

West Bank and Gaza

Public Expenditure and Financial Accountability (PEFA) Assessment, 2018

FINAL Report

June 2019

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The PEFA Secretariat confirms that this report meets the PEFA quality assurance requirements and is hereby awarded the '**PEFA CHECK**'.

PEFA Secretariat
June 20, 2019

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Abbreviations and acronyms

BISAN	Palestinian Authority Computerised Accounting System
CCS	Commitment Control System
CIA	Chief Internal Auditor
CMC	Cash Management Committee
COFOG	Classification of Functions of Government
CPS	Central Payment System
CSO	Civil Society Organisation
DPs	Development Partners
EU	European Union
GAAP	generally accepted accounting practices
GBS	general budget support
GFS	Government Finance Statistics (IMF system)
GoI	Government of Israel
IAU	Internal Audit Unit
IMF	International Monetary Fund
INTOSAI	International Organisation of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standard
LGAs	local government authority
MDAs	ministries, departments, and agencies
MoFP	Ministry of Finance and Planning (WB&G)
PA	Palestinian Authority
PAC	Public Accounts Committee
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
SAACB	Supreme Audit and Administrative Control Bureau
WB	World Bank
WB&G	West Bank and Gaza

Financial year in WB&G = 1 January

Currency = Israeli Shekel (ILS)

Exchange rate = US\$1 = 3.6372 on 1 October 2018

Executive summary

This PEFA assessment is intended to enhance the effectiveness of West Bank and Gaza's (WB&G) PFM systems and aid the Palestinian Authority (PA) to consolidate its ongoing and planned reforms. More specifically, the assessment provides a diagnostic analysis that can be used as the basis for dialogue on PFM reforms that will inform future updates and design work on the PFM reform strategy and subsequent action plans. It should be noted that while the PA has responsibility for both the WB&G, since 2007 its role in Gaza has been compromised by the presence of the de facto authority - Hamas.

Assessment coverage and timing

The assessment has undertaken an independent review of the quality and performance of PFM systems in WB&G for the financial years 2015, 2016 and 2017, and of the medium-term budget for 2018-21. It was managed by the World Bank and conducted during the period October 2018 to June 2019.

Impact of PFM Systems on the three main budgetary outcomes

Aggregate fiscal discipline

Fiscal discipline in WB&G is very reasonable, especially in the context within which the government has to operate, and most elements of WB&G's public financial management system contribute to this outcome. On the expenditure side, aggregate estimates are reasonable (PI-1, good 'B') but there are large differences between the original estimates and the actual expenditure composition (PI-2.1 and PI-2.2), and the actual expenditure is distorted due to expenditure arrears, which have been increasing in recent years (PI-22).

In terms of revenue, estimates are not accurate (PI-3, rated 'C'), mainly due to promised donor grant commitments not materialising, but also due to limited forward estimates of the monthly transfer of 'clearance revenues' (collected by the Government of Israel (GoI) on goods and services destined for WB&G). The PA is heavily dependent on donor resources and fluctuations in the donor flows for unpredictable reasons has been a constant challenge for fiscal management. The clearance revenues constitute about two thirds of the PA's budgetary revenue, and the flows have also been unpredictable. However, the accounting arrangements – by necessity – are sound (PI-20).

A PEFA assessment also recognizes broader issues that may affect fiscal discipline. For example, the monitoring of financial risks is weak (PI-10). Similarly, in part because the donors are often taking a leading role in public investment, the management of both public investments and public assets has not been strong (both PI-11 and 12 are rated 'D+'). The budget documents have a very limited medium-term perspective, but medium-term projections do inform the internal process. In view of the uncertain fiscal environment, the presentation of medium-term projections in the documents would be valuable (PI-16, rated 'D').

Strategic allocation of resources

Two of the PEFA indicators related to "policy-based fiscal strategy and budgeting" (PI-14, PI-15)

receive low ratings as the budget does not follow the policy priorities set out in the ‘National Policy Agenda 2017 to 2022’, with its 21 sector strategies. This is the fourth in a series of development plans prepared by the PA since 2008, but the objectives and priority reforms are not costed or directly linked to the budget process. The failure to present in the budget documents the internal work on medium term projections is also affecting the score for these indicators. In addition, the technical aspects of the budget preparation process (PI-17) are no more than adequate, and the absence of a functioning legislature impacts the overall rating of this indicator, and also affects PI-18 (‘D+’).

Other indicators related to resource allocation are evaluated as satisfactory or better: for example, budget classification is fully compliant with international standards (PI-4, rated ‘A’), the PA’s budget documentation (PI-5), is good, assessed as ‘B’. In addition, in-year budget execution reports comparable with the originally approved budget are published monthly and include an analysis of the variance between actuals and estimates for both revenue and expenditure. In addition, these reports cover expenditure at both commitment and payments stages, with no significant data accuracy concerns (PI-28, rated ‘B+’).

Efficient service delivery

For aspects related to efficiency in the use of resources, the public financial management system is reasonable, as shown by the indicator of predictability of resource allocation in the year (PI-21, rated ‘C+’); financial relationships between agencies are partially transparent (PI-7, ‘C’) as many services are decentralized to the districts to serve local residents; and the score of the ‘performance information’ indicator is good (PI-8, score ‘B’).

In addition, while the mechanisms to minimize the risk of losses, such as payroll controls (PI-23, ‘D+’) and procurement (PI-24, ‘D+’) are weak, they are at least partially mitigated by the system of internal control in operation (PI-25, ‘B’) and are monitored by a reasonable internal audit function (PI-26, ‘C+’): in addition, accounting control mechanisms are good (PI-27, ‘B+’).

However, as noted earlier, there are concerns about weaknesses in the way both public investments and public assets are managed: both indicators are evaluated as weak (PIs-11 and 12, ‘D+’).

Finally, the monitoring mechanisms in place show mixed results. As there has been no functioning legislature in place in the three-year assessment period, PI-31 could not be rated. However, the SAACB has full legal, financial and administrative independence, as well as unrestricted access to records, documentation and information. External audits of most expenditures and revenues were conducted during the last three fiscal years using ISSAIs, although there remains a considerable delay and backlog. SAACB reports were published within one year but submitted to the MoFP for comment within nine months of receipt. There are formal and timely responses to audit reports and 80% of recommendations are implemented by public entities (PI-30).

In summary, the public financial management system of WB&G is operating at a satisfactory – though in several areas basic – level, with several areas for future improvement.

Performance changes since a previous assessment

This is the first assessment of WB&G using the upgraded Framework. An earlier assessment took place in 2013, and the guidance issued by the PEFA Secretariat in October 2016 states that only 14 dimensions are directly comparable with the 2011 version of the Framework which was used in 2013. The table below shows changes in the ratings for **directly** comparable dimensions using the numbers in this report, against the previous PI and dimension reference. [Section 4.4](#) below provides details of these as well as the ‘non-comparable’ ratings.

Table 0.1: Changes in the ratings for directly comparable dimensions since 2013

No.	Indicator	Score 2018	Score 2013	‘Old’ #	Performance change
PI-4	Budget classification				
4.1	Budget classification	A	B	PI-5 (i)	Improvement, as sub-classification now utilized.
PI-13	Debt management				
13.1	Recording and reporting of debt and guarantees	B	A	PI-17(i)	Records are not reconciled monthly. 2013 score looks inaccurate.
PI-17	Budget preparation process				
17.1	Budget calendar	D	B	PI-11 (i)	There are long delays at the end of the process. 2013 score looks inaccurate.
17.2	Guidance on budget preparation	A	C	PI-11 (ii)	Improvement: ceilings are approved before completion of budget estimates.
PI-18	Legislative scrutiny budgets				
18.1	Scope of budget scrutiny	NA	NU	PI-27 (i)	No change
18.4	Rules for budget adjustment by the executive	B	NU	PI-27 (iv)	Rated only in 2018.
PI-21	Predictability of in-year resource allocation				
21.1	Consolidation of cash balances	C	B	PI-17 (ii)	Donor funds were previously excluded.
21.2	Cash forecasting and monitoring	A	D	PI-16 (i)	Considerable improvement necessitated by the political situation.
21.3	Information on commitment ceilings	D	D	PI-16 (ii)	No change.
21.4	Significance of in-year budget adjustments	C	D	PI-16 (iii)	Improvement, as budget units receive some advance notification.
PI-23	Payroll controls				
23.3	Internal control of payroll	B	A	PI-18 (iii)	There may be delays in the verification process.
23.4	Payroll audit	C	B	PI-18 (iv)	Security forces’ payroll not subject to audit.
PI-25	Internal controls on non-salary expenditure				
25.2	Effectiveness of expenditure commitment controls	C	D	PI-20 (i)	Improvement: IFMIS limits expenditure commitment to approved ceilings.

Overview of on-going and planned PFM reforms and main weaknesses identified

Until 2016, PFM reforms have been fragmented; this prompted the development of a more comprehensive PFM reform strategy in line with the National Policy Agenda 2017-2022.

The current PFM Reform Strategy 2017-2022 approved in July 2017 has two thematic areas, namely: (i) Strengthening Accountability and Transparency, and (ii) Effective and Efficient Public Financial Management Systems. These are further detailed below as follows:

(i) Strengthening Accountability and Transparency:

- *Institutionalizing the public sector in order to show more commitment to the Code of Conduct and anti-corruption environment.*
- *Enhancing transparency in the government, including the right to access information.*
- *Strengthening the role of supervisory, financial and administrative institutions.*
- *Strengthening a performance and results-oriented public management, completing the integration of planning with the budget and shifting to Programme Budgeting.*
- *Integrating social development in government policies, programs and budgets.*

(ii) Effective and Efficient Public Financial Management Systems

- *Strengthening the PFM and ensuring financial sustainability*
- *Increasing revenue by focusing on broadening the tax base, improving collection mechanisms, mobilizing external support and rationalizing expenditures.*

The current PFM reform strategy is not costed and is a list of ambitious plans and areas of reform, which have not been properly prioritised and sequenced. That said, it is the first strategy developed by the PA and has been embraced by development partners. Currently ongoing is a PFM programme with funding from the WB, EU, and Denmark at a cost of USD3.5million. The main components of the reform programme include the following:

- *Component 1: Improving expenditure management and control*
- *Component 2: Improving financial accountability of PFM systems*
- *Component 3: Modernising public procurement*
- *Component 4: Project management*

Other parallel ongoing PFM reform initiatives include:

- DFID's Service Stability and Reform Programme (SSRP) – will support budget preparation and revenue mobilisation, starting early 2019 with an estimated cost of GBP7.5 million for 4 years.
- EU, currently co-funding the PFMIP. It is also supporting capacity building initiatives at the SAACB at an estimated cost of EUR1.5 million over a two-year period 2019-2021, and support to Customs Revenue Collection at an estimated cost of EUR2 million from 2019-2020
- France is providing capacity building for the Palestine Public Finance Institute (PPFI), as well as contributing to IMF/METAC technical assistance programme to macro-fiscal forecasting and reporting

- Norway is planning to provide direct budget support, as well as support to CSOs in anticorruption and the Bureau of Statistics
- IMF/METAC supports the macro-fiscal unit of MoFP through training and capacity building in database management, fiscal forecasting and reporting

Table 1: Overview of PEFA ratings

PFM Performance Indicator		M1/M2	Dimension Ratings				Overall Rating
			i.	ii.	iii.	iv.	
Pillar I. Budget reliability							
PI-1	Aggregate expenditure outturn	M1	B				B
PI-2	Expenditure composition outturn	M1	D	B	A		D+
PI-3	Revenue outturn	M2	B	D			C
Pillar II. Transparency of public finances							
PI-4	Budget classification	M1	A				A
PI-5	Budget documentation	M1	B				B
PI-6	Central government operations outside financial reports	M2	A	A	NA		A
PI-7	Transfers to subnational governments	M2	C	C			C
PI-8	Performance information for service delivery	M2	B	B	A	C	B
PI-9	Public access to fiscal information	M1	C				C
Pillar III. Management of assets and liabilities							
PI-10	Fiscal risk reporting	M2	D	D	D		D
PI-11	Public investment management	M2	C	C	D	C	D+
PI-12	Public asset management	M2	C	D	C		D+
PI-13	Debt management	M2	B	D	B		C+
Pillar IV. Policy-based fiscal strategy and budgeting							
PI-14	Macroeconomic and fiscal forecasting	M2	C	C	D		D+
PI-15	Fiscal strategy	M2	B	C	D		C
PI-16	Medium-term perspective in exp budgeting	M2	D	D	D	D	D
PI-17	Budget preparation process	M2	D	A	D		C
PI-18	Legislative scrutiny of budgets	M1	NA	NA	D	B	D+
Pillar V. Predictability and control in budget execution							
PI-19	Revenue administration	M2	A	C	C	D*	C+
PI-20	Accounting for revenue	M1	A	A	C		C+
PI-21	Predictability of in-year resource allocation	M2	C	A	D	C	C+
PI-22	Expenditure arrears	M1	D	A			D+
PI-23	Payroll controls	M1	D	B	B	C	D+
PI-24	Procurement management	M2	D	B	D	D	D+
PI-25	Internal controls on non-salary expenditure	M2	A	C	C		B
PI-26	Internal audit	M1	B	C	B	C	C+
Pillar VI. Accounting and reporting							
PI-27	Financial data integrity	M2	B	NA	B	A	B+
PI-28	In-year budget reports	M1	B	B	A		B+
PI-29	Annual financial reports	M1	D	D	C		D+
Pillar VII. External scrutiny and audit							
PI-30	External audit	M1	B	C	B	A	C+

PFM Performance Indicator		M1/M2	Dimension Ratings				Overall Rating
			i.	ii.	iii.	iv.	
PI-31	Legislative scrutiny of audit reports	M2	NA	NA	NA	NA	NA

1. Introduction

1.1 Rationale and purpose

This PEFA assessment is intended to enhance the effectiveness of WB&G's PFM systems and to aid the Palestinian Authority to consolidate its ongoing and planned reforms. More specifically, the assessment has undertaken an independent review of the quality and performance of PFM systems in WB&G for the financial years 2015, 2016 and 2017, and of the medium-term budget for 2018-21. In doing so, it provides a diagnostic analysis that can be used as the basis for dialogue on PFM reforms that will inform future updates and design work on the PFM reform strategy and subsequent action plans. Additionally, this work will inform the Monitoring and Evaluation Framework and will enhance the dialogue between the WB&G and its Development Partners and other key stakeholders.

1.2 Assessment management and quality assurance

PEFA assessment management organization

The assessment was conducted by a World Bank team led by Mark Ahern, Program Lead (Task Team Leader (TTL)) and Riham Hussein, Senior Governance Specialist and co-TTL. The Team included the following World Bank staff, Lina Tutunji, Senior Procurement Specialist; Maha Bali, Program Analyst, and Ala' Turshan, Procurement Consultant. The team was supported by international and local consultants including Phil Sinnett, Charles Hegbor and Mahmoud Musleh.

The assessment was funded through a trust fund set up with funds from EU and Denmark. The assessment used the new PEFA Framework published in February 2016 with a comparison to the 2011 Framework. The final report was reviewed by the PEFA Secretariat as well as other reviewers as detailed below. All comments were taken into account in preparing the final report.

Assessment Team: Mark Ahern, Riham Hussein, Lina Tutunji, Ala' Abd Minem Mohammad Turshan all WB, and Philip Sinnett (Leader); Charles Hegbor; Mohamed Musleh (consultants).

Development Partners: World Bank, EU, Denmark

Ministry of Finance and Planning: Fahed Sheikh, PFM Program Officer, WB&G

Review of concept note and/or terms of reference

- The concept note was reviewed on Wednesday October 17, 2018. The peer reviewers for the concept note were: Holy Tiana Rame (PEFA Secretariat); Buraq Nuseibeh (DFID); Fahed AlSheikh (MoFP); and Racheeda Boukezia (IMF's Fiscal Affairs Department). Finalization of the concept note was on October 18, 2018.

Review of the assessment report

A review meeting was held on **Thursday May 23, 2019** for the full draft report. The following were the peer reviewers for the report: Maimouna Mbow Fam, Lead Financial Management Specialist (GGOAW); Winston Percy Onipede Cole, Lead Financial Management Specialist (GGOES); Holy-Tiana Rame, PEFA Secretariat; Fahed ALSheikh, PFM Program Officer (MoFP); Oleg Hirbu, International Aid/Cooperation Officer (EU); and Buraq Nuseibeh, Sr. Policy and Program Officer (Dfid).

1.3 Assessment methodology

In undertaking this assignment of the central government of WB&G, a team of World Bank staff and consultants studied previous diagnostic reports on the Country's PFM systems, the PFM Reform Strategy and related Action Plan, various financial management progress reports, reports of the Controller and Auditor-General, Consolidated financial statements, Internal Audit reports, and other relevant documentation. The scope of the assessment covered the Central Government, which constitutes 95 budgetary entities and no extrabudgetary entities. In addition to government officials, meetings were conducted with development partners and representatives of civil society. The PFM systems in a representative sample of Ministries, Departments and Agencies of the Palestinian Authority, were assessed using the standard PEFA assessment process: 30 indicators were used – the exception being PI-31, as there has been no legislative oversight for several years – and the analysis and findings are presented in accordance with PEFA guidelines.

The performance assessment process was monitored and endorsed by the Ministry of Finance and Planning, and covered the financial years 2015, 2016 and 2017, as well as the WB&G's medium-term budget for 2018-21: the cut-off date was November 2018, and the data used and people met are listed in [Annexes 3](#) and [5](#).

2. Country background information

2.1 Country economic situation

Country Context

The Palestinian territories comprise the West Bank (which includes East Jerusalem; 5,640 km²) and Gaza (360 km²). The total population of 4.3 million (2012) is largely urbanised (72%), with 2.6 million people living in the West Bank and 1.6 million in Gaza. Income per capita is \$ 2,489 (2011), which is lower middle-income level; higher than some other countries in this category but lower than the average for the MENA region. The poverty headcount ratio using the national poverty line rose from 22% in 2009 to 26% in 2011.

The Palestinian Authority (PA), established shortly after the 1993 Oslo Accords for a five-year interim period, had full responsibility for both the West Bank and Gaza (WB&G) until 2007: since then, the PA's ability to operate in Gaza has been compromised by the presence of the *de facto* authority - Hamas.

The Oslo Accords further divided the West Bank into three areas: two (Areas A and B) under various levels of Palestinian control, which correspond to the major population centres and most rural communities, and a third (Area C) which covers about 60% of the West Bank and is under Government of Israel (GoI) control for both security and civilian affairs.

The PA has adopted a PFM model which is broadly 'Anglophone' but in the years following its establishment, power has increasingly become concentrated in the executive and in particular, the President: collective decision-making appears to be limited. In addition, budgetary control by the PA over activity in Gaza is more limited – for example, salary payments are made to civil servants and social assistance payments are made to the needy - with the *de facto* authority in Gaza having a parallel system. The PA has been heavily dependent on donor grants for budget support, while in the presence of extensive restrictions on movement and access the productive base of the economy (especially agriculture and manufacturing) has been hollowed out. The economy is dependent on external official and private transfers, and with recent cuts in aid to the PA and United Nations agencies this has contributed to a severe liquidity squeeze, compounding an already serious humanitarian problem, particularly in Gaza.

While the PA has undertaken efforts to improve PFM since 2007, the 2013 Public Expenditure and Financial Accountability (PEFA) assessment suggested that the outcomes were uneven. Improvements were noted in external scrutiny and audit, while progress was limited in other areas. Since then, constraints in the Ministry of Finance and Planning (MoFP) and line ministries have hampered the implementation of new procedures in budget execution, and limitations in expenditure controls have caused the accumulation of arrears and affected performance in key sectors such as health (payment arrears of some US\$100 million in 2016), and municipalities (unpaid electricity and water obligations to Israeli suppliers have resulted in significant arrears). Moreover, the PA's oversight of the use of its resources is undermined by limited accountability, given the lack of a functioning legislature. Other

examples are, the five-year delay in the audit of the PA's financial statements; and, the fact that the new Public Procurement Law and regulations enacted in 2014 remain largely unimplemented. Both areas are now being addressed. The role of civil society in monitoring the financial performance of the PA also remains weak.

Economic Growth

With the start of the second *intifada* in 2000, the PA's finances deteriorated, and a series of reforms were initiated, including to the PFM system (these were among the most far reaching PFM reforms implemented in the MENA region during the subsequent decade).

Following the election of the Hamas government in 2006, GoI and development partners imposed budgetary restrictions which triggered a fiscal crisis, and PFM reforms were largely discontinued until 2007, when a Caretaker Government, recognised by both GoI and the international community, was formed: GoI resumed the full transfer of PA revenues with accrued interest. As the new Government did not have effective control over Gaza, an extensive round of PFM reforms was initiated to establish institutions in the West Bank to replace those previously operating in Gaza.

By 2018, economic conditions had significantly weakened, particularly due to a decline in activity in Gaza. Real GDP growth dropped to less than 1% in 2018 – less than a quarter of its average for the previous three years. The economy has been constrained for more than two decades by restrictions on movement, access and trade that have kept investment levels extremely low and resulted in deindustrialization. Substantial transfers, mostly in the form of aid from the international community, have helped mitigate the impact of the restrictions through fuelling consumption driven growth. Nevertheless, transfers have been on a declining trend and witnessed a very large drop in 2017-18. Current transfers as a share of GDP dropped from 16.7% in 2016 to 15.5% in 2017 due to a decline in both private and official transfers.

Gaza's economy has faced severe challenges, shrinking by 7% in 2018. The economy has been kept afloat by large amounts of transfers, mainly aid and PA spending. However, these two sources of income have significantly declined recently resulting in a deterioration in economic activity and social conditions. In line with the economic deterioration the poverty rate has worsened; with 52% of the population below the poverty line in 2017.

In contrast, the West Bank economy grew by about 3% in 2018, driven by public consumption, but risks remain high given the PA's fiscal situation and the decline in aid. The sustainability of a growth model driven by public spending in the West Bank is questionable: living conditions have slightly improved, but the poverty rate is 13%, and the situation remains very fragile particularly since household income and expenditure are highly sensitive to conflict and dependent on aid. According to a World Bank analysis, a drop in expenditure as small as 5% could result in an increase in poverty by as much as 16-17%. The unemployment rate for the West Bank is hovering at around 18-19% in recent years.

The financial sector maintained relatively stable growth in a challenging macroeconomic environment, but this has slowed considerably in the past year. To achieve sustainable economic growth in the

Palestinian territories, growth and job creation will need to be private sector driven. For a small economy, achieving a sustainable growth path depends to a large extent on having a private sector that is able to compete in regional and global markets and increase its exports of goods and services. The private sector is the only sustainable engine for growth, and the focus should be on removing the constraints and creating the right conditions for it to flourish. The technology sector is a current area of private sector activity and opportunity. The tech start-up ecosystem in the West Bank and Gaza is at its early-stage and still maturing.

TABLE 2.1: Selected economic indicators

	2015	2016	2017	2018
GDP (nominal in USD millions)	12,673.0	13,425.7	14,498	14,615.9
GDP per capita (USD millions)	2,863.9	2,957.2	3,254.6	3,198.4
Real GDP growth (%)	3.4	4.7	3.1	0.9
Gross government debt (% of GDP)	40.4	36.4	35.6	39.2
Current account balance (% of GDP, excluding official transfers)	-21.8	-14.6	-14.7	-11.4

Source: Ministry of Finance and Planning & IMF

2.2 Fiscal and budgetary trends

Table 2.2 below summarises the fiscal data of the PA for the three completed fiscal years, 2015, 2016 and 2017. The PA has managed to achieve a sizable degree of fiscal consolidation over recent years. The most noteworthy fiscal development over the period between 2006 and 2017 has been the reduction in the relative size of the PA's total fiscal deficit before external grants from 30% of GDP in 2006 to around 8% in 2017 – a most impressive achievement. This is owed to a reduction in the relative size of the wage bill and net lending to GDP. The wage bill peaked at 23% of GDP in 2006 and has since been reduced to below 15%, thanks to hiring control and wage growth restraints, coupled with solid GDP growth – especially in the early period. Net lending has been a significant source of the fiscal burden and the PA has taken a number of actions that have reduced it from nearly 10% of GDP in 2006 to below 2% in 2017. Despite the internal divide and the inability of the PA to collect taxes in Gaza over the last decade, the PA has managed to grow its revenues from 22% of GDP in 2006 to around 25% in recent years. This can mainly be attributed to the MoFP's efforts to widen the tax base and roll out reforms to address tax evasion.

The improvement in the fiscal position stalled in 2018 as a reduction in the clearance revenues collected by the GoI negated the effect of the PA's significant expenditure cuts in Gaza. Despite the PA's efforts to increase domestic revenue collections and reduce spending – mostly the wage bill for Gaza – a reduction in clearance revenues in 2018 is projected to lead to a full year deficit before external grants of USD 1.24 billion (8.2% of GDP). This is similar to 2017 and is expected to result in a financing gap of around USD 600 million. The size of the financing gap and the resultant arrears to the private sector and the pension fund remain a cause for concern as they could eventually choke the economy. In 2019 the fiscal position has suffered a major shock following the GoI legislation that made a reduction in clearance revenues equivalent to USD 140 million on an annual basis. In response to this the PA refused all clearance revenues which meant a loss of 65 percent of its revenue base. This

is having a hugely detrimental impact on the fiscal position and the economy, which needs to be addressed.

TABLE 2.2: West Bank & Gaza aggregate fiscal data, 2015 to 2018 (million ILS)

Element	2015	2016	2017	2018
Total revenue	14,320	16,195	15,212	14,393
– Own revenue	11,141	13,275	12,616	11,982
– Grants	3,179	2,920	2,596	2,411
Total expenditure	15,246	17,422	17,051	15,830
– Non-interest expenditure	14,882	17,126	16,777	15,595
– Interest expenditure	364	296	274	235
Aggregate deficit (incl. grants)	(926)	(1,227)	(1,839)	(1,437)
Primary deficit (exc. Interest)	(562)	(931)	(1,565)	(1,202)
Net financing	926	1,227	1,839	1,437
– Domestic (bank financing & vendors arrears)	946	1,268	1,596	1,378
– Other	(20)	(42)	245	57
Public debt	9,908	9,559	8,850	8,916
Ratio of public debt to GDP	40%	36%	35%	39%

Source: Ministry of Finance and Planning and World Bank

TABLE 2.3: Budget allocations by function, 2015 to 2018 (million ILS)

Actual budgetary allocations by sectors		2015	2016	2017	2018
1	General Public Services	2,835	3,205	3,780	3,550
2	Public Order and Security	4,081	4,134	4,351	3,409
3	Economic Affairs	407	445	520	493
4	Environment Protection	14	14	14	17
5	Housing, etc	131	182	244	175
6	Health	1,745	1,699	1,734	2,392
7	Recreation, etc.	373	385	408	480
8	Education	2,726	2,706	3,117	3,193
9	Social Protection	2,480	2,513	2,559	4,320
10	Others	5,285	1,814	1,495	1,506
Allocated expenditure		20,077	17,097	18,208	18,636
	Interest	233	269	454	305
	Contingency	55	55	55	47
Total Expenditure		20,370	17,427	18,736	18,989

Source: Ministry of Finance and Planning and World Bank

TABLE 2.4: Budget allocations by economic classification, 2015 to 2018 (in million ILS)

Actual budgetary allocations by economic classification	2015	2016	2017	2018
Compensation of employees	8,244	8,383	8,597	8,061
Use of goods and services	3,383	3,061	3,400	4,106
Interest	349	308	454	305
Subsidies	90	81	140	86
Grants	225	142	189	46
Social benefits	3,074	3,131	3,491	4,376
Other expenses	3,064	391	420	380
Non-Financial Assets	1,139	1,076	1,090	1,628
Total expenditure	20,370	17,427	18,736	18,989

Source: Ministry of Finance and Planning and World Bank

2.3 Legal and regulatory arrangements for PFM

The PA was initially established for a five-year interim period with responsibility for the administration of the territories partly under its control. However, the Oslo Accords were never fully implemented, and the consequence is the present multi-layered system of physical, institutional, and administrative restrictions, which have fragmented the Palestinian territories into small enclaves. Budgetary control by the PA over Gaza is limited to salary payments for PA civil servants with the *de facto* authority in Gaza having a parallel system.

Table 2.5: Legal framework for PFM

Public Finance	<p>The Organic Law covers ministries and agencies and other public institutions such as autonomous institutions. It does not cover companies or corporations owned in full or part by the PA, nor does it cover public enterprises, which operate under the Companies Law. It also provides the institutional basis for a number of important processes, requirements and principles, for instance:</p> <ul style="list-style-type: none"> • preparation, submission and authorization of budgets (together with an established budget calendar providing the dates at which various actions are to be taken) • financial procedure in the event the budget law is not enacted in time for the start of the financial year • use of the Central Treasury Account (CTA) for pooling government revenues • expenditures to be drawn from the CTA only in accordance with the budget law • the required contents of the budget circular and annual budget law and the requirement for the latter to be a public document • execution of the budget including the MOF's leading role in this area • lapse of unused funds at year-end • the annual budget to establish the upper limit for government borrowing, and • procedures for the preparation and submission of financial reports and annual financial statements.
Internal Control	<p>The Financial Management Law of 1998 and the Financial Ordinance of 2009 provide sufficient legal and regulatory framework for a strengthened control environment. The Minister of Finance and Planning is the authorised government official to sanction all approved payments. The accounting officer in each budget entity is responsible for ensuring the day-to-day compliance of all payment rules</p>
Audit	<p>Law 15 of 2004, amended by law 18 of 2017, governs the Supreme Audit and Administrative Control Bureau (SAACB)</p>
Procurement	<p>Public procurement is regulated by Law No. 8 of 2014, which applies to both the central and municipal levels of government. The law became effective on July 1, 2016; however, several aspects remain unimplemented.</p> <p>The High Council for Public Procurement Policies (HCPPP) was established in September 2012 with a mandate to develop and oversee the procurement system.</p>
Revenue	<p>Income Tax and Customs/VAT departments, under the MoFP, collect all central government tax revenues.</p>
State enterprises	<p>The Palestinian Investment Fund (PIF) is responsible for the oversight of state enterprises</p>
Other	<p>Additional laws and regulations underpinning PFM include:</p> <ul style="list-style-type: none"> • Financial regulations issued under the Organic Budget Law (2009) • Palestinian Financial By-Laws (1998 Law on Finance) • Debt Law (2005) • Income Tax Law (No. 8 of 2011) • Government Tenders and Works Law (previous system)

2.4 Institutional arrangements for PFM

Structure of Government

In 2005 Mahmoud Abbas from the Fatah party was elected President while in the 2006 elections, the Hamas party gained control over the parliament (the Palestinian Legislative Council), in the wake of a subsequent conflict Hamas seized effective control in Gaza while the PA continued to have full control in the West Bank: this situation remains, to the extent that in practice the PA's ability to operate in Gaza is compromised – with security arrangements in particular controlled by the de facto authority.

The Executive

The executive is led by a Prime Minister appointed by the President, who is given responsibility for allocating ministerial positions. A new Prime Minister was appointed in March 2019 and he has established a cabinet of 24 members.

The Legislature

There has not been a meeting of the Palestinian Legislative Council since 2007. Approval of the annual budget is currently by the President following recommendations from the Minister of Finance. In this situation, it is not possible to assess PEFA indicators relating to the scrutiny of the annual budget by the legislature and scrutiny of external budget reports (as was the case in the 2013 assessment).

The Judiciary

The Ramallah Appeal and High Court is the only court of appeal in the northern West Bank, and it also hears cases for the High Court, while Magistrates Courts and Courts of First Instance deal with other judicial matters. Israeli restrictions on movement and access have severely affected the running of the Palestinian judicial system (which requires the presence of three justices, a prosecutor, a defence lawyer and a clerk for trials to be legal). The Palestinian judiciary remains weak and insufficiently independent of the executive.

Office of the Controller and Auditor General (SAACB)

The SAACB joined INTOSAI as a full member in 2017 and developed the SAACB Strategy 'How to make a difference in a citizen's life' (2017–2021) which is published on its website. The SAACB is headed by its President who is appointed for a non-renewable seven-year term. The SAACB undertakes procedures and audits that aim to ensure the soundness of financial actions and the proper use of public funds for designated purposes. In this regard a key function is the completion of the audit of the financial statements of the PA. While the SAACB does not typically conduct financial audits at the sub national government level, it can be tasked with carrying out audits or investigations where requested, or where a potential problem is identified.

Palestinian Monetary Authority (PMA)

The PMA is an independent public institution responsible for the formulation and implementation of monetary and banking policies, to safeguard the banking sector and ensure the growth of the national economy in a balanced manner. PMA aims to maintain financial stability and to promote sustainable economic growth through:

- effective and transparent regulation and supervision of banks, specialized lending institutions and money changers operating in the Palestinian territories.
- overseeing the implementation and operation of modern, efficient payment systems.

