Assessment of The Public Financial Management Information of Local Government Units

Component One

Assessment Results & Recommendations Report
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Abbreviations

BTC  Belgian Development Agency
FMIS  Financial Management Information System
GIS  Geographic Information System
IT  Information Technology
ITGCs  Information Technology General Controls
LGU  Local Government Unit
MDLF  The Municipal Development and Lending Fund
MoLG  Ministry of Local Government
OSS  One Stop Shop
P&P  Planning & Zoning
PA  Palestinian Authority
PFM  Public Financial Management
PLC  Palestinian Legislative Council
POS  Point of Sale
RMIS  Revenue Management Information System
SSO  Single-Sign-On
1. Executive summary

Strengthening the financial management systems of Local Government Units (LGUs) in West Bank and Gaza assumes critical importance from the Palestinian Authority (PA) as well as other stakeholders (such as donors). For the last few years, several efforts were made to computerize the LGUs operations, particularly with respect to public financial management (PFM). Most common among these have been efforts to introduce a unified financial management information system (FMIS) that computerize and automate key aspects of budget execution and accounting operations across the LGUs.

FMIS can enable prompt and efficient access to reliable financial data and help strengthen financial controls, improving the provision of public services, raising the budget and reporting processes to higher levels of transparency and accountability, and expediting LGUs’ operations. Also, it can enable the Ministry of Local Government (MoLG) to obtain timely and sufficient data and information on the performance of all LGUs.

In this context, the World Bank contracted PricewaterhouseCoopers Palestine (PwC) to perform an assessment of the current FMIS maintained in sample municipalities and to understand whether these systems are achieving the LGUs’ objectives and needs, and how the systems are integrated with other information systems covering the LGUs’ operations.

The assessment was carried out by PwC team, and was based on inquiry and meetings with staff from the sample LGUs, MoLG, and Municipal Development and Lending Fund (MDLF).

Summary of Work Results

The assessment noted a wide disparity among the systems used by the sample municipalities, and most of the municipalities are considering that the current FMISs are not addressing most of the LGUs’ needs for different reasons that are detailed in the report. Further, the FMIS have minimal integration with other information systems maintained by an LGU for recording other operational data.

While various reasons contributed to that, according to the LGUs, a primary reason was that different donors funded the municipalities with different systems under their funding projects with minimal coordination with other stakeholders. Another important reason is the lack of centralised leadership to supervise all efforts (of LGUs, donors and other stakeholders) to develop the LGUs’ systems.

Accordingly, we obtained an understanding of the MoLG and LGUs needs of any future FMIS, as well as the major difficulties faced by the LGUs while using the current or previous FMIS. We analysed the information we obtained and we reported herein matters for consideration by the MoLG and LGUs while adopting any new FMIS in the future.

Our recommendations were broken down under the following four areas:

1- Basic considerations for standardization

MoLG and LGUs should first establish one standard and unified basis of accounting for all LGUs to follow in order for any FMIS to follow similar treatment for the accounting transactions. A unified basis of accounting will facilitate the consolidation of financial information from the LGUs, and will allow benchmarking of LGUs’ financial information with each other.

Also, the system should have a unified chart of accounts that is easily correlated with the unified budget that the LGUs currently use and expect to use in the future. The chart of accounts is integral to the success of any FMIS. Without an intelligently designed chart of accounts, information cannot be stored or accessed properly

2- Recommendations related to the FMIS type

As MoLG, MDLF and World Bank initiative for providing the LGUs with a unified system to be used by all LGUs, a major consideration should be given to the advantages of having a web-based system that is installed
in one central place and linked to all LGUs from that central point, and to have one central administrator unit. This approach will help in saving costs and efforts, and will standardize the procedures followed by the LGUs to record transactions and produce reports.

Also, the system should have the ability to be integrated and compatible with other information systems to ensure that all LGUs are able to operate efficiently by having one integrated view of information. By having integrated data, users can access the system and extract the specific information they require to carry out different functions and tasks, and make certain decisions. Users can use this information for a variety of purposes: to plan and formulate budgets; examine results against budgets and plans; manage cash balances; track the status of debts and receivables; monitor the use of fixed assets; monitor the performance of specific departments or units; and make revisions and adjustments as necessary, to name a few.

The LGUs currently use different information systems to manage their operations, such as human resources related systems; systems for geographical data; building permits management systems, and others. LGUs expect that the FMIS is to be integrated with other information systems. This integration is vital to facilitate the LGUs work, especially for major business processes reporting. Therefore, the FMIS design and structure need to be flexible enough to adapt to those needs. Consideration should be made to obtain the program source-code from the vendor so that the vendor does not limit the MoLG and LGUs ability from achieving the integration option.

3- Recommendations related to the system’s functions

As for the system’s financial management functions and features, the FMIS must be modular, provide scalability, and utilize open-systems architecture.

Based on our discussions with the LGUs staff and our analysis, we identified five essential functions that should be available in any FMIS as to ensure LGUs’ ability to record and report information in a feasible and efficient manner. The five functions are:
  a) Data reporting and exporting;
  b) Data Migration;
  c) Multi-currency;
  d) Year-end closing;
  e) Budgeting and planning support;
  f) System interface.

4- Recommendations related to the system’s implementation

Whilst our report did not aim to cover the system implementation process or the contractual terms to be signed with the vendor, we recommended certain matters that should be carefully considered in future purchase and installation of a FMIS as to avoid prior issues and difficulties that were encountered by the LGUs in previous cases. These matters are:

  1- Recommended hardware;
  2- Training on the system;
  3- Technical support;
  4- System coding;
  5- System documentation;
  6- System change management.
2. **Scope and objective**

2.1 **Background of assignment**

The PA through the MoLG has a strategy for reforming the current institutional, fiscal and financial systems of LGUs to enable them to achieve their mandate for providing local services in an efficient, transparent and accountable manner. To assist in achieving these objectives, the World Bank has been supporting a number of reforms and initiatives designed to improve the PFM processes and systems used in LGUs and enhance the fiscal sustainability of LGU’s.

The World Bank has contracted PwC to perform a PFM assessment on LGUs in West Bank. The primary focus of this assessment is on the following areas:

- Mapping the current systems and business processes for all components of financial management of LGUs including their institutional arrangements; funds flow; budgeting; accounting; internal controls; financial reporting; asset management; and audit and oversight of public finances;
- Assess the level of computerization of municipal financial management processes and, an assessment of the variations between the prescribed systems and the actual practices; and
- Provide recommendations for the reform and capacity building of financial management systems of LGUs that can be delivered through the ongoing and planned interventions by the World Bank; other development partners; and, the PA.

2.2 **Scope of work**

The PFM assessment covered the following two key components:

**Component One - Assessment of Municipal FMIS:**

The objective of this component was to assess whether there is compatibility between the systems used by LGU’s and provide recommendations for the design of a revised system that will ensure that there is coherence and compatibility between the new FMIS and the current FMIS applications. This assessment:

- Reviewed the different municipal FMIS systems currently used in the municipalities;
- Assessed the financial management and information requirements of LGUs to establish if the current and proposed FMIS effectively addresses these needs; and
- Assessed the extent to which core municipal processes including local revenue collection and asset management are computerized.

**Component Two - Assessment of PFM Systems and Processes of LGUs:**

The assessment of the PFM processes was done through:

- Reviewing the current institutional arrangements of the LGU PFM systems and how effectively these are functioning; and
- Assessing the design and functioning of the core PFM processes: Budget preparation; Revenue Collection and Expenditure Management; Billing/Invoicing; Fund Flows; Accounting; Financial Reporting; Internal and other Management Controls; Asset Management; Audit; Legislative Scrutiny and Oversight; Human Resources and Training; and, Citizen Engagement in PFM.

**This report covers only component one (Assessment of FMIS) mentioned above.**
2.3 Approach and methodology

A qualified and experienced team was assigned to carry-out this assessment. To complete this assessment, we used the following four-stage strategy:

1- Planning:
We developed specific questionnaires and work programs to guide the conduct of the assessment and to ensure that we collected all valid and relevant information.

2- Interviewing officials and gathering data:
We obtained our information through interviewing key stakeholders of the LGUs. The interviews were done in person and were designed to allow us to understand and evaluate the information provided for this assessment.

Our interviews focused on establishing the current systems being used and the difficulties the LGUs face in practically using these systems.

3- Reviewing documents:
We reviewed information obtained through inquiries, and relevant documents, to help in assessing the current processes, and to identify current areas of weakness that require remedial action or need improvement. Where possible, we validated stakeholder responses by reference to documentary evidence.

All the above activities were designed to ensure the delivery of relevant and practical conclusions and recommendations that are designed to benefit users of this report.

4- Writing the report:
The conclusion of this assignment was drafting the final assessment report. The first-stage was an initial draft being prepared by the core assessment team. This draft was then subjected to quality assurance reviews to ensure that the content of the assessment report was accurate and consistent.

2.4 Sample municipalities for assessment

A sample of 12 municipalities was selected by the World Bank for the assessment purposes, and included municipalities of different sizes in terms of population, operations, and number of systems used. The sample included the following municipalities: Hebron, Nablus, Ramallah, Jenin, Jericho, Bethlehem, Birzeit, Yata, Turmosaya, Aqaba, AlKhader, and Bido.

2.5 Key assumptions

Because of the inherent limitations in any internal control framework, misstatements due to error or fraud may occur and not be detected. Also, predictions of any evaluation of the effectiveness of internal control to future periods are subject to the risk that the internal control framework may become inadequate because of changes in the control environment; or, that the degree of compliance with the policies or procedures regulating internal control may deteriorate.

Our services provided under this assignment do not constitute an audit or review performed in accordance with International Standards on Auditing or International Standards on Review Engagements, and thus, we do not express any assurance on the subject matter of this assessment.

Our work under this engagement was limited to obtaining an understanding of the current procedures and systems maintained by the sample municipalities. Our work on Component One neither involved any work on the design or implementation of any proposed FMIS system, nor aimed to describe or explain the process for implementation and adoption of any future FMIS system. Finally, our work does not represent an assessment or review of any specific information system in any of the municipalities.
3. Current municipal FMIS

3.1 Background

In the territories administrated by the PA, a municipality is an independent administrative unit of local government. Municipalities are divided into four classes A, B, C and D as categorised by MoLG in-line with the decision of the Minister of Local Government on April 20, 1998, based on LGU’s establishment time and size of population. The municipalities are considered as local governments with autonomy over decision-making, budgets, personnel management, and with council members elected by the governorate population. The village councils are administrative structures that depend on a supervisory ministry and whose purpose is to represent the central power in distant outlying areas.

Moreover, the Local Authorities Law no. (1) of 1997 (the Law) governs the structure, establishment and work of the LGU. The Law provides the legal basis for LGU’s operations and governance as it specifies the duties and authorities of the LGU; the public services to be provided; financial management related guidance; the roles and responsibilities of the LGU’s head of the council and the members; and the elections of those parties. In addition to the Law, the operations of the LGUs are further regulated by the PA applicable local laws as well as specific regulations issued by the MoLG to the LGUs. Specifically, the MoLG issued a separate guidance/instructions on financial management that the LGUs must comply with. These instructions specified the responsibilities of the LGU finance personnel, and the policies governing the preparation, execution, and accounting for the LGU’s budget execution. Further, MDLF prepared and shared with the LGUs a manual of policies and procedures to be used by the LGUs for accounting and record keeping.

MoLG staff confirmed that the Law, the guidance on financial management, and the manual did not discuss or specify how should the LGUs maintain the accounting records (whether manual books or using a specific accounting system).

Currently, the LGUs’ budget execution and accounting processes are computerized using diverse and incompatible systems, and two of the sample LGUs do not have computerized processes for the budget execution and accounting functions. This situation has a number of adverse effects on the efficiency and effectiveness of the LGUs’ PFM.

The resultant absence of reliable and timely revenue and expenditure data covering all PA LGUs for budget planning; monitoring; expenditure control; and, reporting has negatively impacted on the entire range of budget management activities. This has led to un-controlled commitment of public resources, causing a large build-up of arrears; continuous requirements for borrowing and donor support; misallocation of resources; and, the inability to check the effectiveness and efficiency of service delivery. In addition, LGUs and MoLG have found it difficult to provide an accurate, complete, and transparent account of their financial position to the Palestinian Legislative Council (PLC) or to other interested parties, including donors and the general public. This lack of information has had a serious impact on the transparency and accountability of LGUs when reporting on the management of public finances.

To rectify the above unsatisfactory situation, various stakeholders are planning to strengthen the public expenditure management through the development and implementation of a standard and unified FMIS for all LGUs.

The MoLG and MDLF has started this reform few years ago through the purchase and implementation of the Free Balance PFM system, under a plan to roll out the system to all LGUs in the West Bank within a number of years. However, according to the MoLG and LGUs, the LGUs’ staff encountered difficulties in using the Free Balance software which in-turn, led various partners (including the MoLG, MDLF, and World Bank) to consider alternative solutions to this FMIS issue.

3.2 Purpose of municipal FMIS

The MoLG and the LGUs need an FMIS to achieve the following objectives:
1. Automate and unify the processing of budget execution and accounting processes in an effective, timely and efficient manner;
2. Facilitate the reporting of financial information to comply with the LGU’s regulatory reporting requirements;
3. Provide timely, accurate, and consistent data for management and budget decision-making;
4. Facilitate financial statement preparation;
5. Consolidate the LGUs’ public financial management data and reports; and,
6. Integrate and transfer of data across all information technology (IT) based systems managing the LGUs business processes.

The extent of LGUs’ business processes varies according to the size and nature of the LGU. This in-turn affects the reporting requirements of the LGU and MoLG.

For example, a large LGU may generate revenues from a range of fees, whereas a smaller LGUs will not collect the same types or magnitude of revenues. Therefore, the FMIS should be able to accommodate the different needs and profiles of all LGUs.

### 3.3 Basis of accounting

The culmination of all financial business processes is the production of the annual financial statements by LGUs that are constructed using a standard and internationally recognised reporting basis.

For the 12 LGUs in our sample, we found that 8 LGUs (66%) are using the cash basis of accounting; 3 LGUs (25%) are using the modified accrual basis; and, 1 (9%) is using the full accrual basis. Table 1 in the report reflects each of the 12 LGUs basis of accounting.

Whilst we cannot speculate whether or not this distribution of the basis for accounting accurately reflects the situation for entire population of West Bank LGUs, it does provide a clear indication that the basis of accounting and reporting is not standard across LGUs. This implies that the accounting treatment of similar business transactions will be handled differently by the LGUs which will ultimately impact on the nature and content of the financial reports produced by LGUs. Finally, this state of affairs will make it impossible for the LGUs financial reporting information to be consolidated by the MoLG.

### 3.4 Correlation between the business processes and information systems: levels of computerisation and integration of data

#### 3.4.1 LGUs budget execution and business processes

The LGUs budgets regulate the LGUs financial operations and business processes. The LGUs transactions that have a financial impact are recorded on the FMIS, yet the LGU should also maintain records for non-financial information. Based on our work in the 12-sample municipalities, we found that the LGUs are using one or more information systems to record operations under the following business processes:

- Municipal Budgeting,
- Financial Accounting,
- Project Accounting,
- Treasury and Cash Management,
- Procurement Cycle: Supply Chain Management, Expenditure Management, Contract Management and Accounts Payable,
- Human Resource and Payroll Management
- Fixed Assets Life Cycle Management including Maintenance Management,
- Real Estate and Resources Management,
- Land Use and Building Control Management,
- Revenue Cycle: Meter Reading, Billing, Accounts Receivable, and Revenue Management,
- Customer Care and Debt Collection.
The individual municipal budgeting process is currently documented on a unified system called “Bawabe”, which is controlled centrally by the MoLG, and hence is not within the scope of this report. However, it is worth noting that the budget categories/items are standard on this system and the municipalities use these for budget preparation and submission to the MoLG for review and subsequent approval.

The Bawabe system was developed in 2014 by “Jaffa.Net” company, using the funding from the Belgian Development Agency (BTC). The LGUs use the system to document its annual budget and to send it to MoLG for approval. Once an LGU enters its budget on the system and is submitted to MoLG review and approval, the budget cannot be edited unless the MoLG revert the budget to correct certain comments. When the budget is approved, the budget is locked on the system and the LGU cannot edit it afterwards (full details of the budget process is described in Component Two report).

Also, the LGUs use the system to enter the quarterly financial report (which is requested by MoLG). Once the data of the financial report is entered, the Bawabe system can generate a report to show budget versus actual comparison, based on the information entered by the LGUs.

For other non-financial processes, each municipality currently has unique information system(s) to manage the relevant data and records. The next section will provide an overview of the main systems to be used at the sample municipalities.

3.4.2 Summary of current systems used

The computerization of municipal financial management processes has been supported through a number of donor supported projects, as a result, there is a wide variance in the design and functionalities of information systems currently being used by LGUs. Whilst some LGUs are using sophisticated systems, there are others that do not have any computerized systems, and in between there are some that are using legacy systems of various types. This situation creates severe compatibility problems between divergent systems being used by LGUs.

