



State Comptroller of Israel | Local Government
Audit Report | 2023

Follow-up Audit

The Local Authority Auditor – Role and Conduct – Follow-up Audit



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Background

The internal audit is a local authority auditor's main function – examining the authority's activities and submitting an annual report on the audit he carried out. The position of the authority's auditor is complex. On the one hand, he is an employee of the controlled body and is subject to the hierarchical principle that requires him to obey the instructions of his superiors. On the other hand, fulfilling his role properly is affected by his ability to act autonomously, neutrally, and independently of any party. Given the local authorities' significant influence on the residents' lives and the extensive government assistance provided to them, it is essential to strengthen the external and internal audit mechanisms, including the ongoing therein, to ensure their proper functioning.




Key Figures

28 (about 11%)	in 53 (about 23%)	40 (about 57%)	19 (about 28%)
of the 257 local authorities have no auditor serving as of September 2022	of the 229 local authorities, a woman staffed the position of auditor as of September 2022	of the 70 municipalities that provided information on the subject did not employ audit workers as of September 2022	of the 67 municipalities that provided information on the subject did not employ audit workers as of September 2022 nor allocated the minimum budget required by law for the auditor's office in 2021
138 (about 67%)	in 72 (about 28%)	in 30 (about 19%)	in 63 (about 53%)
of the 206 local authorities whose auditor prepared an audit report for 2020 did not publish it on their website as of June 2022	of the 257 local authorities' audit committee did not convene in 2020	of the 156 local authorities that provided information on the subject, the audit report submitted in 2021 was not discussed in its council or its audit committee as of September 2022	of the 119 municipalities and local authorities that provided information on the subject, the audit report submitted in 2021 was not discussed by the deficiency rectification team as of September 2022



Audit Actions

 In 2020, the State Comptroller's Office published an audit report about "The Internal Auditor, Treasurer and Legal Advisor in Local Authorities – Their Role and Conduct" (the previous audit)¹. From April to September 2022, the State Comptroller's Office followed up on the Ministry of Interior, its districts and the local authorities actions to rectify the main deficiencies noted in the previous audit regarding the role and conduct of the local authority auditor, and the work interface between the authority's management and the internal audit mechanisms (the follow-up audit).

Key Findings



Integrative Management of Data to Examine the Audit Usefulness – the follow-up audit raised that the Ministry of Interior's data on the local authorities' auditors, including the scope of their duties and the resources allocated to them, are not adequately managed, organized and analyzed: (a) The data is collected simultaneously by different departments at the Ministry of Interior headquarters, and by its districts, for various needs; (b) The data is collected manually, is not regularly updated, and there are apparent disparities between the data held by each of the various parties – for example, in a comparison between the Audit Division data and the Ministry of Interior's North District data, disparities were found in the names of seven auditors and the scope of employment of three additional auditors; (c) The rapid rate of turnover of auditors in certain authorities makes it even more challenging to keep the data updated; (d) Raw data that is held by one department, but is also needed by other departments to generate insights and make more informed decisions, is not aggregated and is not routinely transferred to the other departments of the Ministry or to its districts.

Appointment of Local Authorities' Auditors – the previous audit raised that no auditor served for at least four years in the **Baqa al-Gharbiyye** municipality, the **Julis, Deir Hanna, Yarka**, and **Kafr Manda** local authorities, and the **Mevo'ot HaHermon** regional council, in contravention of the law requirements. Furthermore, despite a long time without appointing an auditor, the supervisors of the Ministry of Interior districts did not exercise their power to appoint an auditor. The follow-up audit found that the deficiency has been rectified to a great extent: in the **Baqa al-Gharbiyye** municipality, in the **Deir Hanna** and **Yerka** local authorities, and the **Mevo'ot HaHermon** regional

¹ State Comptroller, **Annual Report 71A** (2020), "The Internal Auditor, Treasurer and Legal Advisor in Local Authorities – Their Role and Conduct", 365–417.



council, the auditor position was staffed, but in the **Kafr Manda** local authority, the auditor position was not staffed, and in the **Julis** local authority, an auditor has been appointed since the previous audit, but has left his position, and at the follow-up audit completion, no auditor serves in it. It was also found that at the follow-up audit completion in the **Fassouta** local authority, the auditor position had not been staffed for 14 years. Moreover, the supervisors of the Ministry of Interior's districts still refrain from exercising their authority by law to appoint an auditor in the local authorities that have been operating without an auditor for years.