Because the Palestinian territories do not have a separate currency the PMA does not have responsibility for monetary policy.

Ministry of Finance and Planning (MOFP)

The Minister is organisationally responsible for the work of the MOFP. The main departments of the MoFP with responsibility for PFM are the budget department, the general accounting department (which includes cash management, payroll, and the control department) and the Macro-Fiscal Unit, which is responsible for the overall strategic framework for planning and budgeting within a medium-term fiscal framework (MTFF). The budget preparation and execution process has been supported by a devolved IFMIS ('BISAN' Enterprise Edition) since 2009. Most payments are executed by line ministries in a devolved treasury model. Salary payments are conducted centrally. Budget funds are released quarterly on a pro-rata basis (one fourth) through the issuance of Financial Orders (also called budget allotments). The IFMIS ensures controls of payments against cash ceilings only and cannot prevent arrears being accumulated. A module which controls and records commitments has been developed but has not yet been activated in a systematic manner.

Line ministries

Ministers are responsible for the operation of their ministry with a Deputy Minister and a number of functional departments reporting directly to the Minister. Each ministry has a Planning and Budget Committee, a Tender Board and Procurement Management Unit, a Chief Accountant and Chief Internal Auditor.

Structure and Transfers to Sub-National Government (Local Government)

There are 150 municipalities and 284 village councils that are largely independent. The Ministry of Local Government is responsible for overseeing the local governments in WB&G, and administers the Local Government Act, including policy making and coordinating all issues relating Financing. There is a Minister in the Cabinet, but for daily operations, the Ministry is headed by Principal Secretary responsible for Local Government.

The key features of the PFM system

The Organic Budget Law (No. 7 of 1998) defines the roles of revenue and spending agencies, the MoFP, the Legislative Council and the Council of Ministers, and permits Fiscal Directives to be issued. There is also an annual budget law (granting spending authority for recurrent expenditures plus the relatively small amount of capital expenditures funded from PA revenues: most capital expenditure is funded by donors); this can be used to introduce new financial management principles. The Minister of Finance and Planning has the sole authority to conclude loan agreements with donors.

In 2010, the MoFP prepared amendments to the financial regulations, including amendments to commitment controls, the role of financial controllers, and the introduction of a new budget classification structure for preparation, execution, accounting and reporting: these have not yet been formally adopted, although some have been brought into practice by officials.

2.5 Other key features of PFM and its operating environment

The Palestinian Political system that has emerged post the 2006 elections has a lack of formal accountability. The lack of a functioning legislature since 2007 has undermined the checks and balances within the institutional and political system. This has led to a concentration of institutional powers within the Executive and removed a regular institutional channel for citizen voice. Civil society organizations have not been an adequate alternative source of monitoring the PA performance in the absence of a legislative function. The same can be said about two important oversight institutions, namely the Anti-Corruption Commission (ACC), which has maintained a limited and low-profile role since its establishment in 2010, and the State Audit and Administrative Control Bureau (SAACB), which has been restricted from playing a broader and effective role in promoting reform in the governance area. The vacuum left by the non-functioning legislature has unexpectedly produced more political vibrancy in Local Governments (mostly municipalities), which are the only political institutions to be regularly elected since 2007.

The administrative functions of the PA are also insufficiently institutionalized - both at the center of Government and service delivery agencies. Policy formulation at the Council of Ministers level is relatively weak - with limited contestability or transparency in the process. Managerial decision-making at the administration level, particularly in ministries is also lacking. The little accountability in formal relationships between the PA and civil society; the restrictive physical territorial connections; and constrained decision-process on sectoral resources allocation by development partners impede the ability for the service providers to implement policy and provide services in an efficient and equitable manner. Management authority at ministries is heavily centralized, with limited flexibility provided to front line service providers. Similarly, there is insufficient attention to the oversight of downstream service provision. Access to government services (line ministries and other public service providers) is at times based on connections rather than on needs and qualifications, and private sector activities are spearheaded by a small number of large players well connected to politics.

During 2014-2016, the World Bank conducted several TA missions to the MoFP (General Accounting Department) aimed at strengthening accountability of the PFM system in relation to continued budget support. Those missions focused on: (i) developing a framework for commitment recording and control procedures; (ii) establishing an annual cash plan, and (iii) monitoring the generation of arrears in order to serve as a guide for budget execution affordability. During 2015-2016, the Bank has assisted in developing an accounting handbook in line with the International Public Sector Accounting Standards cash basis (IPSAS). This handbook is expected to empower the MoFP to:

- (i) make the line ministries implement the correct accounting procedures, as they are primarily responsible for accounting data entry into the IFMIS as part of a decentralized budget implementation system;
- (ii) enhance the quality and timeliness of the accounting and reporting data by establishing a quality control process in the duty of producing the main reporting and accounting documents; and
- (iii) develop accounting training and capacity building in order to ensure a sustainable framework for financial accountability.

Other donors have engaged in a series of activities to introduce a multi-year budgeting approach and top-down budget preparation process, as well as to strengthen the financial audit capacity of the State Audit and Administrative Control Bureau (SAACB) in order to get the financial statements of the PA audited in line with international standards.

The PA has issued a PFM strategy covering 2017-22 to underpin the alignment of further TA with its own objectives. The PFM strategy emphasizes expenditure management and control, accounting, reporting and procurement with a clear link to PEFA related indicators. These areas meet the scope of the PFM project being implemented by the MoFP. The project aims at strengthening the downstream cycle of the PFM system with emphasis on effective implementation, building on the previous TA activities while broadening their implementation to other line ministries (education, health and local governments). It will also support implementation of the main recommendations related to the lack of accuracy and timeliness in the final account preparation process which is crucial for the accountability of the PFM system.

Two other country-specific issues affect this PEFA assessment, in particular:

- **Implementation of expenditures in Gaza.** Since the separation of Gaza in 2007, the budget of the Palestinian Authority continues to be implemented in Gaza as in other parts of the West Bank and Gaza. The wage bill for all civil servants in WB&G is paid centrally by the PA. Goods and services are procured centrally by line ministries (e.g. books, drugs, stationery, and furniture) and are sent to service delivery units in Gaza (e.g. schools). Development projects are financed by donors and implemented and controlled in Gaza according to the donor's own requirements. Therefore, although payments occur in the West Bank, the PA's expenditures executed in Gaza are not reviewed differently from those executed in other parts of WB&G.
- **Clearance Revenue.** The monthly transfer of revenues collected by the GoI on goods and services destined for WBG constitute about two thirds of the PA's budgetary revenue. The major components of these 'clearance revenues' are customs, VAT and petroleum excise duty. However, the transfer of these revenues can be unpredictable, which creates significant difficulties in forecasting cash availability. This has been highlighted by the current fiscal crisis which has seen the cessation of all flows since February 2019.

3. Assessment of PFM performance

Pillar I. Budget reliability

PI-1 Aggregate expenditure outturn

This indicator uses one dimension to measure the extent to which aggregate budget expenditure outturn reflects the amount originally approved, as defined in government budget documentation and fiscal reports for the last three completed fiscal years, i.e. 2015, 2016 and 2017: coverage is Budgetary Central Government (BCG).

1.1 Aggregate expenditure outturn

The indicator is calculated using aggregate expenditure, which includes current and capital expenditure of central government ministries and institutions, actual transfers to subnational governments, contingencies and interest on debt. This measure also reflects the government’s ability to maintain fiscal discipline, while adhering to the parameters set in the approved budget.

The data for this indicator is drawn from the approved general budget laws and the fiscal reports (monthly and annual reports) for 2015, 2016, and 2017 issued by the MoFP, as audited financial statements have been delayed since 2015 (and hence have not been submitted to SAACB for audit).

Total expenditure outturn compared to approved original budget for 2015, 2016 to 2017 periods are provided in **Table 3.1** below (details from the spreadsheet are provided in **Annex 6**).

Table 3.1: Aggregate expenditure outturn vs. approved original budget

<i>Figures are presented in million ILS.</i>	2015		2016		2017	
	Original Budget	Outturn	Original Budget	Outturn	Original Budget	Outturn
Total expenditure	20,370	16,415	17,427	16,799	18,736	17,172
Difference between actual & originally approved expenditure	-3,954		-627		-1,563	
Actual aggregate expenditure as % of originally approved budgeted	80.6%		96.4%		91.7%	

Source: Budget laws and monthly financial reports for 2015, 2016 and 2017. Also, MoFP, Budget Department.

PI-1	Dimension	Score	Justification
	Aggregate expenditure outturn	B	Overall rating based on M1 methodology
1.1	Aggregate expenditure outturn	B	Deviations from original budget were less than 10% in two of the last three years: deviations were 19.4% for 2015, 3.6% for 2016, and 8.3% for 2017.

Current improvement efforts:

While this indicator is rated ‘B’ it should be noted that the original Budget contains estimates based on (Arab) Donor promises at the Cairo 2014 summit, which pledged budget support estimated at ILS

800 million, which was never received. Based on this expectation there was a major increase in the total budget for 2015, which was eventually not implemented. This problem was resolved in the 2016 Budget.

In addition, it should be noted that this is based on unaudited financial statements, as there have been delays in preparing final accounts and submitting them to the SAACB: however, efforts are underway to eliminate this backlog, and the audited statements for 2015 and 2016 will soon be available.

PI-2 Expenditure composition outturn

This indicator measures the extent to which reallocations between the main budget categories during execution have contributed to variance in expenditure composition. It assesses the extent to which public policy priorities, as reflected in the allocation of expenditures by functional and economic categories in the approved budget, are respected in the execution and implementation phase. It also evaluates the potential use of a contingency reserve, or unearmarked budget allocation, to adjust the initial policy priorities.

The results for this indicator measure variations for the administrative/functional/program classification (ministry/department/agency); and also, by economic classification. Measurement requires a comparison of the expenditure executed in relation to the original budget, at a disaggregated level. It contains three dimensions and uses the 'weakest link' method for aggregating scores. Coverage is budgetary central government, and the assessment is based on the fiscal years 2015, 2016 and 2017.

The variance is calculated by adjusting each original budget line by the overall difference between budget and out-turn, and then summing the absolute differences between these adjusted amounts and the actual expenditure on each line, which is then expressed as a percentage of total actual expenditure. Interest payments are excluded from dimension 2.1 but included for dimension 2.2, and details from the spreadsheet are provided in [Annex 6](#).

2.1 Expenditure composition outturn by function

This dimension measures the difference between the originally approved budget and end-of-year outturn in expenditure composition, by functional classification, during the last three years, excluding contingency items and interest on debt¹. Other expenditures should be included—for example, expenditures incurred as a result of exceptional events such as armed conflict or natural disasters, expenditures financed by windfall revenues including privatization, central government subsidies, transfers, and donor funds reported in the budget.

¹ For this calculation.

Table 3.2: Expenditure variance (%)

ITEM	2015	2016	2017
Expenditure composition outturn by function (PI-2.1)	52.6%	21.2%	16.4%
Expenditure composition outturn by economic type (PI-2.2)	31.2%	8.6%	7.2%

Source: Ministry of Finance & Planning

It reflects the government's ability to pursue policy objectives as intended and stated in the budget. Actual and budgeted expenditure by function are presented in the table below. In 2015 the significant variance was again driven by the large underspend in the provision that was made based on Cairo conference pledges, which was partially allocated to other items. The variation was significant but less in the subsequent years.

Dimension rating: D

2.2 Expenditure composition outturn by economic type

This dimension measures the difference between the original, approved budget and end-of-year outturn in expenditure composition by economic classification during the last three years including interest on debt but excluding contingency items. The composition of the budget by economic classification is important for reflecting the movements/reallocations between different categories of expenditures. The calculation is using the second level of the GFS classification (2 digits). Again, the major variation in 2015 was driven by the budgeting for other expenditures following the Cairo conference, which never materialized.

Dimension rating: B

2.3 Expenditure from contingency reserves

This dimension measures the average amount of expenditure actually charged to contingency vote over the last three years. This dimension recognizes the need for a contingency toward unforeseen events, but it should not be so large to undermine the credibility of the budget.

Table 3.3: Expenditure from contingency reserves

ITEM	2015	2016	2017
Total budgeted expenditure	20,370	17,427	18,736
Expenditure from contingency provision	20.54	10.96	10.14
Share	0.1%	0.1%	0.1%
Average share of expenditure from provision	0.1%		

Source: Ministry of Finance & Planning

WB&G makes very limited use of the contingency vote as can be seen in [Table 3.3](#): this shows that over the last three years, the average expenditure was 0.1%, much lower than the threshold of 3%.

Dimension rating: A

PI-2	Dimension	Score	Justification
Expenditure composition outturn		D+	Overall rating based on M1 methodology
2.1	Expenditure composition outturn by function	D	Variance in expenditure composition by functional classification was more than 15% in each of the last three years (52.6%, 21.2% and 16.4%).
2.2	Expenditure composition outturn by economic type	B	Variance in expenditure composition by economic classification was less than 15% in two of the last three years (31.2%, 8.6% and 7.2%).
2.3	Expenditure from contingency reserves	A	Actual expenditure charged to the contingency vote was on average 0.1%, over the last three years.

Current improvement efforts:

MoFP in cooperation with the Prime Minister's office and the Secretary of Cabinet are planning to make reforms in the budget preparation process over the next three years with support of DFID.

PI-3 Revenue outturn

This indicator comprises two dimensions and measures (1) the aggregate revenue outturn and (2) the revenue composition outturn. M2 (AV) method for aggregating dimension scores. The indicator contributes to the assessment of budget reliability by considering the accuracy of revenue forecasting. The detailed data for the three-years period are shown in the tables below. The calculation of the deviations between approved budgets and outturns for each dimension is performed using the assessment spreadsheet provided on the PEFA website.

3.1 Aggregate revenue outturn

This dimension measures the extent to which revenue outturns deviate from the originally approved budget. Within the Palestinian context, revenue projections are not an easy task since it depends on various variables and substantially effected by the fluctuated political and economic situation since significant portion of the revenues comes from the tax clearances with the Israeli side, also around 20% of the revenues depending on grants and donations from external sources. **Table 3.4** below shows that, in the three years covered by the assessment, the aggregate revenue differences were -26.8%, 0.9% and -12.2% respectively.

Table 3.4: Deviation in aggregate revenue

<i>Figures are presented in million ILS.</i>	2015		2016		2017	
	Original Budget	Outturn	Original Budget	Outturn	Original Budget	Outturn
Total Revenue	18,048	14,320	15,070	16,722	15,946	15,624
Difference between actual & originally approved revenue	-3,727		-1,652		321	
Revenue Deviation	79.3%		111.0%		98%	

Source: The budget laws and monthly financial reports for 2015, 2016 and 2017. Also referred to MoFP, General Accounts and Budget Departments

The revenue deviation for 2015 was highly significant. While a number of tax items (especially the VAT) performed strongly that year, the main cause of the variance was the underperformance of grants that had been pledged at the Cairo conference in 2014. While less significant in later years the

underperformance of grants has been an important factor during the period. In 2017 an additional source of variance was a strong performance on income tax collections as a result of additional administrative efforts that was not taken into consideration in the budget.

Dimension rating: B

3.2 Revenue composition outturn

This dimension measures the variance in revenue composition over the last three years. It includes actual revenue by category compared to the originally approved budget using level three (3 digits) of the GFS classification or a classification that can produce consistent documentation according to comparable hierarchical levels and coverage. It includes disaggregation of tax revenue by the main tax types, nontax revenue, and grants. This dimension attempts to capture the accuracy of forecasts of the revenue structure and the ability of the government to collect the amounts of each category of revenues as intended. Revenue variance calculations are based on PEFA Framework methodology and presented in [Annex 6. Table 3.5](#): below demonstrates detailed revenue data for the period 2015/17.

Table 3.5: Deviation in revenue composition

YEAR	Deviation
2015	39.2%
2016	19.0%
2017	19.3%

Source: The budget laws and monthly financial reports for 2015, 2016 and 2017. Also referred to MoFP, General Accounts and Budget Departments

As can be seen in [Table 3.5](#), even in years where the overall variance in revenues has been relatively small this has often been the result of large offsetting variances in individual categories. This can partly be attributed to challenging items such as the grant intentions of donors, but aligning the budget with planned administrative efforts by the PA is also an area for improvement.

Dimension rating: D

PI-3	Dimension	Score	Justification
	Revenue outturn	C	Overall rating based on M2 methodology
3.1	Aggregate revenue outturn	B	Out-turns were between 98% and 111% of budgeted revenue in two of the last three years 2015-2017.
3.2	Revenue composition outturn	D	Variance in revenue composition was more than 15% in each of the last three years 2015-2017.

Current improvement efforts:

The Government launched its PFM Improvement Project (PFMIP) in October 2018, developed out of the 2017-2022 PFM Reform Strategy. This project is aiming to improve the financial accountability that is involving proper developments to ensure more reliable financial systems capable to generate timely reports of all types and serving different purposes.

Pillar II. Transparency of Public Finances

PI-4 Budget Classification

This indicator uses one dimension to assess the extent to which the government budget and accounts classification is consistent with international standards.

4.1 Budget classification

The Chart of Accounts introduced for the 2011 budget includes economic, administrative, program/activity, funding and geographic segments, and complies with GFSM 2001 and COFOG. This classification (including program/activity code) has been fully operational in the BISAN system since 2011 and allows transactions to be tracked throughout the budget cycle. It comprises a 16-digit coding system with five segments:

- (i) economic classification based on GFSM 2001;
- (ii) administrative segment;
- (iii) program/activity classification;
- (iv) funding (source of fund) segment; and
- (v) geographic dimension.

The Chart of Accounts facilitates monitoring of budget implementation by classifying expenditure into the 10 high-level functions consistent with the COFOG classification: this provides aggregated data for control purposes, as well as a more detailed level for recording/reporting the budget expenditures.

PI-4	Dimension	Score	Justification
	Budget classification	A	Overall rating based on M1 methodology
	4.1 Budget classification	A	Budget formulation, execution, and reporting are based on every level of administrative, economic, and functional classification using GFS/COFOG standards

PI-5 Budget documentation

This indicator has one dimension to assess the comprehensiveness of information presented in the annual budget documentation, verified against a specific list of “basic” and “additional” items. ‘Good practice’ requires the budget documentation to provide at least eight items (four of which are “basic”) from a list of twelve.

5.1 Budget documentation

Table 3.6 below shows the extent to which the last budget submitted to the President for approval meets the PEFA requirements. The assessment was for the budget for 2018. The Budget Law and the Summary of Budget Terms are submitted. The Budget Law is a comprehensive document which includes all the basic elements listed below as well as some of the additional elements. The Summary of Budget Terms is an additional document which summarizes the main revenue sources (domestic and otherwise) and main expenditures as well as the expected deficit.

Table 3.6: PEFA Standard budget documentation

#		Passed / Failed	Data Sources
Basic elements			
1.	Forecast of the fiscal deficit or surplus or accrual operating result	Yes	Budget Law, page 15
2.	Previous year’s budget outturn presented in the same format as the budget proposal.	Yes	Budget Law, page 6
3.	Current fiscal year’s budget presented in the same format as the budget proposal. This can be either the revised budget or the estimated outturn.	Yes	Budget Law, page 6
4.	Aggregated budget data for both revenue and expenditure according to the main heads of the classifications used, including data for the current and previous year with a detailed breakdown of revenue and expenditure estimates. (Budget Classification is presented in PI-4.)	Yes	Budget Law, pages 23 and 28
Additional elements			
5.	Deficit financing, describing its anticipated composition.	Yes	Budget Law, page 15
6.	Macroeconomic assumptions, including at least estimates of GDP growth, inflation, interest rates, and the exchange rate.	Yes	Budget Law, page 27
7.	Debt stock, including details at least for the beginning of the current fiscal year presented in accordance with GFS or another comparable standard.	Yes	Budget Law, page 1109
8.	Financial assets, including details at least for the beginning of the current fiscal year presented in accordance with GFS or another comparable standard.	Yes	Budget Law, page 25
9.	Summary information of fiscal risks, including contingent liabilities such as guarantees, and contingent obligations embedded in structure financing instruments such as public-private partnership contracts, etc.	No	NA
10.	Explanation of budget implications of new policy initiatives and major new public investments, with estimates of the budgetary impact of all major revenue policy changes and/or major changes to expenditure programs	No	NA
11.	Documentation on the medium-term fiscal forecasts.	No	NA
12.	Quantification of tax expenditures (tax loss due to offers, deductions).	No	NA

Source: Budget documents submitted to the President.

PI-5	Dimension	Score	Justification
Budget documentation		B	Overall rating based on M1 methodology
5.1	Budget documentation	B	Budget documentation fulfils 8 of the 12 elements, including all four ‘basic’ elements.

PI-6 Government operations outside financial reports

This indicator measures revenue and expenditure not recorded in the government financial reports. In principle, all activities (exclusive of commercial revenue by state-owned enterprises) should be reported provide for openness, transparency, and sustainability, and to improve the allocation and efficiency of utilizing these resources.

6.1 Expenditure outside financial reports

This dimension examines expenditures incurred by extrabudgetary units (including social insurance funds) not reported in the government's financial reports. "Good practice" (score A) require expenditures not included in financial reports to be less than 1% of total expenditure.

As far as can be ascertained (and this has been confirmed by the most recent IMF reports) there are no extrabudgetary funds.

Table 3.7: 2017 Expenditure outside financial reports

Item	Implemented
Total budget expenditure	4,195
Extrabudgetary expenditure	0
Percentage (%)	0%

There is no expenditure outside financial reports.

Dimension rating: A

6.2 Revenue outside financial reports

This dimension demonstrates the revenue of the budget and extrabudgetary units (including social insurance funds) not reported in the government's financial reports. Good practice (score A) requires local revenue outside financial reports lower than 1% local total revenue.

Extrabudgetary revenue is presented in [Table 3.8](#).

Table 3.8: Revenue outside financial reports 2017

Item	Implemented
Total budget revenue	4,195
Extrabudgetary revenues	0
Percentage (%)	0%

There is no revenue outside financial reports.

Dimension rating: A

6.3 Financial reports of extrabudgetary units

This indicator assesses how extrabudgetary units submit their financial reports to the government. Good practice (score A) requires the financial reports of all extrabudgetary units to be submitted within three months of the end of the fiscal year.

As far as can be ascertained (and this has been confirmed by the most recent IMF reports) there are no extrabudgetary funds which are not reported.

Dimension rating: NA

PI-6	Dimension	Score	Justification
Government operations outside financial reports		A	Overall rating based on M2 methodology
6.1	Expenditure outside financial reports	A	No spending is excluded from financial reports.
6.2	Revenue outside financial reports	A	No revenue is excluded from financial reports.
6.3	Financial reports of extrabudgetary units	NA	As far as can be ascertained, there are no extrabudgetary funds which are not reported.

PI-7 Transfers to subnational governments

Indicator PI-7 assesses transparency and timeliness of transfers from central government to subnational governments, reviews the basis for such transfers, and assesses whether subnational governments receive timely notification about transfers to facilitate compilation of their estimates.

7.1 System for allocating transfers

This was assessed for the fiscal year 2017. “Good practice” (score A) requires all resources allocated to subnational governments to be based on objective criteria. The Ministry of Local Government (MoLG) is responsible for overseeing the activities of the 430 ‘local government units’ in WB & G. Of these, 146 are ‘municipalities’ (25 in Gaza and the rest in the West Bank), while the balance of 284 are village councils, which are grouped into Joint Service Councils. In addition, the municipalities are categorised as ‘A’ – the 16 ‘government centres’; ‘B’ – with a population greater than 15,000; and ‘C’ – the remainder.

Sources of ‘own revenue’ are property taxes (collected by the Government Tax Department, subject to a 10% collection fee), user charges (for water, electricity and solid waste collection) and market and building fees and shop licenses. However, these revenues are insufficient to enable the provision of services to communities, and hence the 430 local government units receive transfers from the MoLG. Article 26 of the Local Government Act (Law No. 1 of 1997) governs the transfer and distribution of revenues collected from vehicle licensing fees and fines: the distribution is based on the following criteria (N.B. not every unit receives an allocation based on **all** the criteria):

- 50% – Population, and this data is published;
- 15% – Jerusalem;
- 5% – Joint Municipalities;
- 15% – Village Councils;
- 5% – Joint Committees;
- 10% – Marginalized councils.

Dimension rating: C

7.2 Timeliness of information on transfers

“Good practice” requires that subnational governments are reliably notified of their allocations in order to facilitate compiling their expenditure estimates efforts no later than six weeks before the start of a new budget year (to be scored A).

Although there is a budget calendar, information on transfers from the government is only circulated in November, and technically remains provisional until the overall budget has been approved by the President. In addition, the Minister of Local Government must approve each LGU budget: however, in 2017, this approval was granted before the start of the financial year. An additional point to be noted is that the rating is based on the information provided to the subnational governments, which may not necessarily relate to the cash that will eventually be made available.

Dimension rating: C

PI-7	Dimension	Score	Justification
	Transfers to subnational governments	C	Overall rating based on M2 methodology
7.1	System for allocating transfers	C	The transfers from central government based on population data (50%) are transparent and rule-based.
7.2	Timeliness of information on transfers	C	The MoLG provides information on transfers before the start of the new financial year.

Current improvement efforts:

The MoFP is implementing two reform programs in cooperation with the World Bank, EU, Danish Government and DFID. Part of these reforms will be focusing on the Fiscal Transfers at its two budgeting and execution levels.

PI-8 Performance information for service delivery

Good practice demands that performance information, e.g. the outcomes of programs financed by the budget, should be included in the budget proposal and related documents, reviewed in year-end reports and performance evaluation reports, to improve the quality of public services. In addition, service delivery units should be informed about resources provided by the budget to improve the services to citizens.

This indicator is assessed on the Ministry of Education (MoEd) and the Ministry of Health (MoH), as their budgets account for a significant share of PA expenditure.

8.1 Performance plans for service delivery

This first dimension assesses the extent to which key performance indicators for the planned outputs and outcomes of programs or services financed through the budget are included in the budget proposal (or related documents), at the function, program or entity level.

The assessment scope is the central government. Both the MoEd and the MoH publish extensive and detailed performance plans which are compiled by the respective Ministry as part of the budget preparation process (these plans represent 29% of the budget). For example, the Education strategy,

2017-22 contains a matrix that runs to several hundred lines, and details by **Program; Policy; Action Program; Activity; Responsibility; Costs; Source of funds**, the various activities related to education.

Dimension rating: B

8.2 Performance achieved for service delivery

This dimension examines the extent to which performance results for outputs and outcomes are presented either in the executive's budget proposal or in an annual report or other public document, in a format comparable to the plans previously adopted within the annual or medium-term budget. Good practice requires that most sectors should accommodate this to acquire score A.

The MoEd publishes both semi-annual and annual progress reports (each running to more than 100 pages) which provide very detailed data on the quantity of outputs produced in relation to those planned in the budget: this was the case in 2017.

Dimension rating: B

8.3 Resources received by service delivery units

This dimension measures the extent to which information is available on the level of resources actually received by service delivery units of at least two large ministries (and as mentioned in the introduction to this indicator, Education and Health have been chosen).

Recording of these resource flows is monitored in detail by the two Ministries, Education and Health. For example, the breakdown of resource flows to schools by the MoEd (both centrally, and by its District Directorates) reveals a comprehensive record of revenues (school fees, cafeteria revenues, etc.), and expenses such as teacher and support staff salaries, utility bills, general supplies: these are recorded by school at the level of the relevant Governorate, and are paid centrally by the MoEd: however, once the information is processed by MoFP into the BISAN system it is not disaggregated by school (only by item and programme). The MoEd also has the bank/cash balance for each school. Infrastructure works (construction, repairs, etc.) may be funded by a municipality, a donor, or by community contributions: each would follow a different modality, but would be captured centrally by the MoEd.

Information on resource flows to primary health centres is the same as described for education (above), and is also published annually: however, the one exception is that supplies provided by MoH District Directorates are captured on an itemized, not monetized, basis.

Dimension rating: A

8.4 Performance evaluation for service delivery

This dimension considers the extent to which the design of public services and the appropriateness, efficiency, and effectiveness of those services is assessed in a systematic way through program or performance evaluations. "Good practice" (score A) requires independent evaluations to have been carried out and published for most ministries of the efficiency and effectiveness of service delivery at least once within the last three years: this is the case for the Ministries of Health and Education, which have undertaken such reviews and together comprise 28% of expenditure.

Dimension rating: C

PI-8	Dimension	Score	Justification
Performance information for service delivery		B	Overall rating based on M2 methodology
8.1	Performance plans for service delivery	B	Information is published annually on program objectives, key performance indicators, and outputs to be produced for the largest ministries.
8.2	Performance achieved for service delivery	B	Information is published annually on the quantity of outputs produced for the largest ministries.
8.3	Resources received by service delivery units	A	Information on resources received by frontline service delivery units is collected and recorded by Governorate by the Ministries of Education and Health and shows the source of funds. A report compiling the information is prepared annually.
8.4	Performance evaluation for service delivery	C	Evaluations of the efficiency or effectiveness of service delivery have been carried out for the Ministries of Education and Health in the last three years.

Current improvement efforts:

The MoFP has established a new ‘Budget Performance Directorate’, which will work closely with the Budget Preparation Directorate, to follow up on the post-budget preparation phase and create a feedback loop to inform budget Directorate in its preparation for the following budget years based on lessons learned (and this may be supported by DFID).

PI-9 Public access to fiscal information

This indicator assesses public accessibility to fiscal information.

9.1 Public access to fiscal information

This indicator assesses public accessibility to budget and related data, and is considered evidence of fiscal transparency. The PEFA Framework identifies nine elements of this data, of which five are ‘basic’ and four are ‘additional’, and the rating is based on public accessibility to the details, within specified timeframes. “Good practice” requires eight out of nine items listed in [Table 3.9](#) below to be public to obtain score A.

Table 3.9: Public access to fiscal information

#	Fiscal information: items included	Explanation	Public?	In time?	Yes/No
Basic elements					
1	<i>Annual executive budget proposal documentation</i>	As the PLC is not functioning, the budget proposal is submitted to the president. Once approved, it becomes the Budget Law, and is published and available to the public within one week, in fact usually the day after the president’s approval.	Yes	Within one week of executive’s submission: Yes:	Yes
2	<i>Enacted budget.</i>	Covered under point 1 above.	Yes	Yes	Yes
3	<i>In-year budget execution reports.</i>	In-year budget execution is reported as part of the monthly financial reports that are	Yes	Within one month: Yes	Yes

#	Fiscal information: items included	Explanation	Public?	In time?	Yes/No
		published on the MoFP website by the 15 th of the following month.			
4	<i>Annual budget execution report.</i>	MoFP considers the December monthly report to be the annual report as it covers and accumulates the full year; and hence reflects budget execution. The report is published on the website the 15 th Jan of the following year or not later than the end of January.	Yes	Within six months of the FY end: Yes	Yes
5	<i>Audited annual financial report, incorporating or accompanied by the external auditor's report.</i>	This is required by Palestinian law: however, MoFP is delayed in preparing final accounts/financial statements since 2014.	Yes	Within 12 months of the FY end: No	X
Additional elements					
6	<i>Pre-budget statement.</i>	No.	No	At least 4 months before the start of the FY: No.	X
7	<i>Other external audit reports.</i>	Not published, only provided to the concerned party as required.	No	Within 6 months of submission.	X
8	<i>Summary of the budget proposal.</i>	Citizens budget is issued within one month from the president's approval of the budget law.	No	Within 1 month of budget approval.	X
9	<i>Macroeconomic forecasts.</i>	Macroeconomic forecasts are published as part of the budget law: cf. point 1 above.	Yes	Within 1 week of endorsement.	Yes

Source: Review of budget documentation for FY2018, and discussions with the Budget Director

As can be seen from [Table 3.9](#), five of the listed documents are made available to the media or directly to the public within the timescales prescribed by the PEFA Framework.

Dimension rating: C

PI-9	Dimension	Score	Justification
Public access to fiscal information		C	Overall rating based on M1 methodology
9.1	Public access to fiscal information	C	Five of the nine listed documents are made available to the media or directly to the public within the timescales prescribed by the PEFA Framework.

Current improvement efforts:

MoFP submitted 2014 and 2015 FSs as a biennium statement to SAACB in January 2019 and expect to issue Audited Statements in Quarter 3 of 2019. The current understandings between SAACB and MOFP commits MoFP to submit a consolidated statement for 2016 and 2017 by the end of July 2019.

MoFP issued Citizen Budgets in 2016 and 2017 but with delays. Since the beginning of 2018, MoFP had taken steps to issue Citizens Budget within one month of the President's approval.

Pillar III. Management of assets and liabilities

PI-10 Fiscal risk reporting

This indicator measures the extent to which fiscal risks to the government are reported. Central government usually has a formal oversight role in relation to other public sector entities, including the activities of local governments and public corporations. Fiscal risks can also arise from guarantees, operational losses, expenditure payment arrears, unfunded pension obligations, and external risks such as market failure or natural disasters can also incur financial risks.

