

Palestinian Investment Promotion Agency “PIPA”
Ramallah – Palestine

Independent Auditor’s Report
and Statement of Receipts and Disbursements
for the year ended December 31, 2018

Talal Abu-Ghazaleh & Co.
Certified Public Accountants



Palestinian Investment Promotion Agency
Ramallah – Palestine

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Independent Auditor's Report

To M/s Board of Directors
Palestinian Investment Promotion Agency "PIPA"
Ramallah – Palestine

Report on the Audit of the Financial Statement

Opinion

We have audited the accompanying statement of Receipts and Disbursements of **Palestinian Investment Promotion Agency "PIPA"** – Pages 4 to 11, for the year ended December 31, 2018, and notes to the financial statement of Receipts and Disbursements including a summary of significant accounting policies.

In our opinion, the accompanying financial statement presents fairly, in all material respects, the cash receipts and disbursements for the year ended December 31, 2018 in accordance with Cash Basis of accounting described in Note No.(2).

Basis for Our Opinion:

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of this report.

We are independent of the Agency in accordance with the Code of Ethics for Professional Accountants registered under Board of Auditing Profession, which are in conformity with the code of ethics of accountants registered under Palestinian Association of Certified Public Accountants, in line with the ethical requirements related to our audit of the financial statements in Palestine, and we have fulfilled our other ethical responsibilities in accordance with those requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter:

PIPA's policy is to prepare the accompanying statement using the described basis in Note (2) for revenues and disbursements. Based on this basis, revenues were recognized when received, not when earned; and disbursements were recognized when paid, not when incurred, this basis not suitable for another purpose.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting policies described in note No.(2) and other relevant laws and regulations, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the agency's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Agency or to cease operations, or have no realistic alternative but to do so.

Management is responsible for overseeing the agency's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statement as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the foundation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the agency's ability to continue as a going concern. If we

conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the agency to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statement, including the disclosures, and whether the financial statement represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate, with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements.

The agency keeps properly organized accounting records, which matches, in all material respects, the accompanying financial statement.

The engagement partner on the audit resulting in this independent auditor's report is the Executive Director, Jamal Milhem.

Talal Abu-Ghazaleh & Co.
License # (251/1997)



Jamal Milhem, CPA
Certified Accountant License # (100/98)
Ramallah – Palestine
July 30, 2019



Palestinian Investment Promotion Agency
Ramallah-Palestine
Statement of Receipts and Disbursements
for the year ended December 31,2018

<u>Item</u>	<u>Note</u>	<u>2018</u> NIS	<u>2017</u> NIS
<u>Receipts</u>			
Ministry of Finance and Planning fund	(4)	3,206,895	3,135,970
European Union Fund	(5)	812,158	--
Donor Funds	(6)	72,767	--
Transfers to the MoF&P from donor fund	(7)	(110,387)	--
Revenues of PIPA as a result of activities	(8)	8,663	--
Transfers to the MoF&P from PIPA	(8)	(8,663)	--
Total		3,981,433	3,135,970
<u>Disbursements</u>			
Salaries and employees benefits	(3)	(2,224,858)	(2,715,894)
Operating expenditures	(3)	(982,037)	(420,076)
Total salaries and benefits and operating expenditures		(3,206,895)	(3,135,970)
Expenditures financed by donors	(5)	(812,158)	--
Total Disbursements	(3)	(4,019,053)	(3,135,970)
Excess (Shortage) of Receipts (Under) over Disbursements		(37,620)	--
Cash at banks at the beginning of the year	(6)	34,231	33,599
Currency exchange rates variance		3,389	632
Cash at banks at the end of the year	(6)	--	34,231

“The accompanying notes constitute an integral part of this statement”

Palestinian Investment Promotion Agency
Ramallah-Palestine
Notes to the Financial Statements

1. **Background:**

Palestinian Investment Promotion Agency (PIPA) was established in 1998 as an independent agency, pursuant to the promulgation of the Investment Promotion Law “Law Number (1) for the year 1998”, and Investment Promotion regulation Number (4) of the year 2015.

The Authority works to build a better future for all Palestinians, provide advanced services to local and foreign investors and facilitate the communication between the private sector and the government through the unified investment window for investors services, granting attractive incentives for investment and attracting new investments through the latest means of promotion, In Palestine, the Authority works to enable domestic investment and attract foreign investment; to achieve development priorities in Palestine,

The Authority is currently working in three main areas in accordance with the Palestinian Investment Promotion Law No. 1 of 1998 and its amendments:

- Providing guarantees to investors.
- Granting incentives to investors.
- Providing an appropriate environment for encouraging investment

Goals of Investment Promotion Law:

- Establishing the agency, an institution responsible for encouraging and promoting investment in Palestine;
- Providing guarantees to all Investors and Investments operating in Palestine;
- Granting the Incentives to Investors;
- Providing the appropriate environment for encouraging investment in Palestine.

