Overstating total payrolls of the fiscal year 2019 at 1,226,516 NIS, due to failure to calculate adjusting entries of the financing type from current financing to development financing in the contracted staff account (211102). Adjusting entries (development financing) was not disclosed in Note (14.4).

- Understating total payrolls of the fiscal year 2019 at 1,232,717 NIS due to failure to calculate spending vouchers on current financing in the projects payroll account (224188).
- Understating net payrolls due to overstating the income tax and health insurance deductions item in the year 2019 at 793,095 NIS, because of calculating deduction amounts associated with development financing in Note (13) on current financing.
- Overstating the Note (13) on payrolls of the fiscal year 2019 at 2,309,392 NIS because of recording the rewards value in account (211102) for contracted staff, instead of staff rewards account (226101), classified as part of expenditures other than payrolls.
- Overstating the Note (13) on payrolls of the fiscal year 2019 at 9,522,901 NIS because of recording some expenditures in account (211102) for contracted staff, instead of the unemployment allocations account (272107), which is disclosed in Note (14) on expenditures other than payrolls.
- Understating the total payrolls of the fiscal year 2019 at 34,177 NIS because of recording some payroll expenditures in the martyrs' families assistance account (272128), where expenditures other than payrolls are disclosed in Note (14) instead of the contracted staff account (211102).

5. Some records and disclosures in Note (13) of 2018 were not correct, by understating the total payrolls of the fiscal year 2018 at 1,401,600 NIS due to not disclosing the spending vouchers on current financing in the projects payroll account (224188).

❖ Qualifications to Note (14) on expenditures other than payrolls:

Based on audit findings evaluation, which are based on audit evidence regarding Note (14) on expenditures other than payrolls in financial statements (years 2018 & 2019); SAACB expresses qualifications to the Note above due to the following reasons:

1. The Palestinian National Fund (PNF) is one of the line ministries mentioned in the public budgeting laws. Audit of PNF is based on an assignment letter from Mr. President, also president of PLO Executive Committee, according to presidential decree 5/2017, as one of the PLO's foundations. PNF is a significant part of budget expenditures, and the amounts transferred to PNF from the public budget accounts are of significant influence over financial statements. Because SAACB does not audit these amounts, it does not express an opinion regarding these amounts and their compliance with effective laws, regulations and decisions.
2. There are mistakes in the accounting guidelines of expenditure nature of some expenditures. Some spending processes were added to accounts that do not suit the expenditure nature, which overstated the expenditures accounts against understating other expenditures. Thus, disclosure and classification of expenditures were not accurate, and the public budget items balance was exceeded in some accounts. This occurred upon looking into samples from several ministries (Ministry of Tourism & Antiquities 'MoTA', Ministry of Transport 'MoT', Ministry of Social Development 'MoSD', Ministry of Telecommunications & Information Technology 'MTIT', Ministry of Health 'MoH'). For example:

- MoH paid and recorded rewards and incentives to the treatment abroad assistance account, so the account was attached with expenditures that do not suit nature of account, thus overstating the account balance.
- Ministry of Women Affairs (MoWA) did not follow the correct classification of expenditures, and used operational expenditures to pay capital expenditures, thus leading to a mistake in the accounting guidelines.

3. Failure to process reconcile items on regular basis and set cancellation entries for spending vouchers without considering the separation between fiscal years. Cancellation entries were disclosed as cash transactions in the Note, which understated the cash expenditure in the Note for the year 2019.
4. Failure to separate between fiscal years upon advances closure. The closure of advances paid previously in the years 2018 & 2019 led to incorrect accounts balances regarding expenditures in the trial balance, in terms of overstatement of a specific account against the understatement of another one. Additionally, the expenditure has been disclosed twice by disclosure in financial statements of the year when the advance was paid, and by disclosure in the fiscal year when the advance was closed in case of expenditure refunds, by overstating some expenditures in financial statements of previous years and understating expenditures of the years 2018 & 2019.
5. The same entity has more than one reference in IFMIS. There are unclosed advances from previous years, which leads to incorrect advances reports in IFMIS, and to possible mistakes or duplicate accounting records.
6. There are misstatements in MoE recording of some of their revenues, by recording revenues of tender fees in the fees account classified as expenditure account. This has understated the value of fees expenditures account disclosed in Note (14) and understated the tender fees revenues account disclosed in Note (15) at 47,068 NIS during the year 2018, and at 35,782 NIS during the year 2019. The account appeared in the trial balance of MoE contrary to its credit nature.
7. Advances paid to establish the Hugo Chavez Hospital (11,652,516 USD) were not closed since 2015 until 2019. The advances were paid at 22 installments, without closing the advances value each year, or closing previous advances before paying new ones. This makes it difficult to validate legality of payment and the compliance with paying the advances value of items allocated thereto. This might also lead to some problems upon advances closure due to the increasing time gap between the payment date and closing date, and possibility of making necessary documents available for the closure.
8. Government vehicles were bought, and spending entries were recorded in the government vehicles sale deposits account instead of the relevant expenditure account, which overstated the value of deposits payments and understated the expenditures value at 3,485,030 NIS during the year 2019. MoF disclosed the government vehicles sale deposits account in difference between debit and credit amounts in the account, contrary to the followed accounting policy.
9. Ministry of Local Government (MoLG) recorded adjustments of previous years' closures without cancelling the closing entries wrongly recorded during previous years, which overstated

the value of other capital expenditures account, and understated the advances account in the trial balance of the year 2019.

