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Issues of Broad Importance - Local Government

The Internal Auditor, Treasurer and Legal Advisor in Local Authorities – Their Role and Conduct

Abstract

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Background

The internal auditor, treasurer and legal advisor in a local authority are statutory roles that the authority must appoint by law. The internal auditor examines whether the authority's actions are being performed in accordance with the law and while maintaining integrity and the principles of efficiency and economy; the treasurer is responsible for managing the authority's financial affairs and for preparing its budget; and the legal advisor provides legal assistance during the authority's activity. Besides their roles in advancing and achieving the authority's objectives, they are also required to ensure that the authority's activities are being carried out in compliance with the law. Considering the governing power held by the authority's management, the supervisory and control mechanisms over the authority's decisions and actions must be strengthened.

Key figures

90%-93%

percentage of authority heads who stated that they work in cooperation with the internal auditor, the treasurer and the legal advisor

77%-82%

percentage of authority heads who stated that they are satisfied with the functioning of the internal auditor, the treasurer and the legal advisor

56%

percentage of treasurers who stated that the Ministry of Interior's procedures include instructions that they have difficulties fulfilling

43%

percentage of the legal advisors who stated that the Ministry of Interior's procedures include instructions that they have difficulties fulfilling

48%

percentage of local authorities that asked to receive a legal opinion on a particular matter in addition to that of the in-house legal advisor

17

number of local authorities with no internal auditor (annual average 2015-2017)


22

number of internal auditors who did not submit an audit report (annual average 2015-2017)

12





number of years that about 37% of the internal auditors, about 39% of the treasurers and about 32% of the legal advisors have been holding their position, according to the questionnaire findings

Audit actions

 From May 2019 to January 2020, the Office of the State Comptroller examined the roles and conduct of internal auditors, treasurers and legal advisors in the local authorities. The findings presented in this report are based on information collected from the responses of authority heads, internal auditors, treasurers and legal advisors in local authorities to questionnaires sent to them in September 2019. Additionally, as an expansion of particular issues, the Office of the State Comptroller conducted focused audits of a few local authorities and examined about 90 reports of local authorities' internal auditors for the years 2014 to 2018.

Key findings



-  **Appointments of internal auditors in local authorities** – from 2015 to 2017, 17 local authorities did not appoint an internal auditor (on average per year) and nine local authorities had no internal auditor for three consecutive years. It was not found that the Ministry of Interior exercised the authority vested in it by law to enforce the appointment of an internal auditor in any authority that failed to appoint one.
-  **Quality of internal auditing in local authorities** – the vast majority of internal auditors (96% on average) prepared work plans between 2015 and 2019; however, only about half of them were based on risk surveys. Perusal of about 90 internal audit reports written between 2015 and 2018 indicated that 21 of them were characterized, inter alia, by sparse content and findings, by engaging in marginal issues relatively to the authorities' main spheres of risk, and that they contained ineffective recommendations.
-  **Rectification of deficiencies found in internal audit reports** – it was found that not all reports being submitted by an authority's internal auditor are actually being discussed during the council assembly or by the audit committee and even fewer by a deficiency rectification team. In other words, as the discussion process regarding an internal audit report and rectification of deficiencies advances, the actual deficiencies rectification process becomes less meticulous: among all local authorities, about two thirds of the internal audit reports were discussed by the authority's council or audit committee; in less than half of the local authorities, the deficiency rectification team discuss the report; and in about one third of the local authorities, the recommendations of the deficiency rectification team were implemented.
-  **Strengthening the internal audit mechanism** – the majority of the actions taken by the Ministry of Interior to strengthen the internal audit mechanism focused on various aspects of the audit framework and included, inter alia, setting the minimum standardization and budget for internal audit work. However, it is also



important to strengthen the core principles of internal auditing, including the definition of professional standards for internal audit work and the implementation of regularly scheduled controls over the submission of reports and their quality.

