



State of Israel

Office of the State Comptroller and Ombudsman

The 71A Annual Audit Report



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Foreword

The 71A Annual Audit Report is the first part of the State Comptroller's annual report on the results of the audit carried out in the audited bodies in 2020. This part is mainly dedicated to issues associated with economy and infrastructure, with an emphasis on socio-economic issues, which have a significant impact on the lives of all Israelis and the development of the economy in the coming years.

The importance of economic issues is particularly evident at this time, at the height of the second wave of the COVID-19 pandemic and its significant budgetary implications on health needs, the need to support populations which have been affected during and as a result of the crisis, as well as other needs. In such a reality, the importance of proper, efficient and cost-effective economic activity is even greater. The importance of the activity of the State Comptroller's function in this challenging period is also reflected in this report. I wish we all return to normal as soon as possible.

This report reflects the vision of the State Comptroller and his goals, including focusing on the core areas of the audited body, both on social audit issues, including civic services, and on material risks affecting the activity of the audited bodies; implementing proper governance and public administration norms, maintaining integrity and monitoring the rectification of deficiencies identified in previous audits.



Set forth below is a review of several of the issues that were audited:

I attach great importance to the welfare of Holocaust survivors, the victims of Nazi persecutions and those wounded while fighting the Nazis, and I made it my goal to act in every possible way to improve the treatment of this population. As of December 2019, 136,000 Holocaust survivors lived in Israel; every month, 1,300 survivors pass away. In 2017, the Office of the State Comptroller published a report on state support to Holocaust survivors, and the present report provides the findings of a follow-up on the measures taken to rectify the main deficiencies stated in the previous report. Among other things, it was found that the rate of survivors who require state aid to supplement their income increased from 67% in 2017 to more than 70% in 2019; a budget was earmarked for performance of a comprehensive survey that will map survivors' needs; however, the survey covered only 22% of Holocaust survivors; the activities associated with adapting survivors' houses to their needs and providing accessibility have been reduced significantly. Over the years, previous governments have taken significant measures to support and facilitate Holocaust survivors and ease their sufferings, and the current government continues to do so. Nevertheless, some of the survivors' needs have not yet been met. Time is running out and the number of survivors continues to decrease; therefore, it is highly important that the relevant entities examine the deficiencies identified in this report and act to rectify them in for the sake of improving the treatment of Holocaust survivors and exhaust their rights. Those who suffered and survived the Holocaust are entitled to live out the rest of their life in dignity and receive the recognition they deserve.

154 public corporations currently operate in Israel, and the value of the assets they own is estimated at NIS 300 billion. The public corporations are



engaged in a wide range of public activities, including, among other things, culture and sports, health, sanitation, archeology, safety, insurance and regional development. With regard to **supervision and monitoring of public corporations**, we looked into aspects of government's supervision of all public corporations and their corporate governance, and five large public corporations were audited individually¹. Findings showed that as of the date of audit completion each of the corporations acted in accordance with the law by virtue of which it was formed, and that no single government agency has exclusive supervisory powers over all corporations and can assess innovative and technologically advanced supervision methods. It is suggested that the Ministry of Justice, in collaboration with the Prime Minister's Office and the Ministry of Finance will act to maintain overall regulation of the public corporations and consider the option of giving a single government agency the responsibility for all corporate corporations and supervision thereof, while maintaining the independence of regulatory entities. It is further recommended that a best practice guide is developed and published in order to increase supervision and monitoring of all corporations. In order to increase transparency, it is suggested to ensure that each corporation will publish on its website budgetary data, work plans and details about the execution thereof, audited financial statements and other relevant information.

¹ The Standards Institute of Israel, Israel Nature and Parks Authority, Sports Betting Regulation Council, Magen David Adom and Israel Airports Authority.



Improving living standards and the increase in population caused an ongoing increase in demand for energy, the generation of which increases air pollution, which adversely affects our health and intensifies climate change. Increased energy efficiency enables producing goods, generating economic benefits and maintaining the quality of life by using less energy. The audit of the issue of **energy efficiency** showed, among other things, that the estimated scope of the damage from greenhouse gas emissions in 2019 was app. NIS 11 billion, and that the expected rate of increase in efficiency of energy consumption in 2020 is 7.5%, compared to a 20% target that was set in 2008; that is to say, less than half of the target was achieved. A plan prepared by the Ministry of Transport with the aim of reducing the use of private vehicles will not be sufficient to achieve the 20% reduction target by 2030, and a strategic plan should be put in place to develop supplementary measures. In order to meet the targets, which the government aims to achieve by 2030, the relevant government agencies, including the Ministry of Energy, the Ministry of Environmental Protection, the Ministry of Finance, the Ministry of Transport and Road Safety, the Planning Administration, the Israel Tax Authority and the Ministry of Construction and Housing should work together to remove all barriers that delay the increase of energy efficiency; review the energy requirements of the entire Israeli economy, and improve the economy's readiness and preparedness for dealing with future challenges in the field of energy, including through renewable energies².

2 Generation of electricity using natural sources rather than fossil fuel; such sources include sun, wind and water, organic matters (biomass) and other natural phenomena.



Our office conducted a **financial audit in the Standards Institution of Israel**, which is a public corporation serving an important function in the Israeli economy. The institute conducts tests, whose main aim is to maintain the health and safety of the public. The audit focused on analyzing the institution's financial statements, its operating segments, and material balance sheet and statement of income items; financial and economic ratios; the work of the independent auditor, and corporate governance issues. The audit findings show that some of the institute's financial ratios have improved. During the years 2016-2018, the operating margin improved (due to, among other things, the retirement of employees as a result of a state-funded recovery plan), and so did the EBITDA, the current ratio and the equity ratio. On the other hand, the days sales outstanding ratio has deteriorated, and the institute's investments in fixed assets are negative, due to, among other things, non-utilization of the investments budget. A material gap in investment may impair the institute's development and regeneration. The audit found that the institution is exposed to several risks with financial implications, such as the opening of the market to competition and competitors' gaining market share, reimbursement of funds to customers who did not receive services they paid for, and exposure to class action lawsuits.

Innovation and technology drive economic growth, improvement in living standards and life expectancy. The chapter dealing with **research and development in the energy sector** showed that Israel has one of the highest rates of investment in R&D as a rate of GDP in the western world; however, in the field of energy, the scope of investment in R&D is one of the lowest in the western world. In 2016, government support in R&D amounted to NIS 7 billion. Only 0.6% of that amount was invested in generation of energy and energy uses. Most of the investment in R&D activities is carried out in the high-tech sector, and there are material gaps between the scope of R&D in high-tech



and the scope of R&D in other sectors of the economy. The government's R&D policy was supposed to deal with market failures associated with R&D, such as the high risk involved in R&D activities, funding difficulties and unique barriers in specific sectors. However, the government policy is supposedly neutral and, in effect, does not change the existing conditions. The government should formulate a policy that will drive penetration of R&D innovation into all sectors, and specifically to the energy sector and contribute to increasing productivity in these sectors.

Commercial health insurances contribute significantly to the public's ability to deal with risks arising from health-related events. My office reviewed the **regulation of the commercial health insurances market**, and specifically the economic and consumer aspects of the Capital Market, Insurance and Savings Authority's regulation of such insurance policies. In 2018, the amount of premiums paid for commercial insurance policies and supplementary health insurance schemes was NIS 11 billion, compared with NIS 6 billion in 2009. The significant increase in the costs born by the public as a consequence of the increase in the purchase of such insurance policies requires the regulator to ensure that the value for money received by the public from these insurance policies is consistent with the amount they invest therein. The audit also raised the issues of dealing with double insurance and the insurance gap between higher percentiles of the population and other percentiles. The Capital Market, Insurance and Savings Authority should expand its reviews in the field of health insurances and the controls it has in place in respect of this field; the authority should also ensure that its reform in the field of health insurance, which was aimed at improving the condition of those insured, shall achieve its goals.

In recent years, the Israeli land transport sector has grown significantly as a result of economic growth and ongoing increase in demand to consumer



goods. App. 90% of the goods are transported by truck. According to multiannual data, the rate of trucks and buses' involvement in road accidents in Israel – and specifically in road accidents that result with serious injuries of casualties – is relatively high when compared to other types of vehicles, and Israel's ranking in that respect is unfortunately higher than that of most developed countries. Thus, for example, in 2018, the number of people killed in road accidents in which heavy vehicles were involved was 91, and the rate of those accidents out of total road accidents that occurred in the last decades was 27%. In the chapter dealing with **road safety of heavy vehicles**, we examined the following issues: The function dealing with safety of heavy vehicles; dealing with the human factor; supervision and regulation of the sector and enforcement of regulations; vehicles' safety and the erection of safety-supporting infrastructure. Various committees and teams discussed the issues associated with safety of heavy vehicles since 2002, suggesting recommendations for resolving those issues. However, the handling of some of the issues was significantly delayed, and many recommendations made have not yet been implemented. In view of all the deficiencies listed in the chapter and the immediate danger arising from the issues that were raised, all entities in charge of the sector – headed by the Ministry of Transport and the National Road Safety Authority – should prepare an operative and coordinated work plan for dealing with all deficiencies and implement it with the aim of improving road safety of heavy vehicles and preventing casualties and damage to property.

Local authorities

Every local authority is required by law to appoint an internal auditor, a treasurer and a legal counsel, since these positions are statutory positions. The auditor checks whether the local authority conducts itself lawfully and with integrity, while maintaining principles of efficiency and saving; the



treasurer is in charge of the management of the local authority's financial dealings and the preparation of its budget; and the legal counsel provides legal support to the local authority's activities. The chapter dealing with the **role and conduct of internal auditors, treasurers and the legal counsels of local authorities** raises findings relating to the quality of internal audit work in local authorities, difficulties faced by treasurers and harassment of treasurers, and legal counsels' need for professional assistance from the Ministry of Interior. The audit found that the trend whereby the Ministry of Interior promotes the autonomy of local authorities is not always in line with the checks and balances function of the local authorities. This trend causes an inherent conflict between the internal audit function in a local authority and its management and employees. The audit found deficiencies, specifically in relation to small local authorities – which are mostly located in the periphery, have disadvantaged (in social-economic terms) and often non-Jewish populations, which require intense and focused intervention by the Ministry of the Interior, in order to ensure the effective functioning of the internal auditor, treasurer and legal counsel in those local authorities. The report also recommends monitoring and controlling the quality of the internal audit report, enhancing professional assistance to treasurers, and appointing internal legal counsels in local and regional councils.

The chapters of this report deal with many other issues that have significant effect on different areas of our life. Most of the audit was carried out by the Economic Departments division at the Office of the State Comptroller, and I wish to thank the staff of this division and all other employees who were involved in writing this report, especially during the outbreak of the COVID-19 virus. The audit was conducted professionally and without bias and external influences, which provide the highest possible assurance that the audit is objective and thorough.



The tasks listed in this report were carried out over many months, while strictly maintaining the reliability of the report and adhering to natural justice rules, which require obtaining the audited body's response prior to drawing final conclusions in respect thereof.

The audited bodies should work swiftly and efficiently to rectify the deficiencies that have not yet been rectified, as required by law. The Office of the State Comptroller will continue monitoring the rectification of deficiencies and ensuring that the required changes are made.

A handwritten signature in blue ink, appearing to read 'Matanyahu Englman'.

Matanyahu Englman

State Comptroller
and Ombudsman

Jerusalem, October 2020



Office of the State Comptroller
Annual Report 71A | 2020

Chapter One

Issues of Broad Importance



Office of the State Comptroller
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Issues of Broad Importance

**Supervision
and Monitoring
of Statutory
Corporations**

Abstract

Part A – Supervision and Monitoring of Statutory Corporations

Abstract

Background

A statutory corporation is an independent body, established by legislation, that operates in the public sector. It has characteristics of both a government ministry and a government company as well as unique characteristics. It promotes public affairs in accordance with its enabling legislation. In its role as a public trustee, it has legal obligations. It is charged with achieving the objectives defined for it in the enabling legislation. It has its own budget. Many of the statutory corporations receive funding from the State. Statutory corporations engage in a wide spectrum of public activities, including culture and sport, sanitation, archeology, safety, insurance, health and regional development. Some of these corporations engage in the provision of technical services to industry, transportation, employment and communications, while other corporations engage in regulatory activities.

Key figures

54

number of statutory corporations

15,000

number of employees in all statutory corporations

ILS 300 billion

volume of assets owned by all statutory corporations

ILS 100 billion

estimated annual income of all statutory corporations

22

Areas of activity in statutory corporations

0

statutory corporations that adopted the regulations of section 404 of the Sarbanes-Oxley Act (SOX)

73%

percentage of statutory corporations that do not make full financial statements available to the public

55%

percentage of statutory corporations whose board of directors is understaffed

Audit actions

 From December 2018 to June 2020, the Office of the State Comptroller audited aspects relating to government supervision of the statutory corporations and their corporate governance. The audit findings relating to all statutory corporations are specified in Part A of the report. Part B of the report presents detailed audit findings regarding five major statutory corporations: the Standards Institution of Israel; the Israel Nature and Parks Authority; the Israel Sports Betting Board; Magen David Adom (the national emergency medical services organization); and the Israel Airports Authority. Follow-up audits were conducted in Magen David Adom and in the Airports Authority. Supplementary information was collected from the Ministry of Justice, the Prime Minister's Office, the Ministry of Environmental Protection, the Ministry of Finance (in the Commissioner of Wages Department and in the Accountant-General's Department), the Government Companies Authority and in the Ministry of Culture and Sport.

In January 2019, the Office of the State Comptroller distributed an online questionnaire to 48 statutory corporations regarding corporate governance issues and 31 corporations responded. The purpose of the questionnaire was to obtain a status report on the situation in the statutory corporations as of 1.12.18, a randomly selected date. The Office of the State Comptroller also examined select sections of the enabling legislation that established 15 major statutory corporations. The data presented below are based on the responses of 31 corporations to the questionnaire.

Key findings



-  **Boards of directors composition:** the boards of directors of approximately 55% of the surveyed statutory corporations operated did not have a full complement of directors. Government agencies did not appoint civil service directors to the boards of nine of the 31 corporations surveyed (approximately 30%) as required by the enabling legislation. An examination of the enabling legislation of the 15 major statutory corporations revealed that for six corporations the number of directors need for a quorum to convene board meetings has not established. The maximum number of directors in these corporations ranged between 7 and 35.
-  **Directors possessing accounting and financial expertise:** eleven of 26 corporations responding to the questionnaire (about 40%) do not have a director possessing accounting and financial expertise.
-  **Management's responsibility for the accuracy of the data in the corporations' financial statements:** it was found that in four of the five large surveyed statutory corporations, the managers are not filing a declaration of personal responsibility for

the accuracy of financial statements. They are also not filing an additional report of the effectiveness of the internal control, thereby failing to meet the accepted Israeli and international standards of corporate governance in government companies and in other companies.

