



State Comptroller of Israel | Local Government Audit | 2022

Follow-up Audit

Procurement and Engagements in Local Councils – Follow-Up Audit



Procurement and Engagements in Local Councils – Follow-Up Audit

Background

The local authority¹ serves as a public trustee in all its activities. The local authority has a key role in affecting its resident's lives in education, welfare, environment, planning and construction, transportation, sanitation, and many other areas. The law regulating the operation of local councils is the Local Councils Order, 1950 (the Local Councils Order).

Local authorities engage with contractors and suppliers to carry out development work within their jurisdiction, and they order services and purchase goods as part of their day-to-day operations. The legislature has established arrangements for the distribution of resources by local authorities to maintain the principles of good governance, including fair competition and equal opportunity for all².

1 Local authorities include municipalities, local councils and regional councils.

2 See the State Comptroller, **Audit Reports on Local Government for 2015** (2015), "Employment of External Consultants by Local Authorities", p. 13.



Key figures

**1,761–
6,560**

number of residents in six audited local councils at the end of 2019

**13–50 NIS
million**

the audited local councils budget for 2019

6–25

number of tenders held in the audited local councils in 2019–2021

2–4

the peripheral index³ range of the audited local councils

13

number of years in which Yesod HaMaala Local Council has engaged a collection consultant, with no valid agreement or a competitive procedure

90%

of the purchase orders examined in Hurfeish Local Council in 2020–2021 were placed according to the single quote received

3

number of meetings held by the Procurement Committee in Hurfeish Local Council in 2019–2021, despite hundreds of purchase orders that required its convening (for example, in April – May 2021, about 150 purchase orders were placed)

7

days were allotted to submit a bid in a tender for garbage collection in Eilabun Local Council, from the date of the tender publication in Hebrew language newspaper until the bids submission deadline. A single bid was submitted, and selected as the winning bid

Audit actions



In 2018, the State Comptroller's Office published a report regarding the engagement procedures of six local councils (Hurfeish, Yesod HaMaala, Migdal, Mazra'a, Eilabun, and Peki'in) with contractors and suppliers to carry out development work in their jurisdictions and for ordering services and purchasing goods⁴ (the Previous Audit). From August to December 2021, the State Comptroller's Office conducted a follow-up audit of the said local councils, rectifying the primary deficiencies noted in the Previous Report.

³ Peripheral Index – The index characterizes and ranks the local authorities in Israel according to their geographical location in relation to the concentration of the population. A peripheral local authority is defined as a local authority remote from markets, places of employment, trade, education, leisure and the like.

⁴ The State Comptroller's Office, **Audit Reports on Local Government for 2018** (2018), "Purchasing and Engagements in Local Councils", pp. 77–137.



Key findings



Accounting services engagement – in the previous audit, deficiencies were raised regarding the examination of the Eilabun Local Council tenders committee of the bids submitted to it in a minor tender⁵ for accounting consulting services it had issued in April 2017. The follow-up audit found that the deficiency noted had not been rectified – the council continued the employment of the accounting services provider 16 months after the expiry date of the engagement contract it had signed with him. The Council issued a tender during the follow-up audit and selected a new franchisee.



Engagement with a garbage collection contractor – the previous audit noted that Eilabun Local Council postponed the contractor agreement regulation and signing of the agreement. As a result, almost a year has elapsed from the council plenum decision to engage with the contractor until the actual execution. The follow-up audit found that the deficiency had not been rectified – the council signed a contract in 2018 with a garbage collection contractor who won the tender being the sole bidder. The contract period was set for one year retrospectively. Thus the contractor has been working for a year without an engagement contract being signed with it; In September 2021, the Council issued a new tender for garbage collection – a tender of a sizeable financial scope of about NIS 1.8 million per annum and set a tight seven-day deadline for the submission of bids, which also included a contractors' tour. The date for the contractors' tour was scheduled on a Jewish sector sabbatical. Three contractors participated in the contractors' tour, and eventually, a single bid was submitted by the contractor working with the Council, and it was selected as the winning bid.