Currently, the 12 LGUs maintain a numerous IT based systems to record and report their business transactions (financial and non-financial). These systems include FMIS, as well as other systems that are used for other business operations and needs, with minimal integration or compatibility between these systems.

The current municipal FMIS varies from simple off-the-self to sophisticated systems. The table below presents a summary of the FMIS in the 12 municipalities:

<table>
<thead>
<tr>
<th>No.</th>
<th>Municipalities</th>
<th>Current FMIS</th>
<th>Basis of accounting</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Hebron</td>
<td>Al-Ghassan (local off-the-shelf)</td>
<td>Modified cash basis</td>
</tr>
<tr>
<td>2</td>
<td>Nablus</td>
<td>Internally developed (Oracle based)</td>
<td>Cash basis</td>
</tr>
<tr>
<td>3</td>
<td>Ramallah</td>
<td>Al-Ghassan</td>
<td>Accrual basis</td>
</tr>
<tr>
<td>4</td>
<td>Jenin</td>
<td>Al-Shamel (local off-the-shelf)</td>
<td>Cash basis</td>
</tr>
<tr>
<td>5</td>
<td>Jericho</td>
<td>Al-Ghassan</td>
<td>Cash basis</td>
</tr>
<tr>
<td>6</td>
<td>Bethlehem</td>
<td>Hashavshevet (local off-the-shelf “DOS based version” system)</td>
<td>Cash basis</td>
</tr>
<tr>
<td>7</td>
<td>Birzeit</td>
<td>Al-Ghassan</td>
<td>Modified cash basis</td>
</tr>
<tr>
<td>8</td>
<td>Yatta</td>
<td>N/A (manual)</td>
<td>Cash basis</td>
</tr>
<tr>
<td>9</td>
<td>Turmosaya</td>
<td>N/A (manual)</td>
<td>Cash basis</td>
</tr>
<tr>
<td>10</td>
<td>Aqaba</td>
<td>Al-Diwan (local off-the-shelf)</td>
<td>Cash basis</td>
</tr>
<tr>
<td>11</td>
<td>Bido</td>
<td>Free Balance</td>
<td>Modified cash basis</td>
</tr>
<tr>
<td>12</td>
<td>Alkhaeder</td>
<td>Al-Diwan</td>
<td>Cash basis</td>
</tr>
</tbody>
</table>

Table 1 – Current FMIS and basis of accounting
From the above analysis it can be seen that the majority of the 12 municipalities’ are using FMIS that are off-the-shelf and developed by local vendors. In some cases these were customized for the municipality’s specific needs. Only one municipality uses the Free Balance PFM System, and two others use a manual recording approach.

Some of those municipalities have been using those systems for years and have been updating these on a needs basis. Others have, in 2015, purchased new accounting information systems or made significant updates to their systems.

For other business processes, some LGUs maintain other systems to support their business processes and transactions. Examples of these include:

- **Revenue Management Information System (RMIS)** this is a system developed by a local company (Experts) and used for billing and invoicing of fees.
- **Geographic Information System (GIS)** this is used to manage geographical information of the city. LGUs have different versions of GIS that were funded by numerous donors and implemented through multiple vendors. Except for Ramallah Municipality, other GIS are not integrated into the accounting systems.
- **Building permits and management systems** this is used to record permits granted by the municipality to the public; and, to manage the various services provided by the municipality for construction. These vary from municipality to municipality.
- **Attendance management systems** are used to record staff attendance. These systems vary from municipality to municipality.
- **Human Resources and Payroll management systems** are used to provide an automated system to manage employees’ records, calculate monthly payroll, and facilitate the preparation of human resource related reports. These vary from municipality to municipality.
- **Workflow Management Systems** are systems used to record internal memos and communications between the departments of LGUs, and they vary from municipality to municipality.

Annex 3 includes a table listing the major information systems used by each municipality under our assessment, and describes the main challenges faced by the municipalities while using their current FMIS.

### 3.4.3 Level of integration among the systems

Municipalities have different systems for their business processes. The number of these systems vary depending on the municipality’s needs, nature of operations, size, staff capacity, and technology awareness. Most of the sample 12 municipalities have at least two systems, and there is minimal integration of data between these systems.

For those municipalities that have a degree of integration across their systems, we found that these have either been developed by the same vendor or were developed in-house. For example, those LGUs that have Al-Ghassan system, have contracted the vendor to develop systems for other business operations. In these instances, it was possible to transfer data automatically from one system to the core accounting system. Another example is Jenin Municipality, where Al-Shamel accounting system developed by Al-Israa Company, interfaces with the human resource attendance management system and payroll systems developed by the same company.

However, in other municipalities, currently they have multiple systems provided by different vendors, and there is no compatibility or automatic integration of data.

For example, Jericho Municipality uses Al-Ghassan as the core accounting system. It also has a human resource and payroll system; RMIS for billing; GIS; and, Workflow management system. All of these were developed by different vendors, and are not integrated.

This absence of compatibility and the inability to integrate data is causing significant problems for municipalities because of the time and effort spent to duplicate information into the different systems, as well as cost of maintaining and supporting multiple systems.
3.5 Challenges faced by municipalities for achieving objectives from FMIS

Based on our discussions with the municipalities’ staff, we noted that all 12 municipalities, except for the two municipalities using the manual approach for recording (see Table 1 on page 10), consider their current FMISs are achieving the first objective of an FMIS (as specified in section 3.2 above), which is to automate and unify the processing of budget execution and accounting procedures within the municipality. Moreover, 4 of those municipalities (Hebron, Nablus, Jericho, and Bethlehem) believe that the current FMIS are not achieving that objective in an efficient, timely and effective manner.

Add to that, the municipalities’ staff explained that the current FMISs do not achieve any of the other objectives discussed in section 3.2 above; specifically in relation to providing timely and accurate data for decision-making, and integration with other information systems.

Due to those reasons, the municipalities are considering the purchase of a new system, or significantly updating the existing one by the system developer. In fact, Bethlehem Municipality, for instance, has recently contracted a vendor for the purchase and installation of a new system. Add to that, Birzeit Municipality has actually changed their system in early 2015.

In addition, all 12 municipalities have indicated that they faced different challenges while implementing the current or previous systems they have. Based on our inquiries, we noted certain common and recurring challenges that the municipalities encountered while adopting or using an FMIS. Following are the key challenges noted:

- Limited LGU staff capacity to use computerised systems.
- The training provided by the vendor on the system was not sufficient to provide a comprehensive overview of the functionalities of the system, or was not properly planned.
- Systems functions did not meet the municipality’s operational requirements.
- Chart of accounts is not aligned to budget classifications.
- The time needed by the system to process the recording and posting accounting transactions.
- Difficulties or errors in data processing and reporting. Also, problems in the fiscal year end closing; either the system does not give the user the possibility to close the accounting modules at the end of the year, or closing balances are not automatically transferred to the new-year.
- The system does not support multi-currency recording and/or reporting.
- Lack of adequate reporting features and tools where the user can have multiple options and types of reports, and can choose the level of details the report should reflect. Currently many municipalities rely on their IT staff to develop and generate specific reports,
- Bank reconciliations are inaccurate or easily produced.
- Lack of adequate technical support, this is either due to the vendor having an insufficient or unqualified technical team capable of resolving technical issues on a timely basis.
- High maintenance costs.
- As discussed previously, a lack of compatibility and integration.

Annex 3 includes a table listing the major information systems used by each municipality under our assessment, and describes the main challenges faced by the municipalities while using their current FMIS.

3.6 Weaknesses in Information Technology General Controls (ITGCs)

In addition to the above difficulties faced by municipalities, we also found many deficiencies in the ITGC in the 12 sample LGUs. Whilst the main objective of our assessment was not designed, and did not aim, to do an analysis and assessment of ITGCs, we would take this opportunity to report some significant and generic internal control weaknesses that warrant attention. We categorised the deficiencies under four categories, as follows:

1. IT governance
- Most LGUs lack policies and procedures covering IT applications, or have outdated procedures manuals,
- Most LGUs lack formal system(s) documentation,
- No independent IT external audit has been conducted.

2. **Access Control**
   - Lack of adequate segregation of duties,
   - Lack of adequate control over password setting and change procedures; such as, strong password to be mandatory, locking the wrongly entered password after a certain number of attempts, password expiration date.
   - Remote access to the live system data by the vendor (for support purposes) is not controlled adequately as full access is allowed to the vendor, and no audit trail (log) is maintained for any changes done during the remote session. Most LGUs developers use unsecured free tools for remote support; such as the Teamviewer tool.

3. **Physical Security**
   Municipalities do not have adequate control procedures in place to safeguard the servers. Municipalities do not have specific room/location for servers, access to server rooms is not restricted to authorised persons only. The server rooms typically do not have sprinkler systems, fire and smoke detectors, air conditioners and backup power supply, etc.

4. **Backup and Disaster recovery plans**
   - No comprehensive disaster recovery plans,
   - No routine backup procedures in some LGUs. In others, backup is not regulated, documented or routine.
   - Backup tapes are stored inside the same facility, and in some cases in the server room,
   - There is no backup testing, documentation, or inventory of backup files.
4. **Recommendations for future FMIS**

In pursuit of any new FMIS, the MoLG and LGUs should consider various important factors to ensure positive outcomes from the new FMIS. These factors are broken down as follows:

4.1 **Basic considerations for standardization**

As discussed earlier, one of the main purposes of the MoLG is the consolidation of all LGUs financial reports to provide an overall view on the PFM of the LGUs. To achieve this objective, it is imperative that a standard basis for financial reporting to be used by all LGUs.

Currently, municipalities use different basis of accounting. This results in different accounting treatment for similar types of transactions. This renders the production of meaningful consolidated LGU financial statements quite difficult.

Therefore as a first-step, the MoLG must ensure that all LGU are using the same **basis of accounting**. This will ensure the standardisation of accounting treatment for all financial transactions and the way these are reported.

For the short-term future and until the basis of accounting is unified, MoLG and LGUs might need to keep the current status of using different basis of accounting. For that purpose, MoLG and LGU might need to consider with the new FMIS supplier how the system General Ledger and structure can support the financial data recording and reporting under different basis of accounting using . Using this approach, the MoLG will be able to consolidate data of LGUs using similar basis of accounting, but will not be able to have a consolidated view of all LGUs financial situations.

Moreover, on the long-term, following the accrual basis of accounting by the LGUs will facilitate the planning, financial management and decision making at the LGU level as well as the government level (at MoLG side). It provides a robust and internationally acknowledged and accepted way of reporting of financial information. On the other hand, cash accounting does not account for and report on some important financial information, such as fixed assets, most (if not all) liabilities, accrued revenues, and other financial data. As such, the cash accounting will not provide an accurate overview of the financial performance of the entity; on the contrary, the accrual accounting would provide more comprehensive information, and can allow for better and more accurate comparison between LGUs.

Second, the **chart of accounts** should be consistent and standardised for all LGUs. This should be supported by a detailed procedures manual that will be approved by MoLG, issued to all LGU and updated as necessary by the MoLG and LGUs. It is recommended that the manual include a narrative description/explanation of the chart of accounts to serve as a future reference for all stakeholders, especially for LGUs staff to refer to when they need to link specific transitions and accounts to the budget categories.

The chart of accounts represents the basic building block of any accounting system, FMIS included. The chart of account should be clear and accounts should be easily searched by the users. The chart of accounts lists all accounts tracked by the system. Each account in the chart is assigned a unique identifier, or an account number, involving a series of information tags that denote certain things about the data being entered into the system. The account number attaches to the data and serves accounting, management and all other reporting purposes. It also forms part of the data validation process, indicating things such as whether or not a vendor exists, whether or not there is an authorized budget, and whether or not funds have been committed. These are just a few of the many validations that a good computerized system will carry out.

While the assessment of the currently available chart of accounts is not within the scope of this report, yet it is worth to note that the MoLG have developed a unified chart of accounts, which was entered on the Bawabe and requested all LGUs to use it. However, the LGUs’ systems have different chart of accounts already
established, and the LGUs cannot easily match their chart of accounts with that of the MoLG. Further, the LGUs indicated that the MoLG chart of accounts is missing few accounts (mainly related to types of fees collected).

In order to facilitate the recording and reporting of data, the same chart of accounts should be used on the FMIS and Bawabe. MoLG and LGUs need to agree on the chart of accounts in advance to ensure it is comprehensive for all LGUs operations. Annex 3 includes the unified chart of accounts as developed by MoLG.

### 4.2 Recommendations related to the FMIS type

While considering and deciding on the FMIS architecture, the stakeholders should consider the advantageous of having a [web-based system](#) where the servers would be installed in one centralised location as would be agreed by the MoLG and the LGUs. Doing this will save cost to the municipalities through standard servers and standard maintenance contracts from one reputable and reliable supplier. The implementation of this recommendation will not only standardize the system’s tools and features across all LGUs, but also provide standard reporting options and features available to all users. Also, any updates/changes on the system will automatically be applied to all LGUs, and any fees for these updates will be incurred once only at the centralized location.

The recommended approach to implementing a web-based system would be first to implement this centrally and then roll-out on phases to the LGUs.

Based on our meeting with MoLG, MoLG staff indicated that MoLG does not have the legal basis nor the capacity to act as the administrator on the FMIS. According to MoLG staff, the Law and MoLG’s relevant instructions do not discuss the record keeping approach that the LGUs should follow and does not mandate using specific information system. Whereas MoLF staff confirmed that MoLG’s primary goal is to collect the required information and reports from the LGUs, without bearing the administrative burden of managing the FMIS.

Finally, the FMIS system must be [integrated and compatible with other information systems](#) to ensure that all LGUs are able to report in a standard, timely, comprehensive and transparent manner to all stakeholders. Integration implies that the system has the following basic features:

- Standard data classification for recording financial events;
- Internal controls over data entry, transaction processing, and reporting; and
- Common processes for similar transactions and a system design that eliminates unnecessary duplication of data entry.

Integration sometimes applies only to the core financial management functions that a FMIS supports, but ideally, it would also cover other information systems with which the core systems communicate. At a minimum, the FMIS should be designed to interface with these systems.

The LGUs expect the new FMIS to have a flexible structure that can accommodate integrating data with other systems, both currently used or any future ones to be acquired by the LGUs; including but not limited to the RMIS, GIS and Human Resources management systems. In addition, the MoLG and LGUs expect that the FMIS to be integrated with the Bawabe as to facilitate the reporting of information on timely basis. To that end, the FMIS will include a module to enter the LGU’s budget, and the FMIS chart of accounts needs to match the MoLG unified chart of accounts (or accounts automatically linked to the relevant budget categories if not an exact match).

### 4.3 Recommendations related to the system’s functions

The FMIS must be modular, provide scalability, and utilize open-systems architecture, and all modules within the proposed system should be integrated in real-time so that data is only entered once in the system. The system should allow for a fast and effective interface with other information systems.
The FMIS modules that are currently being used by LGUs are listed in Annex 2 to this report. MoLG and LGUs should discuss and agree with the system vendor on the system’s modules that the system should support.

According to our understanding of the LGUs’ needs, the following functions and features of an FMIS are essential to the LGUs:

a) Data consolidation, reporting and exporting:
The proposed system should address the MoLG needs of consolidating LGUs financial information, in real time, which will assist the MoLG and LGUs in decision-making. Also, the system should enable the LGUs to view data in different formats, including but not limited to, PDF, Excel, XML, TXT, etc. Vendors should ensure the integration of the systems application with MS office and PDF applications without these being installed as separate applications.

b) Data Migration:
LGUs expect the vendor to facilitate the full migration of data from the current system to the new one, and allow automatic migration at time of installation of the new system.

c) Multi-currency:
The LGUs need the software application to support multi-currency formats in recording and reporting transactions, and be able to automatically and accurately calculate foreign currency exchange translation variances.

d) Year-end closing:
The software application must be able to reconcile and close at the end of the financial-year, and to automatically transfer year-end balances to opening balances in the next financial-year. The manual of the system procedures should include a clear section covering procedure for doing this and should be explained to the LGUs’ staff in order that they can do this independently of the vendor.

e) Budgeting and planning support:
The system should allow the recording of the budget (preferably automatically by having an interface with the budget system currently used), and controls over budget movement should be enforced on the system in connection with the current regulations related to budget movements.

f) System interface:
The system application interface needs to be user-friendly and should support both Arabic and English languages interfaces, for both data entry and reporting. Users must be able to easily switch between both languages when using the systems.

g) Optional specifications:
The following features, though not essential, yet are recommended and can facilitate the work of the LGUs’ staff:
- System must provide alert messages and transaction rejection where validation identifies invalid, out of range data input. The message should be clear and concise and displayed in both English and Arabic depending on the user interface.
- Other systems integration capabilities (e-banking, SMS gateway, document management system, mapping tools, GPS tracking tools). Web support (web applications, mobile applications)
- Ability to provide interface to E-mail.
- Ability to support and manage digital signature.
- System has “Help Button Tool” to be referred to by users for guidance.

4.4 Recommendations related to the system’s implementation

While this report did not aim to cover the process for FMIS implementation or the contract terms to be signed with the vendor, however, the following matters are essential for the successful implementation of the system and should be considered with the various stakeholders prior to implementation:

1- Recommended hardware:
LGU expect the system vendor to advice on the design and specification of the recommended hardware that supports the system.