-  **Accountability of the internal auditor:** only in six out of the 25 corporations that responded to the question in this regard (about 25%), is the internal auditor accountable to the audit committee or to a similar board committee, while in the rest of the corporations (about 75%), the internal auditor is accountable to the chairman of the board or to the CEO.
-  **Duration of incumbency of the CEO, legal advisor and independent auditor:** A review the laws establishing the 15 major statutory corporations indicated that six laws (40%) don't limit the CEO's term of service. The remaining laws limit the CEO's incumbency to eight to ten years. The audit found that in three out of 30 statutory corporations (10%), the CEO has been holding his position for 12 or more years. Additionally, in 13 out of the 25 corporations (10 of which are small corporations) that responded to the question in this regard (about 50%), external legal advisors have been retained for more than eight consecutive years. Additionally, in 10 out of the 25 corporations (40%), the independent auditor has been holding his position for ten or more years.
-  **Transparency:** examination of the corporations' websites showed that only four out of the 15 major statutory corporations (27%) publish full financial statements. It was further found that three other corporations publish only highlights of their financial statements.
-  **Risk management:** six out of the 26 corporations that responded to the question in this regard (about 23%) reported that they did not conduct a risk survey in 2016 – 2018. Only two out of those 26 corporations appointed a board committee for risk management.
-  **Code of ethics and the prevention of conflicts of interest:** only six of the 15 major corporations surveyed (40%) published a code of ethics on their website. Nine of the 31 corporations responding to the questionnaire (about 30%) have no procedure for preventing conflicts of interest. Thirteen of the corporations (about 43%) have no procedure regulating the receipt of gifts and benefits, and only nine of them (30%) have a procedure requiring managers and directors to declare any conflicts of interest prior to taking office and during their incumbencies.



Appointment of an audit committee: although the vast majority of the laws establishing statutory corporations do not define an obligation to appoint an audit committee, according to the questionnaire distributed among the corporations, 27 out of the 31 corporations that responded to the questionnaire have appointed an audit committee.

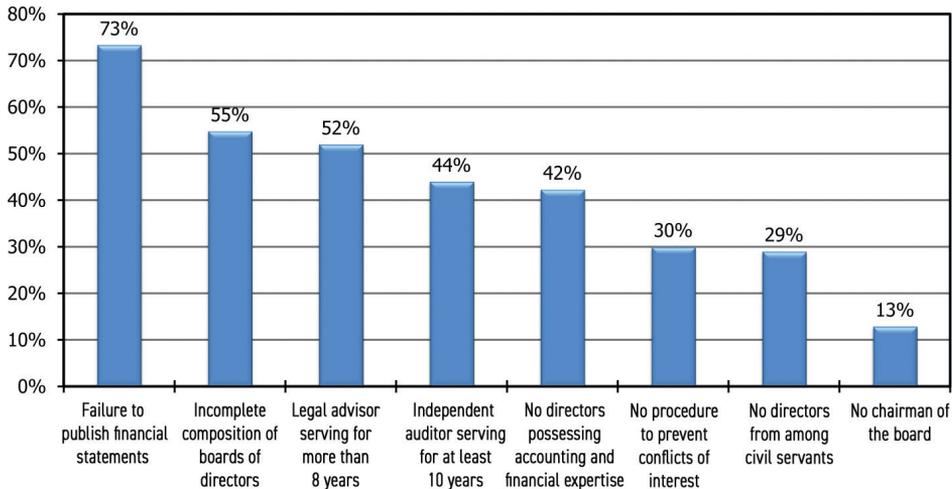


Code of ethics in the Sports Betting Board (Toto) and in the Standards Institution of Israel: the Sports Betting Board has adopted an international code of ethics for organizations in the sports betting sector, and it retains an external advisor to conduct an annual examination of compliance with the code of ethics by the Board's employees and its concessionaires. The Standards Institution ratified the executive committee's code of ethics as a result of the audit.

Key recommendations

-  It is recommended that the Ministry of Justice, the Prime Minister's Office and the Ministry of Finance should take action to examine ways to ensure that boards of directors operate with a full complement of directors as is required.
-  It is recommended that each corporation should examine the need to appoint at least one director possessing accounting and financial expertise in order to improve the board of directors' work and the corporation's financial and accounting control.
-  It is recommended that the statutory corporations, particularly those with annual revenue or assets exceeding ILS 400 million, should consider the possibility of applying rules regarding managerial certification of the financial statements' accuracy (pursuant to SOX 302) and the possibility of adopting the rules regarding comprehensive examination of the effectiveness of the internal control (pursuant to SOX 404) and that the relevant government ministries should consider issuing a directive in this regard.
-  It is recommended that all statutory corporations should publish budgetary data, work plans and updates on stages of their implementation on their websites.
-  It is recommended that all statutory corporations should complete the drafting of a code of ethics and should publish it on their websites, and that they should complete the preparation of compulsory procedures to prevent conflicts of interest. It is also recommended that the Ministry of Justice, the Prime Minister's Office and the Ministry of Finance should consider drafting a generic code of ethics specifying all rules of conduct for employees and directors in the statutory corporations, while enabling customization of the code of ethics to the corporation's unique activities.
-  It is recommended that the Ministry of Justice, in collaboration with the Prime Minister's Office and the Ministry of Finance, should take action to comprehensively regulate statutory corporations' activities and should consider the possibility of appointing a government authority to be delegated with the sole responsibility for all statutory corporations and the supervision over them, while corporations of a regulatory nature maintain their independence. It is further recommended to prepare and publish a best practice guide, and to augment the supervision and control over all statutory corporations.

Percentage of corporations with various deficiencies in corporation governance*



Source: summary of the data appearing in this report.

* The percentage of deficiencies in each topic relates to the findings of the relevant sampling prepared for the topic.

Summary

On the audit completion date, every statutory corporation is operating pursuant to the law that established it, but no government authority has been delegated sole responsibility for supervising all statutory corporations and for considering innovative and technologically advanced supervisory methods; no actions are being taken to comprehensively regulate matters pertaining to all statutory corporations.

Some of the main auditees (the Prime Minister's Office, the Ministry of Justice, the Government Companies Authority, the Ministry of Culture and Sport and the Airports Authority) have stated that they attribute considerable importance to the audit report and its findings on the subject of the supervision and monitoring of statutory corporations and the need to strengthen the corporate governance in them.

Based on the findings of this audit of corporate governance in statutory corporations, it is proposed that the Ministry of Justice, in collaboration with the Prime Minister's Office and the Ministry of Finance, should take action to comprehensively regulate all statutory corporations, and should consider the possibility of appointing a single government authority to be delegated the responsibility for all statutory corporations and the supervision over them, while corporations of a regulatory nature maintain their independence. It is further recommended to prepare and publish a best practice guide to augment the supervision and monitoring of statutory corporations.



Part B – Corporate Governance Aspects in Five Statutory Corporations

Abstract

Background

The principles of corporate governance were specified in Part A of this report. Part B examines particular aspects of corporate governance in five major statutory corporations. Although each statutory corporation operates according to its own enabling legislation, the report cites several deficiencies that substantiate the conclusion presented in Part A of the report, regarding the need to regulate corporate governance in statutory corporations.

Key figures

ILS 417

annual income of the Standards Institution

ILS 608

Sports Betting Board's total annual support for sports

4,500

number of sports associations benefiting from the Sports Betting Board's support

10%

of State land is under the responsibility of the Nature and Parks Authority

ILS 878 Million

Magen David Adom's income in 2018, out of which, ILS 185 million derived from public donations

ILS 3.8 billion

Israel Airports Authority's annual income

ILS 1.77 billion

total royalties transferred to the State in 2018 by the Israel Airports Authority and the Sports Betting Board

8 million

annual number of visitors in the nature reserves and national parks

Audit actions

-  From December 2018 to December 2019, the Office of the State Comptroller audited certain aspects of corporate governance in three major statutory corporations: The Standards Institution of Israel (the SII), the Israel Sports Betting Board and the Israel Nature and Parks Authority. Additionally, follow-up audits regarding corporate governance issues raised in previous reports of the State Comptroller were conducted in two statutory corporations – Magen David Adom and the Israel Airports Authority (IAA).

Key findings

The Standards Institution of Israel

-
- 
-  **Approval date of the financial statements** – the SII’s management forwarded the institution’s financial statements for each of the years 2015 – 2018 to the executive committee for its perusal and approval in August-September of the following year.
 -  **Transparency** – the SII is not publishing financial statements, the executive committee’s meeting minutes or information regarding implementation of its work plans on its website.
 -  **Institutional conflicts of interest** – pursuant to the standards law, the Commissioner of Standardization in the Ministry of Economy is a member of the SII’s executive committee. The commissioner is responsible for deciding whether to authorize entities to conduct standards compliance testing (those entities are competitors of the SII in these activities) and setting procedures for opening fields to competition with the SII (fields over which the SII has had a monopoly). These multiple roles could cause institutional conflicts of interest between his various positions.
 -  **Multi-year work plan** – in 2014, the executive committee resolved to prepare a comprehensive strategic plan for the SII. On the audit completion date, more than five years after this resolution was passed, the multi-year plan has not yet been prepared.
 -  **Convening the investment committee** – the investment committee did not convene in 2018 and 2019, and it did not receive performance reports from the investment managers.
 -  **Appointment of a director for the administrative department** – in November 2019, as part of the SII’s reorganization, the administration division was subordinated to the director of the human resources division. It was found that from December



2016 until November 2019, the administration division didn't have a permanent director. During this period, an employee was appointed to the role in a position of trust, without clearly delineated responsibilities.



Code of ethics – as a result of the audit, the SII's CEO submitted the code of ethics to the executive committee for ratification.

Israel Sports Betting Board (Toto)



- Public representatives' participation in board meetings** – seven to ten board meetings were held in each of the years 2016 – 2018, and each year, various public representatives were absent from three to seven of the meetings.
- Board composition** – the composition of the Sports Betting Board's board of directors is incomplete, which hampers the board's management and the operation of its subcommittees.
- Approval of the annual budget** – in 2017, the proposed budget was not submitted for approval by the Knesset Finance Committee and, as a result, it was not approved in violation of the Sport Betting Regulation Law, 5727 – 1967. In 2018, the Sports Betting Board's budget was approved only in June of that year.
- The audit committee** – the audit found that that the board of directors had not submitted an audit committee report to the ministers as required by law. In March 2019, during the audit, the report was submitted to the Minister of Culture and Sport and to the Minister of Finance as is required.



In 2018, the Sports Betting Board transferred approximately ILS 608 million from its retained earnings to the State. In February 2019, the Sports Betting Board transferred an additional sum of ILS 458 million to the State to cover the balance of the designated funds being transferred to the State.

The Nature and Parks Authority



- Board composition** – over the past decade, the composition of the Nature and Parks Authority's board of directors has been incomplete. The enabling legislation authorizes appointing 19 board members. As of the beginning of 2020, only eight

members were serving on the authority's board of directors, three were women and one was a minority representative. Additionally, there has not been a permanent chairman of the board for nearly three years. From 2016-2018 the ratio of serving directors to available positions on the board of directors was 63%, 60% and 43% respectively.

-  **Remuneration for participation in board meetings** – regulations have not yet been promulgated enabling remuneration to be paid to the chairman of the board and to the board members. This situation is contributing to the poor attendance during board meetings and is affecting its management and the decision-making process.
-  **Transparency** – the Nature and Parks Authority does not publish its budget, information, regarding budget performance, complete financial statements or board meeting minutes on its website.



In 2016, the Nature and Parks Authority completed the preparation of a risk survey.

Magen David Adom



-  **Fair representation in Magen David Adom's institutions** – although the amendment to Magen David Adom's articles of association regarding fair representation of women and minority populations in the corporation's institutions was completed and published on April 2020, Magen David Adom's institutions have not yet been staffed in a way that provides fair representation of woman in its institutions.
-  **Amendment to Magen David Adom's articles of association regarding segregation of duties** – in October 2013, Magen David Adom's board resolved to amend Magen David Adom's articles of association to regulate the standing of the association's CEO (division of authority between Magen David Adom's management and the executive committee), to form permanent committees and ad hoc committees, to define the number of board meetings required every year and to appoint a representative of the Israel Bar Association to the board. As of the audit completion date, the approval procedure for amending the articles of association has not yet been completed.
-  **Board composition** – on the audit completion date, State representatives have not yet been appointed to the board (about 25% of the board should be State representatives): the government's appointments committee has not appointed four board members, the Minister of Finance and the Minister of Foreign Affairs have not appointed three board members, and the appointments of representatives of the Ministry of Health have not yet been completed because the Minister of Health has not yet approved the ministry's four candidates recommended by the appointments

committee. It should be noted that in 2019 and in 2020, the appointing ministers were serving in a government operating during several rounds of elections.

The Airports Authority



-  **Board composition** – from January 2016 until January 2019, three to seven of the 15 board members were not appointed. It should be noted that in 2019 and in 2020, the appointing minister was serving in a government operating during several rounds of elections.
-  **The independent auditor's incumbency** – the IAA's independent auditor has been employed for more than 24 years (since 1995) and has not been replaced since then, despite the 2018 amendment to the Airports Authority Law, in which the Government Companies Authority imposed restrictions on the auditor's incumbency.
-  **Transparency** – the IAA publishes data from its financial statements in its annual report, which is submitted pursuant to the Freedom of Information Law, but it does not publish its full financial statements.
-  **Employees' committee** – three members of the same family – two brothers and a nephew – are still serving in the IAA's employees' committee, even though this matter was cited as a deficiency in several previous State Comptroller reports. Furthermore, the committee's chairman was demoted by five grades, at his request, in an irregular course of action, so that he could run for office in the Knesset. As a result of the discussion held by the central election committee chairman, the IAA's chairman withdrew his candidacy and his rank was restored.



In 2016 – 2018, the IAA transferred royalties to the State totaling ILS 222 million, ILS 962 million and ILS 1,162 million, respectively.

Key recommendations

-  **General** – the appointing ministers should fully staff the boards of directors in all five of the statutory corporations, and should consider the issue of fair representation. It is recommended that each corporation should examine its need to appoint at least one director possessing economic and financial expertise in order to improve the board's work and the financial control over the corporations.
-  **General** – it is recommended that the five statutory corporations should publish budget data, work plans and their implementation, audited financial statements and additional relevant information on their websites.