10.1 Monitoring of public corporations

This indicator assesses how rapidly financial information (through audited annual financial reports) is publicly available. “Good practice” requires audited financial reports of all public corporations to be publicized no later than six months after end of fiscal year, and summary reports to be publicized on an annual basis: both criteria are required for an ‘A’ rating.

The Palestinian Petroleum Authority (PPA) is a public corporation attached to the MoFP, which receives budget funding to subsidize fuel purchased from Israel and sold at a lower price to petrol stations in WB&G (for social and economic reasons). The MoFP monthly and annual reports include PPA figures, but as noted above, these reports are not audited nor can the date of receipt be confirmed.

(According to data held by the IMF, there are no other Public Corporations: the Palestine Investment Fund (PIF) is a sovereign wealth fund rather than a Public Corporation and it is financially and administratively independent of the PA.)

Dimension rating: D

10.2 Monitoring of subnational governments

“Good practice” (score A) requires annual audited financial reports of all subnational governments to be publicized no later than nine months after the end of the fiscal year, in addition to a consolidated report showing the overall financial position of the subnational governments.

The MoLG is responsible for overseeing the activities of the 430 ‘local government units’ in WB & G. Of these, 146 are ‘municipalities’ (25 in Gaza and the rest in the West Bank), while the balance of 284 are Village Councils, are grouped into ‘Joint Service Councils’. This ‘oversight’ (which is separate from that exercised by the SAACB or the Anti-corruption Agency) is the responsibility of the Control Department within MoLG, which is focussed on LGU budgets. Budget guidelines are issued in August, and submissions are made via an electronic gateway by 1 October: these require approval from MoLG before they are included in the overall budget. LGUs are also required to gain approval from the MoLG, as well as from MoFP and the Monetary Authority before opening bank accounts.

Article 32 of the Palestinian Local Authorities Law 1997 requires the President of a municipal Council to submit annual reports and financial reports audited by private-sector auditors on behalf of the MoLG to the Minister of Local Government: however, these are not submitted for review or approval,

nor are they all produced within nine months of the year end. While MoLG has drafted a unified system that requires annual financial statements and audit, this is not yet effective: hence, no consolidated report is produced.

Dimension rating: D

10.3 *Contingent liabilities and other fiscal risks*

“Good practice” requires the government to publicize a consolidated annual report on contingent liabilities and other fiscal risks (required for score A).

The PA has a Pensions Agency, separate from government with its own Board, chaired by the Prime Minister, which manages several pension schemes (for example, there is one for the security forces; another for (some West Bank) civil servants managed by the Government of Jordan, following a lack of agreement on transferring the scheme some years ago). The various schemes share rather than replace the need for private sector involvement when individuals make provision for their futures. In any event, while these funds do not appear on the PA’s books, they do represent a significant future liability. However, the Minister of Finance has instructed to issue a continuous monthly transfer in the amount of ILS 20 million to Pension Agency.

A further issue is the arbitrary deductions made from the ‘clearance revenues’ collected by the Gol tax authorities on behalf of the PA. These deductions are in respect of the non-payment to Israeli utilities companies from LGU distribution companies who themselves have not been paid by their clients. The PA has no control over these deductions which are unquantified and unsupervised fiscal risks.

Similarly, for LGUs, MoFP subtracts any identified deductions from clearance revenue before transferring property taxes, i.e. mitigating the fiscal risk for the central government, but not transparently and with no annual monitoring. The PA has also indicated that it has no full authority in applying the rule of Palestinian related laws in most of those area where those LGUs operates.

Overall, these risks are not monitored or reported in a comprehensive manner.

Dimension rating: D

PI-10	Dimension	Score	Justification
Fiscal risk reporting		D	Overall rating based on M2 methodology
10.1	Monitoring of public corporations	D	MoFP monthly and annual reports include PPA figures, but the date of the annual report cannot be confirmed.
10.2	Monitoring of local governments	D	Most of the 142 municipalities are subject to annual audits, conducted by private-sector auditors on behalf of the SAABC, but not within nine months of the year end (no consolidated report is published).
10.3	Contingent liabilities and other fiscal risks	D	The PA faces significant contingent liabilities and fiscal risks, for example in the form of pension obligations and deductions from clearance revenues.

Current improvement efforts:

There is Fiscal Risks Departmental structure prepared for adoption by the Minister of Finance. This department will gradually develop its mandate and operations over the coming medium strategy.

PI-11 Public Investment management

This indicator assesses the process of economic appraisal, selection, costing, and monitoring of most significant public investment projects by the government, and it has four dimensions.

The PEFA Framework defines major investment projects as those:

- having a "total investment cost of 1% or more of total annual budget expenditure"; and,
- investment projects are "among the largest 10 projects (for each of the 5 largest government units, measured by the units' investment project expenditure".

In addition, PEFA also allows the use of government's own definition of major investment projects: however, there is no such definition in the Palestinian territories. Furthermore, [Table 3.10](#) below illustrates that all government- or donor- financed investment projects are less than 1% of the government budget. (The annual budget estimates as well as the in-year budget execution reports provide some information on investment projects financed from external sources.)

Hence, technically, it could be argued that this indicator is 'not applicable', as investment projects (both domestic and externally financed) are less than 1% of total government expenditure; however, as government and funding agencies monitor and evaluate all projects, and some criteria for selecting projects are considered (which relate to dimensions 11.3 and 11.4) all four dimensions have been assessed.

11.1 Economic analysis of investment proposals

"Good practice" requires economic efficiency to be analysed for all "major investment projects", verified by independent units, and be publicized.

Line ministries and budget units undertake their own investment appraisal based on rudimentary budget guidelines issued by the MoFP: these are not reviewed by MoFP. However, externally-financed public investment projects (PIPs) are appraised by the funding agency with some involvement of officials of MoFP. [Table 3.10](#) below is the list of projects that meet PEFA criteria:

Table 3.10: Summary of the five largest projects in 2017

#	Name	Source of funding	Investment cost	% PA Budget 16,147,000,000
1	Rehabilitation of the security services	Multilateral	73,382,284	0.45%
2	Building & furnishing school rooms in areas A + B	JFA/Germany	57,038,852	0.35%
3	Construction of security institution - alam'ari grant	USA	33,683,273	0.21%
4	Supporting Jerusalem Schools	PA	33,593,481	0.21%
5	Improving Palestinian Authority Capabilities	PA	26,537,200	0.16%

Source: Ministry of Finance and Planning

Dimension rating: C

11.2 Investment project selection

Good practice suggests that selection of PIPs should be based on the following criteria:

- Desirability – project(s) should be in line with the overall government medium-term strategic plan;
- Achievability – whether project(s) will achieve the desired results and expected benefits;
- Viability – to what extent will the project generate the needed inflows to offset its cost, including the general project impact and management implications.

As there are currently no formal guidelines for project appraisal – a pre-requisite to project selection in line with the criteria above – most investment projects for FY2017 were selected according to government priorities for both budget and extra-budgetary units.

Dimension rating: C

11.3 Investment project costing

“Good international practice” requires budget documentation to provide medium-term forecasts of the total cost of investment projects, including recurrent expenditures: both are required for an ‘A’ rating.

Evidence obtained from budget units shows that there are no forward-linked recurrent expenditures for investment projects even though officials of MoFP indicated this is done. The annual budget estimates and the periodic budget execution reports for FY2017 do not provide information on recurrent cost of capital investment projects.

Dimension rating: D

11.4 Investment project monitoring

This dimension assesses the presence of thorough project monitoring and reporting to accommodate capital utilization efficiency and transparency. To accommodate “good international practice”, the monitoring should record both progress and financial details, including estimated progress, and should provide periodic monitoring report.

The Monitoring and Evaluation Directorate at the Secretary of the Ministerial Cabinet is responsible for monitoring and evaluating all central government projects (both budget and extrabudgetary units), as well as the medium-term development strategy. Each line ministry undertakes periodic site visits to check the physical status of their investment projects under their responsibility. This also applies to

externally-financed projects, where independent M and E experts are contracted to supervise and evaluate these projects to determine both the financial and physical state of completion. The draft in-year financial reports for FY2017 and draft annual financial statements for the same period provide financial information on project implementation. SAACB also conducts performance audits on some selected projects.

Dimension rating: C

PI-11	Dimension	Score	Justification
Public investment management		D+	Overall rating based on M2 methodology
11.1	Economic analysis of investment proposals	C	There are no formal guidelines for project appraisal: Budget entities appraise their own projects.
11.2	Investment project selection	C	Most government financed investment projects for FY2017 were selected according to government priorities for budget unit, with little consideration on viability, achievability, and desirability.
11.3	Investment project costing	D	There are no forward-linked recurrent cost of capital investment projects for budget units for FY2017; both the budget estimates and the budget execution reports do not provide such information.
11.4	Investment project monitoring	C	Both the financial and physical state of completion of externally-financed investment projects are monitored and evaluated by independent M and E experts. The Monitoring and Evaluation Directorate at the Secretary of the Ministerial Cabinet is responsible for monitoring and evaluating all central government projects (both budget and extrabudgetary units), and each line ministry undertakes periodic site visits to check the physical status of their investment projects. Draft annual financial reports provide financial information of project implementation. SAACB also conducts performance audits on selected projects.

Current improvement efforts:

MoFP in cooperation with the Prime Minister’s Office and the Secretary of Ministerial Cabinet have co-designed a program funded by DFID to address this weakness over the next three years.

PI-12 Public asset management

This indicator uses three dimensions to assess a government’s ability to manage and monitor its assets, and the extent to which there is transparency in asset disposal. This indicator has three dimensions: 12.1 assesses the level at which financial assets (government investments in public or private companies) are monitored and reported; dimension 12.2 examines the extent to which non-financial assets (fixed assets) are monitored and reported; dimension 12.3 measures transparency when assets are disposed of.

12.1 Financial asset monitoring

MoFP monitors cash assets and the treasury balance on a regular basis. “Good practice” to attain score A requires the utilization and market value of all financial assets to be tracked and publicized. The narrative below applies to central government entities (both budget and extrabudgetary units). At the time of drafting this report, the annual financial statements for fiscal year 2016-2017 have not been prepared and published. That said, MoFP prepares and publishes monthly in-year budget reports on a cash basis, showing the periodic net cash (total actual revenue less expenditure) position of central government operations.

The net cash position at end September 2018 was an overdraft of ILS 355.4 million. The framework for monitoring government financial assets is weak. Government (through the MoFP) acknowledges its holdings (which are not major by value) in the Palestine Investment Fund (‘PIF’, Sovereign Wealth Fund established by the Palestine Liberation Organisation), but there are no records of this investment (e.g. number of shares or their monetary value). However, MoFP receives an estimated USD30 million each year as dividends from five major investment portfolios (tourism, real estate, energy, agriculture and ICT) from PIF. There are no other known government investments.

Dimension rating: C

12.2 Non-financial asset monitoring

“Good practice” (score A) requires a government to maintain a registration system for its holding of fixed assets, including utilization, age, and to publicize this annually.

Though each line ministry maintains a register of fixtures and fittings, computers and office equipment, Government does not maintain a comprehensive and consolidated fixed asset register for all categories of assets (land and sub-soil resources, fixtures and fittings, buildings, computers, office equipment, machinery and equipment, etc.). Most fixed asset registers have been updated to end of FY2016. The Government Property Department however keeps records of all State vehicles, detailing type of vehicle, date of purchase, and custodian. Government has adopted IPSAS cash for financial reporting; therefore, all assets purchased are reported as investment expenditures. That said, the financial management software (BISAN) is capable of generating the historical cost of most fixed assets purchased. Officials say there is a dedicated office known as Palestinian Land Authority where land records are maintained; however, there is no evidence to that effect.

Dimension rating: D

12.3 Transparency of asset disposal

“Good practice” (score A) requires that all asset disposal details are submitted to the legislature for reporting or approval purposes. Article 71 of the Public Procurement Law 2014 prescribes the procedure for disposal of assets. Subsections 1 & 2 of Article 71 respectively describe the conditions for asset disposal and the mandatory publication of all assets to be disposed of in the newspapers and through any appropriate medium of publication. By law, a three-member committee within each budgeted entity determines the appropriateness of the decision by the head of government institution to sell off assets considered to be obsolete or unfit for purpose. The decision is then officially communicated to the General Supplies Department under the Ministry of Finance. The proceeds from the sale of assets are paid into the budgeted entity's non-tax revenue bank account, a

subset of the Treasury Main Account; these are shown in the in-year budget reports. The financial reports do not disclose details of the successful bidder even though public auction is conducted. The information disclosed in the reports includes historical cost of asset disposed and the proceeds of the disposal.

Dimension rating: C

PI-12	Indicator	Score	Justification
Public asset management		D+	Overall rating based on M2 methodology
12.1	Financial asset monitoring	C	MoFP maintains a record of its cash position but fails to keep record of any other financial assets. Investments in PIF are unknown but MoFP reports on its share of dividends received.
12.2	Non-financial asset monitoring	D	Government does not maintain a comprehensive and consolidated register of fixed assets; however, line ministries keep a fixed asset register for some assets namely, computers, fixtures and fittings, and office equipment. The Government Property department also maintains a list of State vehicles. Most fixed asset registers have been updated to end of FY2016.
12.3	Transparency of asset disposal	C	The assets disposal mechanism is established by Article 71 of the Public Procurement Law 2014. Proceeds from assets disposal are reported in the in-year budget reports. The information disclosed in the reports includes historical cost of asset disposed and the proceeds of the disposal.

Current improvement efforts: None noted.

PI-13 Debt management

This indicator assesses management of domestic and foreign debt and guarantees. It aims at identifying the existence of satisfactory management practices, records, and controls to ensure efficiency and effectiveness.

13.1 Recording and reporting of debt and guarantees

“Good practice” (score A) requires publicizing of all government debts (including amounts guaranteed), and that these are regularly reconciled against data sources to ensure accuracy: in addition, statistical and comprehensive management reports should be prepared at least quarterly.

In December 2017, the gross public debt was estimated (by the IMF) to be 36.6% of GDP, and while this is relatively low, the composition is increasingly skewed toward shorter-maturity domestic debt.

- **Domestic debt** (including arrears and CR advances) represented 80.6% of the total. Arrears to the pension fund, PA civil servants in Gaza whose allowances were withheld since March 2017, and suppliers (including promissory notes) increased, and accounted for 50.3% of total debt. Formal debt to the financial sector is fairly stable, as banks maintained their exposure to the PA.
- **External debt** represented 19.7 % of the total, and decreased by 0.7% of GDP during 2017, largely reflecting the Arab Fund for Economic and Social Development waiving repayment of a \$41.9

million loan. It is mostly at long maturities and on concessional terms (with an effective interest rate close to zero).

Table 3.11: West Bank and Gaza: Total debt liabilities of the PA (In % of GDP in ILS)

	2015	2016	2017
Gross debt liabilities	40.5	36.5	36.6
Domestic debt	30.9	27.9	28.7
<i>Loans and overdrafts</i>	11.6	10.7	10.4
<i>Arrears</i>	19.3	17.1	18.4
External debt	9.6	8.6	7.9
<i>Memorandum item:</i>			
<i>Domestic debt (excl. pension arrears)</i>	15.7	15.8	n/a
<i>Gross debt liabilities (% of GDP in US\$)</i>	40.4	36.4	35.6

Source: IMF staff report, September 2018

Domestic debts are reconciled monthly, and external debts quarterly: these reports are submitted to the Cabinet, Development Partners and are published on the MoFP website.

Dimension rating: B

13.2 Approval of debt and guarantees

To attain score 'A', "good practice" requires a dedicated government body to be responsible for approving all loan and guarantee contracts, and all borrowing activities should comply with transparent criteria that are consistent with fiscal objectives of the government.

Within the PA, the Debt Law (2005) assigns the sole responsibility for approving debts and guarantees to the Minister of Finance, and also sets a ceiling for the total stock of debt at 40% of GDP: the annual limit is approved by the President. In practice, the General Debt Department is the single entity responsible for negotiating loans (taking account of competing lenders' conditions including the term, any grace period, interest and currency of the loan), and the most favourable option is recommended to the Minister. However, there are no documented policies and procedures to guide the borrowing process, therefore, the score is D.

Dimension rating: D

13.3 Debt management strategy

'Good practice' requires the executive to report its medium-term debt management strategy, including quantified targets and objectives, to the legislature.

The Debt Management Strategy covers a 3-year period. It is updated annually and is included in the Budget documentation – and hence is publicly available – and is annual borrowing is consistent with this. The strategy includes projections of rates, currency risks and refinancing costs, and also acknowledges the reality that going forward, total debt will be skewed towards domestic debt, as access to external debt becomes increasingly difficult.

Dimension rating: B

PI-13	Dimension	Score	Justification
Debt management		C+	Overall rating based on M2 methodology
13.1	Recording and reporting of debt and guarantees	B	Domestic debts are reconciled monthly, and external debts quarterly: these reports are submitted to the Cabinet, Development Partners and are published on the MoFP website.
13.2	Approval of debt and guarantees	D	The sole responsibility for approving debts and guarantees lies with the Minister of Finance: the annual limit is approved by the President. There are no policies or procedures to guide the borrowing process.
13.3	Debt management strategy	B	The Debt Management Strategy is updated annually and is publicly available in the Budget documentation. The strategy includes projections of rates, currency risks and refinancing costs, and is the basis for annual borrowing.

Current improvement efforts:

The MoFP is planning to utilise the ‘DEMPA’ Debt management system in the near future.

Pillar IV. Policy-Based Fiscal Strategy and Budgeting

PI-14 Macroeconomic and fiscal forecasting

This dimension assesses the extent to which comprehensive medium-term macroeconomic forecasts and underlying assumptions are prepared for the purpose of informing the fiscal and budget-planning processes and are submitted to the legislature as part of the annual budget process: this is considered “good practice” and is the basis for score A for each dimension.

14.1 *Macroeconomic forecasts*

In the absence of a functioning legislature, the Annual Budget Law (ABL) is presented to the President for approval. For the 2015 – 2017 period the ABL has included a table of key economic indicators covering the four prior years, the budget year, and the following four fiscal years. A presentation on the economic background is also part of a separate Citizens’ Budget. The indicators are comprehensive in their scope (covering GDP, inflation, unemployment etc) but the underlying assumptions behind the indicators are not presented. The indicators are prepared by the Macro-fiscal Unit and developed from forecasts presented by the IMF in its biannual reports – but depart from the IMF projections in some respects. The projections are discussed with the Palestinian Central Bureau of Statistics (PCBS) before being finalized.

Dimension rating: C

14.2 *Fiscal forecasts*

The ABL includes a presentation of the fiscal forecasts for the budget year and comparable information for the preceding three years. This has been the practice through the 2015 – 2017 period. The forecasts are disaggregated by revenue type and by major expenditure categories. Both the nominal amount in shekels and the relevant % of GDP is presented but there is no assessment of the main changes since the prior year. Forecasts for the two following fiscal years are prepared as part of the budget preparation process for internal purposes but are not included in the annual law or in any accompanying documents – including the citizen budget.

Dimension rating: C

14.3 *Macrofiscal sensitivity analysis*

In preparing the draft budget the MoFP has considered the sensitivity of the proposal to different policy developments, such as a reconciliation with Gaza or the cessation of support from a key donor. These are considered to be the most relevant and significant risks to the budget outturn. However, the scenarios are for internal use and are not included in the budget law. Although macroeconomic indicators are presented with the budget law there is neither a quantitative or qualitative assessment of potential variations from the forecast, or how any variation could affect the fiscal forecasts.

Dimension rating: D

PI-14	Dimension	Score	Justification
Macroeconomic and fiscal forecasting		D+	Overall rating based on M2 methodology
14.1	Macroeconomic forecasts	C	The ABL is presented to the President for approval. It includes a table of key economic indicators covering the four prior years, the budget year, and the following four fiscal years.
14.2	Fiscal forecasts	C	The ABL includes a presentation of fiscal forecasts for the budget year and comparable information for the preceding three years. Forecasts are disaggregated but there is no assessment of the main changes since the prior year. Forecasts for the two following years are prepared but not included in the annual law or accompanying documents.
14.3	Macrofiscal sensitivity analysis	D	MoFP considers policy developments and significant risks to the budget, but these are not included in the budget law. Macroeconomic indicators are included, but without any quantitative or qualitative assessment of variations from the fiscal forecasts.

Current improvement efforts:

In the course of the preparation of the budget MoFP generates considerable fiscal information that could constitute an MTEF but this information is not included in the documents released to the public. With the support of a new DFID-funded project the MoFP has initiated a reform of the budget preparation process that will include development of the nascent MTEF and which could address many of the limitations identified.

PI-15 Fiscal strategy

This indicator provides an analysis of the capacity to develop and implement a clear fiscal strategy. It also measures the ability to develop and assess the fiscal impact of revenue and expenditure policy proposals that support the achievement of the government’s fiscal goals.

In the extremely difficult circumstances facing the PA, including the constraints on economic performance and the decline in budget support, there has been a financing gap of more than 3% of GDP, and hence the strategy has been largely reactive to deal with the immediate crises.

15.1 Fiscal impact of policy proposals

In the course of development of the budget the PA prepares estimates of the fiscal impact of all policy changes being made for internal purposes. These estimates cover the budget year and following two years but are not included in the Budget Law. The Law includes a discussion of the current year fiscal projections for the main economic categories and refers to administrative and policy measures that are behind these numbers. In some cases, there are references to specific policy decisions and the associated fiscal cost, but this is not consistently undertaken, and for most economic categories there is only a qualitative link between the proposed policies and the projections.

Dimension rating: B

15.2 Fiscal strategy adoption

The PA has included a provision in both the 2017 and 2018 Annual Budget Laws that imposes a debt ceiling with the domestic banks that supports fiscal management. The provision requires the PA to maintain domestic borrowing from the banks below the prior year stock. As the PA is unable to borrow internationally this provision acts as an incentive for the PA to enhance revenues and contain expenditures so that the budget can be financed – with any financing gap met through delaying payments to various parties. The planning horizon for this approach is the budget year.

Dimension rating: C

15.3 Reporting on fiscal outcomes

This dimension assesses the extent to which the government makes available – as part of the annual budget documentation submitted to the legislature – an assessment of its achievements against the stated fiscal objectives and targets. For 2017 the PA adhered to the requirement that sets a ceiling on the stock of domestic debt with domestic banks. The Annual Budget Law includes a report on the budget performance for the previous year, but there is not an explicit assessment of the performance against the domestic debt ceiling included in the prior year budget.

Dimension rating: D

PI-15	Dimension	Score	Justification
Fiscal strategy		C	Overall rating based on M2 methodology
15.1	Fiscal impact of policy proposals	B	Estimates of the fiscal impact of all policy changes are made for the budget year and following two years but are not included in the Budget Law.
15.2	Fiscal strategy adoption	C	The 2017 and 2018 ABLs impose a debt ceiling which supports fiscal management and is an incentive for the PA to enhance revenues and contain expenditures to finance the budget.
15.3	Reporting on fiscal outcomes	D	While the ABL includes a report on budget performance for the previous year, there is no explicit assessment of performance against the prior year's domestic debt ceiling.

Current improvement efforts:

MoFP is building the capacity of the Macroeconomic unit which will work on these weaknesses, possibly with support from DFID.

PI-16 Medium-term perspective in expenditure budgeting

This indicator examines the extent to which expenditure budgets are developed for the medium term within explicit medium-term budget expenditure ceilings. It also examines the extent to which annual budgets are derived from medium-term estimates and the degree of alignment between medium-term budget estimates and strategic plans.

16.1 Medium-term expenditure estimates

The preparation of the budget involves the development of estimates of expenditure for the budget year and subsequent two fiscal years allocated by administrative, economic and program

classification. A budget IT application is used to support the preparation and is populated by the line ministries. Extensive programmatic information is collated setting out the objectives of the programs and the proposed outputs. However, while the information is prepared for the budget year and the subsequent two fiscal years, the Annual Budget Law only incorporates the budget year information.

Dimension rating: D

16.2 Medium-term expenditure ceilings

The second budget circular includes aggregate and ministry level expenditure ceilings for the budget year and the two following fiscal years. The ceilings are classified by ministry and by major economic category but provide flexibility for the ministry during budget preparation across programs and within the major economic categories. The second circular for the 2018 budget preparation was issued on 24 July 2017 and it provides the substantive direction for the preparation of the budget. The ceilings are approved by the Council of Ministers before the second circular is issued. The earlier circular, issued on April 2017 for the preparation of the 2018 budget, focuses on procedural issues and is not approved by the Council of Ministers. While the content of the second circular meets all the requirements for an ‘A’ rating, the assessment criteria are based on the content of the first circular, and this does not include information on ceilings.

Dimension rating: D

16.3 Alignment of strategic plans and medium-term budgets

The National Policy Agenda (NPA) 2017 to 2022 is the fourth in a series of development plans prepared by the Palestinian Authority since 2008. Supporting the NPA are 21 sector strategies that set out objectives and priority reforms for the sector, some of which are costed. The sectors are functional in focus and therefore any particular strategy can cover a number of different ministries, but some can be linked directly to a ministry. The NPA does not have a comprehensive fiscal framework and is not directly linked to the budget process. None of the sector strategies are costed. In the first Budget Circular there is a requirement that in preparing its budget submission each ministry take into account the priorities of the relevant sector strategy of the NPA, however the ceilings prepared to guide budget preparation are not directly linked to the NPA.

Dimension rating: D

16.4 Consistency of budgets with previous year’s estimates

As indicated above, while medium term budget estimates are produced as part of budget preparation, only information on the budget year is presented in the budget law. As such there is no explanation provided of the changes to the expenditure estimates between the prior year medium term budget and the current budget. However, as discussed earlier the preparation of the budget is based on three-year projections of line ministry programs – guided by three-year expenditure ceilings. The MoFP does use the prior year expenditure estimates as a starting point for these ceilings and is able to reconcile any adjustments that are made when deriving the new ceilings.

Dimension rating: D

PI-16	Dimension	Score	Justification
	Medium-term perspective in expenditure budgeting	D	Overall rating based on M2 methodology

PI-16	Dimension	Score	Justification
16.1	Medium-term expenditure estimates	D	Although information is prepared for the budget year and the next two fiscal years, the ABL only incorporates information for the budget year.
16.2	Medium-term expenditure ceilings	D	The first circular, issued in April 2017 for the 2018 budget, focuses on procedural issues: ceilings are approved by the Council of Ministers before the second circular is issued.
16.3	Alignment of strategic plans and medium-term budgets	D	The NPA does not have a comprehensive fiscal framework and is not directly linked to the budget process.
16.4	Consistency of budgets with previous year's (medium-term) estimates	D	No explanation is provided of changes to the expenditure estimates between the prior year medium term budget and the current budget.

Current improvement efforts:

The MoFP has made considerable progress in preparing a medium-term expenditure framework: however, at present the information that is prepared is not made public. The internal work provides a sound base to introduce a medium-term focus to the public presentation of the budget in the coming period.

PI-17 Budget preparation process

This indicator assesses the budget formulation process that allows for an effective top-down and bottom-up participation of the MDAs, including their political leadership represented by Cabinet. It also assesses the extent to which the annual budget preparation process supports the linking of the draft budget to public policy objectives. Dimensions 1 and 2 are assessed using the last budget submission, for FY17. Dimension 3 is assessed on the basis of the last three approved budgets: i.e. the FY 2014, 2015, 2016.

17.1 Budget calendar

The Basic Law of 1998 sets out a number of key dates for budget preparation. Based on these, a clear budget calendar for each cycle exists and is communicated in the first budget circular. For the 2018 budget this was issued on 27 April 2017. Just over four weeks is provided to budgetary units to prepare their detailed estimates following the release of the ceilings in the second budget circular, and most ministries submit their estimates on time. While the calendar is adhered to in the initial preparation of the draft budget through to the completion of the budget hearings, the final stages that culminate in the budget being presented to the President for approval are usually delayed considerably, and the calendar cannot be seen to have been adhered to overall.

Table 3.12: Budget calendar for 2017

Budget activities	Planned Date (All 2017)	Actual Date (2017 unless specified)
The first part of the budget circular is issued by the MoFP	27 April	27 April
Submit the 2018-2020 budget ceilings of ministries and public institutions to the Council of Ministers	9 June	24 July

The second part of the budget circular	24 July	24 July
Submission of 2018-2020 budget request and budget documents to the MoFP	27 August	27 August
Completion of the 2018-2020 budget hearing sessions by MoFP	8 October	15 October
The MoFP submits the draft of the 2018 Budget Law and the 2019 and 2020 spending/expenditures plans and the supporting documents for the 2018-2020 Budget to the Council of Ministers.	16 October	6 Feb 2018
Cabinet/ Council of Ministers approval for 2018 budget law and 2019 and 2020 spending plans and supporting documents for the 2018-2020 budget	25 October	27 Feb 2018
The submission of 2018 Budget Law to the President Office	1 December	27 Feb 2018
President's approval and issuance of the presidential decree for the 2018 Budget Law and give instructions to publish the decree in the Official Gazette	30 December	4 March 2018
The approval of the MoFP-Minister of the Financial Order for 2018	31 December	10 March 2018

Source: Ministry of Finance and Planning.

Dimension rating: D

17.2 Guidance on budget preparation

The MoFP provides extensive guidance to line ministries for budget preparation. On an annual basis the preparation of the PA budget is guided by two budget circulars. The first circular sets out the timetable for the process and provides guidance on the forms and the rules around budget preparation. The second circular builds on the first with discussion on the treatment of certain expenditure categories and shares the expenditure ceilings that have been approved by the Council of Ministers. In addition, the MoFP conducts a range of training workshops for line ministries on an annual basis covering both the content of budget submissions and the IT system that is used to make the submissions. Beyond these annual activities there is a separate procedures manual which sets out the main features of program budgeting requirements. This manual has been in effect for a number of years and only minor changes are made each year.

Dimension rating: A

17.3 Budget submission to the Legislature

Since 2007, in the absence of an active Legislative Council the Annual Budget Law has been approved by the President (in lieu of the PLC). While the draft budget has generally been submitted to the Council of Ministers two months prior to the start of the fiscal year, in most years the budget has not been finally submitted for Presidential signature until several months after the start of the year. The consideration of the draft budget by the Council of Ministers takes place simultaneously with discussions with the President. Some adjustments are made during this period but in the view of the MoFP these do not tend to be extensive. Often the focus is on confirming the estimates of budget support that are a crucial element of the fiscal position.

Dimension rating: D

PI-17	Dimension	Score	Justification
Budget preparation process		C	Overall rating based on M2 methodology
17.1	Budget calendar	D	The 2018 budget calendar was issued on 27 April 2017 and was adhered to from the initial preparation of the draft budget through to submission to the Council of Ministers. From this point, however, there were extensive delays. Budgetary units have just over four weeks to prepare detailed estimates following the

PI-17	Dimension	Score	Justification
			release of the ceilings in the second budget circular, and most ministries do so on time.
17.2	Guidance on budget preparation	A	MoFP provides extensive guidance to ministries for budget preparation, via two budget circulars. The first has a timetable and provides guidance on the forms and the rules: the second discusses the treatment of expenditure categories and shares approved ceilings. MoFP conducts workshops covering the content of budget submissions: there is also a procedures manual which sets out the main requirements.
17.3	Budget submission to the legislature	D	In each of the last three FYs, the budget has not been finally presented to the President until several months after the start of the year.

Current improvement efforts:

DFID and the PA are currently working on identifying needs and priorities around supporting effective budget processes.

PI-18 Legislative scrutiny of budgets

This indicator assesses the legislative scrutiny and debate of the annual budget law as described by the scope of the scrutiny, the internal procedures for scrutiny and debate and the time allocated to that process, in terms of the ability to approve the budget before the commencement of new financial year, and also assesses the existence of rules for in-year amendments to the budget without ex-ante approval by the legislature.

As described in the previous assessment, the PLC has been inactive since 2007. In principle, two divided governments have been in place since then, one controlling the Gaza Strip and the other, which is mandated by the President, operating from the West Bank. The Cabinet operating from the West Bank still incorporates major public expenditure of Gaza Strip in its budget. This Cabinet has three sub-committees hearing, reviewing and approving budget estimates. Whilst the Cabinet scrutinizes budget submissions, this is considered an administrative rather than a legislative procedure, less rigorous with very little opposition. As the PLC has been inactive, the Annual Budget Law is submitted to the President and approved under emergency powers. Hence dimensions 18.1 and 18.2 have not been assessed.

18.1 Scope of budget scrutiny

“Good practice” requires the legislature to have the ability to propose fiscal policies to the government, medium-term budget framework and priorities, and budget revenue and expenditure estimates through scrutiny and debates on budget proposal.

As there is no parliament, this dimension is not assessed.

Dimension rating: NA

18.2 Legislative procedures for budget scrutiny

“Good practice” (score A) requires legislative procedures for budget scrutiny approved by legislature

to be complied with during budget debates. These procedures include public participation.