2- Training on the system:
Training is an integral part for any successful system implementation. Failure to train end users will inevitably lead to the breakdown of the operational functions of the software application no matter how strong this is. Therefore, LGUs need training to ensure that they are competent to use the systems applications on a routine basis. All training provided by the vendor must be timed to ensure that it is provided at dates that are convenient for the LGUs and taking into account the geographic disparity of the West Bank cities.

3- Technical support:
The technical post-implementation support on the system should be adequate enough to ensure that all LGUs are assisted to resolve errors and issues as these arise.

4- System coding:
The vendor will be expected to provide a program source-code that is meaningful and readable to any programmer. The vendor should adhere to the program coding standards that are required for efficient program maintenance and modifications. Program coding standards are essential to writing, reading and understanding the codes simply, clearly and, without having to refer back to design specifications.

5- System documentation:
For the MoLG and LGUs, the vendor should provide full documentation of the system to enable the MoLG and LGU to continue to use the system application in the absence of the vendor. The vendor must provide documentation that identifies all software, hardware, application design, database, software installation, system operations and maintenance needed by the municipalities to install, operate, access, and maintain the system.

6- System change management:
Changes to the system always require independent testing to mitigate the risk of an inappropriate outcome from the changes. Systems lifetime and stability are significant factors for assessing whether changes are ready for a move to production. Modifications that are executed and tested in the production environment pose a greater risk of unauthorized modifications, therefore, vendors should implement a separate environment for the system testing purposes.

4.5 Other considerations

The introduction of a new FMIS should not be seen only as a technology fix, but rather, an FMIS implementation should also be seen as a public finance reform that affects how things are done across the LGUs. The implementation of the FMIS will automatically trigger the need to put in place certain changes in the procedures and related controls maintained by the LGUs. Therefore, business process re-engineering or redesign is, therefore, an important aspect of any FMIS reform.

One important aspect of the business process re-engineering is the ITGCs, which contribute indirectly to the achievement of many requirements for proper recording and archiving of data. ITGCs are also important when manual controls depend on application-generated information. Failures in these controls would affect the overall control environment for the employed computer applications and will have direct effect on the integrity of the data used for financial reporting.

The following are some major controls that should be maintained in any future system:

1- Audit Logging:
   - Maintain full detailed audit trail for all transactions made on the system, including but not limited to: user ID, date, time, module, activity type (i.e. read, modify, delete), change made,
   - Ability to allow management to review the system administrator's activities without any modifications (to preserve the log integrity),
   - Ability to log meaningful errors and retain them for current debugging or for future review,
   - Logs customization — the proposed system should have the ability to customize common error messages and logs.

2- System Security:
   - System access should be supported on both HTTP/HTTPS,
   - Ability to access the system anywhere through secure channels,
   - Ability to allow citizens to access certain modules in a secure manner. This feature will allow citizens to access a desired municipal service through a normal web site,
- Ability to allow the system administrator to configure the permissions in all modules at any time to any users,
- Ability to integrate with the Active Directory and also to allow Single-Sign-On (SSO) to the system with any third party software,
- Ability to restrict the system administrator user to only performing administrative transactions on the system (restrict the system administrator to perform financial transactions for example),
- Ability to allow the system administrator to assign permissions through roles (Role Based Access Control) or through assigning permissions to single users. This feature should be used to manage the permissions for any user/role on any module,
- Ability and flexibility to control user access to the following but not limited to:
  - Application module
  - Access to screens and reports
  - Access to fields
  - Read /Write/Execute operations
- The system should have the capability to use anti-virus applications and to check the attachments that are entered in the systems,
- The ability to use encryption for all or some information in the database,
- Ability to encrypt data transmission between client and server,
- Ability to restrict the number of unsuccessful logon attempts,
- The system should have the capability to view active users, and active sessions,
- Ability for the system administrator to disable users (change user status to inactive),
- Ability to configure all users’ settings such as password complexity, expiration, changing password, etc.
Annex 1: Interviewees

This is included in Component Two Report.
# Annex 2: Municipal modules

The following modules/sub-systems that are used or being used to help the LGUs to automate their business processes:

<table>
<thead>
<tr>
<th>Current Module</th>
<th>Module Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 General Ledger</td>
<td>General ledger keeps centralized charts of accounts and corporate financial balances. It supports all aspects of the business accounting process.</td>
</tr>
<tr>
<td>2 Court Management</td>
<td>This module document and manages court sessions</td>
</tr>
<tr>
<td>3 Fixed Assets</td>
<td>This module is used to handle LGUs assets from track perspectives by both Administration and Finance departments. This system manages depreciation and other costs associated with tangible assets such as buildings, property and equipment.</td>
</tr>
<tr>
<td>4 Fees &amp; Tax System</td>
<td>This module manages the process of calculating all Fees/Taxes/Penalties related to Citizens/business.</td>
</tr>
<tr>
<td>5 Building Permits</td>
<td>Used to manage building permits revenues</td>
</tr>
<tr>
<td>6 Point of Sale</td>
<td>Used to track retail sales</td>
</tr>
<tr>
<td>7 Library Management</td>
<td>Used to record and maintain books and renters in the library</td>
</tr>
<tr>
<td>8 Attendance Management</td>
<td>Used to record staff attendance</td>
</tr>
<tr>
<td>9 Parking Meter</td>
<td>Used to track parking meter usage and transactions</td>
</tr>
<tr>
<td>11 Receipts</td>
<td>Used to capture citizen/business payments</td>
</tr>
<tr>
<td>12 One Stop Shop (OSS)</td>
<td>This module should be responsible on managing, tracking, and administrating all &quot;Requests for Services&quot; that the Municipality provides to citizens.</td>
</tr>
<tr>
<td>13 Business Licenses</td>
<td>This module manages the process of issuing the business license by managing preparing license requests, auditing requests, and approving requests. In addition to managing the process of licensing commercial banners.</td>
</tr>
<tr>
<td>14 Planning &amp; Zoning (P&amp;Z)</td>
<td>To implement an efficient process to manage the P&amp;Z functions that aim to restructure geographical area that will involve opening new roads, lands reclassification, etc.</td>
</tr>
<tr>
<td>15 Strategy Plan</td>
<td>This module is responsible of creating, activating and monitoring LGUs overall operations work in a periodic strategy. In addition to, logging and archiving all strategies with their approvals and attached documents for each strategy.</td>
</tr>
<tr>
<td>16 Budget Management</td>
<td>This module should handle and monitor the budget through a simple and effective workflow. It is responsible of creating new budget and updating existing budget plan.</td>
</tr>
<tr>
<td>18 Annual Plan</td>
<td>This module covers yearly operational departmental plan and it is responsible of creating new &amp; updating existing plans. In addition to monitoring function on the annual plan.</td>
</tr>
<tr>
<td>19 Accounts Payable</td>
<td>To efficiently manage all cash disbursements, electronically track paid and outstanding invoices, print checks</td>
</tr>
<tr>
<td>20 Accounts Receivable</td>
<td>To track payments due to LGUs from its customers.</td>
</tr>
<tr>
<td>21 Bank Reconciliation</td>
<td>To provide automation with the bank reconciliation process including the outgoing payments, incoming deposits and providing for the inclusion of adjustments by full integration to other modules.</td>
</tr>
<tr>
<td>22 Cash Management</td>
<td>To improve the effective management of cash.</td>
</tr>
<tr>
<td>23 Inventory Management</td>
<td>This module document and manages inventory.</td>
</tr>
<tr>
<td>Current Module</td>
<td>Module Description</td>
</tr>
<tr>
<td>------------------------</td>
<td>--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>24 Procurement</td>
<td>This module should manage, handle, and track procurement transactions. Also should coordinate purchase orders, vendor evaluation throughout all departments, as well as better cash flow management and budgetary compliance.</td>
</tr>
<tr>
<td>25 Point Of Sale (POS)</td>
<td>This module manages and tracks all retail transactions for the Tourist Center in LGUs.</td>
</tr>
<tr>
<td>26 Fleet Management</td>
<td>This module is to manage and track all Municipality vehicles in regards to the records of vehicles &amp; equipment, reservation, maintenance requests and their history, costing of vehicles, and costing of maintenance with history.</td>
</tr>
<tr>
<td>27 Facilities Management</td>
<td>This module should be responsible for the management and tracking of all facilities owned by the municipality.</td>
</tr>
<tr>
<td>28 Maintenance Management</td>
<td>This module should be responsible on all types of maintenance provided to both Municipality departments and to public.</td>
</tr>
<tr>
<td>30 General Insurance Management</td>
<td>This module should manage, handle, and track all types of insurance (Vehicles, Employee health insurance, facilities, general, etc.).</td>
</tr>
<tr>
<td>31 Human Resource</td>
<td>To provide an automated system to improve management of employee records and facilitate the preparation of reports, to provide automated Human Resource and Benefit Administration services, and to improve internal control of department personnel costs through improved labour distribution reporting.</td>
</tr>
<tr>
<td>32 Project Management Module</td>
<td>This module should be responsible of managing, monitoring, and evaluating all types of projects that LGUs executes. In addition to, managing and tracking financial transaction related to projects.</td>
</tr>
<tr>
<td>33 Public Relations Module</td>
<td>This module should manage, handle, and track International and domestic relations, Media, Fundraising, and Publicity for LGUs.</td>
</tr>
<tr>
<td>34 Events Management Module</td>
<td>This module should be responsible of creating and monitoring LGUs Events in terms of planning, logistics, financial and operations.</td>
</tr>
<tr>
<td>35 Contracts Management</td>
<td>This module should manage, handle, and track all types of contracts that LGUs conduct with any external party.</td>
</tr>
<tr>
<td>37 Slaughterhouse</td>
<td>This module is used to manage the slaughterhouse activities.</td>
</tr>
<tr>
<td>38 Vegetable Market</td>
<td>This module is used to manage Vegetable Market activities.</td>
</tr>
<tr>
<td>39 Public Transportation Station</td>
<td>This module is used to manage taxis, buses, and other public transportation movement</td>
</tr>
</tbody>
</table>
## Annex 3: Information systems used and main challenges faced by Municipalities

The table below lists the information systems used by the 12 Municipalities, and also discusses the challenges faced by the municipalities while using the FMIS:

<table>
<thead>
<tr>
<th>No</th>
<th>Municipalities</th>
<th>Current FMIS</th>
<th>Other major systems used</th>
<th>Challenges faced with current FMIS</th>
</tr>
</thead>
</table>
| 1  | Hebron         | Al-Ghassan (local off-the-shelf) | The current FMIS I was customize to include various modules that relate to the municipality operations and processes in order to optimize data integration. The modules cover processes such as inventory management, workflow, procurement, and billing some types of fees. The municipality developed other programs in-house to perform the following functions:  
  - Payroll calculation,  
  - Staff time /attendance,  
  - Billing and collection management for the fees/revenues made under the following activities:  
    - Fruit and vegetable market  
    - Central station  
    - Dynamometer  
    - Water service  
    - Licensing,  
    - The football stadium |  
  - Lack of integration between FMIS and some systems,  
  - Lack of adequate reporting features and tools that satisfy management needs,  
  - Chart of accounts of current FMIS is not aligned to the unified chart of accounts and budget classifications requested by MoLG,  
  - Manual transfer of beginning balances from one year to another,  
  - Reports of outstanding checks do not provide enough details to track them on the bank statements. |
<table>
<thead>
<tr>
<th>No</th>
<th>Municipalities</th>
<th>Current FMIS</th>
<th>Other major systems used</th>
<th>Challenges faced with current FMIS</th>
</tr>
</thead>
</table>
| 2  | Nablus         | Internally developed (Oracle based) | The current FMIS includes modules for:  
- Management of inventory,  
- Billing and collection management for the fees/revenues made under the following activities:  
  - Water tanks,  
  - Sewage tanks,  
  - Water service,  
  - Fruit and vegetable market,  
  - Slaughterhouse,  
  - Fines and penalties,  
  - Cemeteries,  
  - Real estate renting,  
  - Cultural centers,  
  - Signboard and advertisement,  
  - Licenses and crafts industry fees,  
  - Education tax,  
  - Other fees.  
Other systems used, include:  
- Free Balance (solely for management of suppliers’ accounts payable since the current FMIS does not support issuing payment vouchers),  
- Human resources database,  
- Payroll calculation,  
- Procurement. | ▪ Lack of compatibility and integration between FMIS and other systems,  
▪ Lack of adequate reporting features and tools,  
▪ Duplication of work and effort,  
▪ Problems in closing the fiscal year and transferring the beginning balances.  
▪ System’s chart of accounts does not match with the MoLG chart of accounts, and it is not easy to modify to align both chart of accounts, |
<table>
<thead>
<tr>
<th>No</th>
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<th>Other major systems used</th>
<th>Challenges faced with current FMIS</th>
</tr>
</thead>
</table>
| 3  | Ramallah       | Al-Ghassan   | The current FMIS I was customize to include various modules that relate to the municipality operations and processes in order to optimize data integration. The modules cover processes such as inventory management, workflow, procurement, and billing/collection management for all fees/revenues. Other systems used, include:  
  - Work flow developed in-house  
  - Database for human resources data management and payroll calculation,  
  - Time attendance,  
  - GIS. | The municipality is facing minimal (inconsequential) issues especially that the FMIS is integrated with the other systems used. |
| 4  | Jenin          | Al-Shamel (local off-the-shelf) | Human resources database,  
  - Time attendance,  
  - GIS,  
  - Workflow. | Lack of compatibility and integration between FMIS and other systems, except with the human resources database,  
  - Lack of adequate reporting features and tools,  
  - System’s chart of accounts does not match with the MoLG chart of accounts, and it is not easy to modify to align both charts of accounts, |
<table>
<thead>
<tr>
<th>No</th>
<th>Municipalities</th>
<th>Current FMIS</th>
<th>Other major systems used</th>
<th>Challenges faced with current FMIS</th>
</tr>
</thead>
</table>
| 5  | Jericho        | Al-Ghassan  | The current FMIS includes modules for:  
  - Billing and collections of revenues,  
  - Management of inventory,  
  - Payroll calculation,  
  - Tool for management of construction contracts.  
  Other systems used include:  
  - Workflow system used for:  
    - Customer service, and  
    - Document management,  
  - Human resources and time attendance system,  
  - Separate billing system for billing of irrigation water distribution,  
  - GIS. |  
  - Lack of compatibility and integration between FMIS and other systems,  
  - Lack of adequate reporting features and tools,  
  - Software maintenance costs are high considering the number of systems maintained,  
  - Manual movement of beginning balances from one year to another,  
  - System's chart of accounts (developed from several years) does not match with the MoLG chart of accounts, and it is not easy to modify to align both chart of accounts,  
  - The bank reconciliation are done manually and cannot be done on the system. |
| 6  | Bethlehem      | Hashavshevet (local off-the-shelf “DOS based version” system) | Other systems used include:  
  - Payroll calculation system,  
  - Time attendance system,  
  - Customer services center system,  
  - GIS. |  
  - Lack of technical support for the system,  
  - System is quite old (DOS based) and cannot be developed to support new modules and new features,  
  - Lack of integration with other systems,  
  - Lack of adequate reporting features and tools,  
  - System’s processing of data takes time. |
| 7  | Birzeit        | Al-Ghassan  | The Municipality has a system for human resources and time attendance management. |  
  - There are no integration between the two systems,  
  - System’s chart of accounts does not match with the MoLG chart of accounts, and it is not easy to modify to align both chart of accounts, |
<table>
<thead>
<tr>
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<th>Current FMIS</th>
<th>Other major systems used</th>
<th>Challenges faced with current FMIS</th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>Yatta</td>
<td>N/A (manual)</td>
<td>The following information systems are used: • RMIS system for billing of revenues from: - Services, - Education tax, - Building permits, - Licenses and crafts industry fees, • Workflow, • GIS.</td>
<td>Manual processing of information requires time and effort, with some duplication of effort for certain type of transactions, Lack of adequate and timely reports.</td>
</tr>
<tr>
<td>9</td>
<td>Turmosaya</td>
<td>N/A (manual)</td>
<td>No other systems.</td>
<td>Manual processing of information requires time and effort, with some duplication of effort for certain transactions, Lack of adequate and timely reports, Limited staff capacity to use the previous computerized system.</td>
</tr>
<tr>
<td>10</td>
<td>Aqaba</td>
<td>Al-Diwan (local off-the-shelf)</td>
<td>No information systems used.</td>
<td>No major issues are being faced by the municipality.</td>
</tr>
<tr>
<td>11</td>
<td>Bido</td>
<td>Free Balance</td>
<td>No information systems used.</td>
<td>Lack of adequate reporting features and tools, Various issues faced in regards to year-end closing and transfer of the beginning balances, The system does not support multi-currency recording and/or reporting, The training provided by the vendor on the system was not sufficient to provide a comprehensive overview of the functionalities of the system, Long time needed by the system to process the recording and posting of accounting transactions, High maintenance costs.</td>
</tr>
<tr>
<td>No</td>
<td>Municipalities</td>
<td>Current FMIS</td>
<td>Other major systems used</td>
<td>Challenges faced with current FMIS</td>
</tr>
<tr>
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<td>--------------</td>
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<td>-----------------------------------</td>
</tr>
<tr>
<td>12</td>
<td>Alkhader</td>
<td>Al-Diwan</td>
<td></td>
<td>No major issues are being faced by the municipality with the system. Moreover, in few cases, the vendor takes long time to solve a technical issue/problem.</td>
</tr>
</tbody>
</table>

Other systems used:
- GIS,
- Human resources and time attendance management system.
Annex 4: Chart of accounts
(As obtained from MoLG)
ايرادات - موازنات غير ربحية - 51.