10. The amounts of 166,202 NIS and 954,938 NIS were disclosed in the years 2018 & 2019 respectively in the aggregate financial statements (years 2018 & 2019) in some spending vouchers of social assistance account (272101). MoF recorded the spending of bank commissions on social assistance account (272101), instead of recording them in the relevant account.

11. Note (14) was understated due to understatement of unemployment allocations account (272107) at 9,522,901 NIS.

12. Note (14) of the fiscal year 2019 was understated due to understatement of martyrs' families assistance account (272128) at 34,177 NIS.

13. Note (14) of the fiscal year 2019 was understated at 1,226,516 NIS due to failure to take into account the adjusting entries for changing financing type from current to development.

14. Note (14) of the fiscal year 2019 was understated at 1,232,717 NIS due to failure to disclose the spending vouchers from current financing in the projects payroll account (224188).

15. Note (14) of the year 2019 was understated at 793,095 NIS due to disclosure of deduction amounts associated with development financing in Note (13).

16. Note (13) on payrolls was understated in the fiscal year 2019 at 2,309,392 NIS because of recording value of rewards on account (211102) for contracted staff, instead of the staff rewards account (226101), classified as part of expenditures other than payrolls.

❖ Qualifications to Note (15):

Payments disclosed in financial statements through lending reached 1,029,974,000 NIS and 229,022,000 NIS as at December 31st, 2018 & 2019 respectively.

Payments disclosed in financial statements through re-lending reached 9,169,000 NIS and 7,309,000 NIS as at December 31st, 2018 & 2019 respectively.

Based on audit findings evaluation, which are based on audit evidence regarding Note (15) on lending and re-lending in financial statements (years 2018 & 2019); SAACB expresses qualifications to the Note above due to the following reasons:

➢ **Lending:**

1. Incorrect amounts disclosed in the 'water lending' item as part of government lending to local entities and service providers, and incorrect balances and receivables of lending accounts due to the following reasons:

- Reconciliations of receivables in the local entities lending account (water) was not finished, and previous mistakes were not corrected. The reconciliations prepared for the account are not accurate as at audit date, due to reliance on book records to correct the local entities lending balance (water), represented by understating the local entities lending account balance (water) with total amounts deposited in the bank account since the year 2011 start. The amounts deposited in the bank account were recorded through monthly aggregate entries in previous years, which had their impact reflected on the local entities lending account (water) to correct the account balance. They include:

- Amounts of payments to local water consumption bills, which did not have their due previously recorded on local entities in the local entities lending account (water), as appear in SAACB observation in the report.
- Mistakes mentioned in previous SAACB reports, as in cases where cash collected in bank account (PL012101) was overstated with bounced bank cheques, which were considered collected cash. These amounts were calculated in the reconciliation entry in order to understate the local entities lending account balance (water).

- Clearance records against water lending for many local entities were recorded without water indebtedness on these entities, so clearance will be performed therewith. Thus, receivables of entities regarding water indebtedness appeared unlike their nature, so the local entities lending account balance (water) was incorrectly understated.
- Records were incorrectly done in the local entities lending account (water) and the Palestinian Water Authority (PWA) lending in several references, which led to mistakes in several receivables as part of water lending item, and made it difficult to obtain an accurate balance for these receivables.
- A reference was used in the name 'National Water Undertaking (NWU)/West Bank Water Authority (WBWD)' in order to record financial transactions for Jerusalem Water Undertaking (JWU), and also to record dues clearance for some local entities in exchange for water indebtedness on entities using the name (NWU/WBWD), instead of understating them from local entities receivables. Those entities fall outside the concession area of the JWU, besides making an entry to transfer a payable reference (NWU/WBWD) at 23,874,495 NIS in the year 2019 to reference of 'JWU' in the local entities lending account (water). This has understated the JWU receivable with amounts that do not belong thereto, but to local entities.
- MoF did not record clearance to the benefit of Beit Lid Municipality to understate the water lending indebtedness (46,483 NIS) against deposits in the year 2018, despite the MoF wrote to West Bank Water Department (WBWD) about the clearance entry for the Municipality's receivable on them, which affected the water lending balance.
- MoF did not record the local water sale revenues, based on WBWD bills, in a special revenues account. MoF did not record and tie lending with local entities that benefit from the service, which affected the validity of accounting recording for water lending.
- Local entities water indebtedness is not recorded on regular basis for monthly deduction from clearance of water, but the indebtedness is recorded on sparse periods, not regularly.

2. Incorrect amounts disclosed in the 'direct electricity lending' to local entities and service providers, and incorrect balances and receivables of lending accounts due to the following reasons:

- MoF did not make an adjustments for the local entities lending account (electricity) and receivables as part of the account. Receivables of some local entities are not understated with amounts they pay in MoF accounts, and some payments from municipalities and village councils are processed by recording them in the monthly aggregate entry as revenues, in addition to recording some cash payments into bank accounts by understating lending accounts without tying amounts with the reference of the depositing entity. It was also found there are payment entries that have been repetitively recorded, and there was confusion between the references of local entities, which means that accounting records thereon are not accurate, bearing in mind that the account was not completely reconciled.