-  **General** – the five statutory corporations should take action to approve their annual budgets in advance and to complete the approval of their audited financial statements shortly after the end of the relevant year.
-  **The Standards Institution** – it is recommended that the Ministry of Economy, in collaboration with the Ministry of Justice, should examine the need to regulate, if necessary, the possible institutional conflicts of interest of the Commissioner of Standardization, in relation to the fulfillment of his role as a director appointed pursuant to the Standards Law.
-  **The Nature and Parks Authority** – it is recommended that the Ministry of Environmental Protection should complete the regulation authorizing remuneration to independent directors in order to encourage their participation in board meetings.
-  **Magen David Adom** – Magen David Adom should appoint members to its management committees in a way that will allow fair representation of women and minorities.
-  **The Airports Authority** – three members of a single family holding positions in the employees' committee is inconsistent with the principles of good governance. On the audit completion date, this matter has not yet been resolved. The IAA's management and the Histadrut should consider imposing restrictions with regard to relatives as defined in the Government Companies Regulations, including nieces and nephews serving on the committee when they are elected by the same labor sector.
-  It is recommended that the Attorney-General and the Civil Service Commission should clarify their directives with regard to senior civil service employees submitting their candidacy for office in the Knesset, in order to avoid the recurrence of a senior employee being demoted in order to run for office in the Knesset.

Diverse activities of statutory corporations



Source: official websites of the Israel Sports Betting Board, Magen David Adom and the Israel Nature and Parks Authority.

Summary

This report presents deficiencies in the corporate governance of five major statutory corporations whose aggregate turnover has been estimated at billions of shekels, and recommendations for improvements. The corporations should take action to rectify the deficiencies presented in this report.

According to the audit findings relating to corporate governance in statutory corporations, it is proposed that the Ministry of Justice should take action, in collaboration with the Prime Minister's Office and the Ministry of Finance, to comprehensively regulate all statutory corporations, and that that these ministries should consider the possibility of appointing a single government authority to be delegated the responsibility for all statutory corporations and the supervision over them. It is further recommended to prepare and publish a best practice guide to augment the supervision and monitoring over all statutory corporations.



Office of the State Comptroller
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Issues of Broad Importance

Energy Efficiency

Abstract

Energy Efficiency

Abstract

Background

Energy Efficiency is defined as the efficient utilization of energy resources; i.e., producing products, generating economic benefits and maintaining the modern quality of life while reducing energy use¹. Energy efficiency is the key to ensuring a safe, reliable, inexpensive and clean future energy economy, it contributes to savings in costs, to improving the quality of life, to reducing air and water pollution and, on the national level to reducing the economic burden and the dependence on fuel imports and to advancing the Israeli economy's energy independence.

Key figures

ILS 10.9 billion

estimated volume of annual damage from greenhouse gas emissions in Israel in 2019

7.5% compared to the target of 20%

the forecasted reduction in electricity consumption in 2020 was 7.5%, compared to the target of 20% set in 2008

17%

Israel's energy efficiency target for 2030, under the scenario of "business as usual"²

ILS 8.1 billion

the saving potential expected from installing "smart meters"³, which lead to diverting and reducing demands for electricity and results in the postponement of investments in the construction of power plants from 2011 to 2027

47%

of the government ministries failed to report their energy consumption to the Ministry of Energy and 44% of the local authorities failed to report their electricity consumption in 2018, as required in the law and regulations

20%

ratio of the reduction in private mileage required in 2030 compared to its volume under the scenario of "business as usual"

15%

ratio of the cumulative increase in the volume of private mileage from 2015 to 2018, compared to the 2% increase in public mileage

- 1 Israel Energy Forum, Energy efficiency in Israel – Modes of Implementation, Obstacles and Policy Proposals for Resolving Obstacles, (2009), p. 4.
- 2 Scenario reflecting the forecasted volume of electricity consumption in 2030, according to the trends of 2006.
- 3 Smart meters enable continuous remote measurement of energy consumption and the collection of other data relating to electricity consumption.

Audit actions

 From July 2019 to January 2020, the Office of the State Comptroller audited the actions taken by government ministries to achieve energy efficiency in the economy and to reach the government's targets in this regard. Inter alia, the Office of the State Comptroller examined the energy efficiency measures in the electricity and transportation sectors, in the public sector and in the efficiency sector. The audit was conducted in the Ministry of Energy, in the Israel Electric Corporation Ltd. (IEC), in the Electricity Authority, in the Ministry of Environmental Protection, in the Ministry of Transportation and Road Safety (the Ministry of Transportation), in the Israel Tax Authority (ITA), in the Planning Administration in the Ministry of Finance (the Planning Administration), in the Ministry of Construction and Housing and in the Ministry of Finance (in the Budget Department and in the Accountant-General's Department).

Key findings

-  **Partial achievement of the energy efficiency target for 2020** – according to the target set in 2008, the energy efficiency in 2020 would be achieved by reducing the forecasted electricity consumption in 2020 by 20% (from forecasted consumption of 80 TWh⁴ to 62 TWh). This target was not fully achieved, and the actual electricity consumption in 2020 was indeed lower than the forecasted consumption, but remained higher than the target set (in 2020, it is expected to reach 74 TWh instead of the defined target of 62 TWh). As a result, the actual reduction was only 7.5%, instead of the 20% defined target.
-  **The energy efficiency plan –reduction of electricity consumption in 2016 – 2030** does not include interim targets⁵, budgets, control indicators or monitoring of the extent of the target achievements.
-  **Smart meter project**– the percentage of smart meters that were installed in Israel in 2019 was about 2.8% of all meters. Since 2010 and up until the audit completion date, the Ministry of Energy and the Electricity Authority have not determined if and in what ways the smart meter project will be advanced.
-  **Reduction of private mileage** – from 2015 to 2018, a 15% increase was recorded in the volume of private mileage, while a 2% increase was recorded in public mileage. Therefore, the target of diverting 20% of the private mileage to public transportation by 2020 was not achieved. A plan prepared by the Ministry of Transportation for

4 Energy measurement unit equivalent to one billion watt-hours.

5 The target for 2020 – 20% reduction, compared to the "business as usual" scenario, was defined in 2008 and is not included in the energy efficiency plan for the years 2016 – 2030.

reducing private mileage is not leading to the achievement of the 20% target reduction by 2030, and a strategic plan for developing supplementary measures is needed.

-  **Loans for investing in energy efficiency ventures** – the Ministry of Energy and the Accountant-General's Department in the Ministry of Finance allocated, inter alia, a budget of ILS 500 million for loans under a State guarantee for the purpose of investing in energy efficiency ventures and reducing the greenhouse gas emissions over ten years, but these have not yet been utilized.
-  **Energy consumption reports** – 47% of the government ministries and Independent Subsidiary Units failed to report their energy consumption to the Ministry of Energy in 2018, and 44% of the local authorities failed to report their electricity consumption to the Ministry of Energy in 2018, thereby failing to comply with the statutory requirements.
-  **Few green construction standards have been adopted** – despite the inherent advantages of green construction, and notwithstanding the assimilation of green construction at the beginning of the planning process is more worthwhile than building renovations, the volume of green construction in Israel has remained low. In 2018, only 2% of the total housing units constructed received certification under Green Standard 5281. It should be noted that, in March 2020, the National Planning and Building Council resolved to adopt a green construction standard as a compulsory standard as of 2021.
-  **Implementation of green construction standards in government housing projects** – the planning authorities did not have a consistent policy for implementing a green construction standard in various programs that they initiated, such as in the Buyer's Price program, which did not adopt the standard, compared to the Apartment for Rent program, which does obligate compliance with the standard.



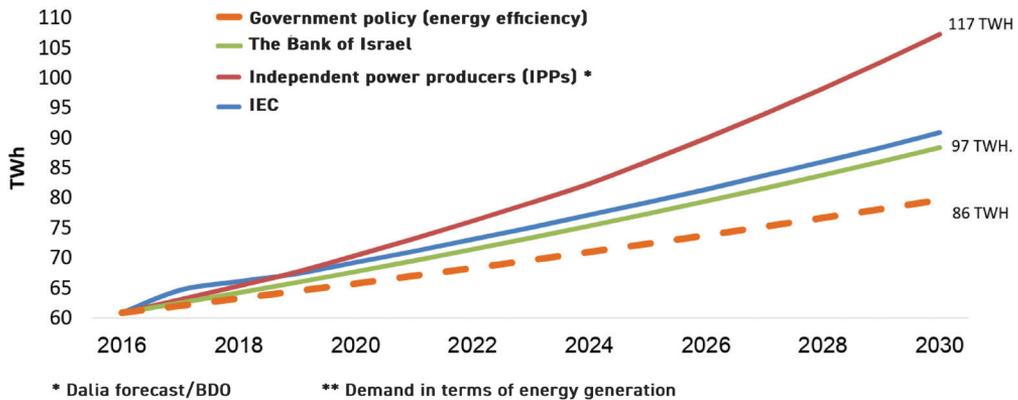
Reduction in carbon dioxide emissions in Israel – a reduction in carbon dioxide emissions was recorded in the electricity sector, from 59% of all emissions in 2000 to 55% in 2018, a reduction deriving, inter alia, from the transition to the use of natural gas instead of coal and diesel fuel.

Planning according to a green construction standard in the "Forum 15" cities – 73% of the housing units planned in the "Forum 15" cities – cities that are not receiving government grants and are managing closed independent economies using their own independent financial resources – are being planned according to a green construction standard.

Key recommendations

-  Considering the high costs of carbon dioxide damages, it is recommended that all authorities involved in the matter – the Ministry of Energy, the Ministry of Environmental Protection, the Ministry of Transportation and the Ministry of Finance – should continue taking action to reduce greenhouse gas emissions, particularly in the transportation sector, inter alia, by reducing private mileage through transitioning to the use of clean fuels, and in the electricity sector by transitioning to the use of clean energy sources.
-  It is recommended that the government ministries, including the Ministry of Energy, the Ministry of Environmental Protection, the Ministry of Finance and the Ministry of Transportation, should prepare a comprehensive energy efficiency program that integrates the actions in all segments of the electricity, transportation and industrial sectors and includes the definition of targets, setting timetables for execution and the allocation of budgetary resources for every component of the program.
-  The Ministry of Energy, the Electricity Authority and the IEC should continue monitoring the implementation of the Smart Meter project and should reach decisions in this regard in order to increase the efficiency in the electricity economy and excise the potential savings inherent in this initiative.
-  The Ministry of Transportation should formulate a comprehensive program for encouraging the use of public transportation, which should include measures taken on both the supply and demand sides. The Ministry should also define a timetable, interim targets and indicators for monitoring the implementation of the program's measures.
-  It is recommended that the Ministry of Energy, the Ministry of Environmental Protection, the Ministry of Transportation and the Ministry of Finance should continue taking action to encourage energy efficiency in all sectors of the economy, including in the public sector.
-  It is recommended that the relevant authorities – the Planning Administration, the Ministry of Construction and Housing, the Ministry of Environmental Protection and the Ministry of Finance – should take action to encourage the rapid and wide-scale assimilation of energy efficiency technologies in the construction industry.
-  The Wage Commissioner and the Civil Service Commission should consider regulating the employment model with the employers and employee organizations in the public sector at the same current cost, or in a way that will incentivize employees to use public transportation or to carpool in order to reduce private mileage, which would result in lower costs of the damage caused by congestion on the roads and by air pollution. It is also recommended that they analyze the results of the remote working during the coronavirus crisis and formulate a comprehensive policy accordingly, for allowing employees to continue working from home during routine times, in order to reduce private mileage.

Electricity demand forecasts for 2017 - 2030, by various parties compared to the energy efficiency targets



Source: The Electricity Authority, Roadmap for Developing the Electricity Generation Segment 2018 – 2030 (2018)

Summary

The State of Israel undertook, within the framework of international agreements, to participate in the global efforts to achieve the objectives included in the UN Climate Change Convention⁶. Israel's commitment is reflected, inter alia, in the setting of energy efficiency targets. To this end, the State enacted a law and regulations and passed several operative resolutions, including the allocation of significant budgets; however, notwithstanding its efforts, it failed to achieve its own efficiency targets and, in 2020, the ratio of energy efficiency undershot the target by more than 50%.

In order to achieve the targets that the government set for 2030, the government authorities (the Ministry of Energy, the Ministry of Environmental Protection, the Ministry of Finance, the Ministry of Transportation, the Planning Administration, the ITA and the Ministry of Construction and Housing) should take prompt joint action to remove obstacles that are delaying energy efficiency, they should examine the Israeli economy's overall energy needs and improve the economy's readiness and preparedness to face future energy challenges.

⁶ United Nations Framework Convention on Climate Change, (1992).



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Issues of Broad Importance

**Advancing Renewable
Energy Sources
and Reducing the
Dependence on Fossil
Fuels**

Abstract

Advancing Renewable Energy Sources and Reducing the Dependence on Fossil Fuels

Abstract

Background

In the State of Israel, like all over the globe, there is a growing awareness that the transition to renewable energy should be encouraged – solar energy, wind energy and additional renewable sources in place of fossil fuels.¹ This trend is based on the understanding that the non-renewable energy sources will not last forever and therefore there is a need to prepare for this eventuality by diversifying our sources of energy. The main technologies being used today for generating renewable energy in Israel are photovoltaic solar technology² (hereinafter: solar energy) and wind technology.

Key figures

17%

the target ratio of electricity generation from renewable energy sources out of all energy sources in 2030.

5%

the ratio of electricity generation from renewable energy sources out of all energy sources in 2019.

ILS 3.5 billion

the forecasted benefit to the economy from transitioning to electric vehicles by 2030.

100%

of all private vehicles to be sold in 2030 will be electric, according to the Ministry of Energy's goals.

3.5%

of the quota of 730 megawatts (26 megawatts) are being generated by wind energy in 2020.

46%

of the total potential electricity generation from solar energy are in built-up regions.

ILS 5 billion

savings to the economy in the costs of back-up alternatives to renewable energy³ if the quota for generating electricity from wind energy is increased to 1,500 megawatts.

18.18 agorot

minimum cost for generating electricity from solar energy in 2019 in a farm project initiated by the Ministry of Finance, compared to the forecasted cost of 71.1 agorot.

- 1 Fuels created from fossils of plants or animals deep underground or underwater. Fossil fuels include coal, oil and natural gas. The primary uses of fossil fuels are for energy generation, transportation and industrial uses.
- 2 A related technology produces solar thermal energy.
- 3 Generating electricity from renewable energy also requires the construction and use of conventional power stations for generating electricity.