As there is no parliament, this dimension is not assessed.

Dimension rating: NA

18.3 *Timing of budget approval*

The legislature in the Palestinian territories is not functional, as is mentioned in the background above. The annual budget practice is a bottom-up process, decentralised to the line ministries level, formulated and prepared in accordance with the annual budget guidelines and cabinet approved ceilings issued by the Ministry of Finance and Planning. The Minister of Finance and Planning submits the final budget estimates to Cabinet for consideration and approval; these are authorised and assented to by the President. Over the last three completed fiscal years 2015 to 2017, the budget has always been assented to by the President after the beginning of the new fiscal year, usually between February and March. The Law no (7) for the year 1998 on “The organization of the public budget and financial affairs” (Article 4) allows for up to three months spending not exceeding previous year’s spending estimates using the formula of “max a 1\12” of the previous year, in the event that the new budget law is not approved before the start of the new fiscal year.

As discussed under PI 17.3, the final submission of the Annual Budget Law to the President has generally occurred 2 – 3 months into the year. Any issues of contention for the President are resolved prior to the Law being submitted – and so, once submitted, the approval of the law by the President has been timely – generally within a few days of submission. As is set out in [Table 3.13](#) below, in the past five years the Annual Budget Law has only been approved once within a month of the start of the fiscal year. The Basic Budget Law 1998 allows budget execution to proceed on the basis of one twelfth of the prior year budget for the first three months of the year.

Table 3.13: Dates of budget approval in the last three years

Budget Year	Approval date
2015	26 March 2015
2016	10 January 2016
2017	15 February 2017

Dimension rating: D

18.4 *Rules for budget adjustment by the Executive*

Over the last three completed fiscal years 2015-2017, there were no supplementary budgets. Rules for budget reallocations decided by the executive are clearly outlined in Law no (7) – 1998 (Articles: 3 and 36 and 50). While these rules are followed for majority of budget adjustments, such as for payroll and development expenditure, they allow for extensive reallocations so long as expenditure remains within approved aggregate budget limits.

The Annual Budget Law approves budget provisions at a relatively high level of detail. As a result, there is a need for significant adjustment of the budget during implementation. There are clear rules for these adjustments by the Executive. Article 12 of the Annual Budget Law sets out the respective

authority of the Prime Minister, Minister of Finance, and the Director General of Budget for specific types of reallocations. These are permitted within a program between certain expenditure categories with the approval of the MoFP. Reallocations between programs require the approval of the Prime Minister. While the rules for reallocations are clearly defined there is no limit placed on the quantify of reallocations that can take place. For adjustments to the Annual Budget Law beyond reallocations (i.e. where there is a simple increase in a budget provision) there needs to be a specific decision of the Council of Ministers which is then approved by the President.

Dimension rating: B

PI-18	Dimension	Score	Justification
Legislative scrutiny of budgets		D+	Overall rating based on M1 methodology
18.1	Scope of budget scrutiny	NA	<i>Dimension not applicable.</i>
18.2	Legislative procedures for budget scrutiny	NA	<i>Dimension not applicable.</i>
18.3	Timing of budget approval	D	The President signs the annual budget law two to three months into the new fiscal year.
18.4	Rules for budget adjustment by the Executive	B	Clear rules exist for in-year budget reallocations and these allow extensive adjustments by the executive, but within the approved total.

Pillar V. Predictability and Control in Budget Execution

PI-19 Revenue administration

This indicator relates to the entities that administer government revenues, which may include tax administration, customs administration, a social security (contribution) administration, and in some countries, agencies administering revenues from sources such as natural resource extraction.

Table 3.14 below provides a summary of domestic tax collections for September 2018. Custom/VAT collections appear to be on the lower side as this does not capture all customs revenues since clearance revenues will have to be reconciled with figures from Israel at the end of the fiscal year.

Table 3.14: Analysis of tax collections for FY2018

Customs/VAT tax collections	ILS	%
customs clearance revenue	2,061,616.00	0.1%
VAT on goods and services	117,893,193.00	8.2%
Total customs/VAT	119,954,809.00	8.4%
Income tax collections		
Personal income tax	567,533,868.00	39.7%
Business/corporate tax	743,278,660.00	51.9%
Total income tax	1,310,812,528.00	91.6%
Total	1,430,767,337.00	

Source: Data from Customs/VAT and Income Tax Departments

19.1 Rights and obligations for revenue measures

The Social Security law has just been approved (September 2018) by Cabinet but has not yet been assented to by the President; therefore, social security is yet to be administered and implemented in The Palestinian territories. The Income Tax and Customs/VAT departments, under the MoFP, collect all (more than 90% - refer to **Table 3.15** above) central government (budgeted and extrabudgetary units) tax revenues. Some line ministries also collect non-tax revenues (these are believed to be below 1% of total domestic revenues, though there is no data); these are paid into the Treasury sub-accounts under the TSA.

The MoFP website, <http://www.pmf.ps/en/>, is the main source of information for taxpayers on their rights and obligations. The website is accessible to the public; it is endowed with comprehensive and current information on tax laws as well as tax administration procedures. Taxpayers and potential taxpayers can access information on tax rates, tax registration and filing requirements and processes for both individuals and corporate entities wishing to establish and operate in the Palestinian territories. Applicable tax laws include the VAT Law of 1963 and the Customs Law of 1962 which are Jordanian Laws, the Customs and VAT Amendment Law of 2018, and the Income Tax Law of 1964. Each year, the Income Tax Law may be amended through a Presidential Decree as part of the annual budget law.

There is a Public Relations (PR) department which serves both the Income Tax and Customs/VAT departments in the area of tax education on both print and electronic media. It organises radio and

TV programmes to educate the public on the need to pay their taxes and the rights of taxpayers referencing redress. In 2015, the European Union supported the PR department on various tax education and campaign activities. Five main components were developed and supported, namely, (i) "estimate for you" campaign on both TV and radio with 52 different episodes including interviews, (ii) "tax heroes" campaign - where videos were developed on the importance of paying taxes, (iii) universities and high schools tax awareness programmes, (iv) filing of income tax campaign where tax boots were established to assist both taxpayers and potential taxpayers, and (v) training courses for Customs officers. Some of these activities can be found on <https://www.facebook.com/PalestineTax>. A new two-year PR strategic plan 2018-2019 has been developed to build on the successes of the EU taxpayer awareness programme. Tax education is also decentralised. Each tax governorates (14 in number) also undertakes tax education campaigns. Tax leaflets are also distributed. There are dedicated telephones through which taxpayers can have direct access to both the Income Tax and Customs/VAT departments for enquiries or complaints.

There are two forms of tax appeal procedures; first, administrative redress within 30 days following from tax assessment, to either the Customs/VAT and/or Income Tax departments, where the Director-General of each department is the final arbiter; second through the law courts. There is no independent tax appeals body, as a second level after the internal administrative processes are exhausted. This was alluded to by Civil Society Organisations, describing the tax complaints framework as very weak. There are no publications of tax appeal cases, cases resolved, and decisions taken.

Dimension rating: A

19.2 Revenue risk management

The narrative covers both budgeted and extrabudgetary units of central government. There is no documented comprehensive risk management strategy in place for both Income Tax and Customs/VAT departments detailing out the risk mitigation measures aimed at maximising domestic tax revenues. That said, the Customs/VAT department has put together a risk management framework in the areas of improvement in tax evasion, measures to check imports, trade facilitation, e-Customs procedures and voluntary tax compliance mechanisms. The Customs department has also developed a 5-year revenue collection strategy for revenue maximisation.

Tax administration is computerised for both Income Tax and Customs/VAT, using the Revenue Management System (RMS) for declaration and filing of personal and corporate income tax as well as VAT, and then ASYCUDA World version 2014 for Customs management. Each taxpayer has a unique Tax Identification Number (TIN), generated automatically using the national ID as the means of identification. There is a weak linkage between Income Tax and Customs/VAT databases even though the same software, RMS, is used in tax administration. There is no linkage between revenue authorities and financial institutions. Both databases (Customs/VAT and Income Tax taxpayer databases) are updated at least yearly, but also through periodic tax audits and fraud investigation exercises by adopting data-matching strategy between Customs ASYCUDA and Income Tax RMS. That said, the legal regime in the Palestinian territories prohibits sharing of information between Income Tax and Customs/VAT for purposes of identifying tax evaders - it is only the law courts that can grant access and/or authority to use the data to track taxpayers. Self-assessment is the main framework for filing tax returns for both income tax and VAT.

Whiles acknowledging that there is no structured risk management strategy in place, both Customs/VAT and Income Tax departments use manual case selection processes for assessing taxpayer compliance, thereby compromising the independence of the tax auditors. To limit the potential interference, officials who select cases are not part of the audit team. The selection process is also based on taxpayer risk-profiling. To remove human interface, all taxpayers irrespective of size or status, pay their tax liabilities directly into any of the 14 designated commercial bank accounts. This is seen as a good step towards reducing potential revenue leakages.

Dimension rating: C

19.3 Revenue audit and investigation

The narrative covers both budgeted and extrabudgetary units of central government. Both Income Tax and Customs/VAT departments within MoFP use the Revenue Management System (RMS) for tax administration. Each department prepares separate annual tax audit and fraud investigation plans, approved by their respective senior management. At present, case selection for audit and fraud investigation is done manually for both departments; they also rely on historical financial data and informants. The Income Tax and Customs/VAT departments also adopt risk-profiling techniques for case selection, even though the ideal situation according to officials is to undertake 100% tax audit.

As indicated in [Table 3.15](#) below, the average tax audit and fraud investigations completion rates stood at 57.5%. Whereas the Income Tax department averaged 54%, Customs/VAT department tax audit completion rate was 58%. Total collections as a result of these audits and investigations were ILS 408.5 million and ILS 237.5 million in 2016 and 2017 respectively. Officials have pointed to inadequate staff, low remuneration and low staff motivation as the main constraints contributing to low tax audit completion rates for both Customs/VAT and Income Tax departments.

Table 3.15: Analysis of tax audits for FY2016 and FY2017

Tax type	Planned tax audits		Completed tax audits		% completed		Amount recovered (ILS millions)	
	2016	2017	2016	2017	2016	2017	2016	2017
Income tax	1,840	2,842	971	1,553	53%	55%	19.82	68.16
Customs/VAT	26,841	17,545	15,782	9,970	59%	57%	388.67	169.39
Total	28,681	20,387	16,753	11,523	58%	57%	408.49	237.55

Source: Customs/VAT Directorate

Dimension rating: C

19.4 Revenue arrears monitoring

The analysis of revenue arrears excluded Clearance Revenues². Further, non-tax revenues were also excluded since they are unknown and believed to be less than 1% of total revenues. Again, earmarked revenues/collections were equally excluded; these are municipal revenues relating to fees on transportation, fines and penalties, and property taxes collected by MoFP on behalf of these municipalities.

² These are import duties/VAT remittances from Israel, net of any deductions such as unexpected expenditures on Palestinian detainees and healthcare referrals; these are not within the control of the Palestinian Authorities and therefore information on these revenue arrears could not be ascertained.

There is no clear definition for revenue arrears; however, officials say tax revenues are classified as arrears when they remain unpaid after the agreed timeframe for settlement. Tax arrears are classified according to tax types and tax governorates responsible for collecting these taxes. The Income Tax Directorate indicated that tax arrears amounted to ILS 7,034,155 and ILS 15,378,127 for fiscal years 2016 and 2017 respectively. Tax arrears from Customs and VAT Directorate which represent most of tax arrears are not reliable. Officials have stated that "there are technical challenges on the system (RMS and ASYCUDA) that lead to recognition of payments as debts in order to balance the tax refunds". On the basis of this, the assessment team could not rely on the figures presented.

Dimension rating: D*

PI-19	Dimension	Score	Justification
Revenue administration		C+	Overall rating based on M2 methodology
19.1	Rights and obligations for revenue measures	A	Both Customs/VAT and Income Tax departments collect more than 90% of all central government revenues. MoFP website is the main source of up-to-date and comprehensive taxpayer information including laws and tax administration procedures for registration and filing of tax returns for both Customs/VAT and Income tax. There is no independent tax appeals board; however, there is administrative (internal) processes for redress, followed by the law courts. There is limited information on tax appeals.
19.2	Revenue risk management	C	The tax revenue risk management framework is partially systematic and structured, with the use of manual case selection process for tax audit and fraud investigations. Both Income Tax and Customs/VAT departments adopt taxpayer risk profiling mechanisms to minimise discretion. Also, all taxpayers pay their taxes direct into the revenue authorities bank accounts, thus reducing human interface.
19.3	Revenue audit and investigation	C	On average, 57.5% of planned audits and fraud investigations are completed. Whiles the Customs/VAT department averaged 58%, the Income Tax department averaged 54% in terms of audit completion rate. Both departments use manual case selection process with some level of risk-profiling.
19.4	Revenue arrears monitoring	D*	Data on arrears are not reliable.

Current improvement efforts:

Government intends to ensure a smooth linkage between Customs ASYCUDA and RMS for better revenue management. Also, both Customs and Income Tax departments are developing a comprehensive risk management framework; this is expected to be finalised and adopted by mid 2019. Going forward, an enterprise risk management (ERM) policy will be developed, expected to be adopted in 2019.

Improving customs and indirect tax revenues is identified as a strategic goal with the objective to combat tax evasion, smuggling, and commercial fraud and adopt international standards and best practices. This is also supported by the implementation of the **"Action Plan for the General**

Directorate of Customs, Excise and VAT for 2017-2019". The broader effort aims at " Strengthening the PA's capacity to improve customs collection and implement post clearance audit procedures in accordance with international standards and in the specific field of the undervaluation of the imported goods, correct application of rules of origin and tariff regulations. In addition to the efforts by the authorities, the PA will benefit from capacity building provided by an EU members state from second half of 2019.

PI-20 Accounting for revenue

This indicator uses three dimensions to assess the procedures for recording and reporting revenue collections, consolidating revenues collected, and reconciling tax revenue accounts. Dimension 20.1 examines the information provided by Income Tax and Customs departments as well as non-tax revenue department to the Treasury; dimension 20.2 measures the effective revenue transfer framework to the Treasury; and dimension 20.3 assesses the complete revenue reconciliation mechanism in terms of assessment, collections, transfers and revenue arrears for income tax, customs and non-tax revenue.

20.1 Information on revenue collections

There is no single revenue authority in the Palestinian territories. The Customs/VAT and Income Tax Departments under the MoFP are responsible for collecting all central government tax revenues. Line ministries are mandated to collect non-tax revenue, do so and remit same within 24 hours to the Treasury. The Treasury Department within MoFP receives two separate monthly revenue reports within two weeks from the Income Tax and Customs/VAT Departments. The monthly reports indicate the variance between budget and actual and reasons for deviations. In addition to the monthly revenue reports, each department also produces daily revenue reports for the attention of the Cash Management Committee of MoFP. Not only does the revenue report show central government tax and non-tax revenues but also revenues collected on behalf of municipalities in the form of fuel/transport levies, fines and penalties, and property taxes; these are categorised into revenue types, collection points or governorates³, and total collections per governorates. The monthly tax revenue report from Income Tax Department also shows collections for large taxpayers and small and medium taxpayers.

Dimension rating: A

20.2 Transfer of revenue collections

Both Customs/VAT and Income Tax Departments under the MoFP transfer all (more than 90%) taxes collected to the Treasury Main Account within 24 hours from their respective tax collection accounts (also known as transit bank accounts) held with 14 commercial banks in the Palestinian territories. These bank accounts are zero-balance accounts. All taxpayers pay their taxes directly into any of the 14 designated commercial banks. Customs/VAT and Income Tax Departments have signed a memorandum of understanding with these commercial banks, making it mandatory for all tax collections to be transferred to the Treasury daily; in practice, the transfers occur every day. It should be noted that at present, there is no central bank in the Palestinian territories; the Palestine Monetary

³ There are 14 Governorates in Palestine.

Authority (PMA) partially plays the role of a central bank but only to the extent of issuing monetary policy guidelines and macro forecasting. The BoP, a commercial bank, is used to mop up all government tax revenues.

Dimension rating: A

20.3 Revenue accounts reconciliation

This indicator assesses the timeliness in reconciling between revenue collection and transfer to Treasury. Presently, the only complete reconciliation carried out relates to actual tax collections and transfers to the Treasury; this is between the Accountant General's Department and the Tax Directorates (Customs/VAT and Income Tax) for more than 90% of total tax revenues collected. This reconciliation is done each month via the Revenue Management System (RMS), a local software used by both Customs and Income Tax for tax administration. For instance, the reconciliation for September 2018 shows total collections of ILS 8,009,486 as against a transfer of ILS 8,009,454 to the Treasury, indicating a marginal difference of ILS 32 being bank charges. Complete revenue reconciliation assessed under this dimension consists of comparison between total revenue assessed against actual collections on one hand, arrears between assessment and collections, and then collections against transfers to the Treasury. Officials from both Customs/VAT and Income tax have confirmed that this type of reconciliation is not done.

Dimension rating: C

PI-20	Dimension	Score	Justification
Accounting for revenue		C+	Overall rating based on M1 methodology
20.1	Information on revenue collections	A	The Treasury Department within MoFP received both monthly and daily revenue reports from both Income Tax and Customs/VAT Departments. The report shows revenue by type, tax governorates, large taxpayer and small/medium taxpayer and also a variance analysis with reasons for deviations.
20.2	Transfer of revenue collections	A	Both Customs/VAT and Income Tax Departments transfer all (more than 90%) taxes to the Treasury Main Account within 24 hours.
20.3	Revenue accounts reconciliation	C	At this stage, the only reconciliation that takes place is between total actual collections and transfers of more than 90% of domestic taxes to the Treasury. The RMS software is supposed to carry out this reconciliation. However, RMS and BISAN system (IFMAS) are not well connected. The main source of revenue data is bank statements: this reflects a weakness in using the RMS system for reconciliation purposes.

Current improvement efforts:

Five years ago, the PA began the process of creating an autonomous Revenue Authority, separate from MoFP; this according to officials appears to have been abandoned. However, the issue of connectivity between RMS and BISAN will be addressed by forthcoming DFID technical assistance.

PI-21 Predictability of in-year resource allocation

This indicator assesses the ability of the MoFP to predict expenditure commitment and balance needs and provide reliable information about the ability to accommodate expending needs of budget expending units for service delivery. Efficient service delivery and budget compliance require budgeting units to be well informed about fund capability. Data used to assess the three dimensions of this indicator are either at the time of the assessment or from the last completed year, i.e. 2017.

21.1 Consolidation of cash balances

The large number of bank accounts that existed in earlier years have been regulated and consolidated into accounts at fourteen commercial banks (using eight different currencies. These dovetail into the Treasury Single Account framework, which has two main accounts, which are:

- Clearance Revenue Account, with the Arab Bank; and,
- An account with the Bank of Palestine (the central bank) catering for domestic revenues and expenditures.

There is also a Donor Fund Account in the Arab Bank, but this remains outside the consolidation arrangement with the two other accounts.

Salaries are paid from the Clearance Revenue Account (subject to availability of funds). There are two other revenue accounts: the first in the Jordanian Bank for receiving transportation fees, and the second in the Cairo Jordan Bank for receiving taxes paid by telecommunications companies: in both cases, revenues are transferred to the Bank of Palestine each day.

Each Treasury Account has sub accounts which are consolidated every day, to ensure zero balances in the sub accounts (of each Treasury Account). All accounts are managed on-line, and a daily cash report is produced. Transfers are made between accounts in the Bank of Palestine and the Clearance Account in the Arab Bank to minimise the PA overdraft each day.

Dimension rating: C

21.2 Cash forecasting and monitoring

“Good practice” requires cash flow forecasts to be prepared for the budget year and updated monthly for actual incoming and outgoing flows.

Annual ceilings for each line ministry are based on the budget, which is executed through the BISAN system, based on the President’s approval and, more importantly, cash availability. The ceilings are adjusted monthly according to cash availability, which is determined by the Cash and Debt Management Department (CDMD). CDMD requests cash flow forecasts from the Revenue Department and a forecast of budget support from the International Relations Department, but given the significant uncertainties, CDMD monitors the cash position on a daily basis to decide the priority of paying invoices and other liabilities. The lack of cash has resulted in several disruptions in payment of both salaries and suppliers accounts, and hence large arrears have been accumulated.

Dimension rating: A

21.3 Information on commitment ceilings

To attain score A, “good practice” requires budget-expenditure units to know their available expenditure commitments at least six months in advance. However, within the PA, the horizon of line ministries for expenditure execution is usually less than a month, as a permanent cash rationing process is in place.

MDAs provide monthly lists of invoices to be paid, and subsequently, “payment requests” are entered into the Bisan system by line ministries and they are informed on what should be paid based on the availability of cash and the priorities within competing claims. Payment of salaries is usually protected, but other payments are made ‘as needed’, on the basis of cash availability, but without specific and transparent criteria: if the CDMD has no cash available, an arrear report is automatically generated.

Dimension rating: D

21.4 Significance of in-year budget adjustments

While there are no supplementary budgets, changes are made to the original budget as some ministries exceed their allocations while others had adjustments to account for moneys withheld from clearance revenue for payments for cross border services and salaries, as noted above (for example, in the Ministry of Health for medical referrals). While this procedure reflects spending rather than a change in the budget, it is also possible that this may result in additions to the original budget, generating arrears as noted above.

Dimension rating: C

PI-21	Dimension	Score	Justification
	Predictability of in-year resource allocation	C+	Overall rating based on M2 methodology
21.1	Consolidation of cash balances	C	Each Treasury Account has sub accounts which are consolidated every day, to ensure zero balances. However, the Donor Fund Account in the Arab Bank is outside this consolidation.
21.2	Cash forecasting & monitoring	A	A cash plan is routinely produced, which is monitored on a daily basis, and updated as frequently as required.
21.3	Information on commitment ceilings	D	The horizon of line ministries for expenditure execution is usually less than a month, as a permanent cash rationing process is in place.
21.4	Significance of in-year budget adjustments	C	Changes are made as some ministries exceed their allocations while others had adjustments to account for moneys withheld from clearance revenue for payments for cross border services or salaries.

Current improvement efforts: None noted.

PI-22 Expenditure arrears

This indicator uses two dimensions to measure the stock of arrears: 22.1 assesses the level of stock of expenditure arrears in relation to total expenditure; dimension 22.2 examines the framework for monitoring expenditure payments arrears.

22.1 Stock of expenditure arrears

“Good practice” requires expenditure arrears to not exceed 2% total expenditure for at least two out of three past budget years to attain score A

The PA defines "arrears" in Section 82 of the Financial Ordinance 2009 as any unpaid commitment as stipulated in a commercial agreement between the Government and the supplier or service provider. It therefore excludes arrears to the Pension Fund but includes payroll (staff salary) arrears, arrears to contractors but excluding contractor retentions, and arrears to suppliers of goods and services rendered. The MoFP information (see [Table 3.16](#) below) indicates that expenditure arrears have been reducing over time from ILS 3.08billion as at the end of 2015 to ILS 1.83billion end 2017 in nominal terms. This has however increased by ILS 173million to ILS 2billion as at September 2018. In percentage terms, expenditure arrears reduced from 19.7% in 2015 to 11.4% of total actual expenditure in 2017, indicating 8.3 percentage drop. This assessment is indicative as the numbers are not fully reconciled. That said, it is still higher than 10% of total actual expenditure over the last three completed fiscal years 2015 to 2017. The budget is produced with a significant financing gap, due to unexpected deductions from revenue inflows from Israel referred to as "clearance accounts", and also because of the continuous decline in foreign grants: these factors have led to the accumulation of expenditure arrears, as the government continues to enter into expenditure commitments irrespective of cash availability. Strategies adopted by government to clear or reduce these arrears include the issuance of promissory notes and short-term borrowings from domestic banks.

Table 3.16: Analysis of stock of expenditure arrears

	2015	2016	2017
Particulars	ILS Million	ILS Million	ILS Million
Net accumulated expenditure arrears ⁴	3,081.50	2,050.40	1,827.00
Total expenditure	15,672.60	16,459.90	15,994.50
% of expenditure arrears to total expenditure	19.7%	12.5%	11.4%

Source: Monthly financial reports for 2015, 2016 and 2017.

Dimension rating: D

22.2 Expenditure arrears monitoring

“Good practice” (score A) expects a process to monitoring in-year arrears, as well as the quarterly compilation of debt data, no later than four weeks after the end of each quarter.

Expenditure arrears exclude arrears to the Pension Fund but includes payroll (staff salary) arrears, arrears to contractors (excluding contract retentions), and arrears to suppliers of goods and services rendered. MoFP generates a consolidated monthly expenditure arrears report within two weeks after the end of the previous month. The report, which is age-profiled, shows the types of expenditure arrears, supplier name, amount due, and the procuring entity. The report is critical in the cash management framework, as it informs management action on whether to borrow or delay certain

⁴ This includes payroll arrears, arrears to suppliers of goods and services and arrears to contractors but excludes contract retentions.

commitments and payments. A similar report is also generated at the line ministry level; this feeds into the prioritisation and payment of commitments due.

Dimension rating: A

PI-22	Dimension	Score	Justification
Expenditure arrears		D+	Overall rating based on M1 methodology
22.1	Stock of expenditure arrears	D	Stock of expenditure arrears is more than 10% in all last three completed fiscal years (19.7%, 12.5% and 11.4% in 2015, 2016 and 2017 respectively).
22.2	Expenditure arrears monitoring	A	MoFP generates a monthly report on the stock of expenditure arrears within two weeks of the previous month-end. The report is age-profiled and categorised into type of expenditure.

Current improvement efforts: None noted.

PI-23 Payroll controls

This indicator concerns the payroll for public servants and bureaucrats, how changes are handled, and how consistency with personnel records management is achieved. The PA payroll is centralized and unified at the MoFP and covers all staff employed in the civil service and in the security forces, i.e. ‘central government’, comprising in total, approximately to 85,000 permanent staff and between 10-15,000 casual staff. The payroll system is fully computerized on an Oracle-based platform and is managed by the Payroll Directorate of some 40 staff in the MoFP.

23.1 Integration of payroll and personnel records

Good practice requires solid linkages between payroll and personnel documents, so that any change in an individual’s personnel record (e.g. new designation) should automatically result in changes to the persons pay.

All salaries are paid to bank accounts (it is forbidden to pay salaries over the counter to any employee). The general personnel database which provides a list of civil staff (in all budget entities listed in the annual Budget Law) and which underpins the monthly payroll calculation by the Payroll Department is held by the General Personnel Council (GPC), an entity independent from the MoFP, but linked to the Cabinet. A separate database for security forces is held at the Ministry of Interior. The GPC database is fully computerized as part of the human resources IT system but is not integrated with the payroll system: i.e. there is no direct link, although there is a procedure to link via an exchange of files. Full reconciliation of data between these systems is made on a yearly basis, although the personnel database is maintained monthly to facilitate this process. Any change in the situation of the staff impacting the payroll (death, illness, promotion, etc.) is supported by paper-based documentation send to the MoFP by the GPC (or the line-ministry, based on a delegation of authority given by the GPC) and the Mol.

Dimension rating: D

23.2 Management of payroll changes

There are three types of change requests: some transactions are sent to MoFP –

- through GPC directly;
- without any copy to GPC;
- with a copy to GPC.

If received by GPC, changes are registered in its database then forwarded to the Payroll Directorate in MoFP. While the closure date is normally the 28th day of each month, there are various factors that may change this (for example, if there is a contribution from the EU to wages), and it must also be noted that the Payroll System covers some types of pensions (e.g. retired employees who are on the Jordanian pension scheme, prisoners and martyrs' families payments).

There are several levels of control. Not all entries are audited by GPC because, as mentioned above, not all transactions go through GPC. Also, the Audit and Control department at MoFP approves and audits entries that have financial impact such as promotions and new hires. Many transactions are rejected by the MoFP, requiring multiple communications during the month between GPC and MoFP (which explains the huge number of visitors to every department in the Payroll Directorate), and limited capacity means that not all entries are audited and reviewed. However, changes made in the payroll system by MoFP are deemed to have been cleared and pre-audited by the GPC. As there is no interface between the IT systems at MoFP and GPC (or MoI) all exchanges are made manually through PDF scanned documents. These changes are made on a daily basis and checked against the previous month's payroll data ensure a data consistency.

Not all changes will reflect in the following month: cumulative delays in the transmission between line-ministry, GPC (or MoI) and MoFP may take three months in a small number of cases (less than 2 %) – i.e. retroactive adjustments are made occasionally.

Dimension rating: B

23.3 Internal control of payroll

The MoFP (Payroll Directorate) accepts changes in the payroll only after these changes have been pre-audited and controlled through the network of administrative controllers (GPC or MoI-affiliated) and the financial controllers in each line Ministry (MoFP-affiliated) and then cleared by the GPC or MoI. The Payroll Directorate at MoFP ensures compliance with the legal basis for changes by control and pre-audit teams (about a dozen staff), and all the related documentation is available for further (post) audit.

Dimension rating: B

23.4 Payroll audit

'Good practice' requires a payroll audit system to verify the existence of each person, and that the relevant documents held in the personnel record (e.g. correct qualification as declared) are accurate. The Internal Audit Unit conducted a general audit of the civil (but not security forces), payroll in 2017, with the main objective to identify 'ghost' workers. The audit report also revealed weaknesses in the control procedures for data entry and calculations, and noted a lack of manuals and guidelines. In addition, the GPC conducts an ongoing review of the payroll in order to identify ghost workers.

Dimension rating: C

PI -23	Dimension	Score	Justification
Payroll controls		D+	Overall rating based on M1 methodology
23.1	Integration of payroll and personnel records	D	Personnel data and payroll data are not directly linked but the payroll is supported by full documentation for all changes made to personnel record each month and is checked against the previous month's data.
23.2	Management of payroll changes	B	Personnel records and payroll are updated monthly, but there may be a few instances where retrospective adjustments are required.
23.3	Internal control of payroll	B	Authority for changes to personnel records and the payroll are clear and pre-audit checks are in place and are followed.
23.4	Payroll audit	C	A payroll audit covering central government entities with the exception of the security forces was conducted in 2017.

Current improvement efforts:

The World Bank-financed PFMI project (with EUREP funding), has allocated a TA support to build a new system that allow for direct computerized integration with the GPC and civil registers' databases. Furthermore, the new system is designed to grant full computerized access rights to facilitate the Financial Controller mission in conducting proper internal control on payroll operations. This system will also minimise the current huge human efforts and reduce manual procedures; it will allow for issuing advanced reports financial and managerial reports that will ultimately inform the hiring policy in the Palestinian territories.

In addition, DFID is also working with the PA on identifying needs and priorities in the security sector.

PI-24 Procurement

This indicator examines key aspects of procurement management. It focuses on transparency of arrangements, emphasis on open and competitive procedures, monitoring of procurement results, and access to appeal and redress arrangements. It has four dimensions: Dimension 24.1 assesses the extent to which prudent monitoring and reporting systems are in place within government for ensuring value for money and for promoting fiduciary integrity, dimension 24.2 analyses the percentage of the total value of contracts awarded with and without competition, dimension 24.3 reviews the level of public access to complete, reliable and timely procurement information, dimension 24.4 assesses the existence and effectiveness of an independent, administrative complaint resolution mechanism.

Public procurement is regulated by Public Procurement Law No. 8 of 2014. The law applies to procurement activity at both the central and municipal levels of government. It lays down an acceptable institutional and organizational set-up for public procurement; provides comprehensive provisions on procedural matters; sets out provisions on transparency and accountability; establishes a complaint/dispute review mechanism; and provides for routine dissemination of information on public procurement. The enactment of the law has brought substantial improvement to the legal framework for public procurement on aspects of efficiency, transparency, accountability and integrity.

The law became effective on July 1, 2016, however, several of its aspects remain unimplemented. This reflects negatively on the scores against the four dimensions measured by this indicator.

The High Council for Public Procurement Policies (HCPPP), which is the entity holding the mandate for the development and oversight of the procurement system, was established in September 2012. Its key functions, as outlined in the law, include: (i) establishing a single procurement portal to serve as a gateway to all information about the procurement system and proceedings (procurement plans, bidding opportunities and contract award notices as well as the legal framework for public procurement and data on the resolution of procurement disputes), (ii) setting up a Dispute Review Unit to carry out an administrative review of procurement complaints; and (iii) performance monitoring and oversight of all public procurement activity. HCPPP experienced prolonged delays in getting the financial and human resources necessary for its operation, which delayed the implementation of its envisaged functions. Recently, HCPPP hired key staff and it has been following up the implementation of the law.

Procurement arrangements under the law are a combination of centralized and decentralized procurement. For ministries and other agencies at the central level of government, procurement packages with estimated costs higher than the financial thresholds set in the implementing regulation to the law (see [Table 3.17](#)) are to be handled by the Central Tenders Department (CTD) of Ministry of Public Works and Housing (MOPWH), in the case of works and engineering consultants' services; or by the General Supplies Department (GSD) of MoFP, in the case of goods, non-consulting services and non-engineering consultants' services.