- Classification and disclosure of some adjusting entries in Note (15) were not correct. They are classified as clearance transactions but about previous years' adjustments. Total transactions reached 3,177,473 NIS during the year 2018 and 720,000 NIS during the year 2019.
- The use of references to record in electricity companies lending accounts was not correct. Recording was done in references that belong to local entities as part of electricity companies lending accounts, which led to incorrect balances of some receivables in lending, whether to local entities or to electricity companies, which affected validity of receivables balances.
- We have not obtained approvals to electricity lending receivables from electricity companies and local entities.

3. The clearance entry of Azmout village council was recorded by understating the water indebtedness against the road transport deposits, instead of understating the electricity indebtedness in the year 2018 at 79,639 NIS. This has affected the validity of account balances of water and electricity lending, as well as Azmout village council indebtedness at Dec 31st, 2018 & 2019.

4. SAACB expresses qualifications to validity of recording the receivables balances due on local entities, companies and individuals in the accounting records for the following reasons:

- Council of ministers decisions regarding the recording of local entities' indebtedness are not time-limited, do not represent specific periods and accurately and aggregately determined as at date of decisions.
- The aggregate balances that have been obtained are not supported with documents that prove authenticity of these balances since 2002 and earlier.
- The opening balances due on local entities as at Dec 31st, 2010 have been transferred to IFMIS as opening balances as at May 20th, 2015 and May 26th, 2015, without providing SAACB with documents that support authenticity of these opening balances used as opening balances of the year 2011. Recording of these balances was based on a letter sent from the acting manager of payments to the accountant general on March 10th, 2015.
- The basis used by committees to record indebtedness is not correct, as they depend in indebtedness recording on balances that cover sparse periods during different years for many items.

- MoF did not record the accrued receivables on local entities, companies and individuals, which was deducted from the clearance meeting and distributed to receivables of local entities, companies and individuals in previous years.
- There is not correct process to handle the clearance deductions and coordinate the collection process from local entities, in order to avoid duplicate payment to the National Company.

5. The accounting policy to process wastewater clearance deductions was changed from expenditures to lending, contrary to amounts that were recorded as expenditures from wastewater clearance deductions before the year 2018. An opening entry was made to the local entities lending account (wastewater) at 702,206,897 NIS, without redistributing the opening balance to the eligible local entities. Additionally, the wastewater clearance deductions were recorded on monthly basis in total since the year 2018, without redistributing these amounts to local entities that benefit from the service. Thus, the indebtedness balances for wastewater lending could not be obtained.
6. The accounting policy is not clear upon definition of non-cash transactions and adjustment of cash, which are used to classify entries as part of lending and re-lending entries. There are mistakes upon the classification of transactions between cash and non-cash transactions, as well as classifications of non-cash transactions upon presenting amounts within Note (15).
7. Lending of the Palestinian Development Fund (PDF) was disclosed as part of 'C – re-lending (development lending)'. Principle of the lent amount is not a loan obtained by MoF for re-lending purposes as per the agreement between MoF and PDF, besides that some transactions were classified to incorrectly lend PDF as part of the Note. Amounts due from the loan granted to PDF was mentioned under the classification 'Non-cash financing to third parties'.
8. Several reference names of the same local entity appeared more than once with balances for each. Several names and reference numbers for the same local entity or some entities, and the lack of a number for each, lead to mistakes and inability to validate balances and make necessary reconciliations thereto, which exposes liability balances in the lending accounts to mistakes.
9. There are people who have been granted loans as part of MoSD loans, but not recorded in the loan balances due thereon. The due balance of beneficiary in the reference report appears contrary to nature, due to not transferring the opening balance.
10. Deposits of unknown sources were recorded in the 'different revenues account' that belongs to lending, or deposits without opening a special account that shows balance of deposits of unknown sources, until the source became known. This overstates the revenues in the year when the cash deposit is made, besides incorrect deposits balances and lending balances due to payments and cash payments recorded as different revenues, and not reflected in relevant accounts.

- **Re-lending:**

1. SAACB was not provided with re-lending agreements for a number of loans that have been re-lent (WB loan re-lent to JDECO, European Investment Bank 'EIB' loan re-lent to JDECO, Italian government loan re-lent to JDECO, Italian government loan re-lent to South Electricity Co.). This

has led to SAACB inability to validate the agreement terms, accuracy, completion of accounting records to principle of the re-granted loan, due installments and interest with validity of calculation.

2. Value of the WB loan re-lent to JDECO was not recorded on date, where the loan was granted on Sep 29th, 1999 at 7,948,575 NIS (28,154,649.10 NIS). It was recorded in the accounting records on Jan 1st, 2019, which understated the balance of electricity sector re-lending account until the year 2019.