ايرادات ضريبية - 61

- ضرائب على الممتلكات - 610
  - ض. جارية على اراضي زراعية - 6100001
  - ضر. منزل (املاك ومسقات) - 6100004
  - ضر. تجاري - 6100008
  - ضر. صناعي - 6100009

- ضرائب ورسوم محلية أخرى - 611
  - مبيعات محلية - 6110001
  - خدمات محلية - 6110002
  - رسوم النقل على الطريق - 6110006
  - رسوم ضريبية شخصية - 6110007
  - رسوم تصميم وتطوير - 6110008
  - (رسوم ذبحة (الهيئات التي ليس لها يوجد فيها مسلح - 6110009

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  - 610001 – Tax on agricultural lands
  - 610004 – Tax on houses (building and property tax)
  - 610008 – Commercial tax
  - 610009 – Industrial tax

- 611 – Other local taxes and fees
  - 611001 – Local sales
  - 611002 – Local services
  - 611006 – Land transportation fees
  - 611007 – Personal tax fees
  - 611008 – Improvement and development fees
  - 611009 – Carcass fees (for LGUs in which there is no slaughterhouse)

62 – Revenues (other than taxes)

- 620 – Licensing and permits fees
  - 620001 – Ordinary building licensing fees
  - 620002 – Non-ordinary building licensing fees
  - 620003 – Building inspection fees
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- 620028 – Certification services fees
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This document is an English translation version of the MoLG’s unified chart of accounts, which was prepared for the purposes of this report only, and does not constitute an official translation of the chart of accounts, and should not be used by any party other than for the purposes of this report. Translation was done according to the Arabic terms and to the extent of the clarity of those terms.
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621020 - Carrier fees
621021 - Retaining wall fees
621022 - Parking rental fees
621024 - Photocopying fees
621025 - Other non-profit subscription fees
621026 - Rental of theatre and hall (non-profit)
621027 - Training courses fees (non-profit)
621028 - Revenues from tickets (non-profit)
621029 - Information collection fees
621030 - Ambulance charges
621023 - Fees for allowances of tax collection to entities other than the LGU

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632002 - Gain from sale of fixed assets
632003 - Revenues from engineering services
632004 - Revenues from foreign currency differences
632006 - Compensation for traffic and machine accidents
632007 - Sales of road wastes
660003 - Local grants and donations
660001 - Governmental grants and donations
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632011 - Tendering fees
632012 - Transaction and documents issuance and certification fees

64 - Revenues from investments and leases

640 - Revenues from use of property and funds

640001 - Interest on municipality funds
640002 - Revenues from investments – stocks and bonds
- 640004 – Revenues from rental of municipality machinery
- 640005 – Revenues from rental of LGU property
- 640007 – Revenues from key money
- 640008 – Revenues from rental of stalls
- 640009 – Revenues from concession of projects and property

- 66 – Revenues from waste services
  - 715 – Operating revenues – refuse and garbage charges
    - 670002 – Garbage charges – residential buildings
    - 670003 – Garbage charges – commercial buildings
    - 670004 – Garbage charges – industrial buildings
    - 670005 – Garbage charges – academic institutions
    - 670006 – Sanitary waste charges
    - 670007 – Garbage charges – non-profit organisations
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    - 670012 – Penalty and fine – solid waste
    - 670015 – Other solid waste charges
    - 670014 – Fees for disposal of construction waste
    - 670001 – Waste fees
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    - 670013 – Garbage charges – local authorities
    - 670011 – Waste movement fees

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• 670016 – Waste containers maintenance fees from other local authorities

○ 65 – Restricted revenues
  • 631 – Revenues from restricted grants and donations
    • 631001 – Court fines
    • 631002 – Fines for illegal construction
    • 631003 – Other court revenues other than fines
    • 631004 – Delay penalties
    • 631005 – Violation on car parking building instructions
    • 631006 – Fines for abuse of public property
    • 631006 – Miscellaneous fines
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    • 660005 – Revenues from sport committee’s activities
    • 660006 – Revenues of social type

○ 52 – Revenues from profit budgets

○ 72 – Revenues from electricity budget
  • 720 – Operating revenue – electricity
    • 720001 – Electricity meter reading fees
    • 720003 – Fees for lighting of municipal streets
    • 720004 – Sales of electricity meters
    • 720006 – Sales of electricity network connection materials
    • 720007 – Miscellaneous revenues – electricity
    • 720008 – Charges for electricity network connection – residential
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    • 720011 – Electricity network maintenance fees
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• 700017 – Fines for water theft
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• 700019 – Fees for drainage network connection
• 700021 – Fees for drainage cleaning
• 700023 – Periodical subscription fees to drainage network
• 700014 – Revenues from water service subscription fees

• 790 – Revenues from water processing and refining plant
  • 790001 – Purification revenues and fees
  • 790002 – Compensations for purification plant accidents
  • 790003 – Revenues from sale of refined water

• 73 – Revenues from garage budget
  • 725 – Operating revenues – garages
    • 725001 – Subscriptions of car parking – profit
    • 725002 – Tickets of car parking – profit

• 74 – Revenues from parks budget
  • 740 – Operating revenues – parks
    • 740001 – Operating revenues – parks
    • 740002 – Revenues from playgrounds
    • 740003 – Revenues from museum
    • 740004 – Revenues from swimming pool
    • 740005 – Revenues from supermarket
    • 740006 – Revenues from park’s restaurant
    • 740007 – Revenues from park’s rest area
    • 740008 – Revenues from concession of park facilities
    • 740009 – Revenues from zoo
- 740010 – Revenues from tickets of garden’s cabriolet
- 740011 – Revenues from park’s cinema

- 75 – Slaughterhouse budget revenue
  - 750 – Operating revenues – slaughterhouse
    - 750001 – Operating revenues – slaughterhouse
    - 750002 – Carcass fees
    - 750003 – Tanning and skinning fees
    - 750004 – Fines and penalties
    - 750005 – Housing and farmyard fees

- 76 – Other profit revenues
  - 760 – Other profit budget revenues
    - 760001 – Other revenues from trade budgets
    - 760006 – Revenues from marine club
    - 760002 – Arts and Professions Village revenue
    - 760003 – Holst Center revenues
    - 760004 – Child Happiness Center revenues
    - 760005 – Prosthesis Manufacturing Center revenues
    - 760007 – Health Center revenues

- 77 – Vegetable market budget revenues
  - 770 – Operating revenues – vegetable market
    - 770001 – Vegetable market service revenues
    - 770002 – Refrigerators fees
    - 770003 – Carriages licensing fees
    - 770004 – Truck entry fees
    - 770005 – Weigher fees
    - 770006 – Vegetable and fruit fees
  - 775 – Non-operating revenues – vegetable market
    - 775001 – Non-operating revenues – vegetable market

- 78 – Fish, bird and animal market budget revenue
  - 780 – Operating revenue – fish, bird and animal
    - 780001 – Fish, bird and animal market revenue
• 71 – Dynamometer budget revenue
  • 710 – Dynamometer operating revenue
    • 71001 – Vehicle licensing fees
    • 71002 – Sales of vehicle plates
    • 71003 – Sales of licensing stickers
    • 71004 – Revenues from vehicle inspection
    • 71005 – Miscellaneous revenues – dynamometer

• 53 – Revenues – credit budget
  • 51 – Credit budget revenues
    • 510 – Pension fund revenue
      • 51001 – Municipality contribution
      • 51002 – Employee contribution
      • 51003 – Bank interest revenue
      • 51004 – Revenues from short-term investments
      • 51005 – Revenues from long-term investments
      • 51006 – Other revenues to pension fund
      • 511007 – Revenues from end of services benefits
        (paid by the Municipality)
    • 520 – Education Tax revenue
      • 520001 – Education Tax revenue
      • 520002 – Interest on Education Tax
      • 520003 – Other Education Tax revenues
    • 530 – Other credit budget revenues
      • 530001 – Other credit budget revenues

• 62 – Expenses
  • 80 – General – all budgets
    • 800 – Salary expenses and related benefits
      • 800001 – Salaries and wages – permanent and non-resident
      • 800002 – Salaries and wages – temporary and non-resident
- 800003 - Employees benefits
- 800004 - Overtime wages
- 800007 - Pension expenses (without employee contributions)
- 800009 - Salary of the local government unit head
- 800010 - Salary of the deputy local government unit head
- 800005 - Employees end of service expenses

- **808** - Employees training and development
  - 808001 - Employees training and development

- **810** - Honorary expenses
  - 810001 - Honorary and hospitality expenses

- **820** - Service charges
  - 820001 - Professional services charges
  - 820002 - Treatment costs of work related accidents (not covered by the insurance company)
  - 820003 - Consultancy services charges
  - 820004 - Judicial charges (not including attorney or legal councillor fees)
  - 820005 - Public relations charges (not including salaries or wages)

- **822** - Communications charges
  - 822001 - Postage and telephone charges
  - 822002 - Landline telephone charges
  - 822003 - Internet and wireless communications charges
  - 822004 - LGU vehicles and equipment tracking charges

- **824** - Utilities charges - electricity and water
  - 824001 - Water expenses (administrative headquarters)
  - 824002 - Heating fuel charges (administrative headquarters)
- 824003 – Electricity charges (administrative headquarters)
- 824004 – Other utility charges (e.g. building subscriptions, fire supplies, etc)

- **829 – Maintenance expenses**
  - 829001 – Office equipment and administrative devices maintenance expenses
  - 829002 – Vehicles and spare parts maintenance expenses (not including heavy machinery)
  - 829003 – Building and administrative utilities maintenance expenses
  - 829004 – Wireless devices maintenance
  - 829005 – General operation maintenance

- **828 – General expenses**
  - 828001 – Doubtful debts
  - 828002 – Bank commissions and expenses
  - 828003 – Newspaper and website subscriptions
  - 204001 – Furniture and improvements
  - 204002 – Office equipment and tools
  - 205001 – Computer software
  - 807002 – Sports team expenses (LGU)
  - 828004 – Gifts for visiting and host delegations
  - 828005 – Currency exchange charges

- **830 – Administrative expenses**
  - 830001 – Miscellaneous administrative expenses
  - 830002 – Uniform and costume expenses
  - 830003 – Board member remunerations
  - 830004– Rental expenses for administrative headquarters and utilities
  - 830005 – Data processing charges
  - 830006 – Hospitality expenses
  - 830007 – Travel and transportation expenses
  - 830008 – Internal travel and transportation expenses
- 830009 – Advertisement expenses (newspapers and internet)
- 830010 – Cleaning expenses and supplies (administrative headquarters)
- 830011 – Photocopying
- 830012 – Printing and stationary expenses
- 830013 – Office equipment and tools (charged upon expenditure)
- 830014 – Administrative devices and equipment maintenance expenses
- 830015 – Fuel
- 830016 – Inventory adjustment expenses
- 830017 – Depreciation expenses
- 830018 – Insurance expenses (fire, vehicle, general, occupational accidents)
- 830019 – Administrative for the general budget
- 830020 – Licensing and general subscriptions
- 830021 – Purchase of materials
- 830022 – Cash discount
- 830023 – Maintenance
- 830024 – Subscriptions and events
- 830025 – Grants and donations
- 830026 – Computers and accessories maintenance expenses
- 830027 – Oils

- 831 – Operational expenses – as needed
  - 831002 – Oil and fuel for administrative vehicles
  - 832002 – Expenses for property tax – LGU

- 837 – Losses on sale of fixed assets
  - 837001 – Losses on sale of fixed assets

- 832 – Non-operating expenses – as needed
  - 832001 – Non-operating expenses – as needed

- 836 – Currency exchange losses
  - 836001 – Currency exchange losses

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- **915 – General services expenses**
  - 915001 – Tourism services
  - 915002 – Medical centres operating expenses

- **835 – Other expenses**
  - 835001 – Contingency reserve
  - 835002 – Capital budget
  - 835004 – Transport budget
  - 835005 – Local government unites

- **802 – Wages and salaries related expenses**
  - 802001 – Cost of living allowance for municipal staff
  - 802002 – Travel allowance

- **804 – Wages and salaries related expenses**
  - 804001 – Leave allowance

- **805 – Wages and salaries related expenses**
  - 805001 – Staff health insurance

- **806 – Wages and salaries related expenses**
  - 806001 – Municipality’s contribution to staff pension fund

- **807 – Wages and salaries related expenses**
  - 807001 – End of service expenses

- **809 – Professional and consultancy fees**
  - 809003 – Professional and consultancy fees

- **85 – Non-profit budgets**

- **840 – Solid waste management costs**
  - 917001 – Waste burial expenses
  - 917002 – Waste dump equipment maintenance
  - 917003 – Waste collection and removal expenses
  - 917004 – Waste dump expenses
  - 917005 – Containers purchases and maintenance costs
  - 917006 – Maintenance of waste collection machinery and equipment
  - 917011 – Expenses and commissions for collection of solid waste debts

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- 917007 – Tracking of waste machinery and equipment
- 917008 – Oils, lubricants and fuels for solid waste collection and management
- 917009 – Waste movement and transfer expenses
- 917010 – Cleaning and sterilization of waste collection equipment

- 850 – Public health and safety
  - 850001 – Veterinarian services
  - 850002 – Communicable disease control
  - 850003 – Rat control expenses
  - 850004 – Elimination of stray dogs
  - 850005 – Road safety (barriers, pavement paints, etc.)
  - 850009 – Traffic light installation expenses
  - 850011 – Burial expenses
  - 850012 – Demolition of dangerous buildings
  - 850013 – Pesticides
  - 850014 – Removal of hazardous materials
  - 850015 – Removal of recyclable materials
  - 850017 – Lab supplies
  - 850006 – Sanitizers and medical materials for public health and safety purposes
  - 850007 – Maintenance of public toilets and sewage
  - 850017 – Street lighting expenses

- 855 – Public works expenses
  - 855006 – Street lighting
  - 855007 – Lighting supplies
  - 855008 – Car examination station supplies
  - 855009 – Compensation for public projects
  - 855011 – Removal of rainwater
  - 855012 – Signage
  - 855013 – Machinery rental expenses
  - 855022 – Car parking meter maintenance
  - 855023 – Buildings maintenance
  - 855024 – Graveyard maintenance

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855025 – Retaining walls maintenance
855026 – Schools maintenance
855028 – Maintenance of roads and streets
855030 – Naming and numbering
855031 – Stairs maintenance
855032 – Municipality property maintenance
855033 – Old City maintenance and development
855034 – Surveys costs and consultancy
855036 – Valley excavations
860006 – Maintenance of public work machinery and equipment expenses

860 – Security and fire protection expenses
860001 – Security and guarding expenses
860002 – Fire protection supplies
860003 – Fire vehicles maintenance
860004 – Fire and rescue
860005 – Fire protection charges

865 – Urban and cultural services
865001 – Public library services
865002 – Museum supplies
865003 – Special events services
865004 – Parks services and maintenance
865005 – Summer camps
865006 – Old City services
865007 – Internet charges
865008 – Periodicals, books and references expenses
865009 – National and religious holiday expenses
865010 – Aid for the poor
865011 – Children’s council expenses for the LGU
865012 – Sports activities
865013 – Agricultural supplies
865014 – Cultural, educational and raising-awareness activities
865015 – Restoration of book and periodical covers

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- 865016 – Gender activity expenses (youth, children, women, etc)

- **875 – Planning and community development**
  - 875001 – Planning
  - 875002 – Community development
  - 875003 – Subscription fees for joint services councils (not including service prices)

- **880 – Engineering charges**
  - 880001 – Engineering equipment and supplies
  - 880002 – Car parking meter costs
  - 880003 – Engineering supplies and tools – small
  - 880004 – Miscellaneous engineering expenses
  - 880005 – Engineering consultancy
  - 880006 – Organisational structure project
  - 880007 – Traffic light installation costs

- **90 – Profit budgets**

  - **920 – Operational expenses**
    - 920003 – Maintenance of motors and refrigerators
    - 920005 – Vehicles plates printing costs
    - 920007 – Oils and fuels
    - 920008 – Electricity charges for refrigerators
    - 920009 – Cleaning expenses – operational
    - 920010 – Slaughterhouse supplies
    - 920011 – Installation of clippers
    - 920012 – Maintenance of clippers