Engagements with service providers for an extended time with no tender or a competitive procedure – the previous audit noted that Yesod HaMaala Local Council entered into a 12-month engagement with a property tax collection consultant in January 2009. The Council extended the contract with the collection consultant without signing a new agreement with him and without conducting a tender or other competitive procedure for receiving the collection consulting services. The follow-up audit found that the deficiency had not been rectified – the Council continues the engagement with the collection consultant according to the agreement it signed with him in 2009, without conducting a tender nor other competitive procedure and without a valid contract. In each of the years 2018–2021, the Council paid the collection consultant about NIS 110,000.

⁵ In the process of a minor tender, the local council is not obliged to make the tender public, but it must contact a certain number of suppliers and contractors, whose names are on a pre-determined list, and invite them to bid in the tender.



Goods and services purchase procedures – the previous audit noted that the purchase orders at Hurfeish Local Council were made through the Purchasing Manager, subject to budgetary approval and approval by the Council Treasurer and Council Chairman, but without the Procurement Committee's approval. The follow-up audit found that the deficiency had not been rectified – in 2019–2021 Hurfeish Local Council Procurement Committee convened only three times, though hundreds of purchase orders were placed. There is no documentation of inquiries made by the Purchasing Manager with additional suppliers as part of the purchase orders based on a single bid.



The infrastructure for engagements through a minor tender – the previous audit noted that the six audited local councils did not prepare a suppliers' list or address how to add service providers to the database. The follow-up audit found that the deficiency had not been rectified in Peki'in Local Council – the Council did not prepare a suppliers' list and did not issue a call on its website to be registered in its supplier database. It was further found that the deficiency was partially rectified in Hurfeish, Migdal, and Yesod HaMaala local councils: Hurfeish Local Council issued a tender in 2019 inviting service providers and suppliers to register in the Council's suppliers' database. 34 suppliers from various fields purchased the tender brochure at the cost of NIS 500 and were required to submit their bids at the Council offices. Hence, the Council did not allow bids to be submitted online and at no cost or a low cost. Migdal Local Council has prepared lists of suppliers, including the details of planners and electrical consultants only; Yesod HaMaala Local Council issued a call during the audit to join the Council's consultants and planners' database.



Engagements with service providers for an extended time with no tender or a competitive procedure – the previous audit noted that from 2009 to 2017, Hurfeish, Yesod HaMaala, and Peki'in local councils contracted, in succession, accounting firms for ongoing accounting services and extended those engagements, every year, without conducting a tender or another competitive procedure. The follow-up audit found that the deficiency was fully rectified in Hurfeish, Yesod HaMaala, and Peki'in local councils – they issued new tenders and signed engagement agreements with the accounting firms as required.

The infrastructure for engagements through a minor tender – the previous audit noted that the six audited local councils did not prepare a suppliers' list or address how to add service providers to the database. The follow-up audit found that the deficiency in Mazra'a and Eilabun local councils had been completely rectified – they prepared a suppliers' list. They updated it through a call on their website, inviting suppliers to join their suppliers' database.



Key recommendations

- 💡 Yesod HaMaala and Migdal local councils should complete the procedure for setting criteria for reasonable deviation from estimates in the tenders they issue, a fair scale to elect the reasonable bids received, and thus allow disqualification of bids that unreasonably deviate from the set estimate.
- 💡 It is recommended that the Eilabun Local Council sign agreements to map all its engagements, and conduct tenders on time to avoid deviation from the set deadline. It is also recommended that Eilabun Local Council increase the number of bidders in its tenders and consider entering into agreements via a tender issued through the Kineret Amakim Local Authorities' Cluster⁶, in which the Council is a member, or through the Local Government Economic Services Company. In addition, the Ministry of Interior should examine whether the garbage collection tender in the Eilabun Local Council includes competition between the contractors.
- 💡 It is recommended that Yesod HaMaala Local Council refrain from employing a collection consultant for an extended time, without conducting a tender or other competitive procedure and without a valid agreement.
- 💡 It is recommended that Hurfeish, Yesod HaMaala, and Migdal local councils expand the suppliers' list and include suppliers from other fields the council engages in on an ongoing basis, such as office equipment suppliers, electrical equipment suppliers, cleaning equipment suppliers, and pest control. It is also recommended that the Hurfeish Local Council examine whether adjustments can be made to enable the participation of small, medium, and small businesses in the supplier database.
- 💡 It is recommended that Yesod HaMaala, Migdal, and Peki'in local councils regularize the phrasing of their contracts with service providers through a contract or order that will anchor the material details of the engagement and the parties' obligations and rights and the remedies available to them.
- 💡 It is recommended that Hurfeish Local Council contact several bidders in writing when placing orders for goods or services, depending on the costs of the order, and document the requests for quotes.