3. Due installments of loans that were re-lent as at date were not recorded, which led to inaccurate balance of electricity sector re-lending account, besides inaccurate balance of due lending installments for the following loans:

- The WB loan that was re-lent to JDECO: The due installments were recorded with total entry on Feb 1st, 2020 at 7,948,575 USD.
- The EIB loan that was re-lent to JDECO: The due installments were recorded with total entry on Jan 1st, 2021 at 3,771,647 USD.
- The Italian government loan that was re-lent to JDECO: Value of some installments was recorded with entry on Feb 1st, 2020 at 513,964 EUR.
- The WB loan that was re-lent to Hebron Electricity Co: The due installments were recorded with total entry on Feb 1st, 2020 at 1,578,394 USD, modified on Jan 1st, 2021 to a total 1,207,007 USD.
- The World Bank loan that was re-lent to South Electricity Co.: The due installments were recorded with total entry on Feb 1st, 2020 at 1,292,000 USD.
- The Italian government loan that was re-lent to South Electricity Co.: Value of some installments was recorded with entry on Feb 1st, 2020 at 3,334,668 EUR.

4. Due interest of loans re-lent to electricity companies as at date were not recorded, which understated the balance of due credit interest account and balance of credit interest account for the following loans:

- The WB loan that was re-lent to JDECO: The value of interest was recorded with total entry on Feb 1st, 2020 at 4,683,320 USD.
- The EIB loan that was re-lent to JDECO. The value of due interest was recorded with total entry on Feb 1st, 2020 at 4,299,287 USD (15,228,505 NIS).
- The Italian government loan that was re-lent to JDECO: The value of due interest was recorded on Feb 1st, 2020 at 154,369 EUR.
- The WB loan that was re-lent to Hebron Electricity Co.: The value of due interest was recorded in total on Feb 1st, 2020 at 723,314 USD.
- The WB loan that was re-lent to South Electricity Co.: The value of due interest was recorded with total entry on Feb 1st, 2020 at 622,658 USD.
- The Italian government loan that was re-lent to South Electricity Co.: The value of due interest was recorded with total entry on Feb 1st, 2020 at 802,821 EUR.
- The following actions are not taken by MoF regarding loans that were re-lent to electricity companies:

- Matches to loans that were re-lent to electricity companies are not done to figure out and correct differences.
- Legal and management action was not taken to follow up and collect amounts and interest due from these loans.
- Delay fines were not imposed to delayed payment of due loan installments, which leads to understatement of Note (5) due to failure to impose delay fines to installments unpaid in due dates.

5. Entries for due installments from loans that were re-lent to micro projects sector and financial institutions were not recorded. Entries for due installments payment to the direct re-lending account were recorded, contrary to the correct accounting processing on accrual basis. This also leads to failure to validate amounts of due unpaid installments, with associated interest and delay fines.
6. A loan was granted as part of re-lending to Thuraya Co. in the year 2019 at 618,476 EUR, despite it generated losses in the year 2018. The debt coverage indicator of operational processes showed that the Company cannot pay debts from operational cash, which is a risk to the guarantee of the loan installments collection.
7. Penal articles are not present in the re-lending agreement to the Palestinian Airways, which guarantee the compliance with loan payment. This has led to the Palestinian Airways' failure to comply with payment, and also shows the poor controls at MoF upon loans granting and validating the presented guarantees.
8. Terms of the re-lending agreement made with electricity sector of South Electricity Company (SEC) and Hebron Electricity Company (HEC) were not complied with. The article stated in the agreement regarding the assets mortgage of the entity benefiting from re-lending, as a loan collection guarantee in case of payment defaulting, was not complied with. This leads to poor collection of loan installments that were re-lent, in case of payment defaulting by borrowing entity.
9. Adjusting entries were recorded in the Palestinian Energy & Natural Resources Authority (PENRA) lending account to record lending payment to several borrowing entities without using the correct references. Total amount of adjusting transactions for the same reference were added under the name 'Lending without reference to EA', instead of using the correct references for each borrowing entity, which leads to incorrect references balances (receivables) of the borrowing companies.

❖ Qualifications to Note (22):

Cash balance disclosed in financial statements as at Dec 31st, 2018 & 2019 reached 1,130,810,000 NIS and 450,810,000 NIS respectively.

Based on audit findings evaluation, which are based on audit evidence regarding Note (22) on cash (reserved and available for use) in financial statements (2018 & 2019); SAACB expresses qualifications to the Note above due to the following reasons:

1. MoF and line ministries did not address some accounting mistakes in the previous financial statements regarding bank accounts. Points below only represent mistakes and differences that appear in the accounts sample that has been examined and reviewed:

- The cash balance through the PENRA bank account (MEN55302) was overstated, disclosed as part of the Bank of Palestine accounts in Note (22) on cash (reserved and available for use) at 3,525,540 NIS as at December 31st, 2018 and 3,238,741 NIS as at December 31st, 2019.
- The cash balance through the bank account (PWA1102) was overstated, disclosed as part of the Bank of Palestine accounts in Note (22) on cash (reserved and available for use) at 279,001 NIS as at December 31st, 2018 and 256,304 NIS as at December 31st, 2019.
- The cash balance through the bank account (AR771X02) was overstated, disclosed as part of the Arab Bank accounts in Note (22) on cash (reserved and available for use) at 826,917 NIS as at December 31st, 2018 and 759,648 NIS as at December 31st, 2019.