  - **900 – Water service cost**
    - 900001 – Operational expenses– water
    - 900002 – Water construction and development costs
    - 902001 – Water purchases
    - 904001 – Maintenance of motors and pumps
    - 904002 – Maintenance of water network
    - 904003 – Maintenance of water project
    - 904004 – Water and springs
    - 904005 – Development of water network
- 904006 – Insurance of water project
- 904007 – Miscellaneous – water
- 904008 – Lab equipment
- 904009 – Drinking water sanitation charges
- 904010 – Electricity charges for water pumping stations
- 904011 – Maintenance of water meters
- 904013 – Water meter cost
- 904014 – Maintenance of reservoirs
- 904015 – Maintenance of pumping stations
- 904016 – Oils and fuels– water
- 904020 – Expenses and commissions for prepaid card agents

- 906 – Sanitation “construction and maintenance of sewage networks”
  - 906001 – Building materials
  - 906002 – Sewage pipe purchases
  - 906003 – Sinkhole covers
  - 906004 – Maintenance of sewage networks

- 910 – Electricity service cost
  - 910001 – Cost of electricity service
  - 910002 – Delay fines
  - 910003 – Expense for upgrading electric power
  - 910004 – Expense for power quotient treatment
  - 910005 – Insurance of electricity project
  - 910006 – Street lighting supplies
  - 910007 – Operational maintenance for electricity
  - 910008 – Electricity meter cost
  - 912001 – Maintenance of electricity project
  - 912002 – Maintenance of electricity network
  - 912005 – Repair of electricity generators
  - 912006 – Device damage losses
  - 912007 – Maintenance of electricity stations
  - 912009 – New subscriptions expenses
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- 912010 – Oils and fuels – electric station

- **911 – Dynamometer budget expenses**
  - 911005 – Other dynamometer supplies and consumables
  - 911001 – License plate charges
  - 911002 – License sticker charges
  - 911003 – Dynamometer maintenance expenses
  - 911004 – Dynamometer examination and licensing expenses

- **920 – Parks budget cost (profit)**
  - 926001 – Operational expenses – park
  - 926002 – Park games expenses
  - 926003 – Museum expenses
  - 926004 – Swimming pool expenses
  - 926005 – Supermarket expenses
  - 926006 – Park restaurant expenses
  - 926007 – Park recreational expenses
  - 926008 – Park utilities concession expenses
  - 926009 – Animal and bird feed
  - 926010 – Disposal and removal of dead animals expenses
  - 926011 – Bird and animal charges
  - 202011 – Park’s birds and animals
  - 926012 – Veterinarian treatments for the park’s animals

- **99 – Projects**
  - **101 – Estimated cost**
    - 100000 – Acquisition of machinery and equipment
    - 100000 – Rental of machinery and equipment
    - 100000 – Labour wages
    - 100000 – Architectural design fees
    - 100000 – Architectural supervision fees
    - 100000 – Contracting (works) contracts
    - 100000 – Procurement of goods and supplies
    - 100000 – Services fees other than consultancy
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- 100000 – Others

- **99 – Credit budgets**
  - **990 – Pension fund and end of service charges**
    - 990001 – Pensioners salaries
    - 990002 – Professional fees charges (valuation, survey and litigation)
    - 990003 – Investment expenses
    - 990004 – Pension fund management expenses
    - 990005 – Bank charges
    - 990006 – Other pension fund expenses
    - 990007 – Employees end of service charges
  - **980 – Education tax expenses**
    - 980001 – School improvement expenses
    - 980002 – School maintenance expenses
    - 980003 – Schools and other education expenses
    - 980004 – Labour wages under the education budget
    - 980005 – Expenses, incentives and benefits under the education budget
    - 980006 – Work related accidents expenses under the education budget
  - **970 – Other credit budget expenses**
    - 980100 – Other credit budget expenses

- **93 – Garage compound budget expenses**
  - **930 – Car garage service cost**
    - 930001 – Garage compound budget expenses

- **94 – Slaughterhouse service cost**
  - **940 – Slaughterhouse service cost**
    - 940001 – Meat transport expenses
    - 940002 – Slaughterhouse utilities maintenance expenses
    - 940003 – Maintenance of refrigerators and slaughterhouse equipment
    - 940004 – Oils and fuels – slaughterhouse
- 940005 – Slaughterhouse electricity expenses
- 940006 – Slaughterhouse cleaning and sanitation expenses
- 940007 – Slaughterhouse supplies and consumables

- 89 – Vegetable and fruit market services cost
  - 890 – Vegetable and fruit market services cost
    - 890001 – Market utilities maintenance expenses

- 95 – Cultural centre cost
  - 950 – Cultural centre services cost
    - 950001 – Cultural centre expenses

- 96 – Water treatment and sanitation cost
  - 960 – Water treatment and sanitation cost
    - 960001 – Operational maintenance of the water treatment and sanitation station
    - 960002 – Electricity charges of water treatment and sanitation stations
    - 960003 – Cost of chemicals for the water treatment and sanitation station
    - 960004 – Cost of moving and burial of waste from the water treatment and sanitation station
    - 960005 – Oils and fuels for the water treatment and sanitation station

- 88 – Other profit budget expenses
  - 880 – Other commercial budgets services cost
    - 880004 – Child Happiness Centre expenses
    - 880001 – Other commercial budget expenses
    - 880002 – Arts and Handicrafts Village expenses
    - 880003 – Holst Centre expenses
    - 880005 – Prosthesis Manufacturing Centre expenses
    - 880006 – Marine club expenses
    - 880007 – Health centre expenses
70 – Revenues – projects

99 – Revenues from funding sources

999 – Funding sources

- 100001 – Local donations
- 100002 – National donations
- 100003 – Ministry of Finance
- 100004 – Food and Agriculture Organization (FAO)
- 100005 – World Bank
- 100006 – Japan
- 100007 – Danish Government
- 100008 – French Government
- 100009 – German Government
- 100010 – Italian Government
- 100011 – Swedish Government
- 100012 – Dutch Government
- 100013 – British Government
- 100014 – European Union (EU)
- 100015 – US government
- 100016 – UNHABITAT
- 100017 – Municipality Development and Lending Fund
- 100021 – Arab countries
- 100022 – Arab funds
- 100031 – Russian Government
- 100031 – Other funding sources
Assessment of the Public Financial Management Processes of the Local Government Units

Component Two

Assessment Results & Recommendations Report
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## Abbreviations

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<tr>
<td>FMIS</td>
<td>Financial Management Information System</td>
</tr>
<tr>
<td>LGU</td>
<td>Local Government Unit</td>
</tr>
<tr>
<td>MDLF</td>
<td>The Municipal Development and Lending Fund</td>
</tr>
<tr>
<td>MoLG</td>
<td>Ministry of Local Government</td>
</tr>
<tr>
<td>PA</td>
<td>Palestinian Authority</td>
</tr>
<tr>
<td>PFM</td>
<td>Public Financial Management</td>
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<tr>
<td>SAACB</td>
<td>State Audit and Administrative Control Bureau</td>
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<td>STA</td>
<td>Single Treasury Account</td>
</tr>
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<td>MoF</td>
<td>Ministry of Finance</td>
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<td>IA</td>
<td>Internal Audit</td>
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The Manual

This refers to the manual of policies and procedures that was developed by MDLF and approved by MoLG.

The Law

This refers to the Local Authorities Law no. (1) of 1997 that governs the structure, establishment and work of an LGU.
1. Executive Summary

In the territories administrated by the Palestinian Authority (PA), a municipality is an independent administrative unit of local government. The municipalities are considered as local governments with autonomy over decision-making, budgets, personnel management, and with council members elected by the governorate population.

Strengthening the public financial management (PFM) systems and procedures of the Local Government Units (LGUs) in West Bank and Gaza is of critical importance to the PA as well as other stakeholders (such as donors).

PFM directly affects the delivery of public services to the LGU’s citizens that will achieve the following objectives: (1) fiscal discipline; (2) strategic allocation of resources; and (3) efficient service delivery. Thus, it is imperative to ensure that PFM policies and procedures are being followed.

In this context, the World Bank contracted PricewaterhouseCoopers Palestine (PwC) to do an assessment of the current PFM processes in a sample of 12 municipalities and to assess whether or not they are following the LGUs’ PFM policies and procedures.

The assessment was carried out by a PwC team, and was carried out based on inquiries and meetings with staff from the sample LGUs, Ministry of Local Government (MoLG), and Municipal Development and Lending Fund (MDLF). The assessment covered the following processes: Budget, Procurement, Revenue, Expenditure, Cash Management, Accounting and Financial Reporting, Asset Management, Human Resources and Payroll, Legislative Scrutiny and Audit, and Public Access to Key Fiscal Information.

Summary of Work Results

An overview of each process is provided in the body of this report, and below is a summary of the observations resulting from this assessment:

### BUDGET

**Summary of observations:**

- Non-compliance with budget submission deadlines
- 2015 budget was not yet approved for some municipalities
- Most municipalities’ Financial Management Information System (FMIS) do not facilitate budget versus actual variance analysis and reporting
- Not all municipalities are submitting quarterly financial reports to MoLG
- Most municipalities’ FMIS do not have automatic controls to prevent over spending on specific line items
- MoLG prior approval is not obtained for transfers between the source of funds of the expenditures

### PROCUREMENT

**Summary of observations:**

- No clear policy on how exceptions to procurement procedures should be processed, and who is authorised to approve such exceptions
- Most municipalities procurement process and records are maintained on papers files
- Budget availability is not automatically checked
- Lack of segregation of duties as warehouse officer can record purchase invoices on the system (Jericho Municipality)

### REVENUE CYCLE

**Summary of observations:**

- No daily reconciliation of cash collected (Jenin Municipality)
- No clear policy for levying, collecting, and recording property and education taxes
- Poor follow-up on outstanding bills (debtor)
• Manual vouchers are being used for cash collected by collectors
• No clear framework or policy for municipalities to prepare reports on revenue collections for review and analysis by management
• Inadequate segregation of duties (the treasurer have recording access on accounting system)

**EXPENDITURE CYCLE**

**No observations noted.**

**CASH MANAGEMENT AND TREASURY**

**Summary of observations:**
• Lack of segregation of duties (treasurer at Jenin Municipality prepares the reconciliations)
• No clear policies on types and thresholds of expenses paid from petty cash and the ceiling of petty cash
• At Jericho Municipality, post-dated checks received from debtors are recorded on separate records until payment is cleared
• Bank reconciliations are not done on a monthly basis or are not reviewed
• No cash forecasting or planning is done

**ACCOUNTING AND FINANCIAL REPORTING**

**Summary of observations:**
• Jenin and Turmosaya municipalities do not have audited financial statements
• Turmosaya and Yatta are not using any accounting system (follow basic manual based approach)
• Minimal integration between FMIS and other information systems
• FMIS chart of accounts is not aligned with the budget classifications

**ASSET MANAGEMENT**

**Summary of observations:**
• Asset counts not performed on a regular basis
• No coding/tagging of assets
• Lack of procedures to ensure proper use, valuation, disposal, reporting and auditing of assets
• Lack of segregation of duties as finance department is in charge of the fixed assets register update and management

**HUMAN RESOURCES AND PAYROLL**

**Summary of observations:**
• No Code of Conduct
• Leave request forms are often unapproved
• No job descriptions
• No formal training program for employees
• Employee evaluations are not done on a routine basis
• No clear distinction what basis the municipalities should follow to select the appropriate type of employment contract

**LEGISLATIVE SCRUTINY AND AUDIT**

**Summary of observations:**
• MoLG does not audit all municipalities
• Jenin and Turmosaya municipalities do not have audited financial statements
• Inadequate follow-up of audit findings
• Internal auditors of some municipalities are being involved in reviewing transactions (and thus involved in management duties) which impair the auditor’s independence
DONORS’ PRACTICES

- For development projects whose funding was channelled either through the government or by direct implementation with the contractors, the municipalities do not account for such projects in their records.

PUBLIC ACCESS TO KEY FISCAL INFORMATION

Summary of observations:

- No clear policy for sharing fiscal information such as budget and financial statements
- Municipalities do not share information on key contracts
2. **Scope and Objective**

2.1 **Background of assignment**

The PA through the MoLG has a strategy for reforming the current institutional, fiscal and financial systems of LGUs to enable them to achieve their mandate for providing local services in an efficient, transparent and accountable manner. To assist in achieving these objectives, the World Bank has been supporting a number of reforms and initiatives designed to improve the PFM processes and systems used in LGUs and enhance the fiscal sustainability of LGU’s.

The World Bank has contracted PwC to perform a PFM assessment on LGUs in West Bank. The primary focus of this assessment is on the following areas:

- Mapping the current systems and business processes for all components of financial management of LGUs including their institutional arrangements; funds flow; budgeting; accounting; internal controls; financial reporting; asset management; and audit and oversight of public finances;

- Assess the level of computerization of municipal financial management processes and, an assessment of the variations between the prescribed systems and the actual practices; and

- Provide recommendations for the reform and capacity building of financial management systems of LGUs that can be delivered through the ongoing and planned interventions by the World Bank; other development partners; and, the PA.

2.2 **Scope of work**

The PFM assessment covered the following two key components:

**Component One - Assessment of Municipal FMIS:**

The objective of this component was to assess whether there is compatibility between the systems used by LGU’s and provide recommendations for the design of a revised system that will ensure that there is coherence and compatibility between the new FMIS and the current FMIS applications. This assessment:

- Reviewed the different municipal FMIS systems currently used in the municipalities;
- Assessed the financial management and information requirements of LGUs to establish if the current and proposed FMIS effectively addresses these needs; and
- Assessed the extent to which core municipal processes including local revenue collection and asset management are computerized.

**Component Two - Assessment of PFM Systems and Processes of LGUs:**

The assessment of the PFM processes was done through:

- Reviewing the current institutional arrangements of the LGU PFM systems and how effectively these are functioning; and
- Assessing the design and functioning of the core PFM processes: Budget preparation; Revenue Collection and Expenditure Management; Billing/Invoicing; Fund Flows; Accounting; Financial Reporting; Internal and other Management Controls; Asset Management; Audit; Legislative Scrutiny and Oversight; Human Resources and Training; and, Citizen Engagement in PFM.

This report covers only component two (Assessment of PFM system and processes of the LGUs) mentioned above.
2.3 Approach and methodology

A qualified and experienced team was assigned to carry-out this assessment. To complete this assessment, we used the following four-stage strategy:

1- Planning:
   We developed specific questionnaires and work programs to guide the conduct of the assessment and to ensure that we collected all valid and relevant information.

2- Interviewing officials and gathering data:
   We obtained our information through interviewing key stakeholders of the LGUs. The interviews were done in person and were designed to allow us to understand and evaluate the information provided for this assessment.
   
   Our interviews focused on understanding the current procedures being followed by the LGUs under the business processes/cycles specified in the scope of work above.

3- Reviewing documents:
   We reviewed information obtained through inquiries, and relevant documents, to help in assessing the current processes, and to identify current areas of weakness that require remedial action or need improvement. Where possible, we validated stakeholders’ responses by reference to documentary evidence.
   
   All the above activities were designed to ensure the delivery of relevant and practical conclusions and recommendations that are designed to benefit users of this report.

4- Writing the report:
   The conclusion of this assignment was drafting the final assessment report. The first-stage was an initial draft being prepared by the core assessment team. This draft was then subjected to quality assurance reviews to ensure that the content of the assessment report was accurate and consistent.

2.4 Sample municipalities for assessment

A sample of 12 municipalities was selected by the World Bank for the assessment purposes, and included municipalities of different sizes in terms of population and nature of operations. The sample comprised the following municipalities: Hebron, Nablus, Ramallah, Jenin, Jericho, Bethlehem, Birzeit, Yatta, Turmosaya, Aqaba, Alkhdare, and Bido.

2.5 Key assumptions

Because of the inherent limitations in any internal control framework, misstatements due to error or fraud may occur and not be detected. Also, predictions of any evaluation of the effectiveness of internal control to future periods are subject to the risk that the internal control framework may become inadequate because of changes in the control environment; or, that the degree of compliance with the policies or procedures regulating internal control may deteriorate.

Our services provided under this assignment do not constitute an audit or review performed in accordance with International Standards on Auditing or International Standards on Review Engagements, and thus, we do not express any assurance on the subject matter of this assessment.

Our work under this engagement was limited to obtaining an understanding of the current business processes and the related policies and procedures followed by the sample municipalities, and identifying control deficiencies based on our understanding of the actual processes, policies and procedures. Our scope of work, though, did not aim to identify all weaknesses of internal controls in the LGUs due to the diversity of their operations and procedures, as well as the differences in their available resources and human resource capacity. Finally, our work did not constitute an assessment of staff qualifications or capabilities to perform their duties.
3. Municipalities in Palestine

3.1 Legal framework

The structure, establishment and work of an LGU is governed by the Local Authorities Law no. (1) of 1997 (the Law). The Law provides the legal basis for LGU’s operations and governance as it specifies the duties and authorities of the LGU; the public services to be provided; financial management related guidance; the roles and responsibilities of the LGU’s council members; head of the council, and other personnel; and the elections of those parties. In respect of elections, the Law makes reference to the related law governing the LGUs elections. From information obtained from stakeholders we understand that elections are regulated by the Local Government Units Elections Law no. (10) of 2005.

The Law designated the MoLG to oversee the operations of all municipalities and village councils in the West Bank and Gaza. Included in its responsibilities, the MoLG monitors and supervises the operations of local authorities and ensures that these authorities comply with relevant laws and policies. The MoLG also approves the annual budget for all local authorities.