Audit actions

 From July 2019 to February 2020, the Office of the State Comptroller audited the actions taken by government ministries to reduce air pollution by promoting renewable energy sources and the measures to reduce the dependence on polluting fuels. The audit was conducted in the Ministry of Energy, in the Israel Electric Corporation Ltd., in the Electricity Authority, in the Ministry of Environmental Protection, in the Ministry of Transportation and Road Safety, in the Israel Tax Authority, in the Government Vehicle Administration and in the Government Housing Administration in the Accountant-General's Department and in the Planning Administration in the Ministry of Finance, and in the Fuel Substitutes and Smart Transportation Administration in the Prime Minister's Office.

Key findings

-  **Master plan for the energy economy** – on the audit completion date, a policy document exists on the subject of the energy economy targets for 2030, but there is no master plan for the energy economy, although the Ministry of Energy has been promoting such a plan over the last two decades. The lack of a master plan or a strategic plan could cause the energy economy to develop by way of fulfilling specific government targets and specific needs of the economy instead of developing the energy economy from an integrated and long-range perspective.
-  **Achievement of targets for generating electricity from renewable energy sources** – the increased volume of electricity generation from renewable energy sources is a positive development, but a comparative analysis against the defined targets – 5% of the entire installed output in 2014 and 10% of the entire installed output in 2020 – finds gaps of 58% and 50%, respectively, between the target and the actual achievement.
-  **Electricity generation from wind energy** – at the beginning of 2020, the volume of electricity generation from wind energy was only about 3.5% of the quota defined by the Israeli government (2.6 megawatts installed, compared to the target of 730 megawatts). The factors that are delaying the implementation of electricity generation from wind energy are, inter alia, disruption of Security Establishment activities and the threat to birds. Furthermore, although it was found that the Planning Administration had thoroughly examined possible relevant sites where wind turbines could be installed as shown in the diagram attached to the draft national outline plan. It was found that only one site was located, on an area of about 3 square kilometers, and that the national outline plan had not yet been approved.
-  **Obstacles to the construction of facilities for generating electricity from solar**

energy (photovoltaic) on roofs of government ministries and educational institutions – the obstacles to implementing the government resolution of 2016, which instructed the accountant-general in the Ministry of Finance to promote the construction of photovoltaic facilities on government ministry buildings have not yet been removed. The obstacles to constructing photovoltaic facilities on roofs of educational institutions have also not yet been removed and there is no obligation to include suitable infrastructure for these facilities in new educational institutions.

-  **Upgrading and expanding the power line network** – there are difficulties upgrading and expanding the power line network, which derive mainly from a new directive of the Planning Administration and from illegal settlements under the power lines. These difficulties are causing a delay in connecting several renewable energy facilities for electricity generation to the national power grid
-  **Defining targets for an electric car pilot program** – clear targets have not been set for the pilot program being prepared by the Government Vehicle Administration in the Ministry of Finance and by the Fuel Substitutes Administration in the Prime Minister's Office. Consequently, it is difficult to determine the degree of its success.



Actions to promote the use of renewable energy sources – in November 2019, the Minister of Energy announced that he intends to increase the volume of electricity generation from renewable energy sources to 25-30% by 2030. Additionally, with the goal of promoting the entry of electric cars to the market, the Ministry of Energy published a tender for the construction of 2,500 charging stations in built-up areas, at an investment of about ILS 30 million.

Minimizing the threat to birds – with the aim of minimizing the threat to birds, a team comprised of participants from the Ministry of Environmental Protection, the Nature and Parks Authority, the Society for the Protection of Nature and the Jewish National Fund drafted guidelines for the planning institutions when examining the feasibility of constructing and operating wind turbines and guidelines for formulating a strategy that will minimize the threat to birds. The planning authorities are using these guidelines already at the preliminary planning stage, during the planning stage and during the turbine operation stage.

Key recommendations

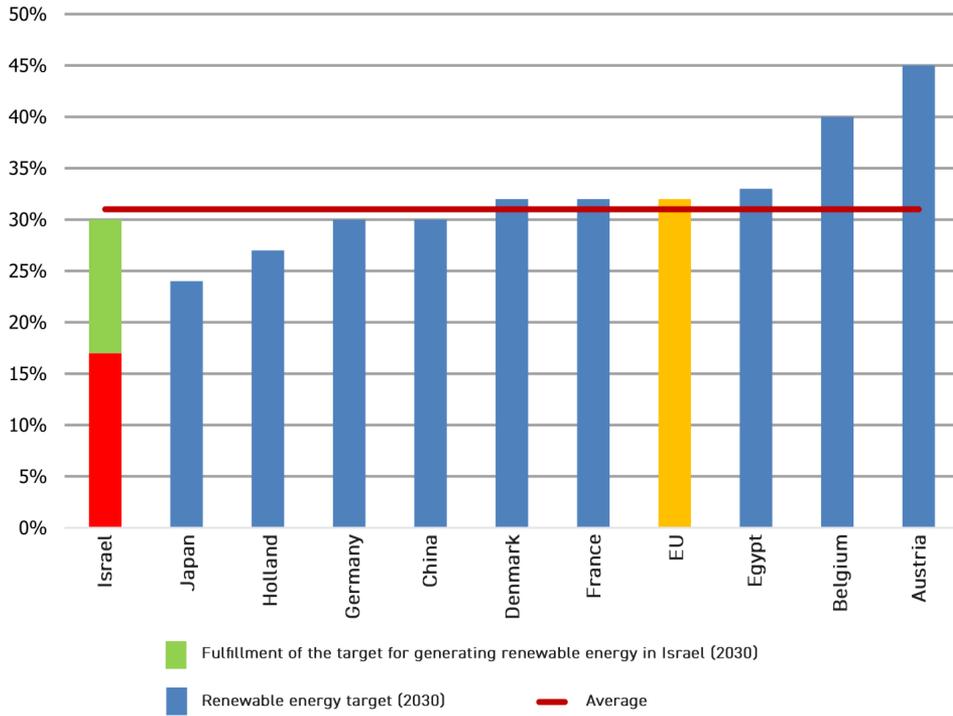
-  It is recommended that the Electricity Authority should continue integrating the forecasts for electricity generation from solar energy in its examination and should analyze the impact of the actual costs on the electricity tariff.
-  It is recommended that the Ministry of Energy should complete the preparation of a master plan or strategic plan, which should include the desirable mix of energy



sources in the economy. It is advisable to consider a flexible strategy for selecting the alternatives for the mix, including technological developments relating to existing energy sources and the development of currently unknown energy sources – and to approve the plan.

-  To the extent needed, the Ministry of Defense and the Ministry of Energy should promptly discuss the arrangement of additional wind turbine ventures currently being planned within the framework of extensive plans, by region, and they should consider constructing them at different heights, while finding solutions to additional security problems.
-  It is recommended that the Tax Authority, the Ministry of Finance and the Ministry of Energy should ensure that decisions about changing the taxation policy of “green” vehicles are consistent with the objectives that the Ministry of Energy is promoting in relation to “green” vehicles, after having analyzed the economic, physical and transportation implications of these changes and their impact on air pollution and on the government’s ability to achieve the emission reduction targets that it undertook to achieve.
-  It is recommended that the Ministry of Energy, which is responsible for tenders for the construction of charging stations for electric vehicles, closely monitor the difficulties faced by those local authorities that won the tender for the construction of charging stations for electric vehicles and assist them by providing solutions to these difficulties, to the extent possible.

Targets for electricity generation from renewable energy for 2030



Source: EU data processed by the Office of the State Comptroller.⁴

⁴ European Commission, PV Status Report 2019.



Summary

In 2013, an inter-ministerial team examined the economic benefit to the economy from generating electricity from renewable energy sources. This report constitutes a recommendation that the relevant authorities should continue taking action to manage a policy for integrating renewable energy sources in the electricity economy in order to achieve the expected economic benefits. Today, electricity may be generated from renewable energy sources at a price that is on par with the price for electricity generation from natural gas. The State of Israel has set long-range targets for the volume of electricity generation from renewable energy sources and for expanding the use of electric vehicles. The audit findings show that there are obstacles that are impeding the achievement of these targets. A failure to achieve these targets may unnecessarily prevent the economy from gleaning the environmental and economic benefits deriving from the use of renewable energy sources and electric vehicles, and cause the government to not uphold its international commitments. In order to achieve the targets for electricity generation from renewable energy sources, the Ministry of Energy, the Electricity Authority, the Israel Land Authority, the Planning Administration and the Ministry of Finance, together with all other relevant ministries, should take action to remove the obstacles and rectify the deficiencies presented in this report.



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Issues of Broad Importance - Local Government

The Internal Auditor, Treasurer and Legal Advisor in Local Authorities – Their Role and Conduct

Abstract

The Internal Auditor, Treasurer and Legal Advisor in Local Authorities – Their Role and Conduct

Abstract

Background

The internal auditor, treasurer and legal advisor in a local authority are statutory roles that the authority must appoint by law. The internal auditor examines whether the authority's actions are being performed in accordance with the law and while maintaining integrity and the principles of efficiency and economy; the treasurer is responsible for managing the authority's financial affairs and for preparing its budget; and the legal advisor provides legal assistance during the authority's activity. Besides their roles in advancing and achieving the authority's objectives, they are also required to ensure that the authority's activities are being carried out in compliance with the law. Considering the governing power held by the authority's management, the supervisory and control mechanisms over the authority's decisions and actions must be strengthened.

Key figures

90%-93%

percentage of authority heads who stated that they work in cooperation with the internal auditor, the treasurer and the legal advisor

77%-82%

percentage of authority heads who stated that they are satisfied with the functioning of the internal auditor, the treasurer and the legal advisor

56%

percentage of treasurers who stated that the Ministry of Interior's procedures include instructions that they have difficulties fulfilling

43%

percentage of the legal advisors who stated that the Ministry of Interior's procedures include instructions that they have difficulties fulfilling

48%

percentage of local authorities that asked to receive a legal opinion on a particular matter in addition to that of the in-house legal advisor

17

number of local authorities with no internal auditor (annual average 2015-2017)

22

number of internal auditors who did not submit an audit report (annual average 2015-2017)

12

number of years that about 37% of the internal auditors, about 39% of the treasurers and about 32% of the legal advisors have been holding their position, according to the questionnaire findings

Audit actions

 From May 2019 to January 2020, the Office of the State Comptroller examined the roles and conduct of internal auditors, treasurers and legal advisors in the local authorities. The findings presented in this report are based on information collected from the responses of authority heads, internal auditors, treasurers and legal advisors in local authorities to questionnaires sent to them in September 2019. Additionally, as an expansion of particular issues, the Office of the State Comptroller conducted focused audits of a few local authorities and examined about 90 reports of local authorities' internal auditors for the years 2014 to 2018.

Key findings

-  **Appointments of internal auditors in local authorities** – from 2015 to 2017, 17 local authorities did not appoint an internal auditor (on average per year) and nine local authorities had no internal auditor for three consecutive years. It was not found that the Ministry of Interior exercised the authority vested it by law to enforce the appointment of an internal auditor in any authority that failed to appoint one.
-  **Quality of internal auditing in local authorities** – the vast majority of internal auditors (96% on average) prepared work plans between 2015 and 2019; however, only about half of them were based on risk surveys. Perusal of about 90 internal audit reports written between 2015 and 2018 indicated that 21 of them were characterized, inter alia, by sparse content and findings, by engaging in marginal issues relatively to the authorities' main spheres of risk, and that they contained ineffective recommendations.
-  **Rectification of deficiencies found in internal audit reports** – it was found that not all reports being submitted by an authority's internal auditor are actually being discussed during the council assembly or by the audit committee and even fewer by a deficiency rectification team. In other words, as the discussion process regarding an internal audit report and rectification of deficiencies advances, the actual deficiencies rectification process becomes less meticulous: among all local authorities, about two thirds of the internal audit reports were discussed by the authority's council or audit committee; in less than half of the local authorities, the deficiency rectification team discuss the report; and in about one third of the local authorities, the recommendations of the deficiency rectification team were implemented.
-  **Strengthening the internal audit mechanism** – the majority of the actions taken by the Ministry of Interior to strengthen the internal audit mechanism focused on various aspects of the audit framework and included, inter alia, setting the minimum standardization and budget for internal audit work. However, it is also

important to strengthen the core principles of internal auditing, including the definition of professional standards for internal audit work and the implementation of regularly scheduled controls over the submission of reports and their quality.

-  **The financial status of local authorities and appointment of accompanying accountants on behalf of the Ministry of Interior** – although most local authorities have budgetary surpluses or balanced budgets, about 42% of the local authorities had a budgetary deficit at the end of 2018 (about 65% of which are small local authorities). Data from the Ministry of Interior up to August 2019 show that 76 local authorities have a Ministry-appointed accountant – that is to say, about 30% of the local authorities in Israel are situated in a financial crisis in various levels, correct to May 2019.
-  **Treasurers are having difficulties working with officials inside and outside the local authority** – the questionnaire indicated that about 17% of local authority heads experienced difficulties working with the authority's treasurer; such difficulties were identified mainly in the local and regional councils. About 39% of the local authority heads identified difficulties in the work interface of the local authority's treasurer with officials inside and outside the authority; such difficulties were identified mainly in the treasurers' work interface with government ministries.
-  **Strengthening and supporting treasurers in local authorities in the non-Jewish sector** – it was found that treasurers are having difficulties fulfilling their roles relating to maintaining the budget framework and safeguarding public treasury, and are even suffering from harassment for performing their roles. These difficulties are being experienced mainly by treasurers in local authorities in the non-Jewish sector and indicate a critical need to strengthen and reinforce their standing.
-  **Requests for assistance from government ministries** – legal advisors' responses to the questionnaires indicated that about 50% of them did not receive the assistance they requested from the Ministry of Interior. It was also found that about 40% of them had referred to other government ministries, mainly to the Ministry of Justice, and about 90% of their requests were answered to their satisfaction and within a reasonable timeframe. The responses to the questionnaires also indicated that about 80% of the legal advisors in the non-Jewish sector did not refer to government ministries at all to request professional assistance.
-  **Hiring criteria and duration of the incumbencies of senior employees in local authorities** – more than 30% of the internal auditors, treasurers and legal advisors in local authorities have been employed for more than 12 years, and some have remained in office for 25 years and more. As part of the comprehensive reform of human capital management implemented in the general civil service in Israel, in March 2017, the Ministry of interior formed a team to examine the hiring criteria and the duration of the incumbencies of senior employees performing statutory roles in the local authorities. However, the team's work was discontinued shortly thereafter.



Cooperation between local authority heads and the internal auditors, treasurers and legal advisors – the responses to the questionnaires indicate that close cooperation exists between local authority heads and the internal auditors (90%), treasurers (93%) and legal advisors (90%).

Structure of the internal auditor's office – the Ministry of Interior defined in regulations a minimum budget and standardization level in municipal internal auditors' offices, and this could materially strengthen the independence of municipal internal auditors; however, these regulations do not apply to local and regional councils.