2. There was not separation between fiscal years upon making some book adjustments to some bank accounts, where the impact of adjustments was not reflected on financial statements (years 2018 & 2019). Points below only represent misstatements and differences that appear in the accounts sample that has been examined and reviewed:

- The cash balance through the bank account (PWA72305) was overstated, disclosed as part of the Bank of Palestine accounts in Note (22) on cash (reserved and available for use) at 1,432,171 NIS as at December 31st, 2018. The financial impact of adjusting entries made on Jan 1st, 2019 was not reflected in financial statements of the year 2018.
- The cash balance through the bank account (AG000901) was overstated, disclosed as part of the Bank of Palestine accounts in Note (22) on cash (reserved and available for use) at 1,677,029 NIS as at December 31st, 2018. The financial impact of adjusting entries made on Jan 1st, 2019 was not reflected in financial statements of the year 2018.

3. Bank reconciliations made for the Bank of Palestine accounts of consolidated revenues (0/219000) were not correct due to the following:

- During the years 2018 & 2019, aggregate mistakes of previous years in these accounts were addressed by matching the book balance with bank balance with aggregative entries without referring to principle of these differences and making bank reconciliations duly. This does not give confirmation on validity of accounts regarding revenues deposits and receivables/payables. The financial impact brought by addressing the mentioned differences was reflected on the 'previous years' adjustments', and no financial impact was reflected to accounts above.
- Total differences and mistakes between overstatement and understatement in the bank accounts of consolidated revenues of all currencies, disclosed as part of Bank of Palestine accounts in Note (22) on cash (reserved and available for use), and reached 89,516 NIS as at December 31st, 2018.

4. Incorrect bank reconciliations made for the Bank of Palestine accounts for expenditures refunds, due to the following:

- Bank reconciliations and previous years' mistake aggregate in these accounts through matching the book balance and bank balance with aggregative entries without referring to principle of these differences and making bank reconciliations thereto. This does not give confirmation on validity of accounts regarding revenues deposits and payables. The financial impact was reflected on settlements made for the 'different revenues', and no financial impact was reflected to accounts above.

- Accounting records of amounts deposited in bank accounts in the years 2018 & 2019 were not complete. Aggregative entries were made to match the book balance with bank balance, without recording these amounts duly, and without reflecting their financial impact on deposited receivables and expenditures accounts.

5. Duplicate accounting records on IFMIS between MoF and line ministries of amounts transferred from MoF to some bank accounts of grants and projects. Points below only represent mistakes and differences that appear in the accounts sample that has been examined and reviewed:

- The opening cash balance was overstated through the MoSD bank accounts (SA530X04), disclosed as part of the Bank of Palestine accounts in Note (22) on cash (reserved and available for use) at 1,851,473 NIS as at December 31st, 2018 and 1,666,799 NIS as at December 31st, 2019 through duplicate recording of the years 2016 & 2017.
- The opening cash balance was overstated through the MoH bank accounts (MH596, MH26X0), disclosed as part of the Bank of Palestine and Arab Bank accounts in Note (22) on cash (reserved and available for use) at 18,459,870 NIS as at December 31st, 2018 and 16,618,602 NIS as at December 31st, 2019 through duplicate recording of the years 2016 & 2017.

6. Incorrect bank reconciliations and book balances with incomplete accounting records of some bank accounts. Points below only represent mistakes and differences that appear in the accounts sample that has been examined and reviewed:

- The cash balance was overstated through the bank accounts (S0000601, SA000702, SA000704), disclosed as part of the Amman Cairo Bank accounts in Note (22) on cash (reserved and available for use) at 1,902,460 NIS as at December 31st, 2018 and 1,741,659 NIS as at December 31st, 2019, bearing in mind that accounts above are actually closed at banks.
- The cash balance was understated through the bank accounts (CA889802, PWA00401, MJ10X01), disclosed in Note (22) on cash (reserved and available for use) at 59,446 NIS as at December 31st, 2018 and 124,290 NIS as at December 31st, 2019.
- The cash balance was understated through the bank account (CA889803), disclosed as part of the Amman Cairo Bank accounts in Note (22) on cash (reserved and available for use) at 195,665 NIS as at December 31st, 2018 and 16,556 NIS as at December 31st, 2019
- The cash balance was overstated through the bank accounts (SA001002, CB001X01), disclosed as part of the Amman Cairo Bank accounts in Note (22) on cash (reserved and available for use) at 82,404 NIS as at December 31st, 2018 and 75,853 NIS as at December 31st, 2019.
- The cash balance was understated through the bank accounts (SA768X02, PL20030, CIV909), disclosed as part of the Bank of Palestine accounts in Note (22) on cash (reserved and available for use) at 294,779 NIS as at December 31st, 2018 and 243,556 NIS as at December 31st, 2019.
- The cash balance was overstated through the bank accounts (MH0513, MH825X02), disclosed as part of the Arab Bank accounts in Note (22) on cash (reserved and available for use) at 251,641 NIS as at December 31st, 2018 and 231,170 NIS as at December 31st, 2019.

- The cash balance was understated through the bank accounts (PL32001, PL32002, PL32003), disclosed as part of the Amman Cairo Bank accounts in Note (22) on cash (reserved and available for use) at 55,138 NIS as at December 31st, 2018, by not separating between fiscal years in order to record inflow and outflow cash from bank accounts.
- The cash balance was understated through the bank accounts (PL87X01, PL87X02), disclosed as part of the Amman Cairo Bank accounts in Note (22) on cash (reserved and available for use) at 341,266 NIS as at December 31st, 2018 and 88,526 NIS as at December 31st, 2019, by the incomplete book accounting records, where the inflow and outflow cash from bank accounts were not recorded in accounting records in designated accounts as per nature of inflow and outflow amounts.
- The cash balance was understated through the MoE bank account (E0000101), disclosed as part of the Arab Bank accounts in Note (22) on cash (reserved and available for use) at 12,564 NIS as at December 31st, 2018 and 9,589 NIS as at December 31st, 2019, by the incomplete book accounting records. None of the inflow and outflow cash from the bank accounts were recorded in accounting records in designated accounts as per nature of inflow and outflow amounts, from date of account opening in IFMIS.