Gender Diversity in the Staffing of the Local Authority Auditor Position – it was found that the women rate serving as auditors in local authorities (about 23%) is lower than their rate in the general population and that in non-Jewish local authorities, this rate is even lower (about 6%). Furthermore, according to the Salary Commissioner data for 2020, the salary of female auditors in local authorities is about 10% lower than that of men in this position.



Submission of Annual Audit Reports – the previous audit raised that in 2015–2017, on average each year, in about 9% of the local authorities (22 authorities) their auditors did not submit audit reports, and in 14 local authorities, their auditors did not submit audit reports as required by law in one or more of the years 2015–2017. The follow-up audit found that the deficiency was largely rectified: in 2020, about 8% of the local authorities (20 authorities) had an auditor but did not submit an audit report for said year. From among the local authorities whose auditor did not submit audit reports as required by law in one or more of 2015–2017 or submitted biennial audit reports in these years, it was found that in five local authorities, its auditor did not submit an audit report in one or more of 2019–2021 (audit reports for 2018–2020) or submitted biennial audit reports in these years. In three local authorities – the **Beitar Illit** municipality and the **Efrat** and **Segev Shalom** local authorities – its auditor submitted a biennial audit report, i.e., he did not submit a report every year as required by law. It was also found that the **Gush Etzion** regional council auditor did not submit a report in 2019 (a report for 2018). In the **Beit Jann** local authority, it was found that the authority's auditor did not submit an audit report consecutively in 2015–2021.





The Audit Reports' Quality and Scope – the previous audit raised that some local authorities' auditors submitted reports with little content, few findings, ineffective recommendations, and trivial issues that do not express a strategic view of the audit work based on priorities and risk assessment. Although the follow-up audit found an improvement in the proportion of high-quality annual audit reports out of the 143 audited reports examined², ten audit reports were lacking in content or findings, short in scope, repeated audits that were carried out in previous years or repeated audits done through the external auditors, did not deal in areas exposed to risks, or audits that were not of


2 It was not possible to include in the examination audit reports that the audit team did not have access to since copies thereof were not forwarded to the Ministry of Interior and were not published on the internet either.



great value to the authority. Thus, for example, it was found that in a local authority in socio-economic cluster 1, which also according to the previous audit submitted reports with little content and few findings, its auditor, according to the recommendation of the Ministry of Interior, formed an audit report on a municipal corporation, whose findings did not reflect the significant financial scope of the municipality's engagements with it in the audit year (nearly 50% of the municipality's budget), and even though deficiencies were found in the review of the authority's internal control by the external auditors, in the recording of expenses in the authority's engagements with the municipal corporation, the audit did not address this risk area. In another local authority, it was found that its auditor audited the establishment of the council's committees and their functioning – even though the external auditors audited this subject yearly. In a third local authority, with a recovery plan and an accompanying accountant, its auditor audited the handling of discounts requests on the municipal property tax and the contract with a collection company without including any findings or recommendations about the municipal property tax collection rate for the balance of arrears in the audit year, which constitute about 97% of the authority's budget.

 **Working According to Professional Standards** – the previous audit recommended that the Ministry of Interior consider directing the local authority's auditors to adopt worldwide auditing standards. The Ministry of Interior stated at the time that it would positively consider it. The follow-up audit found that the Ministry of Interior's work plan for 2020–2021 included the examination of the local authorities' internal audit usefulness and the publishing of audits recommendations in the core areas; however, it did not instruct the local authorities' auditors to adopt the audit standards used around the world nor refer them to the work principles and professional guidelines of the Auditors' Association.

 **Publication of Audit Findings** – the previous audit questionnaires raised that in 2015–2017, on average per year, about 62% of the local authorities whose auditor prepared an audit report published the audit reports through their website. Moreover, about 28% of the authorities did not publish the report on their website in 2015–2017. The follow-up audit found that according to the data in effect in June 2022, about 42% of the local authorities that operated a website (108 out of 256) did not publish audit reports on their website at all. Furthermore, about 67% of the local authorities whose auditor prepared an audit report for 2020 (138 out of 206) did not publish the audit report for said year on their website. It was also found that about 20% of the local authorities published minutes of the audit committee meetings on their website, though, there is no legal obligation to publish them; Still only two of them (about 4%) published minutes on their website in the last six months preceding the date of the examination (June 2022).