In addition to the above, the operations of the LGUs are further regulated by the PA applicable local laws as well as specific regulations issued by the MoLG to the LGUs. Specifically, the MoLG issued instructions on PFM that must be complied with by the LGUs. These instructions are available and accessible on the MoLG website and other sources. These instructions are published on the MoLG website, however, they are undated and are not signed by the Minister of Local Government, and accordingly may not be valid in legal terms.

The municipalities and village councils are considered as local governments with financial autonomy and are managed by council members who are elected by the governorate population. The Law specified 27 functions of the council that constitute the council duties and responsibilities to the public; namely: town planning; building licensing and construction control; water supply; electricity supply; sewage management; public markets management; licensing of trades and businesses; public health monitoring; collection and disposal of solid waste; public storage control; public parks; cultural and sport activities; public transport (land and sea); control of peddlers and open markets; weights and measures control; advertisement control; building demolition; disposal of remnants of roads; social services for the poor; cemeteries; precautions against floods, fires and natural disasters; hotel operation control; regulation of pack animals; canine control; budget approval and management; and, management of the local government’s assets and funds.

3.2 Institutional framework

MoLG categorised LGUs into the following four classes in-line with the decision of the Minister of Local Government of April 20, 1998, as follows:

**Class A:** Is a primary municipality or district capital of the governorate,

**Class B:** Is municipalities with over 15,000 inhabitants,

**Class C:** Is for municipalities having populations between 5,000 and 15,000,

**Class D:** Is for municipalities with populations of less 5,000.

The Law stipulated that the LGU will be governed by the council whose members will be elected in accordance with the above mentioned elections law. The Council of Ministers Decision no. (211) of 2004 determined the number of the council members to be elected at the LGUs; as follows:

<table>
<thead>
<tr>
<th>LGU criteria</th>
<th>Council members number</th>
</tr>
</thead>
<tbody>
<tr>
<td>A primary municipality</td>
<td>15</td>
</tr>
<tr>
<td>Municipalities having a population of over 15,000 inhabitants</td>
<td>13</td>
</tr>
<tr>
<td>LGU established after 1994 and have more than 5,000 inhabitants</td>
<td>11</td>
</tr>
<tr>
<td>LGU’s inhabitants are between 1,000 to 5,000</td>
<td>9</td>
</tr>
<tr>
<td>LGU’s inhabitants are less than 1,000</td>
<td>7</td>
</tr>
</tbody>
</table>
The council has the responsibility to set policies and procedures governing the operations of the LGUs, after taking into account the regulations and instructions issued by the MoLG. Article (16) of the Law specifies the roles and responsibilities of the head of the council which includes, but not limited to, the following:
- Setting and managing the council meetings,
- The representative of the council and the authorized person to sign, on behalf of the council, for grants, loans, rent contracts, purchases contracts, and other legal commitments,
- Supervising the LGU operations and personnel,
- Managing and supervising the LGU’s revenues and expenditures.

### 3.3 General information on the selected municipalities

As reported above, a sample of 12 municipalities was selected by the World Bank for the assessment. The table below shows the sample councils by MoLG class:

<table>
<thead>
<tr>
<th>Municipalities</th>
<th>MoLG class</th>
</tr>
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<tbody>
<tr>
<td>Hebron</td>
<td>A</td>
</tr>
<tr>
<td>Nablus</td>
<td>A</td>
</tr>
<tr>
<td>Ramallah</td>
<td>A</td>
</tr>
<tr>
<td>Jenin</td>
<td>A</td>
</tr>
<tr>
<td>Jericho</td>
<td>A</td>
</tr>
<tr>
<td>Bethlehem</td>
<td>A</td>
</tr>
<tr>
<td>Birzeit</td>
<td>B</td>
</tr>
<tr>
<td>Yatta</td>
<td>B</td>
</tr>
<tr>
<td>Turmosaya</td>
<td>D</td>
</tr>
<tr>
<td>Aqaba</td>
<td>C</td>
</tr>
<tr>
<td>Bido</td>
<td>D</td>
</tr>
<tr>
<td>Alkhader</td>
<td>C</td>
</tr>
</tbody>
</table>
4. Key Functions and Processes

4.1 Budget

Budget Formulation and Monitoring

The municipalities follow the MoLG instructions when preparing budgets. This process starts once the municipality receives a notice from MoLG to start the planning process for the annual budget. This notice mainly includes the guidance on establishing the budget committee; the procedures to be followed; the template forms to be completed; and, the deadlines for submission. The budget notice is received and handled by the budget department; for small and medium size municipalities where a budget department does not exist, the finance department leads the budget preparation.

The budget or finance department requests all departments to develop their own budgets, based on prior year figures; their needs for the next year based on the set strategy and plans; and, taking into consideration the actual figures reported in the prior year.

Following the preparation of each department’s budget, the budget committee meets to discuss these preliminary budgets. Typically, the budget committee includes the head of the council (or Mayor in municipalities); and, the heads of all departments, including budget and finance or designate of the heads of these departments.

Following this meeting, departments adjust the preliminary budget and send a final draft budget to the budget committee for review for any final adjustments. The budget committee then sends the draft budget (consolidated for the whole LGU) to the LGU council for review and approval.

Once the council’s approval is obtained, the budget is submitted, by the budget or finance department, online to MoLG using the online budget program Bawabeh. This was developed by MoLG and introduced in 2014 for use in the 2015 budget preparation. After submission of the budget to the MoLG, the LGU has no ability to edit the budget. MoLG’s instructions require that the LGU budget is submitted to the MoLG one month before the beginning of the fiscal year. All LGU budget submissions must be supported by documents showing the basis of the calculations made by the municipality in their budget submission.

The budget is initially reviewed by the MoLG district office and discussed with the municipality. Any comments by the MoLG district office are recorded in Bawabeh. If the municipality agrees to these adjustments, they will then amend the budget accordingly, after the MoLG district office gives the municipality access to edit the budget and re-submit. When all MoLG’s district office comments are adjusted, the budget submits to the MoLG’s central budget department.

A central budget department in MoLG reviews the budget, and can send back comments either to MoLG district office or directly to the municipality. These comments are also made on Bawabeh. Once approved by the MoLG, the budget is endorsed and is made official.

The budget is broken down by type of service or activity. The municipality is allowed to make any transfers within the budget items within the same sources of funds, and these are approved by the Mayor and finance manager. Any transfers between budget items from different sources of funds requires MoLG’s approval. These approvals are sought by letters from the LGU to the MoLG, and these are not recorded on the Bawabeh. If these transfer requests from the LGU are approved, the MoLG edits the municipality’s budget on the Bawabeh. However, based on our discussions with the municipalities, they confirmed that the approval letters are usually sent to MoLG after making the transfer, and not prior to that.

For the 12 municipalities in the sample, 6 have approved 2015 budgets whilst the other 6 do not (Jenin, Hebron, Jericho, Bethlehem, Birzeit, and Turmosaya). Hebron, Jericho, Bethlehem and Birzeit Municipalities have submitted the draft budgets to MoLG and the budgets are under discussion with MoLG. The municipalities indicated that there was a delay in budget submission this year (2015). According to the municipalities, the main reasons for the delay in preparing and approving the 2015 budgets are:

- The inconsistency/incompatibility between the Bawabeh budget items and the municipality’s financial system chart of accounts, which required more time from the municipalities in preparing
the budget. Since the Bawabeh was introduced in 2015, certain municipalities are not able to match their chart of accounts to the Bawabeh budget items considering the nature of their systems and chart of accounts;

- MoLG has not yet approved the list of employees (جدول تشكيلات الوظائف), and accordingly the respective personnel costs included in the budget, due to non-compliance with the structure and requirements specified by the Council of Ministers Law no. (1) of 2009 that regulates different LGUs’ personnel issues.

As for donor funding of development projects, the municipality incorporates their estimates of donor funding into the budget only in the case where the funding is known and there is an initial agreement with the donor to fund the project. In that case, the donor funding is allocated to those projects that will be implemented, based on the municipality’s plans. If a specific funded project was not included in the annual approved budget as the municipality did not envisage that project when preparing the budget, then, the municipality requests the MoLG to create a new budget category on the Bawabeh for that project.

**Level of Computerization**

The draft or approved budgets are not entered into the municipalities’ FMIS; Ramallah Municipality is the exception to this. The FMIS of Ramallah Municipality has a specific module to enter the annual budget, and does not allow any overspending on a specific budget item unless approval for budget transfer was obtained from the municipality’s council. For the other municipalities, as the FMIS does not have the option to enter the budget, the municipality’s main control over budget overspending is the review of the budget department on each expenditure to check whether the transaction is budgeted for.

The municipality should prepare quarterly reports showing budget versus actual comparisons as required by the MoLG. These comparisons are prepared manually, and starting in 2015, they are entered into the Bawabeh reporting module to be submitted to the MoLG. Except for Jenin and Turmosaya, the municipalities are preparing those quarterly comparison reports and are submitting to MoLG (either by email or through Bawabeh).

**Budget Comprehensiveness and Transparency**

The budgets of LGUs covers all expenditures and revenues. Expenditures include capital improvement and construction expenditures; development expenditures; and, recurrent expenditures. Some transactions are kept off-budget. These include the receipt of the contractors’ guarantees as these are not an asset of the municipalities and will be returned to the contractors. In the case of a contractor’s breach of terms and conditions, and where the guarantee has been liquidated by the municipality, the amount of the guarantee is allocated and used to the same project activities.

The municipality’s budget (draft or approved) is not shared with the public. Municipalities stated that there is no policy from MoLG or other parties requiring that municipalities must publicly disclose their budgets.
4.2 Procurement

Procurement Policies and Procedures

Municipalities are required to follow the MoLG’s regulations on procurement and contracts that were issued in April 1999, as well as the manual of policies and procedures (the Manual) that was developed by MDLF and approved by MoLG. This manual covers the financial and administrative aspects of the LGU’s operations.

The procurement cycle starts at the requesting department level. Once a department specifies a need for works/services or supplies, the department contacts the procurement department (or the finance department at certain municipalities). In the case of supplies, the procurement department first checks with the warehouse department to check if the item is in stock. For services, as well as for supplies not in stock, the finance department checks the municipality’s budget to ensure there is budget allocated for the requested purchase. If the item is not budgeted for and the purchase is approved by the Mayor, a budget transfer should be approved by the Mayor and finance manager thus allocating funds for the purchase (this transfer of funds is done in accordance with the procedures on budget transfer discussed in the previous section).

Once budget availability is confirmed, and the purchase is approved by the Mayor (or his/her designee for purchases lower than ILS 3,000), the finance department request the procurement department to start the purchasing process. If the item cost less than ILS 1,000, a direct purchase can be done. Above that threshold, the procurement department should request tenders as follows:

- If the item cost is less than ILS 10,000, the department should collect a minimum of three written offers, and
- If the item cost is above ILS 10,000, the department should use the open bid process (advertisement in newspaper).

For the open bid process, an advertisement is published in newspapers to request interested bidders to submit their offers within a specified time. All bids received are kept in a safe until bid opening date, where the bidders would be invited to attend the opening of the bids. A procurement committee is established to open and evaluate the bids and then select the winning supplier. This committee should have a minimum of four members, and typically includes the finance manager (or officer); purchasing manager (or officer); the requesting department representative; and, a member of the municipality’s council.

The municipalities indicated that these procedures are usually followed, nonetheless, certain cases might require an exception from the procedures. However, municipalities do not have a clear policy how and when such exceptions are allowed.

Evaluation and Award of Contract

Evaluations of bids are done by the procurement committee. The committee could include a member with technical expertise relevant to the item being procured.

Evaluations are carried out thoroughly and on the basis of the criteria specified in the bid invitation documents. The committee prepares an evaluation report describing the details of their evaluation of the bids, the ranking of the bidders, and the criteria used to select the winner.

Depending on the nature and type of services or supplies requested, the evaluation committee considers different criteria when evaluating the bids. The following criteria are normally considered by the evaluation committee:

- The scope and/or functions of the work or service required;
- The quality expected;
- Where appropriate, the estimated maintenance requirements;
- Cost estimates;
- Time plan/schedule;
- Adherence to the schedule of deliverables requested; and,
- In case of construction contracts bidding, a site visit is made to the contractors’ premises to check the contractors’ equipment and capability to do the work.
Municipalities keep a record of the evaluation committee meetings and the evaluation results. There is a protocol in place to ensure safeguarding of bid information during the evaluation process where all bids are kept in a safe until the evaluation committee meeting, and all documents are archived after the bids.

Once a supplier is selected, the evaluation report is sent to the Mayor to review, along with the contract to be signed by the supplier and the Mayor on behalf of the municipality.

For goods purchased, a committee is formed to receive the items delivered. The committee usually includes the warehouse officer, procurement officer, and the technical/requesting department. The committee matches between the purchase order, supplier’s invoice, and items actually received, and notes any discrepancies. The committee then prepares and signs a report of goods receipt and sends to the finance department. The finance department enters the purchase invoice into the system. However, at Jericho Municipality, the warehouse officer has access to the accounting system and records the purchase invoice on the system upon recording the stock receipt in the inventory module.

**Level of Computerization**

Except for Ramallah and Hebron Municipalities, the other municipalities maintain procurement related documents on paper file, such as the purchase request, purchase order, receipt form. These paper documents are signed by the preparer and reviewer. Ramallah and Hebron Municipalities have systems to record the initiation of the purchase request, its review and approval, which is done electronically. These procurement systems allow the procurement department to check the availability of an item in stock automatically as the inventory system provide up-to-date information on stock status.

Upon checking the budget (before starting the bidding process), the finance department is expected to commit the costs on the FMIS. This is done to provide management with an up-to-date commitments status for management’s review and monitoring of budget spending and cash flow forecasting/planning. However, only Ramallah Municipality’s system records such budget commitment electronically on the system before the purchase. All other municipalities perform the checking manually, and only record the actual amount of the purchase on the FMIS.
4.3 Revenue Cycle

Categories/Types of Revenue

As discussed earlier, the Law defines 27 functions and responsibilities of the LGU’s council to the public. These include providing or managing public services that generate revenues to the municipality. The number of services expected to be provided varies from one municipality to another depending on the municipality class, size of the population served, and other considerations including the growth and maturity of the municipality or government regulations on the provision of certain services.

The main municipal revenue sources are: fees, taxes, user charges (that is, utilities revenues), transfers from the PA, and municipal fines. These are described below:

Fees: These are fees collected from the public for the general services provided to the public by the municipalities. These fees include: (1) crafts, industries, and professions fees, (2) transportation fees and fines, (3) construction permits fees, (4) public market related fees, and (5) signboard fees.

User Charges: These are mainly charges for water supply, and solid waste collection services.

Taxes: This includes property tax, housing tax, and education tax:
- Property tax: this is based on the annual rental value of the property, and is collected by the Ministry of Finance (MoF). The current tax rate in the West Bank is 17%. After collection, the MoF retains 10% as management fees, and transfers the remaining 90% to municipalities;
- Education tax: this is also based on the annual rental value of the property, and is collected by the municipalities. Education tax collected is supposed to be used for construction and maintenance of educational facilities. The current tax rate in West Bank is 7%.

Municipalities' staff confirmed that not all municipalities are levying the taxes reported above, and even those municipalities that levy those taxes, there is no clear information whether these taxes are being applied and collected consistently and uniformly to the public. In addition, the staff confirmed that the municipalities record revenues from the property tax for the percentage collected by the municipalities (i.e. 90%) and not the entire amount.

Historically, five municipalities (Hebron, Yatta, Nablus, Jenin, and Aqaba) were providing electricity services to the public. The Israeli Electricity Corporation (IEC) was directly supplying those municipalities with the electricity power. As municipalities debts to the IEC increased with time, the Israeli Ministry of Finance started to make deductions on the clearance revenues collected on behalf of the PA to cover portion of the unpaid electricity bills outstanding on the municipalities to the IEC. Accordingly, the municipalities’ became liable to the MoF for the balances deducted from the clearance revenues.

Under PA plans and energy sector strategy to enhance the electricity services to the public, district electricity companies were established to handle the provision of electricity services in place of the municipalities. In 2000, the Hebron Electricity Power Company (HEPCO) was established to cover the cities of Hebron and Halhul. In 2004, the Southern Electricity Company (SELCO) was established to cover the cities of Yatta, Dura, Daheria, and in 2010, the North Electricity District Company (NEDCO) was established to cover the cities of Nablus and Jenin.

At time of establishment the district company, each of the five municipalities made an agreement with the MoF on the balances due on the municipalities and manner of payment. These balances and settlement payments are reflected on the municipality records. As for the accounts receivable due on the customers, these balances were kept on the municipalities records and left to the municipalities the responsibility of collecting those balances. The municipality agreed with the district company on a mechanism where the district company can assist in collecting those accounts receivable for a percentage of the fees collected. As for the assets, the municipalities agreed to transfer all assets related to the electricity service provision to the district company for ownership percentage of that district company. According to the municipalities staff, the assets transfers to NEDCO was made according to the assets book value on the municipalities' records, however, as for SELCO, the value of the assets was based on the assessment of the assets fair value at the time of transfer.
Billing, Collecting and Recording

The revenue recognition method varies among the 12 municipalities dependent on the basis of accounting used. Municipalities following the cash basis and modified accrual basis of accounting record the revenue at the time of collection. Whereas municipalities following the accrual basis (Ramallah Municipality only) record the revenue when incurred (at the time of billing).