Mapping of spheres of risk in local authorities – from 2015 to 2018, the internal audit reports in about 20 local authorities engaged in matters relating to information security and cybersecurity –this era's key spheres of risk.

Key recommendations

 It is advisable that the Ministry of interior should insist on appointments of internal auditors in all local authorities, should demand to receive the internal audit reports from the internal auditors of local authorities in a methodical and orderly manner, should analyze the content of these reports and define comprehensive, detailed, professional standards for writing internal audit reports. It is also recommended that the Ministry of Interior should examine the issue of defining the minimum budget and standardization level in relation to internal auditors at local and regional councils.

 It is recommended that the Ministry of Interior should clarify its directives regarding the preparation of updated risk surveys and should take action to train internal auditors in the methodology for conducting risk surveys. It is also recommended that the internal auditors should take action to conduct internal audits of core areas and of future risks – particularly in relation to information security and cybersecurity.

 All local authorities should be diligent about holding discussions regarding internal audit reports, should form deficiency rectification teams and monitor rectification actions. It is proposed that the Ministry of interior should clarify the directives in this matter, including with regard to the publication of the internal audit reports on the internet, and should examine the need to issue directives regarding the appointment of deficiency rectification teams in regional councils.

 The harassment that treasurers are experiencing while performing their roles, which occurs mainly in local authorities in the non-Jewish sector and in local councils, indicates a critical need for the Ministry of Interior to create means for

contending with extreme situations that treasurers are contending with during the performance of their roles.

 It is recommended that the Ministry of Interior consider performing comprehensive strategic work, similar to the process carried out prior to the civil service reform, while analyzing alternatives, in order to deepen the examination of the issue of the duration of the incumbencies of senior officials in local authorities.

Selected recommendations





Summary

The trend whereby the Ministry of Interior is advancing local authorities' autonomy is not always consistent with the system of checks and balances in the local authority and places the internal control mechanisms within the authority – the internal auditor, the treasurer and the legal advisor – in a built-in conflict with the management and employees of the local authority. The Office of the State Comptroller found deficiencies, particularly in small local authorities, which are, for the most part, also in peripheral regions, at low socio-economic levels and in the non-Jewish sector, and this therefore requires augmented focused attention on the part of the Ministry of Interior in order to ensure the functioning and effectiveness of the internal auditor, the treasurer and the legal advisor as internal control mechanisms in these authorities and to expand the range of tools that are made available to them.



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Chapter Two

Government Ministries



Office of the State Comptroller
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Ministry of Finance

Regulation of the Commercial Health Insurance Market

Abstract

Regulation of the Commercial Health Insurance Market

Abstract

Background

The purpose of health insurance is to minimize the financial damage caused to an insured as a result of a health problem. Commercial health insurance policies in Israel, which are being sold by commercial health insurance companies, serve as a second and third layer of coverage, in addition to the coverage provided by virtue of the National Health Insurance Law, 5754 – 1994 and the Additional Healthcare Service plans (Supplementary Insurance) being sold by the HMOs. The government authority in charge of regulating and supervising insurance companies is the Capital Market, Insurance and Savings Authority (hereinafter: the Authority or the Capital Market Authority).

Key figures

ILS 11 billion

total premiums paid for commercial insurance policies and for Additional Healthcare Service plans¹ in 2018, compared to ILS 6 billion in 2009.

53.4%

of people with per-capita income² of at least ILS 4,001 have a commercial health insurance policy, compared to 11.5% of people with per-capita income of less than ILS 2,000.

39%

average refund rate³ in individual policies between 2009 and 2018, compared to the refund rate of 87% in group policies.⁴ The difference in the refund rate in relation to each insured is estimated at about ILS 500 per annum and reaches hundreds of millions of shekels for all insureds holding individual policies.

More than 90%

of the insureds under commercial health insurance policies are also members of Additional Healthcare Service plans.

82% increase

total payments to pensioners in 2019 by in the number of complaints regarding health insurance policies that were handled by the Capital Market Authority in 2018 (2,710 complaints), compared to the number of complaints it handled in 2017.

63.7%

of the insurance agencies marketing health insurance policies to the public received more than 90% of the commissions in 2018 in respect of sales of health insurance policies from a maximum of two insurance companies.

1 Not including long-term nursing care.

2 Average per-capita household income (gross per month).

3 According to Capital Market Authority data. The refund rate is calculated according to the Capital Market Authority's calculation methodology, and it reflects the ratio between the insureds' gross claims and the total premiums they paid to the insurance company.

4 With private insurance policies, the insured purchases an insurance policy from an insurance company for himself and for his family, largely through an insurance agent. Group insurance policies are for a group of at least 50 insureds (for example: insurance policies arranged in large organizations having a common denominator, which jointly purchase a policy under identical terms).

Audit actions

 From March to December 2019, alternately, the Office of the State Comptroller audited various aspects of commercial health insurance policies: economic and consumer aspects of the Capital Market Authority's supervision of commercial health insurance policies; the handling of public complaints about commercial health insurance policies; the regulation of insurance agents' activities relating to commercial health insurance policies; the service provided to the public of insureds under commercial health insurance policies and the publication of service indicators. The audit was conducted in the Capital Market, Insurance and Savings Authority.

Key findings

-  **Redundant insurance policies** – the plethora of information, the differences in the components of the insurance companies' insurance policies and the lack of uniformity in policies all make it difficult for the public to examine the degree of overlap between the various insurance policies. In particular, it is difficult to differentiate between an additional insurance cover that may be beneficial to an insured and unnecessary redundant insurance coverage that imposes unnecessary costs on the insured.
-  **Data collection and analysis** – as a result of an incomplete database, the Capital Market Authority is inadequately performing material analyses to support the regulatory authority's work. For example: the Authority lacks complete information about the volume of redundant insurance and about the overlap with the Additional Healthcare Services plans, or information about the effectiveness of its actions.
-  **The refund rate in individual insurance policies** – the refund rate in group insurance policies is more than double the refund rate in individual insurance policies (87% compared to 39% on average between 2009 and 2018). Although the Authority identified the low refund rate in private insurance policies as a key failure in the category, it does not have a quantitative examination (after 2012) of the causes of this gap, including the sums of the surpluses⁵ that accumulated in the insurance companies.
-  **The 2016 reform** – the Authority failed to fully analyze the degree of success of the 2016 reform, which was designed to empower insureds by making the insurance products simple, clear and comparable. For example: the reform's impact on the premium prices was analyzed, but its impact on the refund rate to insureds and the expense breakdowns of the commercial insurance companies were not analyzed.

⁵ The unexplained gap remaining after deducting the direct expenses from the total premiums received in the category.

-  **Procedure for handling public inquiries** – the procedures established in 2014 regarding the Capital Market Authority’s handling of public inquiries are partial and do not relate to an entire work process in this regard.
-  **The Capital Market Authority’s handling of complaints** – the complaint-handling process in the field of health insurance policies in 2018, which the Authority determined were justified, continued for about 290 days. This duration of complaint handling may reduce the public’s confidence in the Authority. Furthermore, since most of the complaints are being handled by an administrative team in the Authority and only a small portion thereof (about 8.7%) were determined to be justified or unjustified by professionals in the Authority, then, from a systemic perspective, complaints are not being optimally and efficiently handled.
-  **Regulation of the status of insurance agents in the health insurance category** – the Authority has not yet completed regulating the standing of insurance agents in the health insurance category, as it did in the pension insurance category, even though several public committees and the Authority itself have discussed various failures in the agents’ activities, such as benefits being given to them in respect of achieving sales targets, and aspects of their activities that raise concerns about inherent conflicts of interest between the best interests of the agent and the best interests of the customer.
-  **Centralization in the distribution of insurance company commissions to agencies** – in 2017-2018, an increase occurred in the c of the distribution of insurance agencies’ commission income. In 2018, 15 agencies received about 40% of all commissions in the category, and 130 agencies received about 70% of the commissions – out of about 1,500 insurance agencies operating in the category.
-  **Usefulness of service level indicators** – although the Authority has been publishing service indicators relating to insurance companies’ activities in a variety of insurance lines since 2014, it is doubtful that the public is finding these indicators useful, due to the difficulty predicting the quality of the companies’ service in the medium and long range, and considering the frequently change in the ranking of the companies due to the minor differences between them.

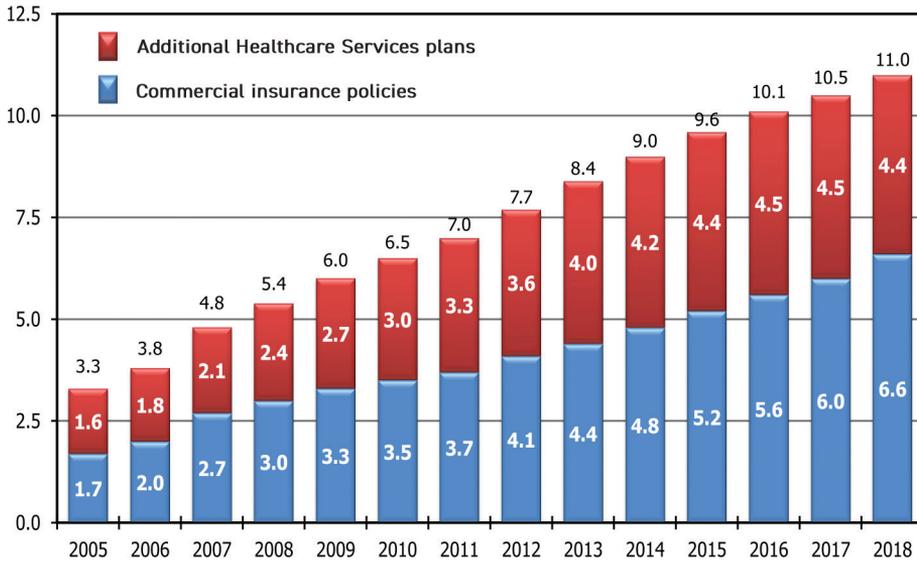


Identification of failures and promotion of the 2016 reform – the Authority has identified and defined the key failures in the health insurance market: the low level of competition, the inherent upper hand that insurance companies have over insureds and the companies’ incentivisation of insurance agents – and took measures designed to help eliminate the failures, inter alia, through the promotion of a reform in the market.

Key recommendations

-  It is recommended that the Authority should analyze all causes of the significant gap in the refund rates between the individual insurance policies and the group insurance policies, while relating to the gaps in the sums of the surpluses, to the built in differences between the policies and the failures enabling the low refunds in the individual insurance policies.
-  It is recommended that the Authority should consider defining key quantitative targets in its work plan, such as the refund rate per insured and the ratio of the companies' surplus sums, while performing a methodical analysis of the factors influencing them – with the objectives of examining the impact of its measures and measuring the volume of financial savings generated for the public.
-  It is recommended that the Authority should take action to minimize the phenomenon of redundant insurance policies. To this end, the Authority should inform the public of insureds of this matter, explain what redundant insurance is and why it should be avoided, and it should frequently measure the extent of the phenomenon. According to its findings, the Authority should consider additional means to eliminate the phenomenon to the extent required.
-  It is recommended that the Authority should consider ways to strengthen the examination of complaints by professionals in the Authority, particularly regarding complaints that can be resolved by the supervised entities, in order to provide professional responses to individuals who submit complaints, and to professionally address the broad-impact issues raised in the complaints.
-  It is recommended that the Authority should consider regulating the different types of insurance specialists and of other parties in the health insurance category and consider ways to prevent failures in their activity. It should regulate agents' modes of operation according to the various types of licenses, and should take action to encourage competition among the agents for the benefit of insurance consumers.
-  It is recommended that the Authority should regularly examine, through methodological work and by taking into consideration customer surveys as needed, the components of the service level indicators, their relative weights and their impact on customers.

Expected budgetary pension payments to all State pensioners



Source: The Central Bureau of Statistics, "National Expenditure on Healthcare 2018"⁶

Summary

Commercial health insurance policies are a major factor in the public’s ability to contend with the risks deriving from health incidents. The significant increase in the costs that the public is bearing as a result of an uptrend in purchases of these insurance policies requires the State to ensure that the value that the public is receiving from these insurance policies directly correlates to the magnitude of their investment in them. The Capital Market Authority should augment its examinations and control of the health insurance category and should ensure that the reform that it is implementing in this category, which is supposed to improve the situation for the insured public, achieves its objectives.

⁶ According to the Central Bureau of Statistics’ definitions, commercial health insurance policy premiums include insurance policies for medical expenses, acute diseases, dental care, foreign workers, travel insurance and others. Furthermore, both private insurance policies and group insurance policies are included in these definitions.



Office of the State Comptroller
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Ministry of Finance

Management of Civil Servants' Pension System

Abstract

Management of Civil Servants' Pension System

Abstract

Background

A budgetary pension is paid in Israel by virtue of the Civil Service Law (Pensions), 5730 – 1970. The budgetary pension payments are taken from the State budget. Additional laws regulate the payment of the budgetary pension from the State: the Career Service in the Israel Defense Forces (Pensions) Law [Consolidated Version], 5745 – 1985; and the Pensions for Officers in Government Authorities Law, 5729 – 1969, which relates to pensions for functionaries specified in the law. The purpose of these laws is to ensure the payment of a retirement allowance, a survivor allowance and a disability allowance to retired civil servants. The Minister of Finance is responsible for the implementation of the Pension Law, while the Accountant-General in the Ministry of Finance is responsible for the pension payments pursuant to the law. The Pension Administration in the Ministry of Finance is part of the Wage Division in the Accountant-General's department, and it is responsible for paying the budgetary pension payments to civil servants and to employees of other defined organizations who have retired.

Key figures

ILS 10 billion

total payments to pensioners in 2019 by the Pension Administration

ILS 900 million

total payments to surviving relatives in 2019 by the Pension Administration

ILS 649 billion

the State's total liabilities for budgetary pension at the end of 2018 (the State's liability to the Security Establishment is ILS 266 billion)

ILS 320 billion

the Pension Administration's share of the liabilities for budgetary pension at the end of 2018

91,000

number of pensioners who received a retirement allowance from the Pension Administration in 2018

15,000

number of surviving relatives who received a survivor allowance from the Pension Administration in 2018

ILS 36 billion

record high budgetary pension payments expected in 2038

70% of the determining wage

employee's maximum accumulated rights for all years of employment, apart from special cases

Audit actions

-  From November 2019 to March 2020, the Office of the State Comptroller audited the budgetary pension approval process, the pension payment process and the controls over them in the Pension Administration. Supplementary examinations were conducted in the Ministry of Finance and in the Civil Service Commission.

