



State Comptroller of Israel | Local Government Audit | 2021

Systemic Audit

Employment of Accompanying Accountants by Local Authorities



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Background

The authority to appoint an accompanying accountant was granted to the Ministry of Interior by Government Resolution 1475 of February 2004. The decision was intended to address the solution to the severe financial crisis which many local authorities encountered. This crisis was manifested, among other things, in a limited ability to provide municipal services to their residents, difficulty in paying wages to their employees and current payments, and a considerable increase in their debts. The resolution granted the Ministry of Interior additional powers to deal with the deficits of the local authorities, such as the appointment of a supervising collector and the introduction of a recovery plan for the local authority.

The Ministry of Interior makes extensive use of employing accompanying accountant in local authorities suffering from budget deficits or an administrative, financial and organizational crisis. The role of the accountant is intended, among other things, to supervise the mechanisms by which money is spent by the authorities, to ensure that they are carried out in accordance with the provisions of the law, and that their financial management is proper and carried out while ensuring compliance with the framework of expenses and with collection targets. In order to fulfill his duties, the accountant was given the right of a "third signature" on all of the local authority's documents that have monetary value, in addition to the signatures of the elected head of the local authority and the treasurer.



Key figures

79

The number of local authorities, as of February 2020, for which the Ministry of Interior has appointed accompanying accountants. In 18 local authorities, the accompanying accountant who is also the supervising accountant.

21

The number of local authorities in which an accompanying accountant has been employed for more than 16 consecutive years, including Or Akiva, Bir-Elmaksur and Sakhnin.

62

The number of local authorities from the non-Jewish sector for which an accompanying accountant was appointed, which is approximately 78% of all local authorities for which accompanying accountants have been appointed.

**Approx. NIS
20 million**

The budget allocated by the Ministry of Interior to operate the system of accompanying accountants in 2020.

**Approx. NIS
16.7 million**

The total annual average expenditure for operating the system of accompanying accountants in the last decade.

156

The number of candidates, as of February 2020, who were registered in the database of accountants managed by the Ministry of Interior.

52

The number of accountants employed from the database as of February 2020.

7 out of 8

The number of local authorities examined, in which the rate of expenditure on local services out of the total current budget is lower than the national average (19%).



Audit actions



From May to November 2020, the Office of the State Comptroller examined the issue of employing accompanying accountants in 12 local authorities, five of which are municipalities: Or Akiva, Tiberias, Sakhnin, Qalansawe, and Kiryat Shmona, six are local councils: Buqata, Bir Elmaksur, Daliat El Carmel, Majdal Shams, Mas'ade and Ein Knia, and the Regional Council: Al-Qasoum (the local authorities examined). Inspections were conducted in the Ministry of Interior in the Senior Department for Monitoring, Budgeting and Development in local authorities (the Budgeting and Monitoring Department) and in the Division of Accompanying accountants and their Appointment, as well as completion inspections in two districts of the Ministry of Interior: Northern District and Haifa District.

Key findings



Meeting the Goals of the Recovery Plans – The six local authorities Or Akiva, Daliat El Carmel, Tiberias, Sakhnin, Qalansawe and Kiryat Shmona did not meet the goals of the recovery plans approved for them, and therefore had to formulate new plans with the Ministry of Interior or update the recovery plans. The municipalities of Tiberias, Sakhnin, Qalansawe and Kiryat Shmona based their property tax charges on old property surveys, conducted in 2004–2012, although they were required, as part of the recovery plans approved for them, to conduct new property surveys.



Accumulation of Deficits – Despite appointments of accompanying accountants for the local authorities examined and increasing the loans and grants they received in 2012–2018 to cover their deficits, the six local authorities Or Akiva, Daliat El Carmel, Tiberias, Sakhnin, Qalansawe and Kiryat Shmona failed to balance their budgets, and their cumulative deficits even increased greatly and amounted to approximately NIS 325 million at the end of 2018, even though they received grants and loans to cover the deficit for that period in the amount of approximately NIS 370 million.



Adherence to the Budget in an Election Year – In the years when elections were held for the local authorities and their elected representatives, the accompanying accountants in the local authorities examined were unable to prevent a breach of the budget. Thus, for example, in 2018, in which the last local elections were held, six of



the eight¹ local authorities examined breached their budget framework and created deficits totaling approximately NIS 59 million.



Functioning of the Accountants – The accompanying accountants appointed to the local authorities by the Ministry of Interior in eight² of the 12 local authorities examined have not succeeded over the years in bringing about the long-term recovery of the local authorities and their proper management. In seven of the eight local authorities, the accompanying accountants have been employed for more than eight years. Accompanying accountants are serving for about 16 years in the local authorities of Or Akiva, Bir Elmaksur and Sakhnin, and are serving for over 11 years in the local authorities of Daliat El Carmel, Qalansawe and Kiryat Shmona.