7. There are reconcile spending vouchers (transfers, cheques) in bank reconciliations (not paid), which are not processed on IFMIS as at audit date, taking into account that a large part of these reconcile items date back to previous dates.

❖ Qualifications to Note (23):

1. MoF referred to the main causes behind the difference between the original budget and final budget in paragraphs (a, b, c & d) of Note (23) on changes between original and final budgets. It was found that paragraphs (a, b) are not related to the difference between the original budget and final budget, but the reason for that difference is the migrations from one budget item to another, or issuing an annex to the budget.
2. There are differences between amounts entered into IFMIS in some budget vouchers (original budget) and the amounts approved in the budgeting law of the fiscal year 2018 at 208,201,279 NIS, contrary to the budgeting law of the fiscal year 2018, article (15): '**expenditures tables annexed to this decision shall be regarded an integral part thereto**'.
3. Some line ministries exceeded the total budget allocation approved in the public budget breakdown report. The following budget items have been exceeded for a number of line ministries:
   - Item 211 on payrolls: 15,663,895 NIS and 76,894,354 NIS in 2018 & 2019 respectively.
   - Item 212 on social contributions: 2,119,252 NIS and 25,031,693 NIS in the years 2018 & 2019 respectively.
   - Item 225 on transport allowances: 1,237,002 NIS and 2,844,642 NIS in the years 2018 & 2019 respectively.
   - Item 221 on traveling and official errands: 3,569 NIS in the year 2018.
   - Item 222 on maintenance (specific operational expenditures): 15,249 NIS in the year 2018.
   - Item 271 on social security benefits: 158,400 NIS in the year 2019.

4. The payrolls item (211) and social contributions item (212) of PNF budget do not match between the base budget dimensions statements and the public budget dimensions table of 2018 in the budgeting law of the fiscal year 2018, as below:

Item	Amount as per base budget dimensions	Amount as per the budget dimensions table of line ministries	Differences
211	107,000,000	129,353,000	(22,353,000)
212	2,200,000	4,295,000	(2,095,000)

5. Annual budget of a line ministry (Colonization & Wall Resistance Commission) (CWRC) was separately made from PNF. The budget was not included in PNF budget, which CWRC follows in financial and management respects, according to decision 108/2015 on regulations of CWRC action, and decree 9/2015 on financial and management reference of several PLO foundations.

6. The line ministry 80 (Cooperation Work Agency) (CWA) and Ministry of High Education & Academic Research (MoHEAR) (27) were included within line ministries of the 2019 budget, despite they did not separately appear as line ministries in the budgeting law of the year 2018.

7. There is a sample of migrations (591,523,012 NIS) that had a migration from one line ministry to another, contrary to the budgeting law of the fiscal year 2018, article (9.7). No decree law has been issued to modify budgets of the indicated line ministries, where MoF reported that they are migrations from item (211) on payrolls to item (272) on social assistance benefits.

8. There is a migration from payrolls to another group at 62,470 NIS and 1,223,345 NIS of the years 2018 & 2019 respectively, contrary to the budgeting law of the fiscal year 2018, article (12.5).

9. MoF did not comply with the financial regulations of the year 2009, article (143), and did not provide SAACB with the following reports:

- Detailed and analyzed report of the budget status at end of each quarter year, which includes financial developments, trends of revenues and expenditures movement against the expectations, explanations to significant deviations, cash flow analysis and impact of these developments on PNA financial status. The report presents appropriate correcting measures to restore financial balance, contrary to the financial regulations of ministries and public entities, article (143).
- Initial report within six months from closing the fiscal year, which presents opening and closing balances of the consolidated box, details of financial processes done to counter deficit (if any) and net government debt and loans granted during the year, contrary to the financial regulations of ministries and public entities, article (144).