 **Discussing the Audit Report and Follow-up of the Deficiencies Rectifications** – the previous audit raised that a significant proportion of the local authorities' audit findings were not appropriately handled (in about a quarter of the local authorities, the audit report was not discussed in the local authority council or the audit committee, and



in almost half of the municipalities and local authorities the deficiency rectification team did not discuss the audit report). The follow-up audit found that the deficiency was not rectified: the local authorities' rate that did not address the audit findings adequately remained the same. In about a fifth of the local authorities, the audit report for 2020 was not discussed in the council nor the audit committee, and in about half of the municipalities and local authorities, the deficiency rectification team did not discuss the audit report for this year. Furthermore, it was found that among the local authorities whose audit committee did not convene or convened less frequently than legally mandated in each of 2018–2020; in the **Tira, Nazareth and Qalansawe** municipalities and the **Abu Snan, Elyakhin, I'billin, Buq'ata, Jisr az-Zarqa, Yesud HaMa'ala, Majdal Shams, Mashhad, Ein Mahil and Ar'ara** local authorities, their audit reports were not discussed in any of the years above by the audit committee or the local authority plenary.



The Difference in the Laws that Apply to Different Types of Local Authorities

– the previous audit raised that provisions in the law ensuring the auditor's status and the audit's usefulness were only applied to certain types of local authorities. Among other things, minimum standards and budgets were set for the office of the local authority's auditor in the municipalities but not in local authorities or regional councils; hence, about 70% of the local authorities (180 of them) are not obligated to hire workers and allocate a minimal budget to the local authority's auditor office. A mandatory minimum frequency for convening the audit committee and the obligation to establish a deficiency rectification team in municipalities and local authorities was also established. Still, these do not apply to regional councils. Furthermore, previous provisions in the Local Authorities Order on the same subjects but with specific differences were not repealed, among other things, regarding the scope of the auditor's duties, and they continue to apply simultaneously, resulting in legal uncertainty regarding the applicable normative arrangement. The follow-up audit found that the deficiency was not rectified: 15 years after the amendment of the Local Authorities Ordinance, the Order for Establishment was not amended, and the Ministry of Interior refrained from clarifying the normative arrangement that applies to local authorities. It was also found that the Ministry of Interior did not unify the legal regulation of the internal audit mechanisms, considering the different characteristics of the local authorities.



The Ministry of Interior's Follow-up over the Submission of Audit Reports and Their Quality

– the follow-up audit raised that the Ministry of Interior instituted a computerized mechanism to improve the transfer of copies of the local authorities' auditors' audit reports and established rules to increase the scope of an auditor's position without a tender. Moreover, the Ministry of Interior began to examine the content of the audit reports.



Publication of the Audit Findings – the Ministry of Interior has begun to promote control procedures for the publication of the local authorities' auditors' audit reports on the websites through external auditors.

Key Recommendations

- 💡 It is recommended that the Ministry of Interior establish a computerized mechanism for the integrated and ongoing management of the data on the appointment of the local authorities' auditors, the scope of their employment and the duration of their tenure, and the roles of the other internal audit mechanisms, and that this information be made available to all departments of the Ministry of Interior, to the supervisors of the Ministry of Interior's districts and the other relevant entities. It is further recommended that the database include information on the employment of audit workers in the auditor's office and the budget allocated for the control work on implementing regulations, standards and budget. Additionally, it is recommended that the establishment of the data collection mechanism and its management and the division of responsibility over it between the departments of the Ministry of Interior and its districts reflect its policy regarding the responsibility division to monitor the function of the internal audit mechanisms in the local authorities between its departments themselves and between them and the Ministry of Interior districts.
- 💡 The **Julis**, **Kafr Manda**, and **Fassouta** local authorities should staff the auditor position as required. Given the Ministry of Interior's standpoint, by which the existing legal arrangement does not respond when the non-staffing of the auditor's position lasts for an extended time, it is recommended that it set an alternative and enforceable mechanism, considering the division of responsibility regarding the operation of the mechanism between it and its districts.
- 💡 Given the importance of gender diversity, particularly in internal audit, it is recommended that the Ministry of Interior promote the implementation of all the recommendations of the policy team it established on the matter of scouting, recruitment, and promotion of women to senior positions, and, among other things, to instruct the local authorities regarding their legal obligation to promote adequate representation of women, particularly in staffing the position of the local authority's auditor, and set goals in this regard and monitor compliance in addition to that.
- 💡 The local authorities' auditors, including the **Beitar Illit** municipality, the **Efrat**, **Beit Jann**, and **Segev Shalom** local authorities, and the **Gush Etzion** regional council, should submit audit reports as required.
- 💡 It is recommended that, the local authority's auditor choose the audit topics based on a risk survey, address issues that are at the core of the local authority's activities from the financial and public aspects, and focus on factors that expose the authority's proper