Key findings

-  **Crosschecking of information about pensioners' additional sources of income with the National Insurance Institute** – in 2014, the Pension Administration received information from the National Insurance Institute about the existence of 178 pensioners with additional sources of income. The Pension Administration wrote to these pensioners in order to clarify the matter, but failed to follow up on pensioners who did not respond to its letter and failed to ascertain whether their allowance should be reduced. The Pension Administration also received such information in 2018, but failed to ascertain whether the allowance should be reduced.
-  **Tax deduction from pensioners who did not file a Form 101** – the audit found that the Pension Administration is not deducting maximum tax pursuant to the Income Tax Regulations from the allowances of pensioners who did not file a Form 101, although they were asked to do so. A calculation performed by the audit team found that maximum tax at the inclusive total of ILS 30 million should have been deducted from the allowances of 950 pensioners who had an additional source of income in 2017; only ILS 6 million were actually deducted. It is emphasized that a portion of the allowance is tax exempt and the maximum tax rate is not deducted from it, and therefore, the tax that should have been received is less than ILS 30 million.
-  **Control over allowance payments** – the Pension Administration is not taking measures to ensure that the bank account number to which it is transferring the allowance indeed belongs to the pensioner according to Bank of Israel records, and to prevent embezzlement by its employees. It was also found that deviations reports and change monitoring reports being generated by the professional department are being manually examined, which is unsatisfactory, considering the sheer volume of the examinations and the required accuracy and documentation.
-  **Allowance payments** – in 2019, the Pension Administration began a process of transitioning to a new wage system supplier. During an examination conducted by the Pension Administration during the transition, it found that in December 2019, it had overpaid allowances to 29,877 pensioners at the total of ILS 287,835, and had underpaid allowances to 76,102 pensioners at the total of ILS 259,018. The

calculation represents the monthly discrepancy between the wage systems. Errors in taxing the pensions were also discovered. It was found that 29 pensioners and surviving relatives who received a retirement allowance or a survivor allowance were undertaxed at the total of ILS 700,000.

-  **Pensioners residing abroad** – the Pension Administration requires pensioners and surviving relatives who reside abroad for more than six months to forward Certificates of Life to it every six months in as a condition to the continuation of the allowance payments. It was found that the Pension Administration continued paying a retirement allowance to 177 pensioners and surviving relatives who resided abroad and did not issue Certificates of Life. Subsequent to the completion of the audit, the Pension Administration stopped paying allowances to 123 of the pensioners and surviving relatives.
-  **Tax benefit by virtue of Amendment 190 to the Income Tax Ordinance** – the amendment prescribes that the pension exemption rate will gradually increase in four stages in 2012, 2016, 2020 and 2025, so that in 2025, the exemption rate will be 67% of the maximum qualifying allowance. It was found that only the stage one increased exemption was given to thousands of pensioners and that some of them had not received any of the exemption increases at all pursuant to Amendment 190. A class action was filed against the Israel Tax Authority and the Pension Administration with regard to Amendment 190 and its implementation, which is still pending, and expectations are that a settlement agreement will be formulated.
-  **Implementation of a continuity of rights agreement with the Old Pension Funds** – 1,700 pensioners are receiving allowances according to the continuity agreement signed by the State and the Old Pension Funds. The Funds are calculating the maximum allowance according to 70% of the determining wage and not according to the determining wage for a full-time job, such that, if a pensioner accumulated entitlement of 70% from the State, the pension Funds are not transferring the funds that they accumulated in favor of the pensioner to the Pension Administration even if he/she was employed in a part-time job and actually, the rate of the allowance being paid to the pensioner from the State is lower than 70% of the determining wage for a full-time job.
-  **Common law spouses** – a widow or widower of a pensioner who is receiving a survivor allowance and began living with a common law spouse loses his/her entitlement to the survivor allowance. In 2015, the Pension Administration wrote to more than 14,000 widows and widowers who are receiving a survivor allowance and asked them to declare whether they are living with anyone as a common law spouse. Only 70 surviving relatives responded to the Pension Administration's letter. The Pension Administration failed to pursue the clarification and handling process in relation to 66 of them, even though most of them had declared the existence of a common law spouse or there were indications attesting to this, and it also failed to take action to obtain answers from all those who did not respond to its letter. These surviving relatives continued receiving the allowance up to the audit completion date.

 **Implementation of section 32(e) of the Pension Law** – this section calls for a reduction of an allowance due to employment in the civil service simultaneously with employment in an organization whose pension fund is defined as a public fund. Section 32(e) was enacted back in the 1970s, but the Pension Administration decided to begin implementing it only in 2015, and up until then, allowances were overpaid. Up until the audit completion date, no directive, procedure or position paper regulating all implementation aspects was published, even though it involves complex issues.



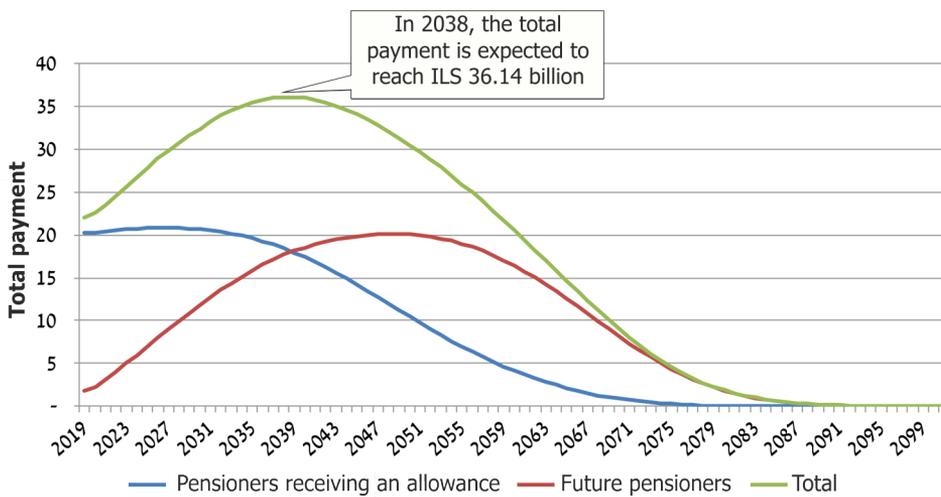
Replacement of a wage system supplier – the Pension Administration switched to a new wage system supplier and estimates that it will achieve savings totaling about ILS 140 million during the ten years of the engagement and savings of an additional ILS 140 million if it exercises the option to extend the engagement for another ten years.

Key recommendations

-  It is recommended that the Pension Administration should examine the possibility of receiving online information on pensioners' income from the National Insurance Institute, from the Civil Service Commission and from the Wage Commissioner in the Ministry of Finance and should cross-check the information received in order to reduce allowances in the instances specified in sections 32 and 35 of the Pension Law.
-  The Pension Administration should take action pursuant to the Income Tax Regulations with regard to the deduction of tax from allowances of pensioners who failed to submit a Form 101, and should discuss this issue with the Israel Tax Authority in order to formulate a solution.
-  It is recommended that the Pension Administration should periodically review the effectiveness of the existing controls and consider ways to strengthen and mechanize them.
-  The Pension Administration should take action to pay the underpayments in full and to collect refunds of overpayments.
-  The Pension Administration should take action to regulate the payment of pensions pursuant to the continuity agreement and the ratios of participation between it and the Old Pension Funds in instances of pensioners who were employed in part-time jobs, and it should carry out account-settling accordingly with the Old Pension Funds.
-  The Pension Administration should take action to stop paying allowances to surviving relatives who have common law spouses and should consider the possibility of collecting overpayments that were paid. It is also recommended

that, considering the magnitude of the phenomenon and the expected impact on thousands of surviving relatives, and considering the data about termination of the allowance to only 20 surviving relatives who remarried in 2019, which totals about ILS 50 thousand per month, compared to the volume of monthly allowance payments to about 14,500 surviving relatives at the inclusive sum of about ILS 67 million (correct to December 2018), the Pension Administration should conduct comprehensive research in collaboration with relevant units in the Ministry of Finance, including with regard to the expected impact on the lifestyle of the surviving relatives who are receiving the allowance, and should discuss this with the Minister of Finance.

Expected budgetary pension payments to all State pensioners*



Source: the State of Israel's financial statements as on December 31, 2018 (unaudited).

* Pension payments to retired civil servants in government ministries, including payments to education system, healthcare system and judicial system pensioners who are being paid through the Pension Administration, and payments to retired police officers, prison guards and Security Establishment pensioners.



Summary

The Pension Administration is responsible for paying budgetary pensions to civil servants and to employees of additional defined organizations who have retired. The Pension Administration's budget comes from the State Treasury and it must use this budget according to principles of economy, while ensuring that it is paying pensions in compliance with the law. It must employ effective controls to ensure that it is not paying an allowance to anyone who is not entitled on the one hand and, on the other hand, to ensure that it is paying every pensioner or surviving relative the full allowance to which he or she is entitled according to his/her rights.

Considering the fact that the number of pensioners is expected to increase by 120,000 people within the coming years, it is recommended that the Pension Administration should improve the existing controls and consider defining new controls to the extent needed, with the objectives of safeguarding the State treasury and the pensioners' rights and of taking action to pay the underpayments in full and to collect refunds of the overpayments.

Considering the reported findings and considering their impact on the population of pensioners and on the State treasury, the Ministry of Finance should take action to rectify the deficiencies presented in this report.



Office of the State Comptroller
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Ministry of Finance

State Assistance to Holocaust Survivors Follow-up Audit

Abstract

State Assistance to Holocaust Survivors – Follow-up Audit

Abstract

Background

The Holocaust Survivors Rights Authority (hereinafter: the Authority), a department in the Ministry of Finance, is the State of Israel's central authority responsible for assisting the population of Holocaust survivors and victims of persecution. It manages a national registry of Holocaust survivors and victims of persecution who are entitled to benefits from the State of Israel, and the names of some survivors who are receiving a pension from entities abroad. The majority of the Authority's budget is transferred directly to the survivors as a pension, a portion is transferred to various nongovernment organizations that are providing services and benefits to Holocaust survivors, and a portion is allocated to social programs being operated by aid organizations and local authority welfare offices.

Key figures

ILS 5.57 billion

the Authority's budget for Holocaust survivors' rights for 2019

136,000 Holocaust survivors

are living in Israel in December 2019

56,000 victims of persecution

whether anti-Semitic or racist, during WW II¹ who are living in Israel in December 2019

70%

of the Holocaust survivors and victims of persecution who are receiving an annual benefit, need supplementary income in order to live in dignity (51,175 people)

85 years

average age of a Holocaust survivor

1,300

Holocaust survivors pass away each month

ILS 3,996

the average monthly pension to a Holocaust survivor

100

disabled veterans of the war against the Nazis (who are not also recognized as Holocaust survivors) – the last of the remaining veterans in Israel in December 2019

¹ Administrative decision of the Minister of Finance, whereby Iraqi immigrants who were victims of the Farhud pogrom in 1941 and Jews from Algeria and Morocco who had lived under anti-Semitic laws will be entitled to an annual grant of benefits and to an exemption from paying the deductible when purchasing medicines included in the national healthcare basket.

Audit actions

 In 2017, the Office of the State Comptroller published an audit report about assistance to Holocaust survivors (hereinafter: the previous audit, the previous report). The current report presents findings of the follow-up on rectification of the main deficiencies reported in the previous report. From January to March 2020, the Office of the State Comptroller examined the actions of the Ministry of Finance, the Budget Department, the Holocaust Survivors Rights Authority (the Authority), the Ministry of Welfare and Social Services (Ministry of Welfare), the Ministry of Construction and Housing (the Ministry of Housing), the Ministry of Social Equality, the National Insurance Institute (NII), the Ministry of Aliya and Integration (Ministry of Integration), and the Foundation for the Welfare of Holocaust Survivors in Israel (the Welfare Foundation), to rectify the main deficiencies specified in the previous report.

Key findings

- 
-  **Survivors who need supplementary income in order to live** – the previous audit found that more than 51,000 of all survivors who are entitled to an annual grant by virtue of section 4 of the Holocaust Survivors Benefits Law, 5767 – 2007 are receiving a stipend from the NII pursuant to the Assurance of Income Law, 5741 – 1980. The Ministry of Finance and the Authority have not yet found a solution that would improve their financial status. During the years that elapsed since the previous audit, the ratio of those needing an income supplement who belong to this group of survivors has risen from 67% in 2017 to more than 70% in 2019. The follow-up found that this deficiency was not only not rectified, but rather escalated.
 -  **Performance of a comprehensive survey to map survivors' needs** – the previous audit found that the Authority had not performed a comprehensive survey to assess their physical, emotional and financial state and needs of the entire population of Holocaust survivors –for the purpose of enabling them to fully exercise the rights granted to survivors by all service-providers. The follow-up audit found that this deficiency has been partially rectified - A special budget totaling about ILS 13 million has been allocated for surveying the group of survivors who could potentially fully exercise rights being provided by the Authority (plus about ILS 4 million for recruiting manpower for the Authority). However, the survey included only about 22% of Holocaust survivors and victims of persecution.

- ❗ Making apartments accessible to survivors** – the previous audit found that the Company for Location and Restitution of Holocaust Victims' Assets² had discontinued its budgetary support of non-government organizations for the purpose of modifying survivors' apartments to make them accessible according to their changing needs. The follow-up found that the Authority, the Ministry of Finance, the Ministry of Welfare and the Ministry of Housing in the general program (for people with impaired mobility³) are not granting budgetary support to improve accessibility in the survivors' apartments. This deficiency was not rectified, and activities by non-government organizations to provide accessibility to Holocaust survivors' apartments have been significantly reduced.
- ❗ Granting additional hours of nursing care to disabled veterans of the war against the Nazis** – the previous audit found that disabled veterans of the war against the Nazis are not entitled to additional hours of nursing care. The follow-up found that this deficiency was not rectified. The Ministry of Finance and the Authority failed to take action to grant additional hours of nursing care to the 100 remaining war veterans – disabled veterans of the war against the Nazis (who are not Holocaust survivors). According to the Authority's assessment, the cost of providing the additional hours of nursing care is about ILS 2.4 million per annum.
- ❗ Mapping and identifying survivors who are confined to their homes** – the previous report recommended that the Authority should map the population of survivors who are confined to their homes, assess their numbers in the coming years and offer special programs that will enable providing all of their needs, alongside with examining possibilities for helping to dispel their loneliness. Although the variety of programs assisting survivors who are confined to their homes has expanded and the Ministry of Welfare's budget has increased, the locating and mapping of the survivors needing assistance have not yet been completed.
- ❗ Activity of the inter-ministerial team to provide assistance to survivors** – the follow-up audit found that the inter-ministerial team⁴ that was formed for the purpose of integrating the government's actions relating to the provision of assistance to Holocaust survivors is not convening meetings regularly and there is some uncertainty about its continuing functioning.