❖ Qualifications to compliance with laws, regulations & legislations

1. No decree law was issued regarding the budget of the fiscal year 2019, contrary to law 7/1998 on regulation of public budget and financial affairs.
2. Income tax and property tax departments received cheques not issued by taxpayers, contrary to the Palestinian financial regulations, article (35.6.a).
3. Files of taxpayers who have increased collection at Nablus property tax office were not processed, contrary to circular (3362.ص.د) issued on Nov 21st, 2018 by the general property tax director, regarding the audit and processing of files with increased collection before Dec 15th, 2018.
4. Poor controls followed by the Nablus property tax office to receipt and installment of some cheques, where the due tax on some taxpayers is broken down into installments without applying for that.
5. Nablus property tax office granted no financial liability certificates for land title deeds purposes, despite that the due tax was not paid in cash, contrary to instructions of general property tax director on April 3rd, 2017. They state: ‘before the no financial liability certificates are given for land title deeds, all due taxes should be collected from buyers and sellers, in addition to profession license fees (if any). Installments should not be granted at all’.
6. The precious metals hallmarking and inspection fees are only limited to gold. The precious metals hallmarking and control department did not hallmark silverware and other precious metals and gems, and did not collect due fees, contrary to law 5/1998 on precious metals hallmarking and monitoring, articles 2 and 3, and contrary to council of ministers decision on regulations and licenses of precious metals hallmarking, analysis and inspection.
7. The precious metals hallmarking and control department did not set detailed report about monthly revenues, contrary to provisions of the financial regulations applicable in Palestinian ministries and institutions.
8. GCP did not comply with licensing renewal regulations of gas stations, contrary to provisions of council of ministers decision 17/2008 on licensing regulations of GCP, in terms of renewing licenses of gas stations and reconciling the conditions of all stations by the follow up to license renewal on annual basis.
9. GCP did not form a special licensing committee, contrary to provisions of council of ministers decision 17/2008 on licensing regulations.
10. GCP did not obtain the necessary bank guarantees from gas stations for licensing purposes, contrary to provisions of council of ministers decision 17/2008 on licensing regulations. They state: ‘after having the initial approval to establish a gas station, and for the purposes of permitting construction works, people in question shall be notified and required to present a 100,000 USD bank guarantee’.
11. GCP granted licenses to gas stations that were established contrary to licensing regulations. GCP granted operational licenses to some stations without following licensing actions stated in regulations, where the de facto policy is used (set up and operate some violating stations).

12. Ministry of Information (MoI) granted licenses to some stations and satellite broadcasting service companies without correcting their legal status in the year 2019, despite they paid fees for the year 2020 and had licenses issued, contrary to council of ministers decision 18/2018 on licensing regulations of land and cable radio and TV stations, satellite broadcasting service companies and satellite channels and media production offices, article (23).
13. There are some deposits accounts in IFMIS, which have fixed balance for years and have not been processed duly, contrary to the financial regulations, article (110): 'balances of deposits shall be transferred two years after entering them in the general revenues account. Minister of finance may, in certain cases, transfer them one year after date of entry'.
14. ACC did not comply with the Palestinian financial regulations due to the following:

- Failure to set monthly reports of its deposits and write to MoF thereto. Failure to follow up transactions entered in the deposits account and make regular matches, contrary to the Palestinian financial regulations of 2009, article (107.3): 'Each entity shall be required to provide the general accounts department at the ministry with a monthly report of all forms of deposit accounts they hold, accompanied with the bank matching report', and contrary to article (109.3): 'the general accounts departments at the ministry shall perform *regular match every three months* between deposits balances in their records, and in records of entities'.
- Failure to open a record for deposits in which the accounting transactions are entered (deposits, release of deposits), contrary to the Palestinian financial regulations of 2009, article (108.2): 'entities shall be required to open a register for deposits, where deposits shall be recorded by purpose, value, number of receipt vouchers and names of eligible recipients'.

15. MoF did not comply with decree law of the year 2018, which amends decree law 12/2018 on the Palestinian Agricultural Disaster Risk Reduction & Insurance Fund (PADRRIF), regarding the transfer of deposits value deducted for the Fund benefit from the tax refund amounts of farmers, in order to enable PADRRIF to perform its goals and tasks. The deducted amounts have not been transferred to PADRRIF as at audit date.
16. MoF violated the Palestinian local entities law 1/1997, article 25 that states: 'local entities shall be allocated fifty percent of fees and fines collected as per the road transport law within boundaries of local entity. They shall include the vehicles ownership licenses, fines and others'. The amount due to municipalities and local entities from their share of Ministry of Interior (MoI) collection (fines) has not been collected.
17. The deposits balance of the Constitutional Court was not understated on regular basis upon rulings to confiscate the guarantees and transfer the revenue to the treasury, contrary to the Constitutional Court law 3/2006, article (45.3): 'The plaintiff shall deposit at the Court's safe upon filing the lawsuits a guarantee of one hundred Jordan Dinars (JD) or its equivalent in legally circulated currency. One guarantee shall be deposited in case of multiple plaintiffs if they filed their lawsuit in one indictment. The Court shall decide to confiscate the guarantee in case of ruling not to accept or deny the lawsuit'.
18. Failure to audit deposits at enforcement departments of courts, for which the right to claim was forfeited and transferred to the treasury as revenues in case eligible people did not refer to enforcement departments to claim within five years, contrary to the enforcement law 23/2005,

article (167): ‘Cash and in-kind deposits that have been deposited in the enforcement departments’ safe, collected by the department or retrieved from defendants upon request of owners shall have their right to claim forfeited and shall be regarded revenues to the treasury if eligible people did not refer to the department to claim within five years from date of notification, or publishing in newspapers for those with unknown addresses’.

19. The high ministerial committee, headed by minister of finance with monetary authority governor as chairman of Capital Market Authority (CMA) as members, did not commence action and mandate as per the public debt law of the audit term of years 2018 & 2019, and contrary to public debt law 24/2005, article 2. The council of ministers decided on Dec 11th, 2018 to commence meetings of the committee.

20. Government structures and various line ministries (the Independent Commission for Human Rights ‘ICHR’, the Legislative Council ‘LC’, the Central Elections Commission ‘CEC’, ACC, etc.) did not provide the MoF, the Public Debt Department with all the necessary statements on the public debt on regular basis. Besides, there were not overall and accurate financial statements on public debt and the aggregate payables arising during a specified period, contrary to the Public Debt Law 24/2005, article (6).