conduct to significant risks – and be sure to examine the added value of the audit throughout the entire audit process to ensure the quality and usefulness of the audit in locating and identifying deficiencies and recommending their rectification, and its contribution to improve the functioning of the local authority. It is further recommended that the Ministry of Interior regulate a uniform and binding basis for the audit work.



Upon the submission of audit reports by the local authorities' auditors, including the **Tira, Nazareth and Qalansawe** municipalities and of the **Abu Snan, Elyakhin, I'billin, Buq'ata, Jisr az-Zarqa, Yesud HaMa'ala, Majdal Shams, Mashhad, Ein Mahil and Ar'ara** local authorities, they should ensure that they are discussed both in the audit committee and in the local authority's plenum according to the law provisions. Hence, the deficiencies are rectified as the law requires, and the authority's internal audit mechanism can fulfill its role. Similarly, all local authorities should convene the deficiency rectification team as often as the law requires to rectify the deficiencies properly. Furthermore, it is recommended that the Ministry of Interior examine the other key barriers hindering the audit committee from convening, consider solutions and incentives to minimize them, and increase the commitment of all the relevant parties to the proper operation of the committee.



It is recommended that all local authorities publish the latest audit reports on their website and the minutes of the audit committee discussions on them. It is further recommended that the Ministry of Interior complete the examination of other mechanisms for publicizing the audit findings and implement them. For example, considering the findings of the external auditors regarding the publishing of the local auditors' reports on the local authorities' websites, as part of the Ministry of Interior criteria to decide on the decentralization of powers for those authorities.



The Ministry of Interior, should clarify the legal situation of the normative arrangement that applies to local authorities. It is further recommended that the Ministry of Interior unify the regulation of all the issues of the internal audit mechanisms of all local authorities, considering their different characteristics.



The Local Authorities Whose Auditor's Position has not been Filled for at Least Four Years from 2015 Until the Audit End in September 2021

Total years in which no auditor served consecutively in the local authority*	Date of completion of that audit	2021	2020	2019	2018	2017	2016	2015	Rate of grant out of the authority's budget	Balancing grant per resident	The local authority
6	×	×	×	×	×	×	×	✓	13%	732	Baqa al-Gharbiyye
4	×	×	×	×	×	×	✓	✓	11%	1,320	Beit Shean ▶
5	✓	✓	×	×	×	×	×	✓	27%	1,323	Basma ▶
5	×	×	×	×	×	✓	✓	×	23%	1,482	Julis
4	✓	✓	✓	✓	×	×	×	×	7%	371	Gdera ▶
5	✓	✓	✓	×	×	×	×	×	19%	1,213	Deir Hanna
4	✓	✓	✓	✓	×	×	×	×	25%	1,331	Zarzir ▶
7	×	×	×	×	×	×	×	✓	23%	1,852	Yanuh-Jat ▶
6	✓	✓	×	×	×	×	×	×	21%	1,148	Yarka
12	×	×	×	×	×	×	×	×	16%	1,064	Kafr Manda
4	✓	✓	✓	✓	×	×	×	×	15%	1,570	Mevo'ot HaHermon
6	✓	✓	×	×	×	×	×	×	15%	1,364	Merom HaGalil ▶
8	×	×	×	×	×	×	×	×	25%	2,209	Ghajar ▶
14	×	×	×	×	×	×	✓	×	35%	2,420	Fassuta ▶



✗ The position of auditor was not staffed ✓ The position of auditor was staffed ▶ Local Authorities not mentioned in this sub-chapter in the previous audit

According to the external auditors' findings and data from the Ministry of Interior on the staffing of the authority's auditor position at the end of the follow-up audit, processed by the State Comptroller's Office.





* Regarding local authorities where no auditor served even before 2015 – the data refers to the cumulative period during which no auditor served in the authority.