The Board of Directors of the Authority is headed by a Board of Directors consisting of eleven members, headed by the Minister of National Economy with the membership of the Ministry of Finance and Planning, the Ministry of Economy, the Ministry of Tourism and Antiquities, the Ministry of Communications and Information Technology, the Ministry of Local Government, the Energy and Natural Resources Authority and four representatives from the private sector.

The Palestinian Investment Promotion Authority (PIPA) has 45 employees in 2018 (53 employees in 2017).

The statement of Receipts and Disbursements of PIPA was authorized for issuance by management on September 12, 2019.

2. Significant accounting policies:

The financial statements have been prepared under the historical cost convention, and in accordance to the Cash Basis of accounting.

- **Cash and cash equivalents**

Cash and cash equivalents consist of cash in hand, bank balances, and short-term deposits with an original maturity of three months or less, net of restricted bank deposits.

- **Disbursements**

Expenditures are recorded when paid as follows:

- Expenses paid directly by the Ministry of Finance and Planning, such as salaries, wages, travel allowances and electricity expenses, which are recorded on PIPA cost center.
- Expenses paid directly by PIPA from the zero bank account, which was covered through the granting of credit ceilings from the Ministry of Finance and Planning in accordance with the approved budget for each year and approved by the Controller and paid through the Authority after the introduction to the accounting system at the cost center of PIPA.
- Expenditures from bank accounts restricted to donors and earmarked for the implementation of predefined projects and paid by PIPA.

- **Revenues**

The revenues of the PIPA are as follows:

- Paid on behalf of PIPA from the Ministry of Finance and Planning to cover the approved expenditures in the budget approved by the Council of Ministers.
- Credit limits granted to PIPA and used to cover expenses approved by PIPA.
- Donor funds received and deposited in project special bank accounts with PIPA.

- **Cash and in-kind contributions:**

- Registration grants as revenues in the year of collection and recording their expenses at the time of payment.
- Donations and donations in kind are recorded in the accounting records and are disclosed and fixed assets are recorded in statistical records to facilitate the annual physical count.
- Projects executed directly by donors and in cooperation with PIPA are not recorded.

- **Preparation of Receipts and Disbursement:**

Statement of Receipts and Disbursement is prepared from PIPA cost centers, which show expenditures through the Ministry of Finance and expenditure from the Investment Promotion Authority, as well as revenues at both cost centers.

- **Foreign currencies translation:**

The basic functional currency is the New Israeli Shekel (NIS). Transactions denominated in currencies other than NIS, occurring during the year, are translated to NIS using the exchange rate at the end of the year. The foreign currency exchange rates against the new shekel at the date of the financial statements are as follows:

	<u>2018</u>	<u>2017</u>
	NIS	NIS
Euro	4.25	4.08

3. Expenditures:

This item consists of:

<u>Item</u>	<u>2018</u> NIS	<u>2017</u> NIS
<u>Salaries and benefits</u>		
Salaries and wages	1,996,796	2,452,049
Transportation allowance	191,374	223,851
Employees rewards.	36,688	39,994
Total Salaries and benefits	2,224,858	2,715,894
<u>Operating expenditures</u>		
International travel and mission expenditures	78,774	42,955
Local travel and missions	377	2,722
Total travel and missions expenditures	79,151	45,677
<u>Specified operating expenditures</u>		
Water and electricity- (General)	48,837	89,930
Telephone, Fax, and Postal	20,813	23,113
Fuel- (General)	748	1,726
Subscriptions in newspapers and magazines	2,140	1,015
Stationary, publications, and office supplies	37,181	33,788
Materials and consumable supplies- (General)	10,838	6,653
Repair and maintenance- (General)	14,325	21,988
Translation, editing and printing services	1,624	927
Rental of vehicles	700	--
Vehicles- (General)	12,631	46,928
Total specified operating expenditures	149,837	226,068
Rents	361,932	--
Total rents	361,932	--
<u>Other operating expenditures</u>		
Hospitality (Ministry Buffet)	6,170	14,315
Delegations hospitality	5,048	5,033
Agencies and internet subscriptions	4,111	1,088
Audit expenses, fees, and taxes	--	12,817
Subscriptions, conferences and exhibitions	19,080	30,124
Rewards for Non-Employees (Board Members)	18,270	44,886
Studies, planning and consulting	1,060,115	--
Wages of workers and guards	--	250
Total other operating expenditures	1,112,794	108,513

<u>Item</u>	<u>2018</u> NIS	<u>2017</u> NIS
capital expenditure		
Office equipment	4,414	--
Office Furniture	6,800	--
Furniture (General)	20,890	--
(Computer and its accessories)	57,177	39,818
Equipment (General)	1,200	--
Total capital expenditure.	90,481	39,818
Total expenditures	4,019,053	3,135,970

4. Comparison between Consolidated Budgeted and Actual Expenditures

This item consists of:

