

State of Palestine

State Audit & Administrative
Control Bureau
President Bureau



دولة فلسطين

ديوان الرقابة المالية والإدارية
ديوان رئيس الديوان

Mr. Kanthan Shankar

West Bank and Gaza Country Director, Middle East and North Africa

World Bank

Dear Excellency,

ديوان الرقابة المالية والإدارية
صادر رقم ٩٠٩
التاريخ ٢٠١٩/٦/٣



Subject: SAACB opinion regarding the Local Government & Services Improvement Program (LGSIP) as at 31/12/2018

The State Audit and Administrative control Bureau would like to extend most sincere regards, and as per the above mentioned subject, and based on agreement signed between SAACB and the World Bank, in regards to auditing the financial statements of LGSIP as at 31/12/2018, we hereby attach our opinion regarding the financial statements of LGSIP as at 31/12/2018, the final draft of management letter and the modified financial statements of the mentioned program.

Yours sincerely,

Counselor Iyad Tayyem

Chairman

State Audit & Administrative Control Bureau



Independent Auditors' Report

To World Bank MDLF, and MOLG

Report on the Audit of Program's Financial Statements

Opinion

We have audited the Programs' statement of Balance sheet (Fund Balance, Cash Vs Restricted Amounts from Donor) as of December 31, 2018, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying statement present fairly, in all material respects, the financial position of "Local Government and Services Improvement Program "-LGSIP -implemented by MDLF and MOLG" as of December 31, 2018, and its accompanied notes for the year then ended in accordance with the financial reporting provisions explained in the notes to financial statements (note # 2 Summary of Significant Accounting polices) which state the following:

"LGSIP financial statements are prepared using the cash Basis of Accounting, which is International Public Sector Accounting Standards -IPSAS". Sources of funds are recognized when cash is received and uses of funds are recognized when payments are made"

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs), SAACB Law, and the World Bank Term of Reference. Our responsibilities under those standards and regulations are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the entity (program management) in accordance with SAACB mandate and our Code of Ethics for together with the other ethical requirements that are relevant to our audit of the program's financial statements in Palestine, and we have fulfilled our other ethical responsibilities. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter-Basis of Accounting

We draw the attention to note 2 to the financial statements, which describes the basis of accounting. The financial statements are prepared for a one program implemented by MDLF (Municipal Development and Lending Fund) and MOLG (Ministry of Local Government). Our audit opinion is on the implementation of this program and does not reflect the financial position of MDLF and MOLG. As a result, the financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Key Audit Matters

- SAACB audit reports of LGSIP fund balance is the first audit report (year) covering the year 2018.
- There was no separation between the accounting periods (cutoffs) in the previous auditor's report (report 2016-2017). Some cash flow transactions and disclosures were not complete for the previous period. Moreover, the accounting basis in the previous audit report mixed accrual and cash, which effected the fund and advances balances. As a result, we asked the management to restate the previous period financial statements. We are aware that the previous year's audit report and FS were disseminated. Therefore, we requested from program management to elaborate and give detailed explanation about the

Restatements of Financial statements as requested by IPSAS in order to explain the nature of the error, the amount of correction and the fact that comparative information has been restated or that it is impracticable to do so.

- SAACB is aware that because of the centralized and non-centralized bookkeeping, accounting PFM practices and nature in Palestine, in addition to the complexity of IFMIS, some private sector external auditor do not have the opportunity to obtain full understanding of Bisan IFMIS systems and report which could lead to incomplete conclusions.
- LGSIP program management and its 2018 Financial Statements did not comply to all IPSAS cash basis mandatory and non-mandatory policies and disclosures.
- We have no evidence that MoF transferred its share in this program.
- MoLG did not effectively follow up the advances given to local councils. MoLG did not close any of large VC advances (60%, 40%) for the 2017 and 2018 allocations. Local councils benefited from the advances but MoLG did not close or reconciled them.
- There were no accounting closure for 2017 advance (40%) – that utilized 2017 budget provision- .Those advances were granted to the local councils, but still open until the end of 2018, despite the transfer of the funds several months ago.
- We noted some delay in the implementation of some programs despite the approval of the capital plan of the local councils and the transfer of payments of financial dues to the councils.
- Bank reconciliations and cash management for the program could have been managed in better way.

Responsibilities of Management and Those Charged with Governance for the Financial Statements.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the financial reporting provision in the notes to financial statements section below, 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.

In preparing the financial statements, management is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the organization's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and SAACB mandate will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or taken together, they could reasonably be expected to influence the economic decisions of users taken based on these financial statements.

As part of an audit in accordance with ISA's and SAACB mandate, we exercise professional judgment and maintain professional skepticism 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 risk, 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 the one resulting from error, as fraud may involve collusion, forgery, intentional omission, 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 expressing an opinion on the effectiveness of the internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidenced obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosure are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represents 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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 the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law and regulations preclude 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.

Counselor Iyad Tayyem

Chairman

State Audit & Administrative Control Bureau



30 June 2019