The Extent the Key Deficiencies Noted in the Previous Report Were Rectified

The Audit Chapter	The Audited Body	The Deficiency in the Previous Audit	The Extent of Deficiencies Rectification Noted in the Follow-up Audit			
			Not Rectified	Slightly Rectified	Significantly Rectified	Fully Rectified
The difference in the laws that apply to different types of local authorities	The Ministry of Interior	Provisions in the law ensuring the auditor's status and the audit's usefulness were applied only to certain types of authorities. Furthermore, previous provisions in the Local Authorities Order on the same subjects but with specific differences have not been repealed, and they continue to apply simultaneously, resulting in legal uncertainty regarding the applicable normative arrangement.				
Appointment of auditors in local authorities	Baqa al-Gharbiyye, Julis, Deir Hanna, Yarka, Kafr Manda and Mevo'ot HaHermon	No auditor has served for at least four years in contravention of the law requirements.				



The Audit Chapter	The Audited Body	The Deficiency in the Previous Audit	The Extent of Deficiencies Rectification Noted in the Follow-up Audit			
			Not Rectified	Slightly Rectified	Significantly Rectified	Fully Rectified
Appointment of auditors in local authorities	The Ministry of Interior and its districts	The supervisors of the Ministry of Interior districts refrain from exercising their authority by law to appoint an auditor in local authorities that have been operating without an auditor for several years.				
The scope of the local authority's auditor position	The Ministry of Interior	The divisions in charge of the Ministry of Interior have no information about local authorities that received the Minister of Interior's approval to employ a part-time auditor.				
The scope of the local authority's auditor position	The Ministry of Interior	The Ministry of Interior did not compile data on the scope of the auditors' position in the local authorities.				
Submission of annual audit reports	Ofakim, Or Akiva, Azor, Beit Jann, Basmat Tab'un, Givatayim, Zarzir, Hurfeish, Mazra'a, Immanuel, Segev Shalom, Shfar'am	The authority's auditor did not submit audit reports as required by law in one or more of 2015–2017.				



The Audit Chapter	The Audited Body	The Deficiency in the Previous Audit	The Extent of Deficiencies Rectification Noted in the Follow-up Audit			
			Not Rectified	Slightly Rectified	Significantly Rectified	Fully Rectified
The quality of the audit reports and their scope	Certain local authorities	Some local authority auditors submitted reports with little content and few findings, reports with ineffective recommendations, and reports dealing with trivial issues that do not express a strategic view of the audit work based on priorities and risk assessment.				
The Ministry of Interior's monitoring of the submission of audit reports and their quality	The Ministry of Interior and its districts	About half of the local authorities did not send a copy of their reports to the Senior Division of Local Government Audit.				
The Ministry of Interior's monitoring of the submission of audit reports and their quality	The Ministry of Interior and its districts	The Ministry of Interior did not verify the reasons for not submitting an audit report, and no sanction was imposed on an auditor who did not submit reports without a satisfying explanation.				



The Audit Chapter	The Audited Body	The Deficiency in the Previous Audit	The Extent of Deficiencies Rectification Noted in the Follow-up Audit			
			Not Rectified	Slightly Rectified	Significantly Rectified	Fully Rectified
The Ministry of Interior's monitoring of the submission of audit reports and their quality	The Ministry of Interior	Failure to prepare audit reports or reports with little content and few findings was not considered in the Ministry of Interior's decision in giving individual permission to expand the position of an auditor without a tender.				
Discussion of the audit report and monitoring of the rectifying of deficiencies	Certain local authorities	In a significant rate of the local authorities, the audit findings were not appropriately handled (in about a quarter of the local authorities, the audit report was not discussed in the local authority council or the audit committee, and in almost half of the authorities, the deficiency rectification team in the audit report did not discuss the audit report).				



Summary

The internal audit mechanisms in the local authorities, headed by the authority's auditor, are the first line of defense against harm to the proper functioning of the local authorities. Therefore, it is of utmost importance that the authorities themselves ensure these mechanisms' proper functioning and usefulness. Furthermore, to reduce the need to exercise the powers of intervention given to it, which sometimes involves interfering with the local democracy mechanism, it is recommended that the Ministry of Interior use all its tools to strengthen the usefulness of these mechanisms and ensure their proper functioning. This is all the more so, for small, peripheral, and non-resilient authorities, where the government aid provided to them (about 78% of their income), including the balance grants awarded to them, is higher and where there is a higher rate of deficiencies in the functioning of the internal audit mechanisms.