Table 3.17: Financial thresholds for centralized procurement

Procurement Type	USD
Goods	50,000
Works	500,000
Non-consultancy Services	50,000
Consultancy Services	50,000

The thresholds for centralized procurement for goods, non-consulting services and non-engineering consulting services, handled by GSD, are set at relatively low levels. This risks the creation of over-centralization and resultant bottlenecks and inefficiencies that undermine the performance of the procurement system. In addition, GSD enters into framework agreements for the supply of commonly used goods and services (e.g. computers and office equipment, office furniture, vehicles, stationary, etc.). Procurement through these agreements is mandatory for ministries and other agencies at the central level of government, but optional at the local level.

Local Government Units (LGUs), including municipalities, village councils and joint service councils, handle their procurement transactions, regardless of the financial value. While they are exempted from the requirement to go through CTD and GSD, LGU are required by the law to obtain prior approval of their procurement decisions from the MoLG.

24.1 Procurement monitoring

24.1 Procurement monitoring

At the time of the assessment, no procurement monitoring and reporting system is in place within government for ensuring value for money and for promoting fiduciary integrity. Information on procurement processes and results including data on what has been procured, the procurement methods, the amounts of contracts, and the names of contracts winners, are maintained separately by more than 100 public procuring entities at the central of government, including ministries and authorities. CTD and GSD maintain databases of procurement processes which they handle but these do not allow for proper monitoring and systematic reporting on government procurement to support decision making and adjustment of procurement policies to achieve value for money. Moreover, the accuracy and completeness of the information have not been assessed.

To fulfil its responsibility for oversight and monitoring procurement activity and for reporting on procurement performance, HCPPP established and piloted, with the World Bank's support, a single procurement portal (www.shiraa.gov.ps), which supports the consolidation of information on procurement processes carried out by all public procuring entities at the central and local levels of government. Using the information to be generated from the portal, HCPPP will monitor procurement performance against a set of key performance indicators and will produce periodic reports to the Cabinet along with recommendations for improved performance, including through adjusting procurement policies and procedures to ensure value for money. The roll-out of the portal, for use by procuring entities at the central level of government, is scheduled during the second half of 2019 and subsequently to LGUs.

Dimension rating: D

24.2 Procurement methods

Open (competitive) bidding is the default procurement method stipulated by the law. In addition, the law outlines a menu of other competitive methods for use under various circumstances. The law and its implementing regulation also allow the use of direct contracting/sole sourcing method for low-value procurement (less than the equivalent of US\$5,000) and it sets out conditions under which this method may be exceptionally used for higher values. The implementing regulation to the law sets financial thresholds for approving direct contracting decisions. For example, direct contracting of goods with a value exceeding US\$50K and works with a value exceeding US\$150K require approval by the Cabinet.

The information received from CTD and GSD and confirmed by HCPPP shows that the majority of contracts awarded by procuring entities at the central level of government during fiscal year 2017 were procured on competitive basis with few contracts awarded using direct contracting/single source method in accordance with the law. Procurement handled by GSD and CTD represents more than 70% of the value of contracts awarded by the PA. As such, this dimension is rated "B". A recent report by AMAN (the local chapter of Transparency International), cited 13 cases of Direct Contracting approved by the Cabinet during 2017.

Dimension rating: B

24.3 Public access to procurement information

This dimension assesses public access to complete, reliable and timely procurement information. Key procurement information to be made available to the public comprises: 1) legal and regulatory frame work for procurement, 2) government procurement plans, 3) bidding opportunities, 4) contracts awards (purpose, contractor and value), 5) data on resolution of procurement complaints, and 6) annual procurement statistics.

During the period considered by this assessment, only two elements of procurement information are made available to the public; namely: 1) legal and regulatory frame work for procurement through the publication of the public procurement law and its implementing regulation, and 2) the bidding opportunities. No data is available to the public on government procurement plans, contract awards, the resolution of procurement complaints and annual procurement statistics. For procurement activities carried out by GSD, GSD website (www.gs.pmf.gov.ps) publishes information on contract awards, in addition to bidding opportunities, however GSD procurement activities constitute less than 50% of procurement operations at the central level of government.

The single procurement portal established and piloted by HCPPP to fulfil the relevant provisions of the law, supports making available to the public complete, reliable and timely information on all six elements of public procurement. However, at the time of the assessment the portal was still in the pilot phase.

Dimension rating: D

24.4 Procurement complaints management

This dimension assesses the existence of effective and independent procurement complaint management body that 1) is not involved in any capacity in procurement transactions or in the process leading to contract award decision, 2) does not charge fees that prohibit access by concerned parties, 3) follows processes for submission and resolution of complaints that are clearly defined and publicly available, 4) exercises the authority to suspend the procurement process, 5) issues decisions within the timeframe specified in the complaint management system, and 6) issues decisions that are binding on every party (without precluding subsequent access to an external higher authority).

The law introduces an independent dispute review unit (DRU) to carry out an administrative review of complaints from aggrieved bidders concerning alleged non-compliance by procuring entities in conducting procurement proceedings. The provisions of the law and its implementing regulation governing the establishment and operation of the DRU are consistent with all six criteria set by this dimension. However, at the time of assessment, the DRU has not yet been established. Therefore, current complaints continue to be addressed and handled by the respective procuring entity, with the possibility of escalating them for prosecution in front of a judicial court, in case of unsatisfactory response.

Dimension rating: D

PI -24	Dimension	Score	Justification
Procurement		D+	Overall rating based on M2 methodology
24.1	Procurement monitoring	D	No procurement monitoring and reporting system is in place within government for ensuring value for money and for promoting fiduciary integrity. Information on procurement processes and results are maintained separately by more than 100 public procuring entities at the central level of government. It is not possible to assess the accuracy or the completeness of the information. CTD and GSD maintain databases of procurement processes which they handle but these represent a portion of government procurement. HCPPP established and piloted a single procurement portal which supports the consolidation of information on procurement processes carried out by all public procuring entities at the central and local levels of government. This information will support HCPPP in monitoring procurement and reporting on performance against a set of key performance indicators.
24.2	Procurement methods	B	The law makes open (competitive) bidding as the default procurement method and outlines a menu of their competitive methods. The law sets exceptional conditions for using Direct contracting/Single sourcing method. The implementing regulations requires Cabinet prior approval for Direct contracting of Goods with a value exceeding US\$ 50K, and for works with a value exceeding US\$ 150K. Information received from CTD, GSD and confirmed by HCPPP shows that the majority of contracts are awarded on competitive basis with few contracts awarded using direct contracting/single source method in accordance with the law.
24.3	Public access to procurement information	D	The only information on public procurement available to the public at the time of the assessment is: (i) the legal and regulatory framework for procurement; and (ii) bidding opportunities. Two elements met out of six included under this dimension. No data is available to the public on government procurement plans, contract awards, the resolution of procurement complaints and annual procurement statistics. For procurement activities carried out by GSD, GSD website publishes information on contract awards, in addition to bidding opportunities. The single procurement portal established and piloted by HCPPP supports making available all six elements of information on public procurement.
24.4	Procurement complaints management	D	The Dispute Review Unit, which is the independent body responsible for administrative review of procurement complaints, per the procurement law, was not established at the time of the assessment.

Current improvement efforts:

The World Bank-financed PFMI project and the associated TA aim at improving procurement management through accelerating the implementation of the law. In particular, support will be

provided for: institutional strengthening and operationalization of HCPPP to assume its policy setting and oversight role, setting up a Dispute Review Unit to handle complaints from aggrieved bidders concerning alleged non-compliance by procuring entities in conducting procurement proceedings, rolling out the single procurement portal to procuring entities at the central and municipal levels of government and capacity building of the procurement workforce at both levels. In addition, functional reviews of the two central procurement entities (CTD and GSD) will be carried out and performance improvement measures will be identified.

PI-25 Internal controls on non-salary expenditure

This indicator measures the effectiveness of general internal controls for non-salary expenditures. Specific expenditure controls on public service salaries are considered in PI-23. The indicator assesses segregation of duties, the effectiveness of expenditure commitment controls and compliance with payment rules and procedures.

25.1 Segregation of duties

“Good practice” (score A) requires clear regulations on the segregation of duties to prevent an individual or group of employees from violating or concealing violation or fraud while carrying out their regular duties. Incompatible primary duties that should be segregated include: (a) decision; (b) keeping records; (c) holding assets; (d) reconciliation or auditing. The narrative below covers both budget and extrabudgetary entities of central government.

The Financial Management Law of 1998 is the main legal framework governing public financial management in the Palestinian territories and applies to all central government entities (both budget and extrabudgetary units). It sets out the duties and responsibilities of the Minister of Finance, other political heads of line ministries, the Accountant-General, and vote controllers within budgeted entities. Responsibilities including asset management, bank reconciliation, raising and approving purchase orders, preparing and authorising payment vouchers, issuing supplies from stores, among others are clearly outlined in the Financial Regulations. In addition to the Financial Regulations, the Accounting Manual of 2015 outlines financial management procedure.

In the Palestinian territories, the General Supplies Directorate (GSD), a centralised body under the MoFP is responsible for procurement of all government goods and services, excluding procurement for works and related services, exceeding USD 50,000. The GSD is not responsible for procurement of specialised supplies such as medicines, engineering equipment, security supplies, and specialised educational materials; however, it provides technical assistance to specialised tender committees. Another key feature in the Palestinian territories is that processing and payment of expenditure is decentralised, with each budgeted entity operating a zero-balance bank account; the bank account is used for payment of approved expenditure each day and the closing balance automatically swept into the Treasury Single Account.

The head of department within each spending unit is responsible for reviewing and approving all purchase requisitions; this happens only when the request is budgeted for and commitment approved within IFMIS (Bisan). The procurement department initiates the purchase order through IFMIS,

approved by the head of department, the head of internal audit, and the head of finance. The store officer issues a goods received note (GRN) to the supplier after goods are received. A copy of the GRN is attached to the invoice and sent to the accounts department for processing and payment. After all the necessary approvals, the procuring entity pays the supplier via electronic funds transfer (EFT); cash rationing is the order of the day as a result of inadequate cash flows.

Dimension rating: A

25.2 Effectiveness of expenditure commitment controls

At present, the BISAN system only limits expenditure commitments to approved quarterly budget allocations irrespective of the availability of actual cash for payment of expenditure, thereby leading to the accumulation of expenditure arrears (see PI-22). The Minister of Finance issues quarterly allotments (budget commitment ceilings) through IFMIS to each budget entity after the annual budget law has been approved by the President. Each budget entity operates a zero-balance bank account linked to the TSA managed by the Treasury, all held at the PMA (the Central Bank). MoFP transfers cash into these accounts daily for payment of expenditure according to the scale of importance. One effective element to be noted is that all revenues, both tax and non-tax are directly deposited into the Treasury Revenue Account, thereby facilitating cash planning and management; nonetheless, arrears still accumulate due to a number of reasons, including unexpected set-offs from Israel (known as clearance account) that reduce the projected cash, but also the fact that expenditure is still committed without the required cash for payment. There are expenditures committed outside IFMIS, such as expenditures on health referrals.

Dimension rating: C

25.3 Compliance with payment controls

“Good practice” requires all payments to comply with standard payment procedures and all exceptions to be predefined: both are conditions to attain score A.

The Financial Management Law of 1998 and the Financial Ordinance of 2009 are the main legal and regulatory framework for public financial management across central government; there is also the 2014 Public Procurement Law and Regulations for managing public procurement. Generally, payment rules and procedures are respected. Each line ministry has a financial controller who reports directly to the Accountant General; these controllers are responsible for pre-audit of all payment requests. Financial infractions are documented but not consolidated by MoFP for proper analysis. Officials estimate that at least 75% of all payment requests are fully supported with appropriate documentation with the necessary approvals. This was confirmed by the Internal Audit Directorate under MoFP, also responsible for post audit of budgeted entities; some irregularities such as inadequate supporting documentation, missing documentations, and delays in acquitting cash advances were identified. However, there are concerns regarding adherence to control processes within BISAN as some staff have the privilege to override and reverse transactions within the system, as confirmed by an Ernst & Young report issued in January 2017. The Financial Management Law grants authority to the Financial Controller (and/or his authorised representative) to override and reverse inappropriate transactions; any such action is properly documented and results in audit trail. Referencing public procurement, sole sourcing is often used and justified in the majority of cases, according to officials (though no statistics is available for those cases.). Though the audit reports of

central government finances for 2015, 2016, and 2017 were not available, the SAACB alluded to the existence of some weak control environment such as poor record keeping and non-compliance to financial management rules and procedures. There are also concerns regarding adherence to internal control rules at the Central Financial Departments of the security forces.

Dimension rating: C

PI-25	Dimension	Score	Justification
Internal controls on non-salary expenditure		B	Overall rating based on M2 methodology
25.1	Segregation of duties	A	The expenditure management process prescribes clear procedures that segregate duties and responsibilities of each staff within the payment process across central government entities (both budgetary and extrabudgetary units).
25.2	Effectiveness of expenditure commitment controls	C	IFMIS limits expenditure commitments to approved quarterly budget allotments (ceilings) but fails to limit commitments to actual cash available.
25.3	Compliance with payment procedures and controls	C	At least 75% of all payments are compliant with payment rules and procedures outlined in the Financial Management Law of 1998 and the Financial Ordinance of 2009. However, there are concerns (the majority of which are with the Central Financial Departments of the security forces) regarding adherence to control processes within BISAN as some staff are able to override and reverse transactions: the majority of these exceptions are documented and justified.

Current improvement efforts:

The Government launched its PFM Improvement Project (PFMIP) in October 2018, developed out of the 2017-2022 PFM Reform Strategy: one component relates to improving financial accountability and it is expected to have significant impact on PI-25 going forward.

PI-26 Internal Audit

This indicator assesses the standards and procedures applied in internal audit (IA) and consists of four dimensions: Dimension 26.1 assesses the extent to which government entities are subject to IA, dimension 26.2 assesses the nature of audits performed and the extent of adherence to professional standards, dimension 26.3 assesses specific evidence of an effective IA and dimension 26.4 assesses the extent to which action is taken by management on IA findings.

Article 63 of the General Budget and Financial Affairs Law No. 7 of 1998 provides the legal basis for the functions of the General Directorate of Internal Audit (GDIA). The law states that "the Ministry of Finance shall establish a system of internal financial auditing to ensure the appropriate and economical use of public resources. Further, the Ministry shall have the authority to inspect, at any time, the accounting records of revenues and expenditures for all ministries, public institutions, and special funds".

The GDIA was established in 2004 within the MoFP with the dual mandate to first, perform the IA function within MoFP and second, to establish functional IA units across all government agencies. In 2012, the Central Harmonization Unit (CHU) was established under the GDIA. The CHU is responsible for: (i) setting and updating the IA methodology, (ii) providing advice to IA units in all MDAs, (iii) developing a quality control framework for networking IA functions, (iv) ensuring a reliable system of risk management, (v) quality assurance of program audits, and (vi) ensuring compliance to the laws and regulations.

26.1 Coverage of Internal Audit

The GDIA has 17 staff, and is responsible for training, coordinating and performing IA functions across 21 line ministries and 54 other government agencies (such as the newly established social security fund, Palestine Investment Fund, General Personnel Office, among others), as well as the two revenue departments – Income Tax and Customs/VAT Departments – which collect more than 90% of government revenues. Most line ministries have functional IA units, but it is important to note that those in the finance departments of the security forces are weak, as significant control overrides occur. However, the five largest ministries – Education, Health, Public Works, Interior and Social Services – have their own internal auditors, separate from the GDIA. Audit coverage is at least 80% by value (total expenditure of largest ministries plus MoFP).

Dimension rating: B

26.2 Nature of audits and standards applied

The International Professional Practices Framework⁵ (IPPF) requires IA to evaluate and contribute to the improvement of the organization's governance, risk management, and control processes, using a systematic, disciplined, and risk-based approach. Again, internal auditors are required to be independent and possess professional and academic qualities. As part of the measures to strengthen the function, the EU provided support to develop "Standards and Code of Conduct for Internal Auditing", dated January 2014, in line with Institute of Internal Auditors (IIA) Standards. The EU also supported the development of an Internal Audit Procedures Manual in 2014. Presently, IA functions are mainly (more than 70%) financial and compliance related, even though some performance audit and systems reviews are carried out across central government entities. Each unit prepares annual IA plans based on risk-profiles, largely focusing on financial and compliance issues, with very little emphasis on systemic issues: plans are approved by management.

Dimension rating: C

26.3 Implementation of Internal Audits and reporting

The audit completion rate currently stands at around 80% (see [Table 3.18](#), below). In spite of this impressive performance, officials complain of inadequate financial and human resources to accomplish set targets. The IA units within the five largest ministries and the GDIA prepare monthly reports, for the attention of the heads of audited agencies; ad hoc reports are also prepared where necessary. At present, SAACB does not receive copies of IA reports; these are however made available on request during external audit. The reports outline audit findings as well as recommend remedial actions. Each audited entity has 10 working days to respond to initial audit findings, after which the

⁵ IPPF standard 2017, section 2100: Nature of Work.

reports are finalised. Available statistics show that 90% of auditees respond to audit queries with two weeks.

Table 3.18 Internal audit completion rate FY2017

Activity	Planned audits	Actual audits	% completion
Treasury, revenue and cash management	140	115	82.1%
Expenditure management	189	156	82.5%
Procurement compliance	95	81	85.3%
Fixed assets management	110	73	66.4%
Total	534	425	79.6%

Dimension rating: B

26.4 Response to Internal Audits

Management responses (i.e. remedial actions) to audit recommendations averaged 61% of central government entities (i.e. 21 line ministries and 54 other government agencies such as the newly established social security fund, Palestine Investment Fund, General Personnel Office, among others), as corroborated by SAACB, with line ministries taking remedial action on 80% of audit recommendations. The time taken for remedial actions varies, from three to six month, being the majority. That said, there are still concerns about a clear and systematic framework for following up on audit recommendations, as well as action plans and any evaluations of remedial actions.

Dimension rating: C

PI-26	Dimension	Score	Justification
Internal Audit		C+	Overall rating based on M1 methodology
26.1	Coverage of internal audit	B	Audit coverage is at least 80% by value for expenditures and 90% for revenues. Most line ministries have functional IA units.
26.2	Nature of audits and standards applied	C	IA is largely financial and compliance with some risk-profiling; some systemic issues are addressed. IIA standards are generally adhered to.
26.3	Implementation of internal audits and reporting	B	At least 80% of IA plans are implemented, as evidenced by periodic reports.
26.4	Response to internal audits	C	At least 61% of all public/civil sector audit recommendations are addressed within three to six months. There are concerns regarding the existence of clear follow-up and corrective strategies.

Pillar VI. Accounting and reporting

PI-27 Financial data integrity

This indicator assesses the extent to which treasury bank accounts, suspense accounts, and advance accounts are regularly reconciled and how the processes support the integrity of financial data. There are four dimensions: Dimension 27.1 assesses the regularity of bank reconciliations, dimension 27.2 assesses the extent to which suspense accounts, including sundry deposits/liabilities, are reconciled on a regular basis and cleared in timely, dimension 27.3 assesses the extent to which advance accounts are reconciled and cleared. Advances cover amounts paid to vendors under public procurement contracts as well as travel advances and operational imprests. Dimension 27.4 assesses the extent to which processes support the delivery of financial information and focuses on data integrity defined as accuracy and completeness of data.

27.1 Bank account reconciliation

“Good practice” (score A) envisage frequent reconciliation between the treasury’s book and relevant bank accounts. The MoFP performs monthly bank reconciliations for at least 95% (by value) of central government (95 budgeted entities including line ministries) bank accounts within three weeks after the end of the previous month; the reconciliations are done via the Bisan (IFMIS) automatic bank reconciliation (ABR) module. As at the time of assessment (end of October 2018), reconciliations for September 2018 have been completed and signed off on 20th of October 2018. It should be noted that MoFP has direct online access to all fourteen (14) commercial banks with eight (8) different currencies dovetailing into the Treasury Single Account (TSA) framework, thereby facilitating access to electronic bank statements used for daily transaction reconciliations at aggregate levels. Further evidence obtained from Ministry of Education showed that donor grant accounts were reconciled by the 16th of October 2018 for September 2018 statements. The Bank of Palestine is the depository of the main treasury account. Each line ministry operates a zero-balance sub-treasury bank account for expenditure management, as well as one non-tax revenue collection account linked to the TSA plus at least two donor grant accounts - one for direct budget support and the other for projects.

Dimension rating: B

27.2 Suspense accounts

The BISAN system does not use suspense accounts, hence this dimension is not applicable.

Dimension rating: NA

27.3 Advance accounts

Both 2016 and 2017 annual financial statements of the PA have not been completed. The figures in [Table 3.19](#) below were derived from draft monthly in-year budget reports from IFMIS (BISAN). As shown in the table, 87.9% and 79.7% of advances in 2017 and 2018 respectively were acquitted. Though the analyses (in [Table 3.19](#) below) are aggregated, the reconciliation and acquittal process is completed every month within 4 weeks; the monthly acquittal rates are also within the range of 75% and 85%. The success achieved in this area is as a result of a government-wide policy which does not grant further advances unless previous balances have been cleared, though some still remain un-acquitted.

Table 3.19: Analysis of advance accounts

Details: 2017	Amount issued	Amount acquitted	% Acquitted
External travel missions	2,467,587.21	2,083,610.43	84.4%
Financial reserves / fees	1,741,944.50	1,614,618.09	92.7%
Salaries for projects	224,854.69	200,042.69	89.0%
Grand Total	4,434,386.40	3,898,271.21	87.9%
Details: 2018	Amount issued	Amount acquitted	% Acquitted
External travel missions	2,421,931.62	1,760,223.62	72.7%
Financial reserves / fees	1,275,965.00	1,163,565.00	91.2%
Salaries for projects	180,040.00	167,361.00	93.0%
Grand Total	3,877,936.62	3,091,149.62	79.7%

Source: Ministry of Finance, General Accounts Department

Dimension rating: B

27.4 Financial data integrity processes

IFMIS (BISAN) has strong security controls for ensuring that financial data is safe and secured. Access to fiscal and financial information within IFMIS is highly restricted, granting access to authorised users only with different levels of admittance/authorisation using passwords granted by the Accountant General. Each month, IFMIS alerts all users to compulsorily change their passwords; these changes are done with the approval of the Accountant General.

All line ministries (currently 27 in number) have direct access to IFMIS; processing and payment of expenditure are decentralised. Payment request is electronic within IFMIS with the issuance of a purchase order, approved by the head of department, audited by the financial controller before payment via Electronic Funds Transfer (EFT) to the supplier. Only the authorised data entry clerk is allowed to enter financial data, and then approved by the financial controller (known as Sign 1). The Financial Controller is the final approving authority (Sign 2). One cannot alter any financial data entered unless with the approval of a senior authorised officer via journal entry. The data is also encrypted. The system also generates a comprehensive audit trail, showing which computer was used, and identification number of authorised staff, date and time of entry. There is a dedicated department within MoFP, manned by five staff, responsible for checking data accuracy as well as consolidating central government monthly budget execution reports. In spite of these in-built control mechanisms within BISAN, some staff abuse the control environment with the privilege to override and reverse transactions (refer to PI-25.3): that said, all changes result in an audit trail.

Dimension rating: A

PI-27	Dimension	Score	Justification
	Financial data integrity	B+	Overall rating based on M2 methodology
27.1	Bank account reconciliation	B	MoFP performs detailed monthly bank reconciliations for at least 95% of central government bank accounts within three weeks after the end of the previous month. Most donor fund accounts are also reconciled within two weeks after the end of the preceding month.

PI-27	Dimension	Score	Justification
27.2	Suspense accounts	NA	This dimension is not applicable as there are no suspense accounts
27.3	Advance accounts	B	At least 75% of advances are reconciled and acquitted every month within 4 weeks of the previous month.
27.4	Financial data integrity processes	A	Access to BISAN is restricted to authorised users only, with passwords granted only by the Accountant General. The data is encrypted, and BISAN generates an audit trail. Five members of the Accountant General's staff are responsible for financial data reconciliation and data integrity.

Current improvement efforts:

The PFM Improvement Project (PFMIP) launched in October 2018 underscores the need to further improve bank reconciliations under Component 2 of the project.

PI-28 In-year budget reports

This indicator assesses the comprehensiveness, accuracy and timeliness of information on budget execution during the year. In-year budget reports must be prepared in a manner consistent with budget coverage and classifications to allow for the monitoring of budget performance and, if necessary, timely use of corrective measures.

28.1 Coverage and comparability of reports

“Good practice” (score A) envisages a readiness of updated expenditure data detailed by sector, economic item and administrative level in order for comparison to be made between actual revenue collection and expenditure with the budget.

In-year budget execution reports for FY2017 are compatible and comparable with the originally approved budget, classified administratively, economically, and functionally according to GFS/COFOG 2001. IFMIS produces monthly budget execution reports in 3 digits, consistent with approved budget estimates at least at aggregate level including transfers to de-concentrated central government units such as educational subsidies and scholarships, support to detainees’ families, among others. These reports show revenues according to type, expenditures by function, administrative heading and economic classification, and loans according to sources.

Dimension rating: B

28.2 Timing of in-year budget reports

Law no (7) – 1998 (Articles: 25 and 51 and 52) requires MoFP to prepare and publish consolidated periodic budget execution reports (monthly, quarterly, semi-annually) Monthly reports are due from all ministries and public institutions within a week of the following month (the law does not specify when MoFP is required to publish). Quarterly Reports are due by the end of each quarter, and a semi-annual report is due by 1st of July.

The Accounting Manual (Chapter 5 ‘Financial Reporting’ June 2015) requires the MoFP to prepare and publish consolidated monthly budget execution reports by the 15th day of the following month at the

latest. In practice, however, MoFP prepares and publishes monthly in-year financial reports including budget execution reports within three weeks after the end of the preceding month. For FY2017, monthly budget execution reports for July, August and September 2017 were issued (and published) on 19th August 2017, 24th September 2017, and 21st October 2017 respectively.

Dimension rating: B

28.3 Accuracy of in-year budget reports

“Good practice” envisages that in-year reports will be prepared with credible levels of accuracy and include information of both committed expenditure and amounts actually spent.

The government uses the cash basis of accounting, and there are no significant concerns regarding data accuracy in the monthly budget execution reports, because of the use of the IFMIS and the internal control mechanisms for checking data accuracy. However, concerns have been raised referencing the accuracy of the level of expenditure arrears annexed to the monthly budget reports, as it is believed that a lot more arrears are not reported; example is health referrals. As indicated under PI-22 above, government enters into expenditure commitment irrespective of whether there is cash or not; that said, the commitments are genuine and approved by the responsible authorities. Where there are concerns, they are highlighted and properly documented for future reference, thereby serving as a means for taking corrective actions, going forward. Not only do these in-year budget execution reports show expenditures at payment stage but also at commitment stage. Also, the monthly reports provide variance analyses, indicating the percentage of actual execution against originally approved estimates for both revenues and expenditures. As at December 2017, 93% and 99% of projected total revenues and estimated expenditures have been realised and expended respectively.

Dimension rating: A

PI-28	Dimension	Score	Justification
In-year budget reports		B+	Overall rating based on M1 methodology
28.1	Coverage and comparability of reports	B	In-year budget execution reports are compatible and comparable with the originally approved budget. Expenditure is reported and aggregated administratively, economically and functionally, and also shows transfers to de-concentrated government entities.
28.2	Timing of in-year budget reports	B	MoFP prepares and publishes monthly budget execution reports within three weeks after the end of the previous month. For instance, monthly budget execution reports for July, August and September 2017 were issued (and published) on 19th August 2017, 24th September 2017, and 21st October 2017 respectively.
28.3	Accuracy of in-year budget reports	A	MoFP issues monthly budget execution reports, including an analysis of the variance between actuals and estimates for both revenue and expenditure. Reports cover both expenditure at commitment and payments stages, with no significant data accuracy concerns.

Current improvement efforts:

A new PFM reform project was launched in October 2018, focusing on financial controls, financial accountability and public procurement. This is expected to improve the accuracy of in-year reporting.

PI-29 Annual financial reports

This indicator assesses the extent to which annual financial statements are complete, timely, and consistent with generally accepted accounting principles and standards and consists of three dimensions: Dimension 29.1 assesses the completeness of annual financial reports, dimension 29.2 assesses the submission of reports for external audit, and dimension 29.3 assesses accounting standards.

According to law 7/1998 on budgeting and financial affairs (and respective amendments as per decree 3/2008), Palestinian Financial Ordinance of 2005 for ministries and public entities (and respective amendments), the MoFP is responsible for preparation and fair presentation of the financial statements as set forth by the IPSAS cash basis of accounting. According to the same laws, the MoFP is required to submit the final accounts to the Cabinet within six months of year end and to the SAACB within one year.

29.1 Completeness of annual financial reports

This dimension assesses the completeness of annual financial statements for the last completed financial year (2014). It requires comparability with the approved budget and full information on revenue, expenditure, financial and non-financial assets, liabilities, guarantees and long-term obligations, as well as a cash flow statement. The annual financial statements for 2014 submitted to the SAACB in July 2018 meet the above requirements. Specifically, they provide information on revenue, expenditure, financial assets, financial liabilities, guarantees, and long-term obligations. They also provide comparability with the approved budget.

The financial reports must be prepared annually. While the PA does have the required information in the annual reports, the delay in the reports is a concern. There has been a strong effort to close the gap in the financial statements and they expect to issue 2016 and 2017 in 2019 and to close the gap completely in 2020.

Dimension rating: D

29.2 Submission of reports for external audit

This dimension assesses the timeliness of submission of reconciled annual financial reports for external audit in relation to the last report submitted. Ideally, in terms of the PEFA Framework, this should take place within 3 months of the end of the accounting period. The latest annual financial statements for the year ended 31 December 2014 and 2015 were submitted to the SAACB on January 31, 2019.

Dimension rating: D

29.3 Accounting standards

This dimension assesses the extent to which annual financial reports are understandable to the users of the reports. It considers the last three fiscal years (2015-2017). There were two sets of financial statements issued during those years which include 2011 year-end financial statements which were issued December 2015 and 2012 year-end financial statements which were issued July 2017. The financial statements have been prepared mainly in accordance with the cash-based IPSAS. This basis was consistently applied for the previous three-year period and most mandatory information provided including notes to the financial statements. However, IPSAS have not been completely applied, as noted by the SAACB in its qualified opinion for both years. The financial statements do not adhere to several standards detailed in the cash-basis IPSAS and lack certain information and/or explanations.

For some of the qualifications, the MoFP has already addressed the deficiencies. On the timeliness of the financial statements, for example, there is marked improvement, although there is still a backlog.

Certain deficiencies noted in the qualified opinions in both sets of financial statements include:

- Timeliness of the financial statements as required by cash-basis IPSAS and the budget law.
- Changes from the original to the final budget as required by standard 1.9. While there has been some improvement in meeting this standard, a reconciliation between the actual figures of the budget and the actual amounts on the financial statements is still lacking.
- Correction of errors as required by standard 1.5. While there has been improvement in meeting this standard (even from 2011 financial statements to 2012 financial statements), a qualification is still noted as there is no appropriate documentation. Furthermore, late and/or inaccurate bank reconciliations as well incorrect accounting of revenues and expenses also lead to a gap.
- The SAACB still has reservations on the accuracy of reporting related to some grants, including in-kind grants.

There are other deficiencies or omissions related to either 2011 or 2012 financial statements that the MoFP should address in future reports.

Dimension rating: C

PI-29	Dimension	Score	Justification
Annual Finalization / Financial Reports		D+	Overall rating based on M1 methodology
29.1	Completeness of annual financial reports	D	While complete, there is a delay in the issuance of annual reports.
29.2	Submission of reports for external audit	D	Financial reports for budgetary central government are not submitted for external audit within 9 months of the end of the fiscal year.
29.3	Accounting standards	C	Accounting standards applied to all financial reports are consistent with the country's legal framework and ensure consistency of reporting over time. The standards used in preparing annual financial reports are disclosed.

Current improvement efforts:

A memorandum of understanding was signed with SAACB in which there is an agreement between the MOFP and SAACB on the timeline to reduce the backlog in the annual audited statements. Based on this, consolidated 2014 and 2015 financial statements were submitted to SAACB at the end of January 2019, and the audit by SAACB is expected to conclude by the end of June 2019. The MOU also stated that MOFP will submit consolidated financial statements for 2016 & 2017 to SAACB by the end of August, and the audit will be completed by SAACB within 6 months.

Pillar VII. Audit and external scrutiny

PI-30 External Audit

This indicator examines the characteristics of external audit. It comprises four dimensions the scores for which are combined using the M1 'weakest link' scoring method.

