

Municipal Development and Lending Fund Improvements of financial accountability in the Local Government Sector in West Bank and Gaza Strip

Under the implementation of the Local Government Capacity Building Project (LGCBP) the Municipal Development and Lending Fund is currently implementing the first component Financial Management and Accounting Systems Reform. The main objective of the LGCBP first component is to improve the accounting, financial management and budgetary control capabilities of MOLG and LGUs through designing a unified financial and accounting system for LGUs.

During the last thirty months the project has succeeded in summary the following:

1. Developed a **Unified Chart of Account with Unified Accounts Coding**; this was done based on mapping of the various chart of accounts used by certain prominent municipalities such as Nablus, Tulkarm, Hebron, Al Bireh, Ramallah and Rafah.
2. Unifying and approving the Palestinian local government **Budgetary Formats** by designing and adopting the unified coded chart of accounts in both Gaza and West Bank.
3. Two sets of overall **Accounting Policies** were developed; one of which is suitable for the general local government activities the other is suitable for the enterprise type activities of the municipalities. These general accounting policies reflect a **Modified Accrual Basis** for the general local government activities (funds) and the **Full Accrual** for the proprietary (commercial-like) activities (funds).
4. For the first time, the project has succeeded in developing and implementing a **Fixed Assets Valuation Methodology** and valued the assets at 8 pilot municipalities in West Bank and Gaza Strip. The developed methodology assessed the value of municipal assets among different categories and implemented depreciation process based on the international accounting standard for dealing and managing governmental assets. This developed methodology will be used for all municipalities (132) as a base for fixed assets valuation process after taking into consideration the lessons learned during the valuation process implemented at the pilot municipalities.
5. The project has finalized **Technical and Functional Specifications** for large municipalities and small and medium municipalities of the **Integrated Financial Management Information System (IFMIS)** which meets the accounting and financial reporting needs of municipalities and central government (MOLG). following the procurement process the MDLF and MOLG is currently involved in finalizing the negotiation with FreeBalance Int.

FreeBalance Accountability Suite software is built on good practices and international government financial standards as follow:

- *International Monetary Fund Government Finance Statistics (GFS)*
- *World Bank treasury reference model*
- *International Monetary Fund Code of Good Practice on Fiscal Transparency*
- *International federation of Accounts International Public Sector Accounting Standards Board International Public Sector Accounting Standards (IPSASs)*

- *UN Common Functions of Government*
- *Medium Term Expenditure Frameworks (MTEF)*
- *General Accepted Accounting Principles (GAAP)*

Freebalance Int. can be configured to operate on: Cash, Modified Cash, Modified Accrual or Full Accrual. The Following modules will be implemented at the municipalities:

- a. Accounting system which include (General Ledger, account receivable, account payable, purchasing, inventory, fixed assets)
 - b. Budgeting preparation and controlling
 - c. Revenue Management system
6. Enhance the **Municipalities' Staff Knowledge** on new accountings concepts. This is based on the institutional assessment review conducted for the financial departments at the pilot municipalities, seven courses were recommended in the field of financial, accounting, and managerial skills. The first course title "fixed assets management" was conducted and 105 employees were trained from the pilot municipalities' staff and MOLG district offices through 4 sessions in Gaza and West Bank.
 7. The MDLF produced the first **Local Government Financial Database** which includes the planned and executed budgets for all municipalities for the year 2006. The MDLF is currently updating the data base for 2007-2008.

Annex 1, Financial and Accounting reform activities under LGCBP (Visual Illustration)

The future activities under the LGCBP will be as follow:

1. Sign the contract with FreeBalance and start the customization and installation in the 8 pilot municipalities. To be accomplished: 30th Oct, 2008
2. Install FreeBalance system at the MOLG as aggregated modules for all local government financial and accounting data. To be accomplished: 31st Dec, 2008
3. Fixed assets valuation for 35 municipalities, Phase 2 based on the process developed in the 8 pilot municipalities To be accomplished: 31st Dec.2008
4. Installation of FreeBanalce in the 35 municipalities based on the testing and approval of the system at the pilots. To be accomplished: 30th Aug, 2009
5. Finalize the Financial and Accounting Policies and Procedures Manual for Large municipalities and for small and medium municipalities. To be accomplished:31st Dec.2008
6. Purchasing of IT equipments for the 43 municipalities plus MOLG to run the system, however, one of the main characteristic of the system is to use moderate technology.
7. Continue the institutional development of the municipalities in management, financial and accounting skills through training courses.
8. To contract a local firm to provide maintenance an support services for municipalities for the FreeBalance Int. software.