- ❗ The financial status of local authorities and appointment of accompanying accountants on behalf of the Ministry of Interior** – although most local authorities have budgetary surpluses or balanced budgets, about 42% of the local authorities had a budgetary deficit at the end of 2018 (about 65% of which are small local authorities). Data from the Ministry of Interior up to August 2019 show that 76 local authorities have a Ministry-appointed accountant – that is to say, about 30% of the local authorities in Israel are situated in a financial crisis in various levels, correct to May 2019.
- ❗ Treasurers are having difficulties working with officials inside and outside the local authority** – the questionnaire indicated that about 17% of local authority heads experienced difficulties working with the authority's treasurer; such difficulties were identified mainly in the local and regional councils. About 39% of the local authority heads identified difficulties in the work interface of the local authority's treasurer with officials inside and outside the authority; such difficulties were identified mainly in the treasurers' work interface with government ministries.
- ❗ Strengthening and supporting treasurers in local authorities in the non-Jewish sector** – it was found that treasurers are having difficulties fulfilling their roles relating to maintaining the budget framework and safeguarding public treasury, and are even suffering from harassment for performing their roles. These difficulties are being experienced mainly by treasurers in local authorities in the non-Jewish sector and indicate a critical need to strengthen and reinforce their standing.
- ❗ Requests for assistance from government ministries** – legal advisors' responses to the questionnaires indicated that about 50% of them did not receive the assistance they requested from the Ministry of Interior. It was also found that about 40% of them had referred to other government ministries, mainly to the Ministry of Justice, and about 90% of their requests were answered to their satisfaction and within a reasonable timeframe. The responses to the questionnaires also indicated that about 80% of the legal advisors in the non-Jewish sector did not refer to government ministries at all to request professional assistance.
- ❗ Hiring criteria and duration of the incumbencies of senior employees in local authorities** – more than 30% of the internal auditors, treasurers and legal advisors in local authorities have been employed for more than 12 years, and some have remained in office for 25 years and more. As part of the comprehensive reform of human capital management implemented in the general civil service in Israel, in March 2017, the Ministry of interior formed a team to examine the hiring criteria and the duration of the incumbencies of senior employees performing statutory roles in the local authorities. However, the team's work was discontinued shortly thereafter.







Cooperation between local authority heads and the internal auditors, treasurers and legal advisors – the responses to the questionnaires indicate that close cooperation exists between local authority heads and the internal auditors (90%), treasurers (93%) and legal advisors (90%).

Structure of the internal auditor's office – the Ministry of Interior defined in regulations a minimum budget and standardization level in municipal internal auditors' offices, and this could materially strengthen the independence of municipal internal auditors; however, these regulations do not apply to local and regional councils.

Mapping of spheres of risk in local authorities – from 2015 to 2018, the internal audit reports in about 20 local authorities engaged in matters relating to information security and cybersecurity –this era's key spheres of risk.

Key recommendations

-  It is advisable that the Ministry of interior should insist on appointments of internal auditors in all local authorities, should demand to receive the internal audit reports from the internal auditors of local authorities in a methodical and orderly manner, should analyze the content of these reports and define comprehensive, detailed, professional standards for writing internal audit reports. It is also recommended that the Ministry of Interior should examine the issue of defining the minimum budget and standardization level in relation to internal auditors at local and regional councils.
-  It is recommended that the Ministry of Interior should clarify its directives regarding the preparation of updated risk surveys and should take action to train internal auditors in the methodology for conducting risk surveys. It is also recommended that the internal auditors should take action to conduct internal audits of core areas and of future risks – particularly in relation to information security and cybersecurity.
-  All local authorities should be diligent about holding discussions regarding internal audit reports, should form deficiency rectification teams and monitor rectification actions. It is proposed that the Ministry of interior should clarify the directives in this matter, including with regard to the publication of the internal audit reports on the internet, and should examine the need to issue directives regarding the appointment of deficiency rectification teams in regional councils.
-  The harassment that treasurers are experiencing while performing their roles, which occurs mainly in local authorities in the non-Jewish sector and in local councils, indicates a critical need for the Ministry of Interior to create means for

contending with extreme situations that treasurers are contending with during the performance of their roles.



It is recommended that the Ministry of Interior consider performing comprehensive strategic work, similar to the process carried out prior to the civil service reform, while analyzing alternatives, in order to deepen the examination of the issue of the duration of the incumbencies of senior officials in local authorities.

Selected recommendations





Summary

The trend whereby the Ministry of Interior is advancing local authorities' autonomy is not always consistent with the system of checks and balances in the local authority and places the internal control mechanisms within the authority – the internal auditor, the treasurer and the legal advisor – in a built-in conflict with the management and employees of the local authority. The Office of the State Comptroller found deficiencies, particularly in small local authorities, which are, for the most part, also in peripheral regions, at low socio-economic levels and in the non-Jewish sector, and this therefore requires augmented focused attention on the part of the Ministry of Interior in order to ensure the functioning and effectiveness of the internal auditor, the treasurer and the legal advisor as internal control mechanisms in these authorities and to expand the range of tools that are made available to them.