30.1 Audit coverage and standards

This dimension assesses the key elements of external audit in terms of the scope and coverage of audit, as well as adherence to auditing standards.

The SAACB audits all 52 central and local government entities on a regular basis. Each entity is audited based on the SAACB audit plan which is risk-based according to the priorities defined in its medium-term strategic plan. All entities are audited at least once every three or four years (more frequently for high risk entities). Most (between 80-90 percent) of expenditures and revenues for entities are financially audited once a year as they get consolidated into the final accounts which must be audited yearly according to the plan. All qualifications in the audit reports are detailed as well as compliance issues and lack of controls. A management letter is sent with the audit report and the MoFP can comment on the management letter before a final version is published.

In 2015, the SAACB issued 121 reports, 114 in 2016, and 123 in 2017. The major findings are summarized in SAACB's annual reports. The SAACB also issues an opinion on the financial statements of the Palestinian Authority, which conforms to INTOSAI standards. On the 2012 and 2013 audits, the SAACB issued a qualified opinion.

Dimension rating: B

30.2 Timeliness of submission of audit reports to the legislature

This dimension assesses the timeliness of submission on budget execution to the legislature, or those charged with governance of the audited entity. Annual reports are issued within the first quarter following the end of the period. These reports are submitted to the Cabinet and then made public on the SAACB website.

The PA's consolidated financial statements for the year ending 2011, 2012 and 2013 were audited and the report issued within 10 months, 10 months and seven months of receipt respectively but were delayed because the response from the MoFP was delayed as shown in [Table 3.20](#) below:

Table 3.20: Dates in the audit process

	Date final accounts received from MoFP	Date draft management letter sent to MOFP	Date MoFP responded to draft management letter	Date audit opinion issued
2011	18 Feb 2015	06 Sep 2015	11 Nov 2015	31 Dec 2015
2012	19 Sep 2016	30 Apr 2017	22 Jun 2017	27 Jul 2017
2013	16 Aug 2017	23 Nov 2017	5 Feb 2018	7 Mar 2018

2014*	09 Jul 2018	28 Oct 2018	30 Dec 2018	A unified opinion will be issued for both 2014 and 2015.
2015*	4 Feb 2019	30 May 2019	No response from MOFP yet.	A unified opinion will be issued for 2014 and 2015 after the response to the management letter.

*These are included for information purposes only as these audits were conducted outside the years covered by the assessment.

Dimension rating: C

30.3 External Audit follow-up

“Good practice” (score A) envisages a clear evidence that involved units respond positively to the recommendations of the auditors in order to improve their systems and heighten the employee’s discipline.

This dimension assesses the extent to which effective and timely follow-up on external audit recommendations or observations is undertaken by the executive or audited entity.

The follow-up to the audit reports is defined in the Audit Law No. 15 of 2004 article 36B “audited ministries and entities shall answer within a month to observations issued by the Bureau”. Of the 123 audit reports issued by the SAACB in 2017, 89 have been answered within the legal period of one month. In 2016, 114 audit reports were issued, and 83 were answered within the required period and in 2015, 118 audit reports were issued, with 73 responses within the required period.

The SAACB has a methodology to follow up on recommendations and if an entity does not respond within the timeframe specified, they submit their report to the Cabinet and issue it without a response. Depending on the sector, SAACB gets good responses to their recommendations. Implementation of recommendation is 80 percent in public institutions. Local Government Units have a 57 percent responsiveness rate and the security sector has a 45 percent response rate.

For the audit of the final accounts, any amounts that need to be adjusted in the financial statements are adjusted immediately as the audit is going on. For qualifications and recommendations, the SAACB sends a management letter that the MoFP has a month to respond to. Adjustments can be made following the response of the MoFP and the final audit report and management letter are then published.

Dimension rating: B

30.4 Independence of supreme audit body

This dimension assesses the independence of the SAI from the executive.

Law 15 of 2004, amended by law 18 of 2017, governs the SAACB. Article 2 of the latter law states that *“the SAACB enjoys legal, financial and administrative independence and full legal capacity to carry out all activities and activities that ensure the fulfilment of the tasks for which it was established. SAACB shall have a special budget within the general budget of the State of Palestine and be subject to the*

supervision mechanisms adopted on the general budget.” Article 12 of that law states that “It is not permissible to interfere in any of the work of the Bureau and all the entities under the control of the Bureau shall comply with the full and complete cooperation of the Bureau.”

The SAACB president is appointed by a decision of the President based on a nomination by the Cabinet and approval by Palestinian Legislative Council. The SAACB president cannot be removed except in specific circumstances according to Article 15 of the 2004 law as amended by article 7 of the 2017 law⁶. Article 31 of the same law as amended states that the SAACB has full and unrestricted access to all government entities.

Dimension rating: A

PI-30	Dimension	Score	Justification
External Audit		C+	Overall rating based on M1 methodology
30.1	Audit coverage and standards	B	Most expenditures and revenues have been audited using ISSAIs during the last three fiscal years.
30.2	Submission of audit reports to the legislature	C	Audit reports were published within one year but submitted to the MoFP for comments within nine months of receipt.
30.3	External audit follow-up	B	There are formal and timely responses to audit reports and implementation of recommendations are 80% in public entities.
30.4	Independence of supreme audit body	A	The law gives full legal, financial and administrative independence to the SAACB. SAACB has unrestricted access to records, documentation and information.

Current improvement efforts:

A memorandum of understanding was signed with SAACB in which there is an agreement between the MOFP and SAACB on the timeline to reduce the backlog in the annual audited statements. Based on this, consolidated 2014 and 2015 financial statements were submitted to SAACB by the end of January 2019, and the audit by SAACB is expected to conclude by the end of June 2019. The MOU also stated that MOFP will submit consolidated financial statements for 2016 & 2017 to SAACB by the end of August and the audit will be completed by SAACB within 6 months.

PI-31 Legislative scrutiny of audit reports

⁶ President of the Bureau shall be relieved of duty and the term in office shall expire with one of the following reasons:

1. Death.
2. Expiry of legal term in office.
3. Resignation approved by president of the state.
4. Removal from office with approval of the absolute majority of the legislative council according to provisions of this law.
5. Loss of legal capacity.
6. Conviction by a final court ruling with a felony or misdemeanor offending honor and honesty.

This indicator focuses on legislative scrutiny of the audited financial reports of central government, including institutional units, to the extent that either (a) they are required by law to submit audit reports to the legislature or (b) their parent or controlling unit must answer questions and take action on their behalf: it has four dimensions.

However, as noted in Section 2 above, the PLC has not functioned since 2007, and hence this indicator is deemed to be “NA”.

31.1 *Timing of Audit Report scrutiny*

Dimension rating: NA

31.2 *Hearings on audit findings*

Dimension rating: NA

31.3 *Recommendations on audit by the legislature*

Dimension rating: NA

31.4 *Transparency of legislative scrutiny of audit reports*

Dimension rating: NA

PI-31	Dimension	Score	Justification
	Legislative scrutiny of audit reports	NA	Overall rating based on M2 methodology
31.1	Timing of audit report scrutiny		There has been no functioning legislature in place in the last three years.
31.2	Hearings on audit findings		
31.3	Recommendations on audit by the legislature		
31.4	Transparency of legislative scrutiny of audit reports		

4. Conclusions of the analysis of PFM systems

4.1 Integrated assessment of PFM performance

Pillar I: Budget reliability

The context in which WB&G develops its budget is important, as the political situation provides no certainty that the estimates will prove to be reliable. In the three years reviewed, the public financial management system developed reasonable estimates of aggregate expenditure, although the difference between actual expenditure and the initial budget estimate was high in the first of these years. In addition, there is still a large gap between the budget and the composition of actual expenditure (PI-2, 'D+') in terms of both function and economic type, and expenditure arrears are a major concern (PI-22). As for revenues, actual receipts were significantly below the level anticipated at the beginning of the year (PI-3, rated 'C'), this situation was further exacerbated by the unpredictable treatment of 'tax clearance deductions' by the Israeli authorities.

Pillar II: Transparency of public finances

With the exception of the financial information available to citizens (PI-9, rated 'C'), the PA is transparent in the management of its public finances. Budget documents are comprehensive and follow GFS and COFOG requirements closely, and coverage of government activities is comprehensive – although the focus does not extend beyond the budget year. All sub-national entities within WB&G comply with financial reporting requirements (PI-7, 'C') although no comprehensive report of their activities is published. However, performance indicators have been developed for many services and are available to citizens (PI-8, 'B').

Pillar III: Management of assets and liabilities

In general, mechanisms for monitoring fiscal risks are weak (PI-10, rated 'D') which is a serious issue as the PA faces significant contingent liabilities and fiscal risks, for example in the form of pension obligations and deductions from clearance revenues.

There are no formal guidelines for project appraisal and most investment projects are selected according to government priorities, although individual ministries may undertake their own appraisals. However, externally-financed investment projects are monitored and evaluated. There are no forward-linked recurrent expenditures for investment projects, and the legal framework for managing both public investments and public assets is weak (PIs-11 and 12, both rated 'D+'): in addition, very limited information is made available to the public, although any proceeds from assets disposal are reported in in-year budget reports.

Pillar IV: Policy-based fiscal strategy and budgeting

The Annual Budget Law presented to the President includes a table of key economic indicators covering the four prior years, the budget year, and the following four fiscal years, as well as fiscal forecasts for the budget year and comparable information for the preceding three years. Forecasts are disaggregated but there is no assessment of the main changes since the prior year, and although MoFP considers policy developments and significant risks, these are not included in the annual law or

accompanying documents (PIs 14 and 15, rated 'D+' and 'C' respectively). In addition, the ABL includes a report on budget performance for the previous year, although there is no assessment of performance against the domestic debt ceiling.

Although information is prepared for the budget year and the next two fiscal years, the ABL only incorporates information for the budget year. Medium-term expenditure ceilings are approved by the Council of Ministers before the second circular is issued (PI-16.2, 'D'), but there is no explanation of changes to the estimates between the prior year medium term budget and the current budget.

Clear budget schedules exist and are complied with, giving budget units at least four weeks to prepare their detailed estimates following the release of the ceilings in the second budget circular. MoFP provides extensive guidance to ministries for budget preparation: the circulars provide guidance and share approved ceilings. In each of the last three FYs, the budget has not been presented until several months after the start of the year (PI-17, rated 'C'). The President signs the annual budget law two to three months after the new fiscal year has started, although there are clear rules for in-year budget reallocations within the approved total. (PI-18.4, 'B').

Pillar V: Predictability and control in budget execution

The MoFP website contains up-to-date and comprehensive taxpayer information including laws and tax administration procedures for registration and filing of tax returns. While there is no independent tax appeals board, there is administrative (internal) process for redress followed by the law courts (PI-19.1, rated 'A'). Tax revenue risk management uses taxpayer risk profiling mechanisms, and all taxpayers pay directly into revenue authorities bank accounts. Both Customs/VAT and Income Tax departments use manual case selection process with some level of risk-profiling, and complete more than half planned audits. Tax arrears were below 20% in 2017 but are not age-profiled.

MoFP receives both monthly and daily revenue reports which include a variance analysis with reasons for deviations. All revenue collections are transferred to the Treasury Main Account within 24 hours (PI-20.2: 'A'), and cash balances are consolidated every day, to ensure zero balances (although the Donor Fund Account is outside this) and the cash position is monitored on a daily basis and the cash plan is updated monthly: however, a permanent cash rationing process is in place.

As might be expected, the stock of expenditure arrears is more than 10% in each of the last three completed fiscal years: the MoFP generates a monthly report within two weeks of the previous month-end (PI-22.2, rated 'A').

The expenditure management process prescribes clear procedures that segregate duties and responsibilities of staff within the payment process, and the IFMIS limits expenditure commitments to approved quarterly budget allotments (ceilings) but fails to limit commitments to actual cash available. While at least 75% of all payments are compliant with payment rules and procedures, there are concerns regarding adherence to control processes within BISAN, as some staff have the privilege to override and reverse transactions.

Internal Audit coverage is at least 80% by value for expenditures and 90% for revenues. Most line ministries have functional IA units, which are largely financial and compliance focussed. At least 80% of IA plans are implemented, and the majority of recommendations are addressed within three to six months. There are concerns regarding the existence of clear follow-up and corrective strategies.

Currently, there is no automatic link between the database of personnel and the payroll, although the payroll is supported by full documentation for all changes made to personnel record each month and is checked against the previous month's data. Any changes in payroll (as a result of appointment, promotion, etc.) are made manually on a quarterly basis according to advice from the personnel department and are always supported by relevant documentation (PI-23). A payroll audit covering all central government entities has been conducted the last three years

Open (competitive) bidding is the default procurement method stipulated by the law. Feedback received from CTD, GSD and HCPPP, indicates that most contracts are awarded on competitive basis with few contracts awarded using direct contracting/single source method in accordance with the law. No procurement monitoring and reporting system is in place within government for ensuring value for money and for promoting fiduciary integrity. Information on procurement processes and results including data on what has been procured, the procurement methods, the amounts of contracts, and the names of contracts winners, are maintained separately by more than 500 public procuring entities at the central and local levels of government. In theory, the procurement complaint resolution system of WB&G will meet the requirements of good practice, however, this remains to be tested: data on the handling of complaints is not available to the public (PI-24).

Pillar VI: Accounting and reporting

In-year budget execution reports are comparable with the originally approved budget, and expenditure is reported and aggregated administratively, economically and functionally, and also shows transfers to de-concentrated government entities (PI-28, rated 'B+'). Reports are published within three weeks after the end of the previous month by the MoFP, and these include an analysis of the variance between actuals and estimates for both revenue and expenditure. Reports cover both expenditure at commitment and payments stages, with no significant data accuracy concerns.

The overall score of the indicator PI-27 is good (score 'B+') as MoFP performs detailed monthly bank reconciliations for at least 95% of central government bank accounts within three weeks after the end of the previous month, and most donor fund accounts are also reconciled within two weeks after the end of the preceding month. Suspense accounts are not used and at least 75% of advances are reconciled and acquitted every month within 4 weeks of the previous month. Financial data integrity processes are tightly controlled and work well (PI-27, rated 'B+').

The MoFP is responsible for preparation and fair presentation of the financial statements as set forth by the IPSAS cash basis of accounting and Palestinian legal requirement. There is compliance with meeting the standards although some deficiencies are noted (PI-30.3, rated 'B').

There is a delay in issuing annual financial statements, and they are not submitted for external audit within 9 months of the end of the fiscal year: in fact, no statements were issued for the last three fiscal years (PI-29, rated 'D+').

Pillar VII: External scrutiny and audit

The SAACB audits all central and local government entities on a regular basis, using a risk-based audit plan according to the priorities defined in the medium-term strategic plan. Most expenditures and revenues have been audited using ISSAIs during the last three fiscal years. Audit reports were published within one year but submitted to the MoFP for comments within nine months of receipt. There are formal and timely responses to audit reports and implementation of recommendations are 80% in public entities. The law gives full legal, financial and administrative independence to the SAACB. SAACB has unrestricted access to records, documentation and information (PI-30, rated 'C+').

There has been no functioning legislature in place in the last three years (hence PI-31 has not been rated).

4.2 Effectiveness of the internal control framework

Control Environment

Table 4.1 below outlines the roles and responsibilities of key stakeholders in the internal control framework, according to ISSAI INTOSAI Governance 9100 published in 2016. Each role player – as well as a robust legal and regulatory regime – is crucial in assuring a strong control environment. The organisational structure promotes compliance to rules and regulations, with a clear segregation of responsibilities. Although in general there are no issues with human resources, a lack of skilled accounting staff has led to a backlog in producing annual financial statements since 2015. Internal audit coverage is at least 80% of central government operations, and periodic reports identifying issues and proffering recommendations are prepared: however, executive action is slow. Compliance with PFM rules and regulations is satisfactory, supported by the financial controllers embedded in each line ministry (responsible for ensuring compliance to rules and regulations before payments are made).

The SAACB is strong, and its independence is expected to be further strengthened by the promulgation of a new SAACB law in 2019. The main weakness in the control environment is the absence of a functioning legislature; this has been the case since 2007.

Table 4.1 Roles and responsibilities of key internal control stakeholders (INTOSAI Governance 9100)

Key Role Player	Areas of Responsibility	Assessment
Managers	Are directly responsible for all activities of an organisation, including designing, implementing, supervising proper functioning of, maintaining and documenting the internal control system. Their responsibilities vary depending on their function in the organisation and the organisation's characteristics.	The Accountant General is ultimately responsible for ensuring all government resources are properly accounted for. The PFM laws and regulations provide satisfactory guidelines for budget preparation, execution and reporting.

Internal auditors	Examine and contribute to the ongoing effectiveness of the internal control system through their evaluations and recommendations and therefore play a significant role in effective internal control. However, they do not have management's primary responsibility for designing, implementing, maintaining and documenting internal control.	Most central government institutions have functional internal audit units. Regular and periodic reports are issued with recommendations. However, there are delays in executive action.
Staff members	Contribute to internal control as well. Internal control is an explicit or implicit part of everyone's duties. All staff members play a role in effecting control and should be responsible for reporting problems of operations, non-compliance with the code of conduct, or violations of policy.	There is no overall skills gap in the workforce, although there is a lack of some specific skilled personnel such as qualified accountants; this has resulted in delays in completing the government AFS.
External parties	Also play an important role in the internal control process. They may contribute to achieving the organisation's objectives or may provide information useful to effect internal control. However, they are not responsible for the design, implementation, proper functioning, maintenance, or documentation of the organisation's internal control system.	Development partners are currently providing support to government's PFM reform strategy through the PFM Improvement Project, which is aimed at strengthening the government PFM systems.
Supreme Audit	Encourage and support the establishment of effective internal control in the government. The assessment of internal control is essential to the SAI's compliance, financial and performance audits. They communicate their findings and recommendations to interested stakeholders.	SAACB is strong, with competent and professional staff. However, the office is behind in completing the audit of the AFS, due to delays from the government side. SAACB does undertake performance audits, communicate their findings to the President and the Prime Minister, although the absence of a functional legislature further weakens the control environment.
Legislators	Establish rules and directives regarding internal regulators control. They should contribute to a common understanding of internal control.	As the PLC has not been in existence since 2007 (as a result of the political conflict between Hamas and Fatah parties during the 2006 general elections) the control environment has been weakened.
Other parties	Interact with the organisation (beneficiaries, suppliers, etc) and provide information regarding achievement of its objectives	CSOs in the Palestinian territories are strong and active. For instance, AMAN (the local chapter of Transparency International) and the Chamber of Commerce are actively involved in pressing government regards to transparency and accountability

Risk Assessment

The risk management framework is not well structured. However, individual budget entities prepare internal audit plans taking into consideration some aspects of risk. While the two revenue collecting departments – Customs and Income Tax – have no enterprise risk management framework, they have made it mandatory for each taxpayer to pay their taxes directly into the tax collection bank accounts; this reduces risk. Both Customs and Income Tax departments undertake risk-profiling during their tax

and fraud investigation activities; that said, the case selection process is manual, which compromises the independence of the tax officials. The SAACB also considers high risk areas in carrying out its external audit function.

Control Activities

The legal and regulatory frameworks supporting PFM control activities are the Financial Management Law of 1998 and the Financial Ordinance of 2009; they outline the roles, responsibilities, and segregation of duties of the Accountant-General and accounting officers within budget entities in relation to budget preparation and execution, revenue and cash management, safeguarding of public assets, financial accountability and reporting, among others.

The financial management software (Busan) is used for government financial reporting, providing sufficient security measures in terms of password access only for authorised staff, data encryption; backup facilities and an audit trail. Busan also has inbuilt expenditure commitment controls that limit expenditure, but only at commitment not at the level of actual cash available: this creates a huge stock of expenditure arrears. Internal audit functions cover at least 80% of central government operations, providing reasonable assurance on financial compliance. Internal audit units prepare periodic reports for management use, with recommendations but executive action is significantly delayed. The SAACB is well placed to provide external scrutiny but delays by the executive completing the AFS hinder their ability to carry out their legal mandate. SAACB also conducts performance audits. The absence of a functional legislature remains a major concern, as there is no parliamentary oversight: however, this is partly offset by CSOs which provide a platform to demand accountability.

Information and Communication

The MoFP website (www.pmf.ps) is the main source of fiscal and financial information for the public. Monthly budget execution reports, debt reports, PFM and tax laws and regulations, and the AFS are published on the website (although the AFS are not timely, the latest published being FY2010). Concerns have been raised regarding the accuracy of financial information, especially regarding the stock of expenditure arrears. Parliament would normally be another source of information and communication to the public, but this has not functioned since 2007. The SAACB also provides key information on government financial affairs such as financial and performance audit reports, mainly through the website (www.saacb.ps), although as previously mentioned, there is a backlog of reports due to delays in the AFS.

Monitoring Activities

Government prepares and publishes in-year budget reports within a month after the end of the preceding month. Again, internal audit units prepare periodic reports with recommendations for executive action; however, there are delays in the implementation of recommended remedial actions. Management also issues written responses to external audit findings but there is no systematic mechanism that addresses these audit concerns. A major weakness in the monitoring framework is the absence of a functioning legislature since 2007. The absence of parliament in addition to delays in producing central government AFS reduces the effectiveness of the SAI in the sense that scrutiny of its reports by the Office of the Prime Minister may not be effective.

Annex 2 summarises the operation mechanism of the internal control framework.

4.3 PFM strengths and weaknesses

Aggregate fiscal discipline

Fiscal discipline in WB&G is very reasonable, especially in the context within which the government has to operate, and most elements of WB&G's public financial management system contribute to this outcome. On the expenditure side, aggregate estimates are reasonable (PI-1, good 'B') but there are large differences between the original estimates and the actual expenditure composition (PI-2.1 and PI-2.2), and the actual expenditure is distorted due to expenditure arrears, which have been increasing in recent years (PI-22).

In terms of revenue, estimates are not accurate (PI-3, rated 'C'), mainly due to the current political situation which requires the monthly transfer of 'clearance revenues' (collected by the Government of Israel (GoI) on goods and services destined for WB&G), a major part of the PA's budgetary revenue, and while these are unpredictable, the accounting arrangements – by necessity – are sound (PI-20).

A PEFA assessment also recognizes broader issues that may affect fiscal discipline. For example, the monitoring of financial risks is weak (PI-10) as are the management of both public investments and public assets (both PI-11 and 12 are rated 'D+'). The budget documents have a very limited medium-term perspective, but medium-term projections do inform the internal process. In view of the uncertain fiscal environment, the presentation of medium-term projections in the documents would be valuable (PI-16, rated 'D').

Strategic allocation of resources

Two of the PEFA indicators related to "policy-based fiscal strategy and budgeting" (PI-14, PI-15) receive low ratings as the budget does not follow the policy priorities set out in the 'National Policy Agenda 2017 to 2022', with its 21 sector strategies. This is the fourth in a series of development plans prepared by the PA since 2008, but not all objectives and priority reforms are costed or directly linked to the budget process. In addition, the technical aspects of the budget preparation process (PI-17) are no more than adequate, and the absence of a functioning legislature impacts the overall rating of this indicator, and also affects PI-18 ('D+').

Other indicators related to resource allocation are evaluated as satisfactory or better: for example, budget classification is fully compliant with international standards (PI-4, rated 'A'), the PA's budget documentation (PI-5), is good, assessed as 'B'. In addition, in-year budget execution reports comparable with the originally approved budget are published monthly and include an analysis of the variance between actuals and estimates for both revenue and expenditure. In addition, these reports cover expenditure at both commitment and payments stages, with no significant data accuracy concerns (PI-28, rated 'B+').

Efficient service delivery

For aspects related to efficiency in the use of resources, the public financial management system is reasonable, as shown by the indicator of predictability of resource allocation in the year (PI-21, rated 'C+'); financial relationships between agencies are partially transparent (PI-7, 'C') as many services are decentralized to the districts to serve local residents; and the score of the 'performance information'

indicator is good (PI-8, score 'B').

In addition, while the mechanisms to minimize the risk of losses, such as payroll controls (PI-23, 'D+') and procurement (PI-24, 'D+') are weak, they are at least partially mitigated by the system of internal control in operation (PI-25, 'B') and are monitored by a reasonable internal audit function (PI-26, 'C+'); in addition, accounting control mechanisms are good (PI-27, 'B+').

However, there are concerns about weaknesses in the way both public investments and public assets are managed: both indicators are evaluated as weak (PIs-11 and 12, 'D+').

Finally, the monitoring mechanisms in place show mixed results. As there has been no functioning legislature in place in the last three years, PI-31 could not be rated. However, the SAACB has full legal, financial and administrative independence, as well as unrestricted access to records, documentation and information. External audits of most expenditures and revenues were conducted during the last three fiscal years using ISSAIs, although there remains a considerable delay and backlog. SAACB reports were published within one year but submitted to the MoFP for comment within nine months of receipt. There are formal and timely responses to audit reports and 80% of recommendations are implemented by public entities (PI-30).

In summary, the public financial management system of WB&G is operating at a satisfactory – though in several areas basic – level, with several areas for future improvement.

4.4 Performance changes since a previous assessment

This is the first assessment of WB&G using the 2016 version of the Framework. The executive summary compares the 14 dimensions that are directly comparable with the 2011 Framework used in 2013, while [Annex 4](#) shows changes in performance since 2013 using the 2011 Framework.

5. Government PFM reform process

5.1 Approach to PFM reforms

Government PFM Reform Process

Prior to 2016, a number of fragmented PFM reforms have been carried out in the areas of expenditure and cash management, improvement in domestic revenue mobilisation, accounting and financial reporting. Having realised the weaknesses in fragmented PFM reform initiatives, government decided to develop the current reform strategy in tandem with the National Policy Agenda 2017-2022.

Approach to PFM Reforms

The National Policy Agenda 2017-2022 "Putting Citizens First" dated December 2016, is the government's current medium-term development agenda. It has ten national priorities, namely, (i) Ending the Occupation and Achieving Our Independence, (ii) National Unity, (iii) Strengthening Palestine's International Status, (iv) Citizen-Centred Government, (v) Effective Government, (vi) Economic Independence, (vii) Social Justice and Rule of Law, (viii) Quality Education for All, (ix) Quality Health Care for All, and (x) Resilient Communities. The current PFM Reform Strategy 2017-2022 approved in July 2017, the first in its kind, hinges on priority number five (5) - Effective Government, with two broad parameters, namely, (i) Strengthening Accountability and Transparency, and (ii) Effective and Efficient Public Financial Management Systems. These two broad parameters are further fletched into a number of key result areas as follows:

(i) Strengthening Accountability and Transparency:

- *Institutionalizing the public sector in order to show more commitment to the Code of Conduct and anti-corruption environment.*
- *Enhancing transparency in the government, including the right to access information.*
- *Strengthening the role of supervisory, financial and administrative institutions.*
- *Strengthening a performance and results-oriented public management, completing the integration of planning with the budget and shifting to Programme Budgeting.*
- *Integrating social development in government policies, programs and budgets.*

(ii) Effective and Efficient Public Financial Management Systems

- *Strengthening the PFM and ensuring financial sustainability*
- *Increasing revenue by focusing on broadening the tax base, improving collection mechanisms, mobilizing external support and rationalizing expenditures.*

Though the PFM strategy is not costed and appears to be a 'wish list' of very ambitious plans, development partners were quite satisfied that at least, government has taken the lead to develop a strategy document on PFM, from which priority areas could be supported to achieve the desired results. The WB, EU, and Denmark are co-financing the PFM Improvement Project (PFMIP), derived from the PFM Reform Strategy, at a cost of USD3.5million.

5.2 Recent and on-going reform actions

The PFM Improvement Project (PFMIP) is the first reform project developed out of the PFM Reform Strategy. The table below gives an overview of the PFMIP covering 4 years 2018 – 2022.

Components	Cost (USD)
Component 1: Improving expenditure management and control	1.10
Component 2: Improving financial accountability of PFM systems	0.97
Component 3: Modernising public procurement	0.80
Component 4: Project management	0.60
Unallocated (including contingencies)	0.03
Total cost	3.50

The main outlines of each component are as follows:

- Component 1: Improving expenditure management and control*

The objective of this component is to improve budget expenditure management, financial control and cash management, strengthen the management of public sector wage bill, ameliorate intergovernmental fiscal transfers, and finally improve the transparency and reporting of medical E-Referrals in line with approved expenditure commitments
- Component 2: Improving financial accountability of PFM systems*

Component 2 is aimed at aligning public sector accounting and reporting to international standards, strengthen bank reconciliation process, eliminate the backlog of financial statements, and finally strengthen the capacity of SAACB to undertake audits of donor-financed projects
- Component 3: Modernising public procurement*

This involves strengthening the procurement council (HCPMP), developing modern procurement tools, and capacity building of procurement workforce as well as other key stakeholders
- Component 4: Project management*

This entails project implementation and coordination of PFM reform strategy

Alongside the above major PFM reform project, a number of parallel projects have either been ongoing or being prepared for support, the most relevant include the following:

- DFID's Service Stability and Reform Programme (SSRP) - Technical Assistance Component support to budget preparation process and revenue mobilisation, expected to start early 2019 with an estimated cost of GBP7.5 million for 4 years.
- EU, currently co-funding the PFMIP. It is also supporting capacity building initiatives at the SAACB - at an estimated cost of EUR1.5 million over a two-year period 2019 - 2021, and support to Customs Revenue Collection at an estimated cost of EUR2 million from 2019-2020
- France is providing training and capacity building for the Palestine Public Finance Institute (PPFI); also contributing to IMF/METAC technical assistance programme to macro-fiscal forecasting and reporting
- Norway is planning to provide direct budget support, as well as support to CSOs in anticorruption and the Bureau of Statistics

- IMF/METAC supports the macro-fiscal unit of MoFP through training and capacity building in database management, fiscal forecasting and reporting

Donor coordination

While there are regular bilateral meetings, the donor PFM meetings have become less frequent with only one meeting since 2017. The fiscal sector working group meetings are more regular, taking place at least twice a year since 2017, but these have tended to have a fiscal focus with little if any discussion of PFM. That notwithstanding, the donor PFM group appears to have become more active in recent months in part driven by the decision to fund the PFM Improvement Project (PFMIP) through a Trust Fund managed by the World Bank. This has also led to the reduction, if not avoidance of duplication of efforts. Currently, the Fiscal sector working group is co-chaired by MoFP and the IMF.

Officials from government have indicated that development partners in recent years, approach government with one voice. Where sector-specific support is provided, it is always done in consultation with central government officials led by MoFP. This, according to officials is more beneficial, as it reduces to a large extent duplication of efforts and wastage of resources.

5.3 Institutional considerations

Government leadership and ownership

On 22nd October 2018, the Minister of Finance and Planning was the special guest of honour during the launching of the PFM Improvement Project (PFMIP), an evidence of government's leadership in PFM reforms. The PA has also demonstrated commitment, ownership and leadership in PFM reforms through the development of the first PFM Reform Strategy 2017-2022, with support from development partners. Again, the creation of the PFM Management and Development Department headed by a substantive director under the Ministry of Finance and Planning to oversee and coordinate all PFM activities, points to government's leadership in PFM reforms. The Strategy is also linked to the National Policy Agenda; it provides clear and identifiable objectives and key stakeholders leading the reform process and timelines for achieving the desired results. Change management is probably the most important element in any reform process as people are used to doing things the old way, thereby resisting new ways of doing things. Section 6.2, page 15, of the PFM Reform Strategy acknowledges the need for change in culture as a prerequisite to reform process and progress; government proposes a radical change in legislation to address change management. In addition to legal and regulatory enactments, capacity building (on-the-job training) and the recruitment of both internal and external expertise willing to carry people along can be helpful in the reform process. Political stability also encourages reform.

Coordination across government

Historically, PFM reform has been fragmented, with no coordination. This is the first time the government has established a reform coordinating department, in 2017, to deal with the challenge of reform fragmentation. While the current PFM reform strategy does not have a well-sequenced and prioritised reform framework, the involvement of heads of departments across ministries and agencies can contribute to reform success, as there will be the opportunity to realign and sequence

reform priorities based on current and future needs. The assessment team observed great enthusiasm across government during the launch of the PFMIP, if continued, will boost reform progress.

A sustainable reform process

The current PFM Reform Strategy is very ambitious and also lacks a costing framework for activities foreseen to be carried out throughout the lifetime of the strategy. That notwithstanding, the government has indicated its commitment toward providing the necessary funding to carry out the reform initiatives. MoFP is planning to mainstream the reform strategy into central government's budget, as a way of securing some funding, going forward. Development partners have also indicated their willingness to support the reform process as much as possible, even though there is no clear financial commitment to that effect, the difficulty also arising out of the failure of the strategy to provide cost estimates. Another important element to sustainable reform process is the availability of qualified and committed public and civil servants; there is generally no lack of human resource across government even though specific expertise may be lacking, the more prevalent being in the accounts departments which has resulted in backlog of annual financial statements. This is being addressed by recruiting qualified local consultants to fill key gaps.