Services for the Residents – It was found that in seven of the eight local authorities: Al-Qasoum, Bir Elmaksur, Daliat El Carmel, Tiberias, Sakhnin, Qalansawe and Kiryat Shmona, in which accompanying accountants have been serving for years, the rate of expenditure for local services out of the total current budget is significantly lower than the national average – approximately 19%.



Process of Selection of the Accompanying Accountant – It is impossible to learn, from a review of the protocols of the professional team for selecting candidates for the position of accompanying accountant, about the conduct of the selection process within the team, the considerations that led to the selection of each candidate, and there are no details as to whether the selection was made according to rules, standards or criteria established in the Database and Appointment of Accompanying accountants Procedure of 2013, which led to certain candidates being preferred over others.



Period of Employment of the Accompanying Accountant – In accordance with the Database and Appointment of Accompanying accountants Procedure, the Ministry of Interior approved the employment of 17 accountants out of 52 who were employed in all local authorities for periods of eight consecutive years, during 1999 to 2010, and after leaving for a 12-month break, reemployed them for additional periods. As a result, there are accountants who have been employed for more than ten years in total. In practice, there is no refreshment in the selection of candidates from the database, and the employment of accountants has been limited to a small group.



Opening the Database to Candidates – Every six months, the Ministry of Interior publishes a notice on the opening of the database of accompanying accountants for those who are interested in applying to serve as an accompanying accountant. The notice is published on the ministry's website only and this may reduce the target

1 These eight local authorities do not include the local councils of Majdal Shams, Buqata, Mas'ade and Ein Knia, where direct elections for the council leadership were held for the first time only in October 2018, and their accompanying accountants were appointed in May 2018.

2 See footnote 1.



audience of potential candidates who are suitable to serve as accountants and who would be interested in applying for the position. It should be noted that the database³ includes 156 male candidates and 10 female candidates, of whom there are 49 male accompanying accountants serving, and only three female accountants serving.



Monitoring Procedure for the Functioning of the Accountants – The Budgeting and Monitoring Division has not established guidelines or work procedures regarding monitoring, including an official and written definition regarding the role of the National accountants Coordinator. Additionally, although the Division receives the findings of the reports from the local authorities that employ accompanying accountants and the findings of monitoring by the districts and the National accountants Coordinator, it does not integrate the findings and therefore, in practice, its ability to detect weaknesses and failures that arise from the field and that pertain to the functioning of local authorities in various matters, such as collection, execution and various accounting issues – is impaired.



Submission of Reports by the Accountants – The Ministry of Interior does not ensure that the accompanying accountants submit to the Ministry the initial diagnosis reports and work plans within 60 days from the date of their appointment to the position, as required in the Complete Professional Guide for the Local Authority's Accompanying accountant. The accompanying accountant of the Kiryat Shmona municipality did not prepare a diagnostic report when she took office, in February 2018, as required by the guide. The accompanying accountant of the local council of Buqata and Majdal Shams submitted the diagnostic report concerning Majdal Shams two years after being appointed, and in Buqata more than a year after his appointment, and the accompanying accountant of the two local council of Mas'ade and Ein Knia submitted the reports after about two years. The two accountants in Al-Qasoum and Sakhnin submitted diagnostic reports in a limited format, not in accordance with the guide.



Evaluation of the Accountants' Functioning – Shortcomings were found in the evaluation of the accountants' functioning and in the opinions written about them. In some cases, the evaluators lacked data on the accountants' functioning or on the financial performance of the local authorities in which they served. There have also been cases of significant gaps between the evaluators in the verbal assessment.









Cooperation Between the Accountants and the local Authorities – The proper working relations between the accompanying accountants and the managements of eight of the 12 local authorities examined and their heads should be positively noted, as well as the proper working interfaces between the accompanying accountant and treasurer in the local authorities where new treasurers serve: Majdal Shams, Ein Knia

³ The database that was transferred to the Office of the State Comptroller as on February 2020.





and Kiryat Shmona, which assist in the professional guidance and direction of the treasurers and elected officials of those local authorities.