	2018				
	Consolidated Budget	Financing of Arrears	Total Budget	Expenditures	Balance
Item	NIS	NIS	NIS	NIS	NIS
Operational budget					
Salaries and wages	2,451,239	--	2,451,239	(1,996,796)	454,443
Travel and missions	150,000	392	150,392	(79,151)	71,241
Repair and maintenance- (Operating)	279,435	61,368	340,803	(149,137)	191,666
Rentals	500,000	361,932	861,932	(361,932)	500,000
Other (Operating)	251,004	68,656	319,660	(52,680)	266,980
Transportation	217,446	--	217,446	(191,374)	26,072
Employees bounces	40,000	--	40,000	(36,688)	3,312
Fixed assets	10,000	--	10,000		10,000
Inventory	115,345	35,482	150,827	(64,481)	86,346
Total	4,014,469	527,830	4,542,299	(2,932,239)	1,610,060
Development Budget (Commercial Staff Program)					
Maintenance and repairs (specific operating expenses)	700	-	700	(700)	-
Other operational	273,957	-	273,957	(273,957)	-
Total	274,657	-	274,657	(274,657)	-
EU Financing (Palestinian Markets Development Program)					
Other operational	786,158		786,158	(786,158)	-
Fixed assets	1,200		1,200	(1,200)	-
Inventory	24,800		24,800	(24,800)	-
Total	812,158	-	812,158	(812,158)	-
Total	5,101,284	527,830	5,629,114	(4,019,053)	1,610,060
	2017				
	Consolidated Budget	Financing of Arrears	Total Budget	Expenditures	Balance
Item	NIS	NIS	NIS	NIS	NIS
Salaries and wages	2,519,000	--	2,519,000	(2,452,049)	66,951
Travel and missions	150,660	9,063	159,723	(45,677)	114,046
Repair and maintenance- (Operating)	299,974	124,876	424,850	(226,068)	198,782
Rentals	499,997	--	499,997	--	499,997
Other (Operating)	149,694	84,128	233,822	(108,513)	125,309
Transportation	245,675	--	245,675	(223,851)	21,824
Employees bounces	40,000	--	40,000	(39,994)	6
Fixed assets	55,000	--	55,000	--	55,000
Inventory	45,000	41,261	86,261	(39,818)	46,443
Total	4,005,000	259,328	4,264,328	(3,135,970)	1,128,358

5. Expenditures of projects financed by EU /(PMDP):

This item consists of:

	<u>2018</u> NIS	<u>2017</u> NIS
Other operational	786,158	--
Fixed assets	1,200	--
Stock	24,800	--
Total	<u><u>812,158</u></u>	<u><u> </u></u>

6. Cash at Banks:

This item consists of:

	<u>2018</u> NIS	<u>2017</u> NIS
BoP /Competencies Project – EURO*	--	34,231
Total	<u><u>572,767</u></u>	<u><u>34,231</u></u>

* During 2018, an amount of € 17,768 (NIS 72,767) was added to this account from the donor for PIPA with the remaining amount of the project. PIPA then transferred the amount to the account of the Ministry of Finance and Planning.

7. Transfers to the MoF&P from donor fund:

During the year, NIS 110,387 were transferred to the public treasury which is represented by the cash balance at the end of the year which is amounted at NIS 37,620 and 17,768 EURO (NIS 72,767) from the donor (European Union project) in favor of the agency.

8. Revenues of PIPA as a result of activities:

An amount of NIS 8,663 was collected from investors as a result of the investment transaction.

9. Related Parties:

PIPA considers board of directors' members and key staff related parties.

Transactions with related parties were as the following:

	<u>2018</u> NIS	<u>2017</u> NIS
Members of board of directors rewards	18,270	44,886
Higher management salaries	109,460	97,086
Travel missions (Local and international)	44,892	31,148

10. Fixed Assets:

a. This item consists of:

	<u>Computers</u> NIS	<u>Furniture</u> NIS	<u>Vehicles</u> NIS	<u>Equipment and tools</u> NIS	<u>Total</u> NIS
<u>Cost:</u>					
Balance as of 1/1/2018	167,609	123,070	72,000	45,144	407,823
Additions	57,177	27,690	--	5,614	90,481
Balance as of 31/12/2018	<u>224,786</u>	<u>150,760</u>	<u>72,000</u>	<u>50,758</u>	<u>498,304</u>

b. The following are distributed according to year of acquisition:

<u>year of acquisition</u>	<u>Cost</u> NIS
Prior to 2014	331,195
2014	35,123
2015	1,397
2016	290
2017	39,818
2018	90,481
Total	<u>498,304</u>

c. Fixed assets were recorded at cost at the date of procurement or at fair value at the granting date in case of receiving these assets as a donation.

d. Fixed assets were not recognized in the accounting records as fixed assets and they are recognized as capital expenditures during the year of acquisition.

11. Cases and lawsuits:

- A case has been filed to appeal from a decision from the administration without monetary value and is still pending by the court.

- Two cases appealing for a retirement referral decision (two employees retired), one of which has a financial impact at an amount of the difference in salary (47,693) NIS, which is the value of the difference between his pension and actual salary, according to the letter from the Palestinian Investment Promotion Authority dated on July 2, 2019.