Transparency of the PFM programme

Citizens demand transparent and accountability in the management of public finances. And one key element for building public confidence is ensuring public access to key fiscal information. Therefore, transparency in governance and timely availability of fiscal information will engender public and development partner confidence. The PFM Reform strategy 2017-2022 has been published on the MoFP website. The strategy appears to be very ambitious, not prioritised and lacks the requisite costing framework for both capital and recurrent expenditure. It is seen as a 'wish list' of a number of PFM activities; the good aspect of it is that some activities and key result areas are linked to PEFA indicators which can serve as a monitoring framework for improvement in PFM performance. Development partners have bought into the strategy in spite of its weaknesses; for them, this is a good starting point.

Annex 1: Performance indicator summary

This annex provides a summary table of the performance at indicator and dimension level. The table specifies the scores with a brief explanation for the scoring for each indicator and dimension of the current and previous assessment.

COUNTRY NAME:		Current assessment		
Pillar	Indicator/Dimension	Score	Description of requirements met	
Budget Reliability	PI-1	Aggregate expenditure outturn	B	Deviations from original budget were less than 10% in two of the last three years: deviations were 22.1% for 2015, 4.9% for 2016, and 8.8% for 2017.
	PI-2	Expenditure composition outturn	D+	
		1. Expenditure composition outturn by function	D	Variance in expenditure composition by functional classification was more than 15% in each of the last three years (52.6%, 21.2% and 16.4%).
		2. Expenditure composition outturn by economic type	B	Variance in expenditure composition by economic classification was less than 15% in two of the last three years (31.2%, 8.6% and 7.2%).
		3. Expenditure from contingency reserves	A	Actual expenditure charged to the contingency vote was on average 0.1%, over the last three years.
	PI-3	Revenue outturn	C	
		1. Aggregate revenue outturn	B	Out-turns were between 92% and 116% of budgeted revenue in two of the last three years 2015-2017.
		2. Revenue composition outturn	D	Variance in revenue composition was more than 15% in each of the last three years 2015-2017.
Transparency of Public Finances	PI-4	Budget Classification	A	Budget formulation, execution, and reporting are based on every level of administrative, economic, and functional classification using GFS/COFOG standards.
	PI-5	Budget Documentation	B	Budget documentation fulfils 8 of the 12 elements, including all four 'basic' elements
	PI-6	Central government operations outside financial reports	A	
		1. Expenditure outside financial reports	A	No spending is excluded from financial reports.
		2. Revenue outside financial reports	A	No revenue is excluded from financial reports.
		3. Financial reports of extra-budgetary units	NA	As far as can be ascertained, there are no extrabudgetary units.
	PI-7	Transfers to subnational governments	C	
		1. System for allocating transfers	C	Transfers from central government based on population data (50%) are transparent and rule-based.
		2. Timeliness of information on transfers	C	The MoLG provides some information on transfers before the start of the new financial year but after the budget is decided.

	PI-8	Performance information for service delivery	B	
		1. Performance plans for service delivery	B	Information is published annually on program objectives, key performance indicators, and outputs to be produced for most ministries.
		2. Performance achieved for service delivery	B	Information is published annually on the quantity of outputs produced for most ministries.
		3. Resources received by service delivery units	A	Information on resources received by frontline service delivery units is collected and recorded by Governorate by the Ministries of Education and Health, and shows the source of funds. A report compiling the information is prepared at least annually.
		4. Performance evaluation for service delivery	C	Evaluations of the efficiency or effectiveness of service delivery have been carried out for some ministries at least once within the last three years.
	PI-9	Public access to fiscal information	C	Five of the nine listed documents are made available to the media or directly to the public within the timescales prescribed by the PEFA Framework.
Management of assets and liabilities	PI-10	Fiscal risk reporting	D	
		1. Monitoring of public corporations	D	MoFP monthly and annual reports include PPA figures, but the date of the annual report cannot be confirmed.
		2. Monitoring of sub-national government (SNG)	D	Most of the 142 municipalities are subject to annual audits, conducted by private-sector auditors on behalf of the SAABC, but no consolidated report is published.
		3. Contingent liabilities and other fiscal risks	D	The PA faces significant contingent liabilities and fiscal risks, for example in the form of pension obligations and deductions from clearance revenues.
	PI-11	Public investment management	D+	
		1. Economic analysis of investment proposals	C	There are no formal guidelines for project appraisal: Budget entities appraise their own projects.
		2. Investment project selection	C	Most government financed investment projects are selected according to government priorities, with little consideration on viability, achievability, and desirability.
		3. Investment project costing	D	There are no forward-linked recurrent cost of capital investment projects; both the budget estimates and the budget execution reports do not provide such information.
		4. Investment project monitoring	C	Both the financial and physical state of completion of externally-financed investment projects are monitored and evaluated by independent M and E experts. The Monitoring and Evaluation Directorate at the Secretary of the Ministerial Cabinet is responsible for monitoring and evaluating government projects, and each line ministry undertakes periodic site visits to check the physical status of their investment projects. SAACB also conducts performance audits on selected projects.
	PI-12	Public asset management	D+	

		1. Financial asset monitoring	C	MoFP maintains a record of its cash position but fails to keep record of any other financial assets. Investments in PIF are unknown but MoFP reports on its share of dividends received.
		2. Nonfinancial asset monitoring	D	Government does not maintain a comprehensive and consolidated register of fixed assets; however, line ministries keep a fixed asset register for some assets namely, computers, fixtures and fittings, and office equipment. The Government Property department also maintains a list of State vehicles.
		3. Transparency of asset disposal	C	The assets disposal mechanism is established by law, under Article 71 of the Public Procurement Law 2014. Proceeds from assets disposal are reported in the in-year budget reports.
	PI-13	Debt management	C+	
		1. Recording and reporting of debt and guarantees	B	Domestic debts are reconciled monthly, and external debts quarterly: these reports are submitted to the Cabinet, Development Partners and are published on the MoFP website.
		2. Approval of debt and guarantees	D	The sole responsibility for approving debts and guarantees lies with the Minister of Finance: the annual limit is approved by the President. There are no policies or procedures to guide the borrowing process.
		3. Debt management strategy	B	The Debt Management Strategy is updated annually and is publicly available in the Budget documentation. The strategy includes projections of rates, currency risks and refinancing costs, and is the basis for annual borrowing.
Policy-based fiscal strategy and budgeting	PI-14	Macroeconomic and fiscal forecasting	D+	
		1. Macroeconomic forecasts	C	The ABL is presented to the President for approval. It includes a table of key economic indicators covering the four prior years, the budget year, and the following four fiscal years.
		2. Fiscal forecasts	C	The ABL includes a presentation of fiscal forecasts for the budget year and comparable information for the preceding three years. Forecasts are disaggregated but there is no assessment of the main changes since the prior year. Forecasts for the two following years are prepared but not included in the annual law or accompanying documents.
		3. Macro-fiscal sensitivity analysis	D	MoFP considers policy developments and significant risks to the budget, but these are not included in the budget law. Macroeconomic indicators are included, but without any quantitative or qualitative assessment of variations from the fiscal forecasts.
	PI-15	Fiscal strategy	C	
		1. Fiscal impact of policy proposals	B	Estimates of the fiscal impact of all policy changes are made but are not included in the Budget Law.
	2. Fiscal strategy adoption	C	The 2017 and 2018 ABLs impose a debt ceiling which supports fiscal management and is an incentive for the PA to enhance revenues and contain expenditures to finance the budget.	

Predictability and		3. Reporting on fiscal outcomes	D	While the ABL includes a report on budget performance for the previous year, there is no explicit assessment of performance against the prior year's domestic debt ceiling.
	PI-16	Medium term perspective in expenditure budgeting	D	
		1. Medium-term expenditure estimates	D	Although information is prepared for the budget year and the next two fiscal years, the ABL only incorporates information for the budget year.
		2. Medium-term expenditure ceilings	D	The first circular, issued in April 2017 for the 2018 budget, focuses on procedural issues: ceilings are approved by the Council of Ministers before the second circular is issued.
		3. Alignment of strategic plans and medium-term budgets	D	The NPA does not have a comprehensive fiscal framework and is not directly linked to the budget process.
		4. Consistency of budgets with previous year estimates	D	No explanation is provided of changes to the expenditure estimates between the prior year medium term budget and the current budget.
	PI-17	Budget preparation process	C	
		1. Budget calendar	D	The 2018 budget calendar was issued on 27 April 2017 and was adhered to from the initial preparation of the draft budget through to submission to the Council of Ministers. From this point, however, there were extensive delays. Budgetary units have just over four weeks to prepare detailed estimates following the release of the ceilings in the second budget circular, and most ministries do so on time.
		2. Guidance on budget preparation	A	MoFP provides extensive guidance to ministries for budget preparation, via two budget circulars. The first has a timetable and provides guidance on the forms and the rules: the second discusses the treatment of expenditure categories and shares approved ceilings. MoFP conducts workshops covering the content of budget submissions: there is also a procedures manual which sets out the main requirements.
		3. Budget submission to the legislature	D	In each of the last three FYs, the budget has not been finally presented to the President until several months after the start of the year.
	PI-18	Legislative scrutiny of budgets	D+	
		1. Scope of budget scrutiny	NA	<i>Dimension not applicable.</i>
		2. Legislative procedures for budget scrutiny	NA	<i>Dimension not applicable.</i>
		3. Timing of budget approval	D	The President signs the annual budget law two to three months into the new fiscal year.
		4. Rules for budget adjustments by the executive	B	Clear rules exist for in-year budget reallocations and these allow extensive adjustments by the executive, but within the approved total.
	PI-19	Revenue administration	C+	
		1. Rights and obligations for revenue measures	A	Both Customs/VAT and Income Tax departments collect more than 90% of all central government revenues. MoFP website is the main source of up-

			to-date and comprehensive taxpayer information including laws and tax administration procedures for registration and filing of tax returns for both Customs/VAT and Income tax. There is no independent tax appeals board; however, there is administrative (internal) processes for redress, followed by the law courts. There is limited information on tax appeals.
	2. Revenue risk management	C	The tax revenue risk management framework is partially systematic and structured, with the use of manual case selection process for tax audit and fraud investigations. Both Income Tax and Customs/VAT departments adopt taxpayer risk profiling mechanisms to minimise discretion. Also, all taxpayers pay their taxes direct into the revenue authorities bank accounts, thereby reducing human interface.
	3. Revenue audit and investigation	C	On average, 57.5% of planned audits and fraud investigations are completed. While the Customs/VAT department averaged 58%, the Income Tax department averaged 54% in terms of audit completion rate. Both departments use manual case selection process with some level of risk-profiling
	4. Revenue arrears monitoring	D*	Data on arrears are not reliable.
PI-20	Accounting for revenues	C+	
	1. Information on revenue collections	A	MoFP received both monthly and daily revenue reports from both Income Tax and Customs/VAT Departments. The report shows revenue by type, tax governorates, large taxpayer and small/medium taxpayer and also a variance analysis with reasons for deviations.
	2. Transfer of revenue collections	A	Both Customs/VAT and Income Tax Departments transfer all taxes to the Treasury Main Account within 24 hours.
	3. Revenue accounts reconciliation	C	At this stage, the only reconciliation that takes place is between total actual collections and transfers to the Treasury. The RMS software is used to carry out this reconciliation.
PI-21	Predictability of in-year resource allocation	C+	
	1. Consolidation of cash balances	C	Each Treasury Account has sub-accounts which are consolidated every day, to ensure zero balances. However, the Donor Fund Account in the Arab Bank is outside this consolidation.
	2. Cash forecasting and monitoring	A	A cash plan is routinely produced, which is updated monthly (or more frequently, as required).
	3. Information on commitment ceilings	D	The horizon of line ministries for expenditure execution is usually less than a month, as a permanent cash rationing process is in place.
	4. Significance of in-year budget adjustments	C	Changes are made as some ministries exceed their allocations while others had adjustments to account for moneys withheld from clearance revenue for payments for cross border services.
PI-22	Expenditure arrears	D+	

	1. Stock of expenditure arrears	D	Stock of expenditure arrears is more than 10% in all last three completed fiscal years (19.7%, 12.5% and 11.4% in 2015, 2016 and 2017 respectively).
	2. Expenditure arrears monitoring	A	MoFP generates a monthly report on the stock of expenditure arrears within two weeks of the previous month-end. The report is age-profiled and categorised into type of expenditure.
PI-23	Payroll controls	D+	
	1. Integration of payroll and personnel records	D	Personnel data and payroll data are not directly linked but the payroll is supported by full documentation for all changes made to personnel record each month and is checked against the previous month's data.
	2. Management of payroll changes	B	Personnel records and payroll are updated monthly, but there may be a few instances where retrospective adjustments are required.
	3. Internal control of payroll	B	Authority for changes to personnel records and the payroll are clear and pre-audit checks are in place and are followed.
	4. Payroll audit	C	A payroll audit covering central government entities with the exception of the security forces was conducted in 2017.
PI-24	Procurement	D+	
	1. Procurement monitoring	D	No procurement monitoring and reporting system is in place within government for ensuring value for money and for promoting fiduciary integrity. Information on procurement processes and results are maintained separately by more than 100 public procuring entities at the central level of government. It is not possible to assess the accuracy or the completeness of the information. CTD and GSD maintain databases of procurement processes which they handle but the accuracy and completeness of these databases has not been assessed. HCPPP established and piloted a single procurement portal which supports the consolidation of information on procurement processes carried out by all public procuring entities at the central and local levels of government. This information will support HCPPP in monitoring procurement and reporting on performance against a set of key performance indicators.
	2. Procurement methods	B	The law makes open (competitive) bidding as the default procurement method and outlines a menu of their competitive methods. The law sets exceptional conditions for using Direct contracting/Single sourcing method. The implementing regulations requires Cabinet prior approval for Direct contracting of Goods with a value exceeding US\$ 50K, and for works with a value exceeding US\$ 150K. Information provided by CTD and GSD and confirmed by HCPPP shows that the majority of contracts are awarded on competitive basis with

				few contracts awarded using direct contracting/single source method in accordance with the law.
		3. Public access to procurement information	D	The only information on public procurement available to the public at the time of the assessment is: (i) the legal and regulatory framework for procurement; and (ii) bidding opportunities. Two elements met out of six included under this dimension. No data is available to the public on government procurement plans, contract awards, the resolution of procurement complaints and annual procurement statistics. For procurement activities carried out by GSD, GSD website publishes information on contract awards, in addition to bidding opportunities. The single procurement portal established and piloted by HCPPP supports making available all six elements of information on public procurement.
		4. Procurement complaints management	D	The Dispute Review Unit, which is the independent body responsible for administrative review of procurement complaints, per the procurement law, was not established at the time of the assessment.
	PI-25	Internal controls on nonsalary expenditure	B	
		1. Segregation of duties	A	The expenditure management process prescribes clear procedures that segregate duties and responsibilities of each staff within the payment process.
		2. Effectiveness of expenditure commitment controls	C	IFMIS (Bisan) limits expenditure commitments to approved quarterly budget allotments (ceilings) but fails to limit commitments to actual cash available.
		3. Compliance with payment rules and procedures	C	At least 75% of all payments are compliant with payment rules and procedures outlined in the Financial Management Law of 1998 and the Financial Ordinance of 2009. However, there are concerns regarding adherence to control processes within BISAN as some staff have the privilege to override and reverse transactions within BISAN.
	PI-26	Internal audit effectiveness	C+	
		1. Coverage of internal audit	B	Audit coverage is at least 80% by value for expenditures and 90% for revenues. Most line ministries have functional IA units.
		2. Nature of audits and standards applied	C	IA is largely financial and compliance with some risk-profiling; some systemic issues are addressed. IIA standards are generally adhered to.
		3. Implementation of internal audits and reporting	B	At least 80% of IA plans are implemented, as evidenced by periodic reports.
		4. Response to internal audits	C	At least 61% of all public/civil sector audit recommendations are addressed within three to six months. There are concerns regarding the existence of clear follow-up and corrective strategies.
Accounting and	PI-27	Financial data integrity	B+	
		1. Bank account reconciliation	B	MoFP performs detailed monthly bank reconciliations for at least 95% of central government bank accounts within three weeks after

				the end of the previous month. Most donor fund accounts are also reconciled within two weeks after the end of the preceding month.
		2. Suspense accounts	NA	This dimension is not applicable as there are no suspense accounts
		3. Advance accounts	B	At least 75% of advances are reconciled and acquitted every month within 4 weeks of the previous month.
		4. Financial data integrity processes	A	Access to Bisan (IFMIS) is restricted to authorised users only, with passwords granted only by the Accountant General. The data is encrypted, and Bisan generates an audit trail. Five members of the Accountant General's staff are responsible for financial data reconciliation and data integrity.
	PI-28	In-year budget reports	B+	
		1. Coverage and comparability of reports	B	In-year budget execution reports are compatible and comparable with the originally approved budget. Expenditure is reported and aggregated administratively, economically and functionally, and also shows transfers to de-concentrated government entities.
		2. Timing of in-year budget reports	B	MoFP prepares and publishes monthly budget execution reports within three weeks after the end of the previous month.
		3. Accuracy of in-year budget reports	A	MoFP issues monthly budget execution reports, including an analysis of the variance between actuals and estimates for both revenue and expenditure. Reports cover both expenditure at commitment and payments stages, with no significant data accuracy concerns.
	PI-29	Annual financial reports	D+	
		1. Completeness of annual financial reports	D	While complete, there is a delay in the issuance of annual reports.
		2. Submission of reports for external audit	D	Financial reports for budgetary central government are not submitted for external audit within 9 months of the end of the fiscal year.
		3. Accounting standards	C	The statements for the last three fiscal years were not issued.
External scrutiny and audit	PI-30	External audit	C+	
		1. Audit coverage and standards	B	Most expenditures and revenues have been audited using ISSAIs during the last three fiscal years.
		2. Submission of audit reports to the legislature	C	Audit reports were published within one year but submitted to the MOFP for comments within nine months of receipt.
		3. External audit follow-up	B	There are formal and timely responses to audit reports and implementation of recommendations are 80% in public entities.
		4. Supreme Audit Institution (SAI) independence	A	The law gives full legal, financial and administrative independence to the SAACB. SAACB has unrestricted access to records, documentation and information.
	PI-31	Legislative scrutiny of audit reports	NA	

		1. Timing of audit report scrutiny		
		2. Hearings on audit findings		
		3. Recommendations on audit by the legislature		
		4. Transparency of legislative scrutiny of audit reports		
		Total Scored	30	

Annex 2: Summary of observations on the internal control framework

Internal control components and elements	Summary of observations
<p>1. Control environment</p>	<p>The Financial Management Law of 1998 and the Financial Ordinance of 2009 provide sufficient legal and regulatory framework for a strengthened control environment. Duties and responsibilities of finance and non-finance staff are clearly spelt out with well-defined reporting structures, from top to bottom. The organisational structure promotes compliance to rules and regulations. The Minister of Finance and Planning is the authorised government official to sanction all approved payments, through the issuance of expenditure commitment warrants, in line with approved budget estimates. The accounting officer in each budget entity is responsible for ensuring the day-to-day compliance of all payment rules. Whiles there are no general issues with human resource, lack of some skilled staff, such as qualified accounting staff, has led to the creation of backlog of annual financial statements, dating back 2015. Government is however filling these gaps with the recruitment of qualified consultants to resolve this challenge.</p> <p>Internal audit functions cover at least 80% of government operations, with mixed levels of staff technical capacities. The General Directorate of Internal Audit under MoFP complements the efforts of internal auditors across line ministries and budget entities, by providing technical support and training programmes. Compliance to PFM rules and regulations is considered satisfactory; this is strengthened by the activities of financial controllers in each line ministry, who are responsible for ensuring compliance to payment processes.</p> <p>The independence of the Auditor-General and the State Audit and Administrative Control Bureau (SAACB) is expected to be strengthened after the passage of the draft SAACB law. Currently, Article 96 of the Constitution regulates the appointment of the Auditor General. The Office is well equipped and staffed with competent personnel for providing the requisite external oversight functions. That said, the absence of a functioning legislature in the Palestinian territories continues to weaken the fundamental structure of the control environment.</p>
<p>2. Risk assessment</p>	<p>Presently, there is no government-wide risk management framework in place; line ministries also do not have a risk management framework. Nonetheless, each of the five big ministries (education, health, public works, agriculture, and interior) as well as the General Directorate of Internal Audit - MoFP prepares internal audit plans which take into consideration associated risks within each entity.</p> <p>One significant risk identified is with revenue management; but even without a structured and formalised enterprise risk management for the revenue departments (Customs and Income Tax), measures like payment of taxes directly into the tax revenue accounts, thereby eliminating human interface is considered a good strategy to minimise risk.</p> <p>Risk can be identified in a number of PFM areas:</p>

	<ul style="list-style-type: none"> • PI-10 (fiscal risk reporting) "D" - mainly on sub-national monitoring which is weak in terms of submission of SNG annual financial reports for review; also, on monitoring and reporting of contingent liabilities • PI-11 (public investment management) "D+" - non-existence of formal public investment guidelines, limiting the economic analysis on investment programmes; the selection criteria mostly based on government priorities with little economic analysis. Further, the weak costing framework of investment projects with no forward-linked recurrent expenditure • PI-12 (public asset management) "D+" - the absence of a comprehensive and consolidated government asset register to effectively monitor and safeguard government assets • PI-14 (macroeconomic and fiscal forecasting) "D+" - mainly from the fact that government does not publish its macro-fiscal sensitivity analysis which are not included in the budget and therefore not published • PI-19.4 (revenue arrears monitoring) "D*" - revenue arrears data is not reliable. • PI-22 (expenditure arrears) "D" - stock of arrears are above 10% of total government expenditure; it is also believed that not all arrears are reported
<p>3. Control activities</p>	<p>The Accountant-General is government's chief accountant and is responsible for providing leadership in financial accountability through the issuance of guidelines and manuals plus training of all financial cadres within the public sector. The Financial Management Law of 1998 and the Financial Ordinance of 2009 defines the activities of the Accountant General and all heads of finance in all budgeted entities. The accounting regulations further detail the roles and responsibilities of accounting officers, with clear segregation of duties in the area of planning, budgeting, cash and expenditure management, revenue mobilisation, and safeguarding of public assets and resources.</p> <p>The financial management software (Bisan) used for government financial reporting, provides sufficient security measures in terms of password access for authorised staff only, and data encryption plus backup facility. Bisan generates an audit trail, thereby tracking users at all times. There is also an inbuilt expenditure commitment control mechanism that limits expenditure at commitment level but not at the level of actual cash available; this creates a huge stock of expenditure arrears. Internal audit units provide reasonable assurance on compliance, and external audit activities are robust, but weakened by delays in submission of annual financial statements. Another weakness is the absence of a functional legislature.</p> <p>Areas that need attention include the following:</p> <ul style="list-style-type: none"> • PI-24 (Procurement) "D+" - the main issues relate to the procurement monitoring mechanism and the independent procurement complaints mechanism, which are not functional; • PI-25.3 (Internal control on nonsalary expenditure) "C" - there are concerns regarding compliance in the security forces: some laws appear to be ignored; • PI-26.4 (Response to internal audit) "C" - There are concerns regarding the existence of clear follow-up and corrective strategies
<p>4. Information and communication</p>	<p>The main source of government fiscal information is the MoFP website (www.pmf.ps), which provides fiscal information such as financial</p>

	<p>reports, government debt portfolio, laws and regulations, information about taxation. In-year budget reports are published within a month; this is satisfactory. The main challenge is the backlog of annual financial statements, the latest being FY2014. Another concern is the accuracy of published information; for instance, re: expenditure arrears. The budget preparation process is participatory and consultative: however, the absence of a functioning parliament, a source of information for citizens, limits the extent of a robust legislative scrutiny.</p> <p>Main area of concern:</p> <ul style="list-style-type: none"> • PI-29 (Annual financial statements) "D+" - the main tool for monitoring the government budget, the AFS, are significantly delayed, which denies citizens the opportunity to view actual expenditure and on which sectors of the economy.
<p>5. Monitoring</p>	<p>One mechanism for monitoring central government PFM is issuing timely and accurate financial/fiscal reports.</p> <p>A second monitoring framework is the timely and regular issuance of internal audit reports, which monitor and evaluate compliance to financial laws and regulations with regards to safeguarding public assets and the efficient use of government resources. Whilst internal audit reports are issued regularly with the required remedial action on audit findings, executive implementation of these recommendations remains a challenge.</p> <p>At the level of external audit, management issues written responses to audit findings; nonetheless, there is no systematic framework in place for addressing audit concerns. Delays in completing and submitting the AFS to SAACB limit the effectiveness of the SAI. The second arm of government, the legislature, is not performing its constitutional mandate because it is not functional. In the absence of the legislature, the Office of the Prime Minister and the Prime Minister himself performs this oversight function.</p> <p>An area to note is:</p> <ul style="list-style-type: none"> • PI-30 (external audit) "C+" - SAACB is relatively strong but its functions are affected by (i) delays in submission of consolidated AFS by MoFP, and (ii) the absence of a functional legislature to scrutinize reports and follow up executive implementation of audit and PAC recommendations.

Annex 3: Sources of information by indicator

This table references the data sources for each indicator/dimension.

Indicator/dimension	Data Sources
I. Budget reliability	
PI-1. Aggregate expenditure outturn	
1.1 Aggregate expenditure outturn	<ul style="list-style-type: none"> • Annual budget law approved by the President for FY2015, FY2016, and FY2017 • Monthly and Annual financial reports published by the MoFP for FY2015, FY2016, and FY2017 • Approved original total budgeted expenditure and total actual expenditure for FY2015; FY2016, and FY2017
PI-2. Expenditure composition outturn	
2.1. Expenditure composition outturn by function	<ul style="list-style-type: none"> • Annual budget law approved by the President for FY2015, FY2016, and FY2017 • Monthly and Annual financial reports published by the MoFP for FY2015, FY2016, and FY2017
2.2. Expenditure composition outturn by economic type	<ul style="list-style-type: none"> • Approved original expenditure budget and actual expenditure based on functional classifications for FY2015; FY2016, and FY2017
2.3. Expenditure from contingency reserves	<ul style="list-style-type: none"> • Approved original expenditure budget and actual expenditure based on economic classifications for FY2015; FY2016, and FY2017 • Approved contingency budget and actual expenditure from contingency vote for FY2015; FY2016, and FY2017
PI-3. Revenue outturn	
3.1 Aggregate revenue outturn	<ul style="list-style-type: none"> • Annual budget law approved by the President for FY2015, FY2016, and FY2017
3.2 Revenue composition outturn	<ul style="list-style-type: none"> • Monthly and Annual financial reports published by the MoFP for FY2015, FY2016, and FY2017 • Approved original total budgeted revenue and total actual revenue for FY2015; FY2016, and FY2017 • Approved original revenue budget and actual revenue outturns based on revenue types/compositions for FY2015; FY2016, and FY2017
II. Transparency of public finances	
PI-4. Budget classification	
4.1 Budget classification	<ul style="list-style-type: none"> • Chart of Accounts, Budget books FY2015; FY2016, & FY2017
PI-5. Budget documentation	
5.1 Budget documentation	<ul style="list-style-type: none"> • Budget books; Call circulars, Budget Speech FY2015; FY2016, and FY2017
PI-6. Central government operations outside financial reports	

6.1 Expenditure outside financial reports 6.2 Revenue outside financial reports	<ul style="list-style-type: none"> Information from the MoFP, central bank, SAI, and others about government bank accounts that are not managed by the Treasury Financial records of ministries and extrabudgetary units not reported in central government financial reports (e.g., bookkeeping and/or petty cash records, invoices, bank statements, etc.) (Note: Assessors will have to identify the operations/accounts before they can collect records on them.) Annual financial reports of extrabudgetary units Correspondence with central agency regarding financial reports
6.3 Financial reports of extrabudgetary units	Not assessed
PI-7. Transfers to subnational governments	
7.1 System for allocating transfers 7.2 Timeliness of information on transfers	<ul style="list-style-type: none"> Local Government Act (Law No. 1 of 1997); sub-national grants distribution formula for FY2017 from Ministry of Local Government Local Government budget circular for FY2017
PI-8. Performance information for service delivery	
8.1 Performance plans for service delivery 8.2 Performance achieved for service delivery 8.3 Resources received by service delivery units 8.4 Performance evaluation for service delivery	<ul style="list-style-type: none"> The Budget Book FY2015; FY2016, and FY2017; Strategic Plans from Education, and Health Annual performance reports for Education and Health for FY2017 Annual performance reports for Education and Health for FY2017; Evaluation report for Ministry of Education
PI- 9. Public access to fiscal information	
9.1 Public access to fiscal information	<ul style="list-style-type: none"> Ministry of Finance website (www.pmf.ps); annual budget speeches FY2015; FY2016, and FY2017
III. Management of assets and liabilities	
PI- 10. Fiscal risk reporting	
10.1 Monitoring of public corporations 10.2 Monitoring of sub-national government (SNG) 10.3 Contingent liabilities and other fiscal risks	<ul style="list-style-type: none"> Financial report from Palestine Petroleum Authority Local Authorities Law 1997; interview with officials of MoLG Draft Consolidated financial statements t FY2015; and monthly budget execution reports for FY2016, and FY2017
PI- 11. Public investment management	
11.1 Economic analysis of investment proposals 11.2 Investment project selection 11.3 Investment project costing	<ul style="list-style-type: none"> MoFP budget guidelines (there are guidelines on PIP)

11.4 Investment project monitoring	<ul style="list-style-type: none"> Progress reports from MoFP Central Planning Department; performance audit reports from SAACB
PI-12. Public asset management	
12.1 Financial asset monitoring	<ul style="list-style-type: none"> Draft consolidated financial statements for FY2015; and monthly budget execution reports for FY2016, and FY2017; fixed asset register from ministries of education, interior and health (there is no consolidated asset register) Article 71 of the Public Procurement Law 2014 (on asset disposal). Draft consolidated financial statements for FY2015
12.2 Nonfinancial asset monitoring	
12.3 Transparency of asset disposal	
PI-13. Debt management	
13.1 Recording and reporting of debt and guarantees	<ul style="list-style-type: none"> Public Debt report from MoFP and IMF Staff Report for FY2017
13.2 Approval of debt and guarantees	<ul style="list-style-type: none"> Public Debt Law 2005
13.3 Debt management strategy	<ul style="list-style-type: none"> Debt management strategy 2017
IV. Policy-based fiscal strategy and budgeting	
PI-14. Macroeconomic and fiscal forecasting	
14.1 Macroeconomic forecasts	<ul style="list-style-type: none"> Annual Budget Law 2015-17 Annual budget circular Policy and analytical advice to government The reviewing entity The unit preparing the initial forecasts
14.2 Fiscal forecasts	
14.3 Macro-fiscal sensitivity analysis	
PI-15. Fiscal strategy	
15.1 Fiscal impact of policy proposals	<ul style="list-style-type: none"> MoFP Office of the Prime Minister
15.2 Fiscal strategy adoption	
15.3 Reporting on fiscal outcomes	
PI-16. Medium-term perspective in expenditure budgeting	
16.1 Medium-term expenditure estimates	<ul style="list-style-type: none"> Annual budget estimates The collection of Budget circulars MoFP Annual budget documents Large sector ministries National Policy Agenda (NPA) 2017 to 2022
16.2 Medium-term expenditure ceilings	
16.3 Alignment of strategic plans and medium-term budgets	
16.4 Consistency of budgets with previous year's estimates	
PI-17. Budget preparation process	
17.1 Budget calendar	<ul style="list-style-type: none"> PFM Law 1998; Budget Call circulars 2017, Budget Calendar 2017
17.2 Guidance on budget preparation	
17.3 Budget submission to the legislature	
PI-18. Legislative scrutiny of budgets	
18.1 Scope of budget scrutiny	<ul style="list-style-type: none"> Not assessed
18.2 Legislative procedures for budget scrutiny	<ul style="list-style-type: none"> Not assessed
18.3 Timing of budget approval	<ul style="list-style-type: none"> Dates President approved budget
18.4 Rules for budget adjustments by the executive	<ul style="list-style-type: none"> MoFP (budget department), corroborated by the legislature (budget/finance commissions) Law no (7) – 1998 (Articles: 3 and 36 and 50) External audit reports