2 The company was founded pursuant to the Holocaust Victims' Assets Law (Restitution to Heirs and Endowment for Purposes of Assistance and Commemoration) Law, 5766 – 2006, for the purposes of locating Holocaust victims' assets in Israel, returning them to the legal heirs and, in relation to assets whose heirs were not found, transferring them for purposes of helping needy Holocaust survivors and commemorating the Holocaust.

3 However, the Ministry of Housing is allocating a budget for making apartments accessible for survivors residing in a neighborhood rehabilitation zone in a "track for survivors residing in rehabilitation neighborhoods."

4 The members of the inter-ministerial team: the Holocaust Survivors Rights Authority in the Ministry of Finance, the Ministry of Labor, Welfare and Social Services, the National Insurance Institute, the Ministry of the Interior, the Ministry of Health, the Ministry of Social Equality, the Ministry of Aliya and Integration and the Ministry of Construction and Housing (hereinafter: the inter-ministerial team). Later on, a representative of the Welfare Foundation and a representative of the Center for Holocaust Survivors Organizations participated in the meetings.

-  **The website of the Holocaust Survivors Rights Authority** – the website, which is one of the Authority’s main tools for conveying information to the population in general and to Holocaust survivors and their families in particular, needs improvement. Although information is being provided, such as “application forms for a widow/er with income or increased income,” “loan application” forms, etc., forms are still lacking for submitting claims on-line to receive various rights. Improvements in the accessibility of the information and in clarifying Holocaust survivors’ rights are required.

-  **Utilization of a budget of the Ministry of Welfare for the welfare of Holocaust survivors within the framework of the “Program for the Individuals in Need”** – in 2018 and 2019, the Ministry of Welfare utilized only about 30% of the total budget of the “Program for the Needy” (which amounted to about ILS 30 million in those years). This program is designed for carrying out welfare activities for Holocaust survivors who are receiving a supplemental income stipend (this, to differentiate from its full utilization of the “National Program” budget⁵). Due to the partial utilization of the budget of the “Program for the Needy,” survivors are unable to receive services that could improve their welfare, including augmentation of the provision of special needs, remote welfare activities and programs for those confined to their homes that could dispel – even if slightly – their sense of loneliness.

-  **Support through the provision of a distress button service** – an essential service of distress buttons for about 9,000 survivors is in danger of being discontinued because of a lack of funding necessary for providing the service. Without appropriate government assistance, the Welfare Foundation will have difficulties continuing the service, which is currently being funded mostly through donations.



Increased survivors’ rights – since the previous audit, the rights given to the previously recognized group of survivors were increased and from 2017 to 2019 the Authority and the Ministry of Finance increased the number of people entitled.

Information exchanges between bodies providing service to survivors – the previous audit found that the information exchanges between the NII, the Authority, the Ministry of Housing, the Ministry of Welfare and the Welfare Foundation were inadequate. The follow-up found that information exchanges between the bodies has greatly improved, and several services, such as the addition of hours of nursing care, are now being provided automatically, without having to submit an application.

5 This program operates “Mofet Clubs”. This is a program that is operated in clubs outside of the home, which includes: round-trip transportation a light breakfast and various enrichment classes throughout the day and lunch. It also includes augmentation of the provision of special needs. This is an expansion of the variety of services being provided to Holocaust survivors in the community according to their personal needs. It provides help with financing dental treatments, social clubs in the community and “warm homes”. 190 such homes provide an intimate social framework for survivors who have a hard time getting to clubs. Additional services include a telephone assistance line and support for programs initiated and operated by local authorities for Holocaust survivors, such as documentation of a life story and testimony theater.

Grant to survivors from the Company for Restitution of Assets – the previous audit found that the then Minister of Justice failed to set rules for continuing the assistance to survivors in need following the closure of the Company for the Location and Restitution of Holocaust Victims' in 2017. The assistance had been financed by use of assets without identified heirs. The follow-up found that, after the Company for Restitution closed, the Authority assumed the provision of the annual grant to survivors in lieu of the company that closed.

Accessibility program for public housing – the previous audit found that the Ministry of Housing failed to design a program for providing accessibility to Holocaust survivors' apartments and recommended that the Authority should assist the Ministry of Housing with the design of special required programs for Holocaust survivors. The follow-up found that the Ministry of Housing designed a program for making apartments accessible for Holocaust survivors who are living in public housing. The Ministry of Housing is lacking an additional budget of about ILS 21 million in order to complete the execution of the program.

Utilization of a Ministry of Welfare budget for the benefit of Holocaust survivors within the framework of the "National Program" – The previous audit found that the Ministry of Welfare failed to complete the design of a program that would expand the volume of welfare and social services being provided to Holocaust survivors, and therefore, it did not utilize the "National Program" budget. The follow-up audit found that the Ministry of Welfare utilized the budget allocated to it for the National Program at the rate of approximately ILS 58 million per annum (as opposed to its partial utilization of the Program for the Needy).

Key recommendations



It is recommended that the inter-ministerial team should:

take action to establish a single response unit that will coordinate all rights and all responses being provided to Holocaust survivors and should follow-up on the exercise of their rights;

examine the possibility of increasing the Ministry of Welfare's cooperation with and support of non-government organizations dedicated to Holocaust survivors' welfare, alongside with designing programs to utilize the budget by itself;

anchor and ensure its continuing routine operation in order to ensure continuous handling of matters relating to Holocaust survivors.



-  In cooperation with the Ministry of Finance, the Prime Minister's Office and the Authority: examine the possibility of designing an assistance program to increase the monthly benefits to the group of survivors who are receiving only an annual grant. They should consider the decrease in the total amount of benefits paid to those entitled by about ILS 50 million from 2018 to 2019 (which derives from the natural dwindling of the number of those entitled).
-  It is recommended that the Authority should continue carrying out the rights utilization project until the survey of Holocaust survivors is completed. This includes improving survivors' ability to directly exercise their rights, alongside with training of suitable manpower for this task and involving additional government ministries and non-governmental organizations responsible for filling the additional needs of Holocaust survivors.
-  It is recommended that the Authority, the Welfare Foundation and the NII should cooperate on the preparation of tests to examine the functional condition of Holocaust survivors and of victims of persecution who are entitled to a nursing care benefit. This will assist in identifying those who are eligible to exercise their entitlement rights which are based on their physical condition.
-  It is recommended that the Ministry of the Interior should take action to promote regulations that would grant the maximum discount on municipal tax to the population of Holocaust survivors that the Authority has recognized as individuals in need.
-  It is recommended that the Ministry of Integration should initiate contact with survivors who are entitled to public housing facilities under its responsibility and find out which of them prefer an apartment in public housing and which prefer to continue receiving assistance with rent, respectively to the inventory of apartments that the Ministry can allocate to survivors.

State assistance to Holocaust survivors – key findings of the follow-up audit

Audit section	Deficiency reported in the previous report	Extent that the deficiency was rectified as found in the follow-up audit			
		Not rectified	Somewhat rectified	Considerably rectified	Fully rectified
Performance of a comprehensive survey and integration of the handling of survivors by the Authority	The Holocaust Survivors Rights Authority did not conduct a comprehensive survey that includes the entire population of Holocaust survivors				
	The Holocaust Survivors Rights Authority is not integrating the handling of survivors				
Benefits being given to Holocaust survivors and to victims of persecution who are living in Israel	The number of entitled survivors should be increased				
	Additional hours of nursing care should be provided to disabled veterans of the war against the Nazis				
	A grant should be provided to survivors in need after the closure of the Company for Asset Restitution				
	The pension to survivors needing an income supplement in order to live should be increased				
Physical adaptation of survivors' residential environment	Apartments for survivors have not been made accessible in Ministry of Housing public housing				
	Apartments for survivors have not been made accessible through the Ministry of Housing's general program				
	Lack of support of nongovernment organizations in lieu of the Company for Restitution				
Provision of psychological care to Holocaust survivors	Inadequate provision of psychological care to Holocaust survivors by the Authority				
Making the Authority's website accessible and providing a voucher to survivors	The Authority's website is not accessible				
	A voucher for survivors is not accessible				
Establishing social infrastructure for Holocaust survivors by utilizing a Ministry of Welfare budget	There are very few programs to help Holocaust survivors who are confined to their homes				
	A basic annual welfare budget and a welfare budget from the National Program are not being utilized				
	Lack of swift organization by the Ministry of Welfare to utilize a new budget				



Summary

Many Holocaust survivors took part in establishing the State of Israel; some of them were even economic and political leaders. This population, which is an integral part of the fabric of life in Israel, is diverse and comprised of old and new immigrants. Generations of Israeli governments have worked hard to help Holocaust survivors in Israel and make life easier for them and they are continuing to do so today. However, despite these praiseworthy activities, some of these survivors' needs are still not being adequately met. Time is running out; the number of remaining survivors is dwindling and therefore, it is even more important that the relevant authorities study the deficiencies raised in this report and take action to rectify them for the purpose of improving the assistance being provided to Holocaust survivors, victims of persecution and disabled veterans of the war against the Nazis and helping them to fully exercise their rights. This generation, which survived the Holocaust, is entitled to live out the rest of their lives in dignity and receive the recognition that it deserves.



Office of the State Comptroller
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Israel Tax Authority

Taxation of Undistributed Profits

Abstract

Taxation of Undistributed Profits

Abstract

Background

In recent decades, a phenomenon developed in Israel of “wallet companies” – tens of thousands of individuals who establish designated wholly owned companies and, instead of receiving their income as salaried employees, as service-providers or as controlling shareholders of the company, they receive their income through the company. In this way, they can use money directly through the company unrelated to ownership and avoid paying the taxes applying to wages or dividends. Within the framework of the Economic Efficiency Law for the 2017 and 2018 Budget Years, several amendments to the Income Tax Ordinance were enacted that came into effect on 1.1.17, including Amendment 235 to the Income Tax Ordinance, which sought to regulate tax planning that could constitute abuse of the two-stage taxation method applying to companies. Additionally, in 2016, the Israel Tax Authority formulated a temporary order defining a reduced tax rate of 25% on dividend distributions to “material shareholders” of companies.

Key figures

27,000 companies

number of companies that distributed a dividend between January and September 2017 within the framework of the temporary order

ILS 61 billion

monetary volume of the dividends distributed

ILS 15.6 billion

tax revenue for dividends, mostly within the framework of the temporary order

ILS 4 billion

volume of the assessed tax benefit within the framework of the temporary order

91%

of the dividends at the reduced tax rate were distributed to individuals included in the top decile income bracket

57%

of the dividends at the reduced tax rate were distributed to people included in the top percentile income bracket

ILS 1.9 million

average dividend distributed to an individual in 2017

ILS 5.2 billion

total dividends at the reduced tax rate that were distributed to accountants, attorneys and tax advisors within the framework of the temporary order

Audit actions

 From October 2017 to April 2019, the Office of the State Comptroller audited the staff work performed in the Israel Tax Authority with regard to taxation of undistributed profits and the staff work in preparation for the enactment of the temporary order regarding the distribution of reduced tax dividend. Supplementary audits were conducted in the National Economic Council, in the National Insurance Institute, in the Ministry of Finance and in the Ministry of Justice.

Key findings

-  **Volume of accumulated profits in companies** – even subsequent to Amendment 235 and the dividend distributions at reduced tax rates in 2017 – distributions that embodied a tax benefit of about ILS 4 billion and which led to a one-time tax collection that totalled about ILS 15 billion – accumulated profits still remained within the companies. In 2018, the accumulated profits were estimated to reach about ILS 600 billion. As a result, the Tax Authority’s assumption regarding the amendment to section 77 and its impact on the taxation of undistributed profits in companies in subsequent years did not materialize.
-  **The Tax Authority’s handling of the tax loophole** – the tax loophole involving private use of accumulated profits in companies was identified already in 2004. An interministerial committee that engaged in the matter concluded its work in 2013, but failed to submit a final report to the Minister of Finance. This situation is inappropriate, mainly considering the repercussions of the loss of tax revenues to the State deriving from the prolonged handling of the matter.
-  **Presentation of alternatives in the staff work in preparation for draft bills for taxation of undistributed profits** – only one taxation alternative was presented to the decision-makers, and the interministerial committee’s work addressing the potential taxation of undistributed profits did not receive optimal expression.
-  **Estimates of the tax collection in preparation for draft bills for taxation of undistributed profits** – the tax collection estimate submitted to the decision-makers is the estimate prepared by the Tax Authority in the memorandum of law – ILS 300 million per annum. The chief economist in the Ministry of Finance, who is responsible for preparing tax collection estimates, did not prepare this estimate. In fact, dividends were distributed at the inclusive sum of about ILS 61 billion, and the increase in tax revenues was about ILS 15.3 billion.
-  **Adapting the proposed temporary order to the government’s socio-economic policy** – during the formulation of the proposed temporary order and prior to the discussion by the Knesset Finance Committee, the macro-economic implications

for 2017 and for subsequent years and the temporary order's repercussions on the markets in general and on the housing market in particular, were not discussed. The proposed temporary order was not disseminated to all departments in the Ministry of Finance for their information and comments prior to the discussion.

-  **Discussions with the professional bureaus during the staff work in preparation for the draft bills for taxation of undistributed profits** – the discussions with the professional bureaus were not documented and there was no transparency in this regard, even though these discussions resulted in a significant reduction of the taxation targets specified in the government resolution of August 2016.
-  **Realization of the tax benefit by various parties** – according to data received from the Tax Authority in July 2020, about ILS 35 billion out of the total dividends at reduced tax rates, which totaled about ILS 61 billion (about 57%), were distributed in about 30% of the taxpayer files that recorded a reduced-tax-rate dividend – to the upper percentile income bracket according to the Tax Authority's segmentation. About ILS 59 billion out of the total dividends at reduced tax rates which, as stated, totaled about ILS 61 billion (about 97%), were distributed in about 94% of the taxpayer files that recorded a reduced-tax-rate dividend – to the tenth and ninth percentile income bracket according to the Tax Authority's segmentation. Furthermore, analysis of the data found that 2,593 companies – in which some of their shareholders are members of professional bureaus that were involved, by virtue of their professional capacities, in the process of formulating the draft bill in the Knesset (accountants, attorneys, tax advisors and bookkeepers) – distributed reduced-tax-rate dividends totaling about ILS 5.2 billion to 2,904 of their shareholders. This represents an average of about ILS 1.8 million per shareholder.
-  **Collection of national insurance fees from “wallet companies”** – as arises from the National Insurance Institute's response to the draft audit report, as of June 2020, more than three years after Amendment 235 came into effect, legal uncertainty still exists with regard to imposing national insurance contributions and health tax on income generated in respect of Amendment 235 to the Income Tax Ordinance. As a result, the insured's ability to fully exercise his rights to receive a pension are also adversely affected.