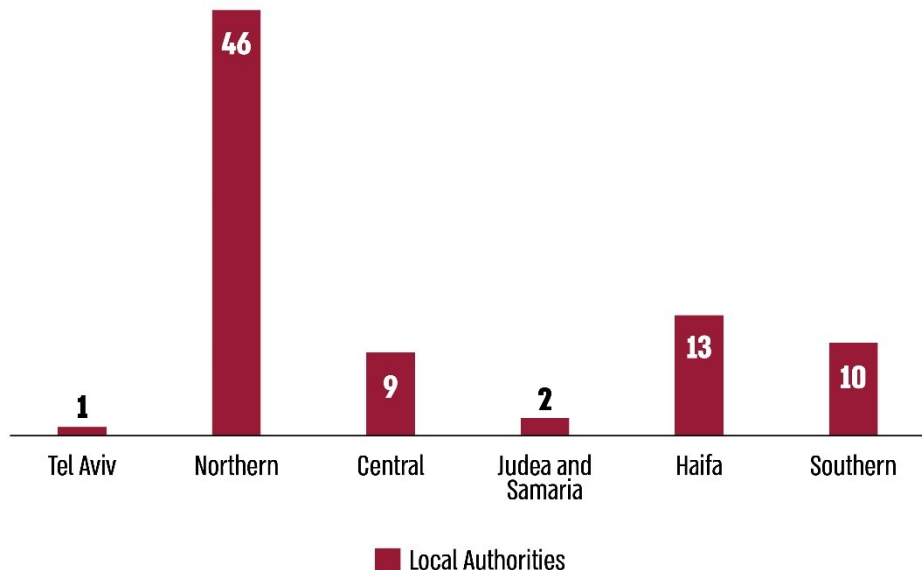
Key recommendations

-  It is recommended that the Ministry of Interior also appoint new accountants who have not yet served and examine the possibility of increasing the integration of women in order to promote the principle of equality and giving opportunities to new candidates, as well as to refresh the ranks and prevent burnout of those serving in practice. The local authorities that are under recovery programs and accompanied by an accompanying accountant must act to meet the goals of the recovery programs and in cooperation, using the services of the accompanying accountants wisely and efficiently.
-  Local authorities and the Ministry of Interior must prepare feasible recovery plans in order to be able to implement them within the specified time periods. Reducing the local authorities' deficits by obtaining loans does not contribute to the economic stability of the local authority, because although they show a decrease in deficit in their financial statements, they increase their liabilities and burden their long-term budgets.
-  The Office of the State Comptroller recommends that the Ministry of Interior examine the manpower situation in the Division of Budgeting and Monitoring in the face of the tasks assigned to it, and prepare a work procedure for monitoring and supervising the activities of the accompanying accountants. It is also recommended to map the failures and deficiencies in the local authorities to enable taking corrective actions and learning lessons. The same applies to the findings by monitoring – they should be forwarded to the districts and all the local authorities should be instructed on issues that arise.
-  The Ministry of Interior must assess the functioning of the accompanying accountant according to his performance in the local authority, while establishing clear indicators for examining the improvement based on the state of the local authority. The Ministry must also provide feedback and bring the contents of the assessment questionnaire to the attention of the accompanying accountants so that they can improve their performance, and generate insights regarding their continued employment.
-  The Ministry of Interior must tighten its control over local authorities under recovery programs, especially during election years, when the local authorities habitually breach the budget and accumulate high deficits, and instruct the accompanying accountants to act in this matter while paying special attention to such years.
-  The Ministry of Interior must assess the functioning of the accompanying accountant based on the state of the local authority and according to his performance in the local authority, while examining his function according to clear and uniform indicators concerning improvement or non-improvement in the local authority's state.



-  The Office of the State Comptroller recommends that the Ministry of Interior and the local authorities examined draw conclusions and examine alternative courses of action, including an emphasis both on the collection actions in these local authorities, including periodic updating of property surveys while examining their revenue structure, as well as the examination of their expenditure and budgetary control necessary for compliance with the budget frameworks pursuant to the recovery plans.
-  The Ministry of Interior must examine the effectiveness of employing the accompanying accountants and the failures in the budgetary conduct of the local authorities for which an accompanying accountant has been appointed, in light of the fact that the accompanying accountants appointed by the Ministry of Interior to the examined local authorities have not succeeded throughout the years to bring about their recovery and proper management, while focusing on increasing the revenue structure of these local authorities, in order to improve the local authorities' level of functioning, increase their self-generated revenues, and as a result improve the level of services they provide to their residents.

Distribution of the Local Authorities in which an Accompanying Accountant is Serving According to Districts of the Ministry of Interior





Summary

The audit findings indicate deficiencies in the functioning of the Ministry of Interior in the management, operation and control of the system of employment of accompanying accountants in the local authorities. Gaps have been found with regard to the appointment of accompanying accountants, the functioning of the accountants and the effectiveness of their employment in the local authorities in which they were appointed, including the implementation of recovery plans and meeting targets in order to bring them to a budgetary balance.

Six local authorities out of the 12 local authorities examined failed to meet the goals of the recovery plans they had signed over the years with the Ministry of Interior, and they continued to operate with deficit budgets. This had an impact on the level of services they provide to their residents and on their economic and social resilience. All this despite the grants and loans paid to those local authorities, and while an accompanying accountants served in all of them.

It is recommended that the Ministry of Interior conduct a process of learning and drawing conclusions and map the barriers in order to improve the accompanying accountants mechanism and examine what goals should be set, and what additional steps and measures should be taken to help local authorities improve their budgetary conduct, thus improving the level of services for their residents.