• Predictability and control in budget execution	
PI-19. Revenue administration	
19.1 Rights and obligations for revenue measures	<ul style="list-style-type: none"> • Customs & Excise laws; Income Tax laws; MoFP website (www.pmf.ps/en/), MoFP Revenue Department Facebook page https://www.facebook.com/PalestineTax; tax leaflets
19.2 Revenue risk management	<ul style="list-style-type: none"> • Interviews with tax officials
19.3 Revenue audit and investigation	<ul style="list-style-type: none"> • Tax audit and fraud investigation plan for 2016 and 2017; annual progress/activity report on taxation (customs and income tax) for 2016 and 2017
19.4 Revenue arrears monitoring	<ul style="list-style-type: none"> • Data on stock of revenue arrears for FY2016 and FY2017; plus, actual tax outturns for the same period
PI-20. Accounting for Revenues	
20.1 Information on revenue collections	<ul style="list-style-type: none"> • FY2016 and FY2017 quarterly revenue report to MoFP
20.2 Transfer of revenue collections	<ul style="list-style-type: none"> • MoFP Tax Department bank statements 2017; triangulation/confirmation from Central Bank
20.3 Revenue accounts reconciliation	<ul style="list-style-type: none"> • MoFP Tax Department revenue reconciliation statements for FY2016 and FY2017; Computer generated report from Revenue Management System (RMS)
PI-21. Predictability of in-year resource allocation	
21.1 Consolidation of cash balances	<ul style="list-style-type: none"> • Daily consolidation report of Treasury Main bank accounts
21.2 Cash forecasting and monitoring.	<ul style="list-style-type: none"> • 2017 cash flow forecasts from line ministries (education, interior, health); consolidated cash flow forecast from MoFP for 2017
21.3 Information on commitment ceilings.	<ul style="list-style-type: none"> • Monthly expenditure commitment warrants
21.4 Significance of in-year budget adjustments	<ul style="list-style-type: none"> • Statement of budget reallocation from MoFP; sample copies of line ministries budget virement / reallocation requests FY2016 and/or FY2017
PI-22. Expenditure arrears	
22.1 Stock of expenditure arrears	<ul style="list-style-type: none"> • Monthly financial/budget execution reports for 2015, 2016, and 2017 plus total PA expenditure for the same period
22.2 Expenditure arrears monitoring	<ul style="list-style-type: none"> • Monthly financial/budget execution reports for 2015, 2016, and 2017 generated from BISAN
PI-23. Payroll controls	
23.1 Integration of payroll and personnel records.	<ul style="list-style-type: none"> • Establishment list; personnel records at General Personnel Council and payroll report from Accountant-General's Department
23.2 Management of payroll changes	<ul style="list-style-type: none"> • Sample copies of payroll/personnel change forms
23.3 Internal control of payroll	<ul style="list-style-type: none"> • Sample copies of payroll/personnel change forms; monthly payroll report FY2017
23.4 Payroll audit	<ul style="list-style-type: none"> • 2017 payroll audit from Internal Audit Directorate of MoFP
PI-24. Procurement	
24.1 Procurement monitoring	<ul style="list-style-type: none"> • The databases of the centralized procurement entities namely i) Central Tenders Committee (CTD) and ii) General Supplies Department (GSD)
24.2 Procurement methods	<ul style="list-style-type: none"> • The High Council for Public Procurement polices (HCPPP).
24.3 Public access to procurement information	<ul style="list-style-type: none"> • Report by AMAN, the local chapter of Transparency International on the use of Direct Contracting in public procurement
24.4 Procurement complaints management	<ul style="list-style-type: none"> • The electronic single public procurement portal - www.shiraa.gov.pa
PI-25. Internal controls on non-salary expenditure	

25.1 Segregation of duties	<ul style="list-style-type: none"> Copies of payment vouchers; Financial Management Law of 1998
25.2 Effectiveness of expenditure commitment controls	<ul style="list-style-type: none"> IFMIS functionality manual; IFMIS implementation strategy document; statement of expenditure arrears from big line ministries (education, health, public works)
25.3 Compliance with payment rules and procedures	<ul style="list-style-type: none"> Financial statements for FY2015; Auditor-General's annual report for 2014 (current year not finalised). Ernst & Young 2017 report on PFM systems in the Palestinian territories
PI-26. Internal audit	
26.1 Coverage of internal audit	<ul style="list-style-type: none"> Article 63 of the General Budget and Financial Affairs Law No. 7 of 1998; internal audit reports for 2017
26.2 Nature of audits and standards applied	<ul style="list-style-type: none"> Standards and Code of Conduct for Internal Auditing", dated January 2014; 2016 and 2017 internal audit plans from ministries of education and health, and MoFP General Directorate of Internal Audit
26.3 Implementation of internal audits and reporting	<ul style="list-style-type: none"> Internal audit reports for FY2016 and FY2017
26.4 Response to internal audits	<ul style="list-style-type: none"> Interview with Auditor-General; internal audit reports for FY2016 and FY2017
V. Accounting and reporting	
PI-27. Financial data integrity	
27.1 Bank account reconciliation	<ul style="list-style-type: none"> Bank reconciliation statements FY2016 and F2017
27.2 Suspense accounts	<ul style="list-style-type: none"> Not applicable (no suspense in the financial statements)
27.3 Advance accounts	<ul style="list-style-type: none"> Statement of advances for 2017 and 2018
27.4 Financial data integrity processes	<ul style="list-style-type: none"> IFMIS functionality manual; IFMIS implementation strategy document; interviews with officials
PI-28. In-year budget reports	
28.1 Coverage and comparability of reports	<ul style="list-style-type: none"> Monthly budget execution reports for 2017
28.2 Timing of in-year budget reports	<ul style="list-style-type: none"> Date of publication of monthly budget execution reports for 2017 on MoFP website
28.3 Accuracy of in-year budget reports	<ul style="list-style-type: none"> Monthly budget execution reports for 2017; interview with Auditor General
PI-29. Annual financial reports	
29.1 Completeness of annual financial reports	<ul style="list-style-type: none"> Consolidated annual financial statements for 2014
29.2 Submission of the reports for external audit	<ul style="list-style-type: none"> Transmittal letter of annual financial statements from MoFP to SAACB (Auditor-General) Accountant General corroborated by SAACB
29.3 Accounting standards	<ul style="list-style-type: none"> Consolidated annual financial statements FY2011 and FY2012
VI. External scrutiny and audit	
PI-30. External audit	
30.1 Audit coverage and standards	<ul style="list-style-type: none"> SAACB corroborated with the MoFP Audit reports from SAACB for 2015, 2016, and 2017; SAACB audit manual Audit Law No. 15 of 2004 article 36B on SAACB audit follow-ups Law 15 of 2004, amended by law 18 of 2017
30.2 Submission of audit reports to the legislature	
30.3 External audit follow up	
30.4 Supreme Audit Institution independence	
PI-31. Legislative scrutiny of audit reports	Not assessed.

Annex 4: Tracking change in performance based on previous versions of PEFA

This annex provides a summary table of the performance at indicator and dimension level. The table specifies the scores with a brief explanation for the scoring for each indicator and dimension of the current and previous assessment. This annex presents comparisons with previous assessments that used the 2011 version of the framework and has been prepared in compliance with the Secretariat's 'Guidance'.

Indicator/Dimension	Score 2013	Score 2018	Requirements met in current assessment	Explanation of change
A. PFM OUTTURNS: Credibility of the budget				
PI-1 Aggregate expenditure out-turn compared to original approved budget	A	B	Deviations from original budget were less than 10% in two of the last three years	A small deterioration in the accuracy of the budget
PI-2 Composition of expenditure out-turn compared to original approved budget	C+	D+		
(i) Extent of the variance in expenditure composition during the last three years, excluding contingency items	C	D	Variance in expenditure composition exceeded 15% in the last three years	Deterioration due to forecasted donor support not materializing
(ii) The average amount of expenditure actually charged to the contingency vote over the last three years.	A	A	Actual expenditure charged to the contingency vote was on average 0.1% of the original budget	No change
PI-3 Aggregate revenue out-turn compared to original approved budget	B	B	Outturn was between 94% and 112% of budgeted revenue in two of the last three years	No change
PI-4 Stock and monitoring of expenditure payment arrears	D	D+		
(i) Stock of expenditure payment arrears and a recent change in the stock.	D	D	Stock of expenditure arrears exceeds 10% in all three years under review; actual percentages were 19.7%, 12.5% and 11.4% in 2015, 2016 and 2017 respectively	No change
(ii) Availability of data for monitoring the stock of expenditure payment arrears.	D	B	Data on stock of expenditure arrears is generated monthly; however, this is not complete	Significant improvement in score and performance; MoFP now generates monthly report on stock of expenditure

Indicator/Dimension	Score 2013	Score 2018	Requirements met in current assessment	Explanation of change
				arrears, albeit not complete
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency				
PI-5 Classification of the budget	B	A	Budget formulation, execution, and reporting are based on every level of administrative, economic, functional and sub-functional classification using GFS/COFOG standards	Sub-functional classification now implemented
PI-6 Comprehensiveness of information included in budget documentation	B	A	Documentation for the 2018 budget includes all 9 items	Only 6 of 9 benchmarks met in 2013
PI-7 Extent of unreported government operations	C+	C+		
(i) Level of unreported government operations	A	A	As far as can be ascertained (and this has been confirmed by the most recent IMF reports) there are no extrabudgetary funds	No change
(ii) Income/expenditure information on donor-funded projects	C	C	Complete data on loan-funded projects is included in fiscal reports	No change
PI-8 Transparency of inter-governmental fiscal relations	D+	D+		
(i) Transparency and objectivity in the horizontal allocation amongst SN Governments	B	C	The horizontal allocation of only a small part of transfers from central government (10-50%) is determined by transparent and rules-based systems	Small deterioration: 2013 assessment may be incorrect
(ii) Timeliness and reliable information to SN Governments on their allocations	D	C	Reliable information to SNGs is issued before the start of the SN fiscal year, but too late for significant budget changes to be made	Improvements have been made on the communications to SN governments.
(iii) Extent of consolidation of fiscal data for general government according to sectoral categories	D	D	Some fiscal data from SNGs is collected and consolidated by 1 October of the following year. Consolidation into annual reports is delayed	No change

Indicator/Dimension	Score 2013	Score 2018	Requirements met in current assessment	Explanation of change
PI-9 Oversight of aggregate fiscal risk from other public sector entities	D+	C		
(i) Extent of central government monitoring of autonomous entities and public enterprises	A	C	The Palestinian Petroleum Authority is a public corporation attached to the MoFP and receives budget funding to subsidize fuel purchased from Israel and sold at a lower price to petrol stations in WB&G (for social and economic reasons). The MoFP monthly and annual reports include PPA figures, but these reports are not audited	Deterioration: 2013 assessment may be incorrect
(ii) Extent of central government monitoring of SN government's fiscal position	D	C	While the Control Department within MoLG monitors the budget and AFS of local governments, no consolidated report is produced	Improvement in oversight arrangements
PI-10 Public access to key fiscal information	B	B	3 of 6 listed items are available to the public	No change in rating
C. BUDGET CYCLE				
C (i) Policy-Based Budgeting				
PI-11 Orderliness and participation in the annual budget process	C	C+		
(i) Existence of, and adherence to, a fixed budget calendar	B	D	Clear budget calendar exists, allowing MDAs at least four weeks to prepare their budget submissions but "the majority of dates" are not adhered to	Deterioration: The 2013 assessment may be incorrect
(ii) Guidance on the preparation of budget submissions	C	A	The timing of the issuance of the ceilings has been advanced so that they are available to MDAs before they complete their budget submissions	Improvement: ceilings are approved before completion of budget estimates
(iii) Timely budget approval by the legislature	D	C	In two of the past three years the budget was approved within two months of the start of the year	Improvement in both score and performance; annual budget for two years approved within two

Indicator/Dimension	Score 2013	Score 2018	Requirements met in current assessment	Explanation of change
				months after start of fiscal year
PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting	D	D+		
(i) Multiyear fiscal forecasts and functional allocations	D	C	Multi-year forecasts are now being prepared but they are not made public and changes from one year to the next are not explained	Improvement in both score and performance; multi-year estimates are now been prepared
(ii) Scope and frequency of debt sustainability analysis	D	D	No debt sustainability analysis has been conducted in the last three years within the assessment period	No change
(iii) Existence of costed sector strategies	C	C		No change
(iv) Linkages between investment budgets and forward expenditure estimates	D	C	Most investment costs do not have forward-linked recurrent expenditure estimates, except for a few identified investment costs	Improvement in both score and performance. There remains a weak link between the investment budget and the sector strategies, but improvements have been made in the inclusion of operating costs in the forward estimates prepared by MoFP
C (ii) Predictability and Control in Budget Execution				
PI-13 Transparency of taxpayer obligations and liabilities	C+	C+		
(i) Clarity and comprehensiveness of tax liabilities	C	C	Laws and regulations on taxation are clear and comprehensive. There is however substantial amount of discretionary powers	No change
(ii) Taxpayer access to information on tax liabilities and administrative procedures	B	B	Tax laws and regulations are comprehensive, updated and user-friendly, also easily accessible on website (www.pmf.ps/en) for majority of tax types	No change

Indicator/Dimension	Score 2013	Score 2018	Requirements met in current assessment	Explanation of change
(iii) Existence and functioning of a tax appeal mechanism.	C	C	There is a functional administrative tax appeal system within the revenue administration framework; there is no existence of independent tax appeals board, however, the law allows for civil redress	No change
PI-14 Effectiveness of measures for taxpayer registration and tax assessment	D+	D+		
(i) Controls in the taxpayer registration system	C	C	Taxpayers are registered in two systems ASYCUDA and RMS, but systems are not linked (nor with other government registration and licensing platforms). Occasional surveys are conducted to update taxpayer database	No change
(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations	D	D	Penalties for non-compliance with tax laws exist but they are not applied consistently	No change
(iii) Planning and monitoring of tax audit and fraud investigation programs	D	C	Tax audits and fraud investigations are carried out but not systematically related to a documented risk management and/or assessment framework	Improvement: tax audits and fraud investigations are more regular but still lack a risk assessment framework
PI-15 Effectiveness in collection of tax payments	D+	NR		
(i) Collection ratio for gross tax arrears	D	NR	Not rated; data not reliable	Not comparable
(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration	A	A	All taxes are transferred to the Treasury Main Account within 24 hours	No change
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records, and receipts by the Treasury	C	C	Collections are reconciled at least annually with transfers to the Treasury	No change

Indicator/Dimension	Score 2013	Score 2018	Requirements met in current assessment	Explanation of change
PI-16 Predictability in the availability of funds for commitment of expenditures	D	D+		
(i) Extent to which cash flows are forecasted and monitored	D	A	A cash plan is routinely produced, and while it may be basic, it is updated frequently, as required by the difficult circumstances	Improvement, although the previous rating may have been harsh: the reality of the situation then and now demands constant attention to monitoring cash
(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure	D	D	The horizon of line ministries for expenditure execution is usually less than a month, as a permanent cash rationing process is in place	No change
(iii) Frequency and transparency of adjustments to budget allocations above the level of management of MDAs	D	C	Changes are made as some ministries exceed allocations while others had adjustments to account for moneys withheld from clearance revenue for payments for cross border services	There is a degree of transparency, as it is understood that salaries are protected as far as possible
PI-17 Recording and management of cash balances, debt and guarantees	B	B		
(i) Quality of debt data recording and reporting.	A	B	Domestic debts are reconciled monthly, and external debts quarterly: these reports are submitted to the Cabinet and Development Partners and are published on the MoFP website.	Records are reconciled quarterly - 2013 assessment may be incorrect
(ii) Extent of consolidation of the government's cash balances.	B	C	Each Treasury Account has sub-accounts which are consolidated every day, to ensure zero balances. However, the Donor Fund Account in the Arab Bank is outside this consolidation	It is not clear if the requirement to include the Donor Fund Account in the Arab Bank was considered in the previous assessment
(iii) Systems for contracting loans and issuance of guarantees.	C	B	Loans and guarantees are contracted within specified limits, and	It is not clear if the requirement to include fiscal targets

Indicator/Dimension	Score 2013	Score 2018	Requirements met in current assessment	Explanation of change
			always approved by a single entity: the Minister of Finance	in the previous assessment was met
PI-18 Effectiveness of payroll controls	B+	D+		
(i) Degree of integration and reconciliation between personnel records and payroll data.	B	D	Although the two systems are not directly linked, payroll changes are fully documented and checked against the previous month's data but not for security personnel	Deterioration, as reconciliation excludes security personnel
(ii) Timeliness of changes to personnel records and the payroll.	B	B	The GPC exercises an oversight role to minimise delays	No change
(iii) Internal controls of changes to personnel records and the payroll.	A	B	Changes are restricted and can be traced via access-controls within the computer system	No change
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers.	B	C	There is a regular cycle of payroll audits, but coverage not comprehensive	Deterioration, as coverage excludes security personnel
PI-19 Competition, value for money and controls in procurement	C+	C+		
(i) Transparency, comprehensiveness and competition in the legal and regulatory framework.	A	A	The public procurement law entered into effect on July 1, 2016. Moreover, HCPPP has recently been operationalized and has subsequently started to put in place the necessary tools for effective and comprehensive implementation of the law	No change
(ii) Use of competitive procurement methods.	B	B	The law makes open (competitive) bidding the default procurement method and outlines a menu of other competitive methods. The law sets exceptional conditions for using Direct contracting/Single sourcing method. The information provided by CTD, and GSD and	No change, however, the single procurement portal established and piloted by HCPPP supports making available all the statistics of the contracts awarded on competitive or single source basis

Indicator/Dimension	Score 2013	Score 2018	Requirements met in current assessment	Explanation of change
			confirmed by HCPPP shows that the majority of contracts are awarded on competitive basis	
(iii) Public access to complete, reliable and timely procurement information.	C	D	The only information on public procurement available to the public is: 1) the legal and regulatory framework for procurement and 2) bidding opportunities. Two elements met out of six included under this dimension	No change, however, the single procurement portal supports making available all six elements of information on public procurement
(iv) Existence of an independent administrative procurement complaints system.	D	D	The Dispute Review Unit, which is the independent body responsible for administrative review of procurement complaints, per procurement law, was not established at the time of assessment	No change, however, HCPPP is working on establishing the Dispute Review Unit according to the procurement law
PI-20 Effectiveness of internal controls for non-salary expenditure	D+	C		
(i) Effectiveness of expenditure commitment controls	D	C	IFMIS limits expenditure commitments to approved quarterly budget allotments (ceilings) but not to actual cash available: there are occasional violations	Improvement: IFMIS limits expenditure commitment to approved ceilings
(ii) Comprehensiveness, relevance and understanding of other internal control rules/procedures.	C	C	Clear and comprehensive internal controls rules and procedures exist which are generally understood but with some exceptions	No change
(iii) Degree of compliance with rules for processing and recording transactions	C	C	Majority of transactions are effected in compliance with laid down rules and procedures; However, there are concerns regarding adherence to control processes within IFMIS	No change

Indicator/Dimension	Score 2013	Score 2018	Requirements met in current assessment	Explanation of change
			as some staff have the privilege to override and reverse transactions	
PI-21 Effectiveness of internal audit	C+	C+		
(i) Coverage and quality of the internal audit function.	B	B	Audit coverage is at least 80% by value for expenditures and 90% for revenues, with at least half the time of staff devoted to systems audit. Majority of line ministries have functional IA units	No change
(ii) Frequency and distribution of reports	C	C	Most line ministries prepare monthly internal audit reports for the attention of auditee management; however, these reports are not systematically made available to SAACB and MoFP	No change
(iii) Extent of management response to internal audit function.	C	C	Auditee management do act on audit findings, but with significant delays	No change
C (iii) Accounting, Recording and Reporting				
PI-22 Timeliness and regularity of accounts reconciliation	B	C+		
(i) Regularity of bank reconciliation	B	B	MoFP performs detailed monthly bank reconciliations for at least 95% of central government bank accounts within three weeks after the end of the previous month. Most donor fund accounts are also reconciled within two weeks after the end of the preceding month	No change
(ii) Regularity and clearance of suspense accounts and advances	NA	C	Reconciliation of advance accounts takes place at least every year; this is done within two months after year-end but a significant number of advances (at	Not comparable; score in 2013 was NA.

Indicator/Dimension	Score 2013	Score 2018	Requirements met in current assessment	Explanation of change
			least 12%) remain un-acquitted	
PI-23 Availability of information on resources received by service delivery units	D	A	The relevant information is (& was) available in Mins of Ed & Health on an annual basis (different interpretation of requirements)	While the rating has improved, we believe the 2013 assessment was inaccurate and that there has been no change in performance
PI-24 Quality and timeliness of in-year budget reports	C+	C+		
(i) Scope of reports in terms of coverage and compatibility with budget estimates.	C	A	Monthly reports allow direct comparison between original budgets and actuals at detailed levels. Reports cover expenditure at commitment and payments stages	Improvement: monthly reports now compare original budgets and actuals in detail; also, expenditure is reported/captured at both commitment and payment stages
(ii) Timeliness of the issue of reports	A	A	MoFP prepares and publishes monthly budget execution reports within three weeks after the end of the previous month	No change
(iii) Quality of information	C	C	There are data accuracy concerns, but they do not significantly affect the usefulness of financial data	No change
PI-25 Quality and timeliness of annual financial statements	C	D+		
(i) Completeness of the financial statements	C	D	A consolidated government statement is not prepared annually	There have been additional delays in issuing the statements since the last PEFA
(ii) Timeliness of submissions of the financial statements	C	D	Annual statements are not submitted for external audit within 15 months of the end of the fiscal year	There have been additional delays in issuing the statements since the last PEFA
(iii) Accounting standards used	C	C	IPSAS cash basis standards are applied	No change
<i>C (iv) External Scrutiny and Audit</i>				
PI-26 Scope, nature and follow-up of external audit	C+	B		
(i) Scope/nature of audit performed (including	B	B	Central government entities representing at	No change

Indicator/Dimension	Score 2013	Score 2018	Requirements met in current assessment	Explanation of change
adherence to auditing standards)			least 75 percent of total expenditures are audited annually, at least covering revenue and expenditures. A wide range of financial audits are performed and generally adhere to auditing standards, focusing on significant and systemic issues	
(ii) Timeliness of submission of audit reports to the Legislature	C	B	The last year audited, 2013 was published within 8 months from their receipt by the audit office	Improvement in the timeliness of the PA's consolidated financial statement audit
(iii) Evidence of follow up on audit recommendations	C	B	SAACB has a methodology to follow up recommendations and responses to audit reports have improved	Improvements noted in the follow up and responses to audit recommendations
PI-27 Legislative scrutiny of the annual budget law	NR	C	The current assessment addressed (iii) and (iv) of the indicator: these were not considered in 2013	A score is now provided but the underlying practice is not different
PI-28 Legislative scrutiny of external audit reports	NR	NA		

Annex 5: List of Stakeholders Interviewed

Name	Organisation	Position	Telephone	Email
Ministry of Finance and Planning				
Farid Ghannam	MoFP	Deputy Minister, Finance & Planning	+970-2-2978815	mofdeputy@pmof.pa
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Ministry of Education				
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Name	Organisation	Position	Telephone	Email
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Other analytical work done (used for this assessment)

Ernst and Young report dated 19th January 2017 on Internal Control Assessment and Bank Reconciliation Process.

Annex 6: Calculation sheets for PI-1, PI-2 and PI-3

Calculation Sheet for PFM Performance Indicators PI-1, PI-2.1 and PI-2.3

Data for year 2015						
Administrative/functional head	budget	actual	Adj budget	deviation	Abs dev'n	percent
General Public Services	2,835,224	3,531,267	2,263,317	1,267,950	1,267,950	56.0%
Public Order and Security	4,081,720	4,151,412	3,258,376	893,035	893,035	27.4%
Economic Affairs	407,503	475,355	325,304	150,051	150,051	46.1%
Environment Protection	14,588	12,999	11,645	1,353	1,353	11.6%
Housing, etc	131,905	258,673	105,298	153,376	153,376	145.7%
Health	1,745,621	1,922,861	1,393,503	529,358	529,358	38.0%
Recreation, etc.	373,910	361,858	298,487	63,371	63,371	21.2%
Education	2,726,015	2,649,850	2,176,137	473,713	473,713	21.8%
Social Protection	2,480,254	2,666,886	1,979,950	686,936	686,936	34.7%
Others	5,285,260	-	4,219,144	4,219,144-	4,219,144	100.0%
allocated expenditure	20,082,000	16,031,161	16,031,161.2	0.0	8,438,288.5	
interest	233,000	363,821				
contingency	55,000	20,544				
total expenditure	20,370,000	16,415,526				
aggregate outturn (PI-1)	3,954,474					80.6%
composition (PI-2) variance						52.6%
contingency share of budget						0.1%
Data for year 2016						
General Public Services	3,205,113	3,506,115	3,089,487	416,629	416,629	13.5%
Public Order and Security	4,134,931	4,330,756	3,985,761	344,995	344,995	8.7%
Economic Affairs	445,298	482,226	429,234	52,992	52,992	12.3%
Environment Protection	14,331	14,003	13,814	189	189	1.4%
Housing, etc	182,675	300,825	176,085	124,740	124,740	70.8%
Health	1,699,332	1,878,212	1,638,028	240,184	240,184	14.7%
Recreation, etc.	385,677	380,483	371,763	8,720	8,720	2.3%
Education	2,706,847	2,927,963	2,609,196	318,767	318,767	12.2%
Social Protection	2,513,916	2,665,416	2,423,225	242,191	242,191	10.0%
Others	1,814,880	-	1,749,407	1,749,407-	1,749,407	100.0%
allocated expenditure	17,103,000	16,485,999	16,485,999	0	3,498,814	
interest	269,000	302,541				
contingency	55,000	10,962				
total expenditure	17,427,000	16,799,502				
aggregate outturn (PI-1)	627,498					96.4%
composition (PI-2) variance						21.2%
contingency share of budget						0.1%
Data for year 2017						
General Public Services	3,780,442	3,596,466	3,502,909	93,557	93,557	2.7%
Public Order and Security	4,351,238	4,200,272	4,031,802	168,471	168,471	4.2%
Economic Affairs	520,324	547,245	482,126	65,119	65,119	13.5%
Environment Protection	14,899	14,494	13,805	688	688	5.0%
Housing, etc	244,195	344,838	226,268	118,570	118,570	52.4%
Health	1,734,572	2,258,158	1,607,232	650,926	650,926	40.5%
Recreation, etc.	408,141	395,504	378,178	17,326	17,326	4.6%
Education	3,117,930	2,919,516	2,889,034	30,482	30,482	1.1%
Social Protection	2,559,250	2,611,846	2,371,368	240,477	240,477	10.1%
Others	1,495,397	-	1,385,616	1,385,616-	1,385,616	100.0%
allocated expenditure	18,226,388	16,888,339	16,888,339	-	2,771,232	
interest	454,612	274,320				
contingency	55,000	10,143				
total expenditure	18,736,000	17,172,802				
aggregate outturn (PI-1)	1,563,198					91.7%
composition (PI-2) variance						16.4%
contingency share of budget						0.1%

Calculation Sheet for Expenditure by Economic Classification Variance: PI-2.2

Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Data for year 2015	2015					
Compensation of employees	8,244,005	8,088,052	6,643,578	1,444,474	1,444,474	21.7%
Use of goods and services	4,183,900	3,816,549	3,371,670	444,879	444,879	13.2%
Interest	349,000	363,858	281,248	82,610	82,610	29.4%
Subsidies	90,000	42,678	72,528	(29,850)	29,850	41.2%
Grants	225,053	175,505	181,363	(5,857)	5,857	3.2%
Social benefits	3,074,037	3,087,548	2,477,268	610,280	610,280	24.6%
Other expenses	3,064,713	250,014	2,469,754	(2,219,739)	2,219,739	89.9%
Non-Financial Assets	1,139,292	591,323	918,119	(326,796)	326,796	35.6%
Total expenditure	20,370,000	16,415,526	15,497,408	326,796	4,837,690	
composition variance						31.2%
Data for year 2016	2,016					
Compensation of employees	8,383,677	8,582,351	8,081,804	500,547	500,547	6.2%
Use of goods and services	3,911,978	3,671,460	3,771,118	(99,658)	99,658	2.6%
Interest	308,645	302,917	297,531	5,386	5,386	1.8%
Subsidies	81,228	68,227	78,303	(10,076)	10,076	12.9%
Grants	142,545	123,102	137,413	(14,311)	14,311	10.4%
Social benefits	3,131,248	3,237,335	3,018,500	218,834	218,834	7.2%
Other expenses	391,259	201,913	377,171	(175,259)	175,259	46.5%
Non-Financial Assets	1,076,420	612,198	1,037,662	(425,464)	425,464	41.0%
Total expenditure	17,427,000	16,799,502	16,799,502	(0)	1,449,534	
composition variance						8.6%
Data for year 2017	2,017					
Compensation of employees	8,597,776	8,373,803	7,880,439	493,363	493,363	6.3%
Use of goods and services	4,350,637	4,111,492	3,987,651	123,841	123,841	3.1%
Interest	454,623	274,331	416,692	(142,362)	142,362	34.2%
Subsidies	140,406	116,549	128,691	(12,142)	12,142	9.4%
Grants	189,930	177,088	174,084	3,004	3,004	1.7%
Social benefits	3,491,183	3,190,372	3,199,904	(9,532)	9,532	0.3%
Other expenses	420,493	272,953	385,410	(112,457)	112,457	29.2%
Non-Financial Assets	1,090,952	656,214	999,931	(343,717)	343,717	34.4%
Total expenditure	18,736,000	17,172,802	17,172,802	0	1,240,418	
composition variance						7.2%

Calculation Sheet for Revenue composition outturn: PI-3

Economic head	budget	actual	adjusted budget	deviation	absolute deviation	%
Data for year 2015						
Tax revenues						
Taxes on income, profit and capital gains	452,200	476,342	358,812	117,529	117,529	32.8%
Taxes on payroll and workforce	237,050	249,718	188,095	61,624	61,624	32.8%
Taxes on property	9,000	8,975	7,141	1,834	1,834	25.7%
Taxes on goods and services	5,878,000	6,277,332	4,664,085	1,613,247	1,613,247	34.6%
Taxes on international trade and transactions	3,002,000	3,385,514	2,382,032	1,003,482	1,003,482	42.1%
Grants						
Grants from foreign governments	3,120,000	1,798,434	2,475,663	(677,229)	677,229	27.4%
Grants from international organizations	4,290,000	1,381,951	3,404,036	(2,022,086)	2,022,086	59.4%
Other revenue						
Property income	80,000	73,054	63,479	9,576	9,576	15.1%
Sales of goods and services	910,000	613,593	722,068	(108,475)	108,475	15.0%
Fines, penalties and forfeits	70,000	54,784	55,544	(760)	760	1.4%
Transfers not elsewhere classified	-	1,259	-	1,259	1,259	
Total revenue	18,048,250	14,320,956	14,320,956	0.0	5,617,099	
overall variance	3,727,294					79.3%
composition variance						39.2%
Data for year 2016						
Tax revenues						
Taxes on income, profit and capital gains	405,600	475,324	450,063	25,261	25,261	5.6%
Taxes on payroll and workforce	270,400	216,399	300,042	(83,643)	83,643	27.9%
Taxes on property	9,000	21,639	9,987	11,652	11,652	116.7%
Taxes on goods and services	5,994,000	7,816,045	6,651,078	1,164,968	1,164,968	17.5%
Taxes on international trade and transactions	3,311,000	3,788,255	3,673,960	114,295	114,295	3.1%
Grants						
Grants from foreign governments	2,925,000	1,742,771	3,245,646	(1,502,875)	1,502,875	46.3%
Grants from international organizations	956,000	1,165,280	1,060,799	104,481	104,481	9.8%
Other revenue						
Property income	80,000	116,104	88,770	27,334	27,334	30.8%
Sales of goods and services	1,089,000	1,324,117	1,208,379	115,738	115,738	9.6%
Fines, penalties and forfeits	30,000	56,078	33,289	22,789	22,789	68.5%
Transfers not elsewhere classified						
Total revenue	15,070,000	16,722,012	16,722,012	0.0	3,173,036	
overall variance	-1,652,012					111.0%
composition variance						19.0%
Data for year 2017						
Tax revenues						
Taxes on income, profit and capital gains	438,000	711,611	429,171	282,441	282,441	65.8%
Taxes on payroll and workforce	235,000	258,722	230,263	28,460	28,460	12.4%
Taxes on property	22,000	13,343	21,557	(8,214)	8,214	38.1%
Taxes on goods and services	6,788,000	6,848,426	6,651,165	197,261	197,261	3.0%
Taxes on international trade and transactions	4,067,000	4,127,283	3,985,016	142,267	142,267	3.6%
Grants						
Grants from foreign governments	1,950,000	1,315,480	1,910,691	(595,211)	595,211	31.2%
Grants from international organizations	546,000	1,304,146	534,994	769,153	769,153	143.8%
Other revenue						
Property income	80,000	110,245	78,387	31,858	31,858	40.6%
Sales of goods and services	1,820,000	875,424	1,783,312	(907,888)	907,888	50.9%
Fines, penalties and forfeits	0	59,874	0	59,874	59,874	n.a.
Transfers not elsewhere classified						
Total revenue	15,946,000	15,624,555	15,624,555	0.0	3,022,626	
overall variance	321,445					98.0%
composition variance						19.3%