21. Failure to issue regulations regarding the public debt payment, and failure to release executive regulations and legislations on the public debt law by the council of ministers. There are not instructions and decisions from minister of finance and monetary authority governor to enforce provisions of executive regulations, contrary to the Public Debt Law 24/2005, articles (29) and (40).

22. MoF did not take necessary action regarding publishing decisions of MoF about any lending terms or transactions guarantee in the official gazette, contrary to the Public Debt Law 24/2005, article (34).

23. MoF did not comply with provisions and amendments of public procurement law 8/2014, and with provisions of public procurement regulations 5/2014 with amendments to the banking sector. Invitations to tenders or quotes are not made as per law when having banking services, mainly loans, banking facilities and deposits tying. Compliance with law guarantees the best price and the least cost of banking services, and guarantees that principles of competition and transparency of public funds management are applied.

24. There are zero-revenue accounts disclosed during the year 2016, but MoF did not take necessary action to address this matter duly, contrary to public debt law 24/2005, article (33), and contrary to provisions and amendments of the financial regulations of ministries and public entities of 2005, article (130), which state: ‘entities shall not borrow or overdraft. They shall not also use any loan for purposes other than those of borrowing, unless a prior consent is obtained from council of ministers based on recommendation of the minister’.

25. There are not executive regulations and instructions that regulate payment orders, and only presentations were sent to minister of finance.

26. MoH paid amounts to retired doctors as incentives for their work in the high medical board, contrary to council of ministers decision (م.و/ر.ح/16/27/06) of 2014, which states: ‘contracting

with retired civil service employees shall be stopped for all groups without exception, and in all government and public entities'. It was not found whether there are contracts to regulate action of doctors for term of action as member in the board post retirement, and for term of incentives payment.

27. MoWA did not follow correct expenditures classification, and used operational expenditures to pay capital expenditures, contrary to budgeting law 7/1998, article (44) that states: 'payments shall not be made for any expenditure without allocations in the budgeting law. Allocations shall not also be used for purposes other than the approved'. MoWA did the following:

- Use rewards account for people who are not staff to pay capital expenditures.
- Pay capital expenditures from the hospitality account (buffet of MoWA).
- Pay expenditures from 'office machines and equipment' account and 'specialized professional tools and machines' account, which are not appropriate to the nature of these accounts.
- Pay capital expenditures from the 'subscriptions, conferences, exhibitions and festivals' account.
- Pay capital expenditures from the 'evenings, various programs, movies and reports' account.

28. Ministry of Public Works (MoPW) paid amounts for 'transport leasing' item without approving the transport statement by the minister, contrary to provisions and amendments of the Palestinian financial regulations of 2005, article (5.68): 'approval of the entity in charge shall be obtained, which shall state that the service was performed as per conditions set in the agreement'. This indicates poor control regulations over spending and validating the accompanying statements, as well as violations to the Palestinian financial regulations.

29. Budgeting law of the year 2018 and decision on budget of the year 2019 have been violated, as below:

- Government vehicles were bought, and spending entries in the government vehicles sale deposits account were recorded, instead of the relevant expenditure account, which led to some budget items being exceeded for some accounts. The budgeting law was also violated regarding expenditures payment from a deposits account by MoF.
- The Palestinian MoH paid and attached rewards and incentives to the treatment abroad assistance account, which violated the budgeting law due to failure to comply with the correct classification for some accounts attached to the treatment abroad assistance account.
- Allocations of some budget expenditures items were exceeded, which led to failure to comply with the annual budget of some accounts.

30. Failure to comply with council of ministers decisions due to lack of legal basis for re-lending. Council of ministers did not approve the re-lending to Palestine Mortgage & Housing Co. (PMHCO), contrary to council of ministers decision of 2009 on financial regulations of ministries and public entities, article (133), and contrary to council of ministers decision of 23/2005 on financial regulations of ministries and public entities, article (138): 'A file shall be opened for the agreement, which shall include all correspondence of the re-lending agreement and the council of ministers approval'.

31. There are not documents to support registering the re-lending of Jordan Ahli Bank through the WB program for micro projects at 1,186,191 USD on Jan 1st, 2011. There is not a re-lending agreement and loan instalments scheduling, and there is not a special re-lending file to keep all correspondence and decisions of the agreement. This is contrary to council of ministers decision of 2009 on financial regulations of ministries and public entities, article (133.2), which states: ‘all financial statements shall be recorded in the re-lending register by loan value, payment terms, name of project, purpose of project, interest rate, instalments schedule and interests’, and article (3): ‘A file shall be opened for the agreement, which shall include all correspondence of the re-lending agreement and the council of ministers approval’. The lack of legal supporting documents limits the legal follow up capacity to collect loan, for which instalments have not been collected as at audit date.

32. Some bank reconciliations have not been approved by the financial controller for some MoH accounts as at audit date.

33. Preparation and confirmation of some bank reconciliations have been delayed by the financial controller at MoH.

34. Bank interest and commissions were balanced on bank accounts of revenues collection in the Bank of Palestine account (219000), contrary to the agreement between the Bank and MoF.