The 12 municipalities have electronic billing systems to calculate the revenue, issue the invoices, record collections, and manage customers’ balances. However, the transfer of data (collection mainly) between the billing system to the accounting system is usually done manually; except in Ramallah and Hebron Municipalities where data is integrated.

The revenue collection process differs based on the type of the revenue. For taxes and fees collectible by the municipality, the collection is made by one of the following methods:

Cash collection through the municipality’s collectors: when revenues are due for payment, a report from the billing system is generated electronically. This report is distributed to the collectors, based on the areas distribution. For amounts collected, the collector provides the payee with a manual receipt voucher. At the end of each day, the collector prepares a daily cash report and attaches a copy of the manual receipt vouchers to the report, and submits it along with the cash or checks received to the treasurer for approval and reconciliation of the report. The treasurer then submits the report to the finance department who record the cash collected on the system, and provides the cash to another finance officer to deposit in the bank.

However, at Jenin Municipality, the collector does not necessarily report cash collected and reconcile it with the treasurer on daily basis. Further, at Jenin, Aqaba, and Jericho Municipalities, there is lack of segregation of duties as the treasurer has access to record and post transactions on the accounting system.

Cash collected at the municipalities’ premises: Citizens pay the due amount of services directly at the municipalities’ customer service department. The department officer enters the amount of cash paid directly into the billing system and provide the payee with a receipt voucher from the system and maintain a copy for his records. During the day, the officer print a report of cash payments made and send to the treasurer, along with the copies of receipt vouchers, with the cash collected. The same process is then followed by the treasurer for reporting and depositing of cash as done with collectors.

Bank transfer: This method is limited to government’s transfers for the revenues collected by the government on behalf of the municipality, such as property tax. Under this method, a copy of the bank notice should be received from the bank by the finance department for review and to check the classification of the revenue (that is, which type of revenue the receipt is for). The receipt voucher is then entered and recorded on the system.

Reporting

The municipalities follow up on unpaid bills through sending notices to the debtors. Tracking of debt is done through the billing systems. However, municipalities’ reported poor follow-up on outstanding bills, and that further efforts should be made by the municipalities to collect the debts.

In terms of reporting and analysis of data, there is no clear framework or policy for municipalities to prepare reports on revenues and collections for review and analysis by management. Municipalities rely on their billing systems to see the balances of the customers and issues ad hoc reports when requested by management.

Level of Computerization

As discussed previously, the municipalities have separate billing systems that they use to calculate the revenue, issue the invoices, record collections, and manage customers’ balances. Cash collection by the collectors is done on manual receipt vouchers. Ramallah and Hebron Municipalities have recently purchased automatic payment recording (pocket) machines that are automatically connected to the relevant billing system. The payment receipt voucher issued from this pocket machine is given to the customer.

In addition, as indicated above, except in Ramallah and Hebron Municipalities, data is not integrated between the FMIS and the billing systems.
4.4 Expenditure Cycle

Categories/Type of Expenditures

The expenditures types/categories that are being incurred at the municipality varies from one to another depending on the size and nature of operations, however, the following are the main categories of expenditures:

Payroll: the salaries of the staff.

Recurrent expenditures: the general and administrative expenses incurred by the municipality.

Works and supplies: incurred for the purchase of goods or services, including construction costs.

This section covers the recording and payment of expenses (other than payroll and related costs that are covered under the Human Resources and Payroll Cycle; section 4.8) after being procured and received (the procurement and delivery of goods and services is covered under the Procurement cycle; section 4.2).

Expenditure Approval and Recording

The approval of expenditure depends on the amount and nature of the transactions. The main differences between recurrent and works expenditures are the types of supporting documents that should be maintained to approve the expenditure, and the persons in charge of reviewing such supporting documents.

For all expenditures, the municipality should collect official supporting documents, such as contracts and invoices. In addition to those, for supplies and equipment purchases, the supporting documents should include a purchase order and confirmation of receipt of the supplies or equipment. For works type of expenses, the payment request and progress report should be reviewed and signed by the project manager.

Upon receipt of a supplier payment request, this payment request should be sent to the accountant along with the relevant supporting documents. The accountant should make sure that the supporting documents are original, adequate and appropriate according to the municipalities’ policies and procedures, and accordingly prepares a payment voucher. For most municipalities, any payment voucher above ILS 500\(^1\) is signed by the accountant, and is approved by the finance manager, the Mayor, and a council member (from the council committee that supervises the financial affairs). For small municipalities, all transactions, regardless of the amount, are approved in this manner. For expenditures below ILS 500, only the financial manager signs the voucher. In Bethlehem, Yatta, and Jericho municipalities, the payment voucher is also signed by the internal auditor. Upon the voucher approval, the treasurer prepares the check or bank transfer and submits for signature by the authorized signatories along with the payment vouchers and supporting documents.

Expenditure Payments

Expenditure recording processes vary from one municipality to another due to the differences in the accounting basis used. For municipalities using the cash basis, once the payment voucher is approved, the treasurer makes the payment either in cash or by check on the date the check is signed (not post-dated). Once cash or check is received by the supplier, the treasurer sends the voucher along with the supporting documents to the finance department to be recorded on the system. Once recorded, a serially numbered payment voucher is generated from the system, dated per the date of handing over the payment to the recipient, and is filed at the finance department records along with relevant supporting documents.

For municipalities following the accrual and modified accrual basis, the expenses are recorded once accrued. For purchases of supplies and equipment, upon receipt of those items by the municipality, the accountant reviews the supporting documents that evidence the receipt of the items and accordingly record the expenses and prepares the payment voucher and the check. The payment voucher along with the check and supporting are sent for approval and signature of the finance manager, and the Mayor (above certain limits, discussed in the next section, the check requires signature of a council member). The payment voucher is dated on the day the finance manager reviews the vouchers and posts the transaction on the accounting system.

At year end, the municipalities finance staff look for expenses that are incurred and for which invoices are still not received from the suppliers in order to record these expenses on the records. For supplies received, the municipality recognises the expense amount based on the supplier’s delivery note, or in case there is not one,

\(^1\) This threshold might differ slightly from one municipality to another.
based on the quantity received and the values specified in the procurement. For recurrent expenses, the municipality estimates the amount of the expense (normally the municipality’s staff record the amount as per the invoices received after year-end to match the amount, however, the date of the expenses would be as of year-end).

Level of Computerization
For Ramallah and Hebron municipalities, payment vouchers are prepared, reviewed, and approved by the different personnel electronically on the FMIS. As for the other municipalities, they use manual payment vouchers that are signed manually by the relevant authorised parties. Checks are filled manually at all municipalities.
4.5 Cash Management and Treasury

**Treasury and Banking Operations**

The Manual (developed by MDLF) provides guidance for the municipalities to manage and safeguard its treasury assets. It covers the procedures related to the use of bank accounts, managing and reconciling the bank accounts, and use of petty cash.

The 12 municipalities’ treasury related procedures contain the following:

**Cash at bank**

The municipalities’ policies require that opening or closing of a bank account should be approved by the municipality’s council based on the recommendation of the financial manager. The policies also recommend that minimal bank accounts are opened to avoid excessive bank charges and to maintain strong controls over the bank accounts.

In general, the bank accounts maintained by the 12 municipalities are either current accounts or deposit accounts. These are denominated in ILS or other currencies (mainly US Dollars and Jordanian Dinars). The bank accounts are divided into three main types:

- **Specific fund bank account:** this account is used for specific fund activities that have separate budget categories. This account should be used for the revenues and expenditures made for that specific fund only.

- **General bank account:** this account is used for collecting revenues that do not have a specific bank account, and payment of general and administrative expenses.

- **Payroll bank account:** this account is used for payment of monthly salaries of municipalities’ employees, as well as other related personnel costs.

The authorized signatories for bank accounts in municipalities are divided into two levels; A and B, as follows:

<table>
<thead>
<tr>
<th>Level A</th>
<th>Level B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mayor (Head of Municipality)</td>
<td>Financial manager or financial manager assistant</td>
</tr>
<tr>
<td>Council member 1</td>
<td>Manager of Municipality</td>
</tr>
<tr>
<td>Council member 2</td>
<td>-</td>
</tr>
</tbody>
</table>

The threshold for the authorized signatories are:
- For any amount up to ILS 1,500, check should be signed by two signatories of level B,
- If the amount is between ILS 501 and 10,000, check should be signed by the two signatories of level B, and one signatory of level A, and
- If the amount is above than ILS 10,000, check should be signed by the two signatories of level B, and two signatories of level A.

Bank reconciliations are prepared electronically or manually dependent on the system being used by the municipality. Monthly bank reconciliations should be prepared for all bank accounts. The accountant prepares the bank reconciliation (by using an internal form if it is done manually) and submits the reconciliation to the finance manager for review. At Aqaba, Birzeit, Turmosaya and Bido Municipalities, the accountant prepares the bank reconciliations and no one reviews the reconciliation. Also at Aqaba and Alkhader Municipalities, the reconciliations are not done on monthly basis. At Jenin Municipality, the treasurer (who has access to cash as well as recording access to the system) prepares the bank reconciliations, which is not reviewed by any other person.

**Petty Cash**

In general, petty cash is used by municipalities for payment of small and frequent administrative expenditures. At small municipalities, there is no petty cash box but instead cash advance (سلف نقدية) is paid for the custodian to disburse on the expenditures.

The petty cash box in the municipalities is under the responsibility of the custodian, and the person who has access to cash is covered by fidelity insurance; moreover, cash is insured against fire and theft.
When the petty cash is reimbursed, the custodian prepares a report for all paid expenses attached with supporting documents (invoice, payment voucher, internal memo and other) and sends this to the accountant for review. The accountant then prepares a payment request for reimbursement which is approved by the finance manager and Mayor. A check is then issued under the name of the custodian and is stamped as “paid for first beneficiary only”.

There are no clear policies followed by municipalities regulating the types of expenses to be paid from petty cash; the thresholds for the amounts to be disbursed from petty cash; and, the ceiling of petty cash that should be kept by the custodian.

Municipalities maintain a safe or box for retaining cash and checks received from citizens. This safe/box has two keys, one is kept by the treasurer and the other by the Mayor or his/her assistant. The treasurer is responsible for depositing checks and cash at the banks on daily basis, and the bank deposit receipt should be sent to the accountant at the finance department for filing. At some municipalities, the bank receipt/slip is filed by the treasurer.

**Cash Flow Management**

Out of the 12 municipalities, those small and medium sized municipalities that have few revenue sources/types usually have a limited number of bank accounts to manage their cash operations.

Such small and medium sized municipalities rely heavily on their few revenue sources to fund their operations, and they do not usually borrow or take loans from commercial banks or other institutions. The finance departments in these municipalities rarely conduct any cash forecasting or planning for their expectations of future cash inflow and outflow, or develop plans for investment of any large fund balances.

In the large municipalities, while they also rely on their revenues sources, they have numerous activities that generate income for the municipality. As such, some municipalities, like Nablus, has a large number of bank accounts to manage these revenue sources. Having many bank accounts could make cash management difficult, complex, and inefficient.

**Level of Computerization**

Out of the 12 municipalities, only Ramallah and Hebron Municipalities perform the bank reconciliations electronically. As for the others, reconciliations are done manually. Municipalities following the cash basis of accounting record any payments received in checks (post-dated) on the accounting system using an intermediary account until the date of check withdrawal whereby then the payment is recorded on the revenue account. However, Jericho Municipality does not record post-dated checks on the accounting system until payment, and they maintain a separate record of these checks to monitor their dates.
4.6 Accounting and Financial Reporting

Accounting and Financial Reporting Policies and Procedures

The Law requires the LGUs to maintain proper records for its financial transactions. Further, the Manual provides guidance on the financial policies and procedures to be followed by the municipalities depending on the basis of accounting used. The Manual is based on the accrual and the modified accrual basis of accounting. MDLF also issued an additional guide covering the accounting procedures followed on the cash basis of accounting (for use of the municipalities following the cash basis).

The Manual provides guidance on, but not limited to, the types of basis of accounting and the benefits of each; types and purposes of financial reports along with the intended users of these reports; the accounting procedures to be followed for recording the financial transactions; and procedures to be followed when closing the financial year.

The Manual also stipulates the requirement to select an external auditor to perform the annual statutory audit of the LGU’s financial statements. Clause 10 (b) under Section (V) of the Manual requires that the audit of the financial statements must be done in accordance with the International Auditing Standards or other recognized auditing standards (without specifying what these other auditing standards are). For the 12 municipalities in our sample, we noted that most municipalities have recent audited financial statements where the auditors’ reports were issued in accordance with the International Standards on Auditing. Two municipalities: Jenin Municipality does not have audited financial statements for the last three years (2012, 2013 and 2014); and, Turmosaya Municipality does not have any audited financial statements.

Table 1 on the next page of the report summarizes the basis of accounting followed by each municipality along with the latest available audited financial statements.

Section (IV) of the Manual listed the types of financial reports that must be prepared by the LGUs, including reports for internal use. The reports that should be submitted to the MoLG are:

1- Quarterly trial balance, along with detailed trial balance for each budget fund;
2- Annual financial statements;
3- The annual budget (as previously discussed in Budget Cycle).

We found that the 12 municipalities do not submit the quarterly trial balance. The 12 municipalities, as requested by MoLG budget preparation notice, prepare and submit quarterly reports to the MoLG that show the actual versus budget per each line item at the end of each quarter. Further, those municipalities that have audited financial statements send a copy of these to the MoLG.

Accounting and Financial Reporting Standards

The annual financial statements of the LGUs are being prepared using a standard and internationally recognised reporting basis. For the 12 LGUs in our sample, we found that 8 LGUs (66%) use the cash basis of accounting; 3 LGUs (25%) use the modified accrual basis; and, 1 (9%) use the full accrual basis. Table 1 below shows each of the 12 LGUs basis of accounting:
<table>
<thead>
<tr>
<th>No.</th>
<th>Municipalities</th>
<th>Basis of accounting</th>
<th>Latest Audited Financial Statements Available</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Hebron</td>
<td>Modified accrual</td>
<td>Financial Statements for the Year 2013</td>
</tr>
<tr>
<td>2</td>
<td>Nablus</td>
<td>Cash basis</td>
<td>Financial Statements for the Year 2014</td>
</tr>
<tr>
<td>3</td>
<td>Ramallah</td>
<td>Accrual basis</td>
<td>Financial Statements for the Year 2014</td>
</tr>
<tr>
<td>4</td>
<td>Jenin</td>
<td>Cash basis</td>
<td>Financial Statements for the Year 2014</td>
</tr>
<tr>
<td>5</td>
<td>Jericho</td>
<td>Cash basis</td>
<td>Financial Statements for the Year 2011</td>
</tr>
<tr>
<td>6</td>
<td>Bethlehem</td>
<td>Cash basis</td>
<td>Financial Statements for the Year 2014</td>
</tr>
<tr>
<td>7</td>
<td>Birzeit</td>
<td>Modified accrual</td>
<td>Financial Statements for the Year 2014</td>
</tr>
<tr>
<td>8</td>
<td>Yatta</td>
<td>Cash basis</td>
<td>Financial Statements for the Year 2014</td>
</tr>
<tr>
<td>9</td>
<td>Turmosaya</td>
<td>Cash basis</td>
<td>No audited statements available</td>
</tr>
<tr>
<td>10</td>
<td>Aqaba</td>
<td>Cash basis</td>
<td>Financial Statements for the Year 2014</td>
</tr>
<tr>
<td>11</td>
<td>Bido</td>
<td>Modified accrual</td>
<td>Financial Statements for the Year 2014</td>
</tr>
<tr>
<td>12</td>
<td>Alkhader</td>
<td>Cash basis</td>
<td>Financial Statements for the Year 2014</td>
</tr>
</tbody>
</table>

Table 1 – Basis of accounting and audited financial statements

Whilst we cannot speculate whether or not this distribution of the basis for accounting accurately reflects the situation for entire population of West Bank LGUs, it does provide a clear indication that the basis of accounting and reporting is not standard across LGUs. This implies that the accounting treatment of similar business transactions will be handled differently by the LGUs which will ultimately impact on the nature and content of the financial reports produced by LGUs. Finally, this state of affairs will make it quite difficult for the LGUs financial reporting information to be consolidated by the MoLG.

**Accounting System**

The sample municipalities use different accounting systems to record their financial transactions, with two (Turmosaya and Yatta) not using any accounting system (they use a basic manual based approach). Also, the municipalities are using different information systems to manage their operations and there is minimal integration between these information systems. Our Component One Report discusses, in detail, the information systems used by the municipalities. However, one important matter to note is that the chart of accounts for the municipalities accounting systems is not usually aligned with the budget classifications, which caused the municipalities difficulties for matching the actual expenditure and revenues with the budget.
4.7 Asset Management

Accounting for and Management of Assets

Municipal assets are property owned, controlled or used by the municipality. These assets can be managed directly or indirectly for the benefit of the citizens in the pursuit of local service delivery goals. Municipal asset management is the process of inventory, valuation, use, disposal, strategic portfolio reviews, reporting and auditing of municipal assets.