⁶ A local authorities' cluster is a voluntary association of neighboring local authorities to encourage regional development while promoting a comprehensive regional point of view on a variety of topics, including streamlining the provision of municipal services, by pooling resources and taking advantage of size.



The extent of the Rectification of the Key Deficiencies noted in the Previous Audit

The Audit Chapter	The Audited Body	The Deficiency/ Recommendation in the Previous Audit Report	The extent of Rectification of the Deficiency noted in the Follow-Up Audit			
			Not Rectified	Slightly Rectified	Considerably Rectified	Completely Rectified
The criteria for reasonable deviation from estimates in tenders	Peki'in, Mazra'a	Councils should set criteria for reasonable deviation from estimates in tenders they issue, thus setting a fair scale for electing a reasonable bid received and allowing disqualification of bids that unreasonably deviate from the set estimate.				
	Yesod HaMaala, Migdal					
	Hurfeish					
Consolidated and updated listing of engagement contracts	Hurfeish, Yesod HaMaala	Councils should maintain an updated contracts list that reflects all of the engagements and contracts they enter into with service providers to properly monitor and control their renewal date and give advance notice of the contracts' expiration and other changes requiring re-examining the engagements.				
	Mazra'a, Peki'in					



The Audit Chapter	The Audited Body	The Deficiency/ Recommendation in the Previous Audit Report	The extent of Rectification of the Deficiency noted in the Follow-Up Audit			
			Not Rectified	Slightly Rectified	Considerably Rectified	Completely Rectified
Engagements with service providers	Eilabun	The State Comptroller's Office notes the Council on the postponement in the agreement regulation with the contractor resulting in almost a year delay from the decision in the council plenum on the engagement with the contractor until its signing.				
Engagements with service providers for an extended time without a tender or competitive procedure	Hurfeish, Yesod HaMaala, Peki'in	The engagement of an accountant for extended periods without a competitive proceeding is inconsistent with the rules of good governance, violates the principle of equality, and creates a dependency relationship.				
Engagements with service providers for an extended time without a tender or competitive procedure	Yesod HaMaala	The engagement of a collection consultant for such an extended period, without conducting a tender or other competitive procedure and without a valid agreement, is inconsistent with the rules of good governance.				



The Audit Chapter	The Audited Body	The Deficiency/ Recommendation in the Previous Audit Report	The extent of Rectification of the Deficiency noted in the Follow-Up Audit			
			Not Rectified	Slightly Rectified	Considerably Rectified	Completely Rectified
		The council should appoint a Council Engineer who is an employee of the council.				
The infrastructure for engagement through a minor-tender – suppliers' list	Mazra'a, Eilabun	Since they did not keep a suppliers' list, the local councils could not engage lawfully in minor tender, so their tender committees should prepare a suppliers' list.				
	Hurfeish, Yesod HaMaala, Migdal					
	Peki'in					
Procurement and Wear & Tear Committee	Hurfeish	The council should convene the procurement committee as often as required to carry out the council's procurement orders.				
Procurement Procedure	Hurfeish, Peki'in	The councils should prepare a procurement procedure and implement it, as good governance means, among other things, conduct according to known, transparent, and equitable rules.				



The Audit Chapter	The Audited Body	The Deficiency / Recommendation in the Previous Audit Report	The extent of Rectification of the Deficiency noted in the Follow-Up Audit			
			Not Rectified	Slightly Rectified	Considerably Rectified	Completely Rectified
Purchase of services engagements	Migdal	Ordering services and works by work orders do not substitute an agreement to which the local authority is bound, does not comply with good governance, and may infringe its rights if disputes arise between the parties.				
	Yesod HaMaala					

Summary

Local authorities are obligated to act under the tender laws and manage their engagements on fair competition, allowing suitable candidates to compete equally and receive equal and fair treatment, and promoting the principles of saving and efficient use of public funds deposited to them.

The follow-up audit raised that the audited six local authorities rectified some of the deficiencies noted in the previous audit but should complete the rectification of all deficiencies according to principles of transparency and equality while maintaining the efficiency and effectiveness of their activities for the benefit of their residents.