MDLF has issued a specific manual of policies and procedures to account for and manage fixed assets. This manual describes, but is not limited to, the categories and types of assets, accounting for fixed assets, valuation, safeguarding of assets, additions and disposal procedures, and the tagging system.

For the 12 sample municipalities, the latest updated records of fixed assets (in terms of valuation and count) is a fixed assets register that was prepared by a consultant for over than four years ago, under a consultancy contract with MDLF. This register was prepared using an MS excel sheet that has formulas to calculate depreciation of assets based on percentages recommended by the consultant. The municipalities are only updating the register by recording new items purchased, and then the MS excel sheet processes the calculation of the depreciation at year-end.

All fixed assets registers do not have coding/tagging for the assets. In addition, all, except for Hebron and Ramallah, have not done a fixed assets count since the consultant completed his assignment.

Ramallah, Hebron, and Nablus Municipalities have a department in charge of the assets register and management of the municipalities’ assets. At all other municipalities, this responsibility is given to the finance department.

Except for Ramallah and Hebron Municipalities, the municipalities confirmed that there is limited compliance with the requirements of the above-mentioned manual, and no adequate procedures are being applied to ensure proper use, valuation, disposal, reporting and auditing of assets.

The accounting for assets depends on the basis of accounting used. For accrual and modified accrual basis of accounting, fixed assets are capitalised and depreciated by applying percentages recommended by the consultant. For those using the cash basis of accounting, fixed assets are expensed upon purchase.

As for infrastructure assets, these are accounted for depending on the basis of accounting (similar to the treatment of assets described in the previous paragraph). Projects in progress are recorded on the municipalities’ assets as work in progress (for those following the accrual and modified accrual basis) depending on the percentage of completion. For those municipalities following the cash basis, they do not record such assets on their records of course, however, some municipalities includes such assets on an assets register.

Level of Computerization

Ramallah and Hebron Municipalities have information systems where they record their fixed assets and inventory. These systems have full records of assets held with details on their value, status, location, etc. Data from these systems is integrated with the FMIS. All other municipalities are using an MS excel sheet for their assets registry, and these records are not connected/integrated with the FMIS. These excel sheets are vulnerable to change and editing with no controls to detect or prevent risks of misuse or loss of assets.
4.8 Human Resources and Payroll

Human Resources Policies and Procedures

For human resources (HR), the municipalities follow the regulations stipulated by the PA relevant laws and guidance issued by MoLG. Primarily, the Council of Ministers Decision no. (1) of 2009 (“the Decision”) regulates the recruitment, contracting, evaluation, and allocation of staff costs. It also provides a salary scale for LGUs staff with a detailed breakdown based on category and grade. In addition, the Manual details the procedures that should be followed by LGUs when preparing the payroll.

In accordance with the Decision, the employees of the LGUs are classified under 6 categories, which are: high, first, second, third, fourth, and fifth. Article 3 of the Decision provided a broad explanation of the types of duties of each category and indicated the grades that can be used to allocate employees on that category. According to municipalities’ staff, the scale does not provide a clear and comprehensive distribution of the positions/grades of staff categorised under those 6 categories and requires judgement of municipality management while assigning staff on the salary scale.

LGUs’ employees contracts are classified under two types:

- Permanent contract type: This type is use for employees that are hired permanently under a specific category and grade;
- Contract-based (temporary) type: This type is used for employees contracted on a temporary basis, and is usually used for project based or short-term employment. The Decision included two types of contracts that can be signed with temporary staff; however, it did not provide clear distinction or basis that the LGUs should follow to select the applicable type of contract.

In accordance with the Decision, the municipality should submit a list of employees (جدول تشكيلات الوظائف) to MoLG to review and approve during the annual budget approval process. Any permanent employees should be included in the list and be approved by the MoLG. For temporary employees, only the approval of the Mayor is required.

Moreover, the employees’ contracts do not have job descriptions, as confirmed by the 12 municipalities’ staff. The municipalities’ staff also confirmed that they do not have a code of conduct.

Competitive Hiring Practices

As discussed earlier, for permanent employees, the hiring process starts with the approval of the new position by MoLG as part of the approval of the annual budget and the list of employees (that include budgets for new employees to be hired). Once the position is approved and the municipality determines the timing for recruitment, an advertisement is made in the newspaper for applicants to apply for the position. Upon receipt of the resumes, a committee is formed consisting of the Mayor (or authorized designee), a council’s member, the municipality manager (where applicable), an HR officer, and the head of the department where the vacancy exists.

Based on the job requirements determined by the HR department, a short list of applicants is invited for interviews with the committee. Written exams may be conducted depending on the nature of the position. Based on the interviews, resumes, and exams, where applicable, the committee ranks the applicants, and selects the top ranked applicant for the position.

Based on the committee evaluation and recommendation, the Mayor and the council review and approve the recruitment decision. Once approved, the HR department prepares the contract, and determines the salary based on the approved salary scale. Once the contract is signed, the HR department opens a file for the employee and archives a copy of the contract and related employee’s documents. The HR enters the new employee information into an HR system that contains the data related to the employees, and this is used for calculation of salaries. Normally, the employee is given a 3-month probation period, at the end of which, the employee’s position is either confirmed and becomes permanent, or the decision is made to terminate the contract.
**Time Recording**

Municipalities’ employees are required to use daily attendance records where they sign in/out. With the exception of two municipalities (Aqaba and Turmousya who use manual attendance sheets), all municipalities use automated systems for the employees to electronically sign their attendance using fingerprint recognition.

At the end of each day, the HR officer updates the employees’ files for vacation and other leave to update their respective balances. At the end of each month, a report from the attendance system is generated which includes a summary of attendance information for each employee. This report is sent to the head of each department for review and signature. This report is then sent to payroll officer in order to make the payroll calculation.

The municipalities require the employees who request leave during the working hours to sign a specific leave form that should be approved by the direct supervisor. This form should be submitted at the front desk at the municipality upon leave, after signing out of the attendance system. Some municipalities confirmed that this form is not always requested from staff and employees need only to sign out at leave time.

**Payroll**

The HR department is responsible for preparing the payroll for all employees. At the end of each month, the HR system calculates the leaves taken during the month along with any overtime and deductions (or due balances thereof) for all employees. Then, the HR officer generates a standard payroll report from the HR system that shows the employees’ gross salaries, allowances, deductions, and the system-calculated net salaries. The officer then reviews the report and sign as prepared.

If the municipality does not have an HR system, such as in the case of Turmosaya Municipality, the payroll calculation process is done manually using excel sheets.

The payroll sheet, along with the relevant supporting documents, is then reviewed and signed by the finance manager, and where applicable, the internal auditor, and is then reviewed and approved by the Mayor. The payroll sheet is then sent to the treasurer in order to prepare the bank transfer letter and send for signature by the authorized signatories.

In municipalities, such as Nablus, Yatta, Jenin and Aqaba, the finance department would be responsible for preparing the payroll. In such a case, the finance manager/officer obtains the data related to employees’ deductions, overtime, and other relevant data from the HR department, either manually or electronically, to update the HR system and generate the payroll sheet. Once the payroll sheet is generated and prepared by the finance manager/officer, the same process of review and approval by the Mayor is followed.

The recording of the salaries costs depends on the basis of accounting used. If the municipality uses the accrual or modified accrual basis of accounting, the payroll transaction is recorded as follows:

- At time the payroll sheet is approved by the relevant personnel, the payroll accountant first records an accounting entry to record the salary expenses against each employee account as payable. Once paid, another accounting entry is made to settle the amount payable against cash.

For municipalities that use the cash basis, they also record the same two accounting entries stated above but these are done simultaneously, at the date of payment.

**Annual Evaluation and Training**

On an annual basis, and based on a written notice from the council, the HR department starts the staff evaluation process. The HR department distributes the evaluation form used by the municipality to each supervisor in order to undertake the evaluation of his/her department staff. The supervisors prepare the individual evaluation forms and sends these for the review by the heads of departments. The head of departments reviews the evaluations forms and discuss them with the Mayor (or their designate). Once reviewed by the Mayor, the supervisor discusses the evaluation with the employee. Afterwards, the evaluation forms will be sent to the council for final endorsement and acceptance (usually no changes would be made on the form unless specifically approved by the Mayor). Upon this acceptance, a copy of the evaluation form is sent to the employee.
The evaluation form allocates an evaluation rating to each employee. This depends on the scoring allocated by the evaluator as recorded on the evaluation. The evaluation rankings are: excellent, very good, good, acceptable (normal), weak. The salary raise is usually constant at 1.25% for each category regardless of the ranking, unless the evaluation form specifically excluded this based on employee performance.

Hebron, Bethlehem, and Ramallah are doing regular (annual) performance reviews, however the other municipalities are not following the process regularly.

No municipalities have training plans for employees. This is despite the fact that all municipalities allocate a budget for training. We found that municipalities rarely use this training budget. The main training that employees would receive is training funded by donors. This training is usually based on the donor’s project needs, and is not necessarily based on the municipalities’ staff needs.

**Level of Computerization**

Except for Turmosaya Municipality, the municipalities have separate HR systems that have the employment information of staff, along with relevant HR information (such as leaves balances, evaluations, promotions, etc.) In addition, the municipalities use automated systems for the employees to electronically sign their attendance using fingerprint recognition (except for Aqaba and Turmosaya Municipalities).

All municipalities that have the HR system prepare and calculate the payroll using that system and generate the payroll sheet to be reviewed by the relevant supervisors. The payroll report generated from the HR system shows the employees’ gross salaries, allowances, deductions, and the system-calculated net salaries.
4.9 Legislative Scrutiny and audit

Legislative Scrutiny

As discussed earlier, the Law mandates the MoLG to oversee the work of the municipalities and village councils in the West Bank and Gaza. The Law also requires that the LGUs’ financial and administrative operations and documents to be subject to MoLG oversight and audit by any representatives on behalf of the MoLG.

The LGUs should submit their annual budgets to MoLG for approval. Additionally, the LGUs should submit quarterly financial reports to MoLG showing a comparison between budget and actual revenues and expenditures. LGUs must also provide MoLG with annual financial statements. As reported earlier not all 12 municipalities have, as yet, approved 2015 budgets.

MoLG has a manual for monitoring the work of the LGUs that the MoLG uses to do reviews and field visits on the LGUs. The MoLG has a department that does these reviews (the General Directorate for Control and Oversight.) The scope of these reviews includes three aspects: financial, operational and compliance with applicable laws and regulations. The MoLG does two types of reviews; periodic and non-periodic. The MoLG’s policy is to visit each LGU twice; at mid-year and at end of the year. The non-periodic reviews are done if a complaint is made against an LGU. In this instance, a committee from MoLG would be convened to investigate the complaint and decide if an audit of the complaint is warranted. When the review is finished, the MoLG sends the report to the appropriate LGU.

To our understanding from the 12 municipalities, not all municipalities are being audited by MoLG and some of them are unaware of the MoLG audit policies and procedures.

As LGUs are public organizations, they are subject to audit by the State Audit & Administrative Control Bureau (SAACB) which is the supreme audit institution in Palestine.

The SAACB has a specific department for the audit of LGUs. The SAACB issues reports on all audits done and these are summarised in the quarterly and annual SAACB reports. Such reports would reveal instances of financial, internal control, administrative, and non-compliance, as well as any possible fraud instances (which should be then reported separately to the Palestinian Anti-Corruption Committee.) SAACB submits its reports to the municipality and provides a copy to MoLG. In general, municipalities’ staff indicated that there is limited follow-up by the municipalities’ management on the implementation of the recommendations reported by SAACB.

Audit (External and Internal)

As discussed earlier in our report, municipalities appoint an external auditor to do the statutory audits of the annual financial statements in accordance with International Standards on Auditing. For our sample of 12 municipalities, 10 have recent audited financial statements and audit reports issued by an independent external auditor. Jenin Municipality does not have audited financial statements for the last three years, and Turmosaya Municipality does not have any audited financial statements.

Ramallah, Hebron, Nablus, and Jenin have established an internal audit department as an integral part of their organization structure. These internal audit department’s main responsibility are to do and compliance audits on the procedures being applied by the municipality. The internal audit team prepares an annual internal audit plan at the beginning of the year. The team does the audits according to the plan, and issues reports indicating any weaknesses noted and recommendations. These reports are provided to the municipality management and process owners to discuss the weaknesses and recommendations identified. Similar to SAACB reports, there are no efficient follow-up to monitor the implementation, by management, of the recommendations from internal audit.

At Bethlehem, Birzeit, Yatta, Alkhader and Jericho Municipalities, the internal audit function has, typically, one employee. The work of this employee is not based on an audit plan, but focuses on reviewing financial transactions and related documents. One of his main duties is to review and approve the payment vouchers and supporting documents before payment. Internal auditors should not be involved in management
activities as that would impair the auditor’s independence, and therefore in these cases, the employee is operating as a financial controller and not an internal auditor. Aqaba, Turmosaya and Bido municipalities do not have an IA function.

The municipality council is in charge the internal audit function, thus the internal audit team recruitment is handled by the council, and the reports prepared by the internal auditor is sent to the council directly.
4.10 Donor’s Practices

There are two types of donor support that can be given to central and local governments: budget support and development funding. None of the 12 municipalities receive budget support. The municipalities’ budgets do not include any estimate for donor funding.

For development project funding: over the past few years, no municipalities signed direct funding agreements with donors. Instead the donors channel their funding either through the government or by direct implementation with the contractors. Such projects are not accounted for in the municipality records.

Donors can and do provide various types of in-kind or capital improvement funding, either directly to the municipalities (such as equipment, furniture, software etc.), or to facilities that the municipalities are in charge of. With this kind of assistance, the municipalities do not receive any cash funding, and thus recording of the in-kind donation in their records will depend on the basis of accounting used.

Despite the fact that municipalities are not parties to donor agreements, they usually have an oversight role on the implementation of projects. Donors coordinate with the PA government, and depending on the nature of the project and whether it is within the municipality’s jurisdiction, the relevant ministry coordinates with the MoLG, who requests the municipality to cooperate with the donor and supervise the implementation of the project to ensure that it conforms to the plans agreed with the MoLG. The municipality role in these projects is based on MoLG instructions and requirements.

The municipalities’ staff confirmed that in previous years when the donor used to sign a funding agreement with the municipality to implement a specific project, the municipality first checks whether that project was budgeted for in the approved annual budget. If the annual budget does not have a budget for the project, the municipality would request a budget amendment from MoLG to incorporate the new project. Then the municipality opens a new cost centre for the project on the accounting system, and if requested by the donor, opens a separate bank account. The Manual includes policies and procedures for the recording and accounting for funded projects.
4.11 Public Access to Key Fiscal Information

The transparency of the PFM system was assessed by checking whether the LGUs provide timely public access to the following financial documentation:

1. Annual budget: For the 12 sample municipalities, with the exceptions of Bethlehem, Yatta, Jericho, and Alkhader, none of the others make the budget publicly available. Municipalities reported that there is no policy from MoLG or other parties requiring municipalities to make their annual budgets available to the public.

2. In-year budget execution reports: These are interim reports that should be made available to the public within an acceptable time of their completion of the report. None of the 12 municipalities make these reports available to the public.

3. Year-end financial statements or external audit reports: None of the municipalities makes the year-end financial statements available to the public on timely and regular basis, except for Ramallah and Nablus municipalities that published their audited financial statements via their websites. However, other municipalities (Hebron, Yatta, Bethlehem and Alkhader) did not publish the recent (couple of years) financial statements. None of the other 6-municipalities have ever made their financial statements or external audit reports available to the public.

4. Contract awards: None of the municipalities publishes any information on the award of contracts. The municipalities’ staff indicated that they have no guidance or instructions what information to provide in this regard.

The municipalities have no standard policies or procedures to require them to publish and report to the public any of the above information. Article (32) of the Law only requires municipalities to provide annual financial statements to the MoLG within two months after year-end. We could not find any legal or other requirement on municipalities to publish financial statements and auditors’ reports. Where municipalities do make limited disclosure to the public, mainly via the municipality website, this is purely at the discretion of the municipality management.
# Annex 1: Interviewees

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<thead>
<tr>
<th>Name of key personal</th>
<th>Position</th>
<th>Department/Section</th>
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<tbody>
<tr>
<td><strong>Hebron Municipality</strong></td>
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<tr>
<td>Nour Abdeen</td>
<td>HR Manager</td>
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<td>Anan Bader</td>
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<td>Khader Zghayer</td>
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<td>Faris Shawar</td>
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<td>Osama Dweik</td>
<td>Computer Engineer</td>
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<td>Lida Abu Alhuda</td>
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<td>Lutfi Break</td>
<td>Purchases Accountant</td>
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<td>Asma’a Maqboul</td>
<td>Deposits and Refundable Insurance</td>
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<td>Muaffaq Khudayri</td>
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