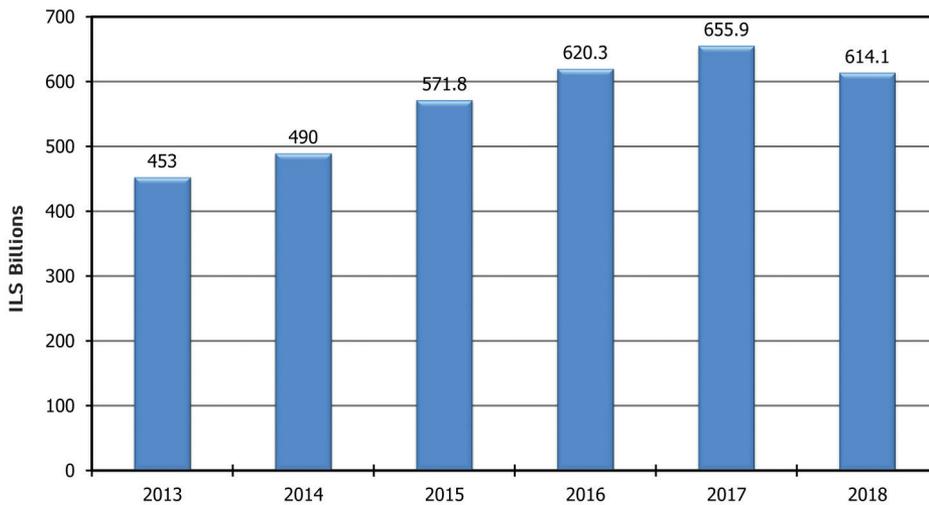


Use of collection surpluses – collection surpluses in 2017, totaling about ILS 13 billion, were largely used to reduce the deficit in 2017, so that the actual deficit was about ILS 25 billion, compared to the planned deficit of about ILS 37 billion.

Staff work by the National Economic Council – in 2014, the National Economic Council performed staff work on the subject of taxation of undistributed profits. The staff work was comprehensive and thorough and included an analysis of the database of all companies in the economy over several years.

Key recommendations

-  It is recommended that the Ministry of Finance should examine the issue of profits accumulating in companies in Israel and the mode of taxation these profits and should consider the potential collection and the timing of the tax payment.
-  It is recommended that the Tax Authority and the Ministry of Finance (the budget and chief economist departments) should examine a format for presenting changes to the legislative authority for every item of legislation so that it will include the main changes; reasons for sections that exclude taxpayer populations; calculation of the cost of excluding these populations and a general calculation of an updated estimate of annual tax collection.
-  It is recommended that the Tax Authority should consider determining that particular databases will be defined as “permanent files” and used for current updating. Such a database may be used by all relevant parties to examining the effectiveness of legislation. It is also recommended that periodic comparisons should be made between the permanent collection estimates and estimates produced by other parties, such as the Chief Economist’s department and the National Economic Council. It is also recommended to consider regulating the involvement of the State Revenue Administration in the process of preparing tax estimates in preparation for the enactment of tax legislation for the purpose of improving the estimates.
-  It is recommended that the Ministry of Finance should perform a preliminary analysis of the impact of “tax campaigns” from a systemic and multiyear perspective as a basis for decision-making with regard to the tax policy, and particularly with regard to the economic profitability of the tax campaigns, their volume and timing.
-  It is recommended that the National Insurance Institute should consider regulating the status of individuals working through a wallet company in relation to the aspect of payments to the National Insurance Institute and in the aspect of these insureds’ exercise of their rights, and should clarify their status in orderly directives. Accordingly, the National Insurance Institute should include in its audit plan an audit of wallet companies as defined in the Efficiency Law, and should draft, in collaboration with the Tax Authority, a procedure for information exchanges regarding taxpayers and insureds.

Accumulated profits in companies 2013 – 2018 (in ILS billions)

Summary

This report addressed the issue of taxation of undistributed profits. Staff work performed on the subject of taxation of undistributed profits continued for about two years, but was not formulated as a final report in accordance with the committee's letter of appointment. This situation is inappropriate, mainly considering the repercussions of the loss of tax revenues to the State deriving from the prolonged handling of the matter. Additionally, deficiencies were found in the staff work and in the presentation of the complete picture as a foundation for initiating amendments to tax legislation.

It was found that, apart from the one-time collection of about ILS 15 billion in 2017, which reflected a tax benefit of about ILS 4 billion, the Tax Authority's assumption regarding the amendment to section 77 and its impact on taxation of undistributed profits in companies over the years did not materialize.

The Office of the State Comptroller recommends that the Ministry of Finance and the Tax Authority should take action to draw conclusions from the deficiencies detailed in this report, particularly in relation to the performance of staff work in preparation for the initiation of tax legislation. It is also recommended that the Ministry of Finance should consider defining tax collection targets from trapped profits in companies and should periodically and methodologically examine the achievement of these targets.



Office of the State Comptroller
Annual Report 71A | 2020

Israel Tax Authority

**Implementation
of the work Grant
Program in The Tax
Authority – Expanded
Follow-up Audit**

Abstract

Implementation of The Work Grant Program in the Tax Authority Expanded Follow-up Audit

Abstract

Background

In 2007, the Israel Tax Authority began paying a grant to employed citizens within the scope of the provisions of the Law to Increase the Participation Rate in the Workforce and to Narrow Social Gaps (Work Grant) ,2007 (Work Grant Law), which was designed to improve the welfare of working families whose wages were ranked at the lowest wage levels, by providing an incentive for them to enter the labor market and increase their disposable income, and to reduce poverty and inequality among families in which one family member is employed.

Key figures

ILS 8.6 billion

were paid to entitled citizens as work grants for the tax years 2007 - 2018

ILS 3,660

sum of the average work grant paid to entitled citizens for the 2017 tax year

2.37 million

citizens received work grants for the tax years 2007 - 2018

2.7 million

letters were sent by the Tax Authority to citizens potentially entitled to a grant for the tax years 2007 - 2018

611 post units

post office branches and agencies where work grant applications may be submitted

125 days

average time of handling inquiries of entitled citizens who had not received the grant sums in their bank accounts in 2019

69.8%

was the average utilization rate of the work grant for the 2017 tax year, out of the potentially entitled citizens according to the Tax Authority

5,688 people

with disabilities who received a work grant for the tax years 2007 to 2018, out of which 2,120 for 2018, out of about 6,000 potentially entitled disabled citizens in 2018

486,035 people

despaired of being left on hold to speak with for the answer of a call center representative, out of about 1.44 million people who applied to the service center in 2018 and 2019

20 minutes

citizens' average waiting time to speak to the call center in 2018 and 2019

Audit actions

 **The focus of the follow-up audit** – the State Comptroller's Report 66A, which was published in 2015 (the previous report or the previous audit) focused on the implementation of the work grant program in the Israel Tax Authority. After more than a decade has passed since the launch of the program, and after it stabilized, the Office of the State Comptroller chose to focus on several matters in its follow-up audit, including: (a) rectification of the deficiencies raised in the previous report; (b) exercise of the right to a work grant among disadvantaged populations, including people with disabilities whom the Ministry of Labor has determined have partial work capacity, domestic workers and several communities in the Arab sector and in the Haredi (ultra-orthodox Jewish) sector; (c) issues relating to exercise of the right to a work grant, including work-grant-related actions by the Israel Postal Company; (d) work grant targets from the local and international perspective.

From January to March 2020, the Office of the State Comptroller examined rectification of deficiencies that were specified in the previous report in the Tax Authority. Supplementary audits were conducted in the Israel Postal Company, in the Bank of Israel, in the Budget Department in the Ministry of Finance, in the Ministry of Labor, Welfare and Social Services Unit for Integrating People with Disabilities in the Labor Market (the Integration Unit), in the National Insurance Institute (NII) and in the Commission for Equal Rights of Persons with Disabilities in the Ministry of Justice (Equality Commission).

Section 1 – Follow-up on rectification of deficiencies

Key findings

-  **Work grant utilization ratio** – the number of applications for a work grant increased by about 25% in the tax years 2012 to 2017. Despite the continuous improvement in the utilization ratio of the grant since the beginning of the implementation of the Work Grant Law in 2008 relative to the total of the potentially entitled citizens according to the Tax Authority, this ratio still reaches only about 70% for the 2018 tax year.
-  **Publicizing the right to a work grant** – the previous audit found that the distribution of explanatory pamphlets regarding the work grant in the employment service offices was discontinued. The follow-up audit found that this deficiency has not been rectified.
-  **The Tax Authority's database on real estate is outdated** – the previous audit found that the Tax Authority's database of real estate was not updated, also due to omissions by the Authority, inter alia, because the Tax Authority had not properly

updated the database with regard to the public's real estate assets, a failure that resulted in unjustified rejections of citizen's work grant applications or delays in determining entitlement. The follow-up audit found that this deficiency has not been rectified.

 **Reports of the employment of domestic workers and forwarding of the information to the Tax Authority** – the previous audit found that only a small ratio of domestic workers claim the work grant, and some are not receiving the grant because their private employers are not reporting their employment to the NII. The follow-up audit found that these deficiencies have not been rectified.



Allocating a budgetary item for funding a work grant – the previous audit found that a separate budgetary item in the State budget for funding the grant was not allocated. The follow-up audit found that the deficiency has been rectified and, as of 2017, a special budgetary item is allocated in the annual budget law, which guarantees the sources for funding the grant to entitled citizens.

Recording of work grant claims – it was mentioned in the previous audit that thousands of work grant applications were not approved due to a failure to record the grant applicants' details, or due to partial recording of applicants' data in the post office, and that citizens entitled to a work grant did not receive the grant sums in their bank accounts due to erroneous data entries at a post office. The follow-up audit found that the deficiencies have largely been rectified and that the Postal Company is taking action to minimize data entry errors.

Impact of employers' reports on the receipt of the grant – the previous audit found several deficiencies including: (a) due to the fact that some employers failed to report wages, citizens' claims to receive a grant were drawn into unnecessary clarification proceeding; (b) a significant ratio of the grant applicants were not found in the employers' wage forms due to errors in entering their details. The follow-up audit found that the deficiencies have largely been rectified and the impact of employers' reporting on nonpayment of the grant to entitled citizens has diminished.

Reports of employment of IDF employees – it was mentioned in the previous audit that the payments unit in the IDF failed to report salaries of its employees to the Tax Authority since 2009. The follow-up audit found that the deficiencies have largely been rectified and the IDF payments unit reported salaries of its employees to the Tax Authority for the tax years 2018 and 2019. However, the Tax Authority and the IDF payments unit have still not settled the technical deficiencies between them, when their rectification will enable online receipt of IDF employees' wage reports at the Tax Authority.

Handling of inquiries regarding a work grant at the public inquiries department – the previous audit found that the tax assessment offices and the call center were using a computerized system to manage inquiries, and deficiencies were found regarding the cumbersome operation of the system and the validity of its data, which had an impact on the start of the essential handling of inquiries. The follow-up audit found that

the deficiencies have largely been rectified and the system was replaced with a CRM system. However, additional deficiencies were found in the activity of the call center and in the CRM system, which does not document the handling of public inquiries in all of the Tax Authority's units.

Increasing the grant to various groups – over the years, benefits were given to the self-employed, to single parents, to women who gave birth and to heirs of deceased individuals, and benefits was given to people with disabilities for whom a personally adjusted minimum wage was defined and to others.

Key recommendations

-  **Increasing the exercise of the right** – the Tax Authority should take action to rectify the deficiencies specified in this report and to increase exercises of the right among citizens entitled to the grant who are employees receiving the lowest wages; to reduce the bureaucratic burden imposed on entitled citizens when they try to exercise their right; and to improve the efficiency of the procedure for issuing the grant to entitled citizens.
-  **Sums of the work grant** – the Tax Authority should examine the decrease in the average sum of the grant being paid to entitled citizens in order to minimize the erosion of this incentive to join the labor market as a result of the reduction of the grant sums, and should take action to increase the incentive for employees to remain in the labor market.
-  **Equating the grant given to males to the grant given to females** – it is suggested that the Tax Authority should consider recommending that the grant given to males should be equated to the grant given to females (in similarity to the “Family Net” program for the 2018 tax year). The findings of a Bank of Israel survey published in 2016 reinforce the conclusion of the studies presented in the previous report of the advisability of cancelling the gender differentiation, which is that the height of the work grant given to earners of low wages affects their willingness to continue working and their scope of working hours.
-  **Publicizing the right to a work grant** – it is recommended that the Tax Authority, which is responsible for implementing the Work Grant law, and the Employment Service, should resolve the logistic and budgetary issue relating to the distribution of explanatory pamphlets and should take action to resume their distribution at all employment branches . It is also recommended that the Tax Authority should also consider distributing them at Israel Postal units, since the target populations for receiving the grant are not necessarily exposed to digital media.

Deficiencies reported in the previous audit report	Not rectified	Somewhat rectified	Considerably rectified	Fully rectified
The funding of the grant was not allocated under a separate budgetary item				
The Tax Authority did not hire enough employees in order to implement the law and clarify public inquiries				
Hundreds of claims for a grant are submitted directly to the tax assessment offices after the statutory deadline.				
The work grant simulator operates only in Hebrew				
Some employers failed to report, which led a significant ratio of grant claims being subject to clarification, resulting in the grant not being paid to entitled citizens.				
A significant ratio of the grant applicants were not found in employers' wage forms due to errors in entering their details.				
The IDF's payment manager has not transferred the wage reports to the Tax Authority since the 2009 tax year.				
The computerized system for managing inquiries, the "service desk," is cumbersome, unreliable and delayed the handling of inquiries.				
Data about public inquiries that were entered into the system were deleteable; the system did not constitute a reliable source of documentation.				
Thousands of applications were not approved due to incomplete data entries or due to data entry errors by the Israel Postal Company.				
In relation to hundreds of grant applications submitted through the Israel Postal Company, the grant sum was not received in the entitled citizens' bank accounts.				
In the 2012 entitlement year, more than half of the entitled citizens filed their applications only after receiving the Tax Authority's letter.				
The handling of inquiries referred for handling of real-estate taxation takes a considerable length of time, which delays the determination of the entitlement to a work grant.				
The Tax Authority's estimate of people with disabilities who are entitled to an increased grant is inaccurate and only about one third of them have exercised their right.				
Forms are partial and do not enable analyses or the performance of surveys.				
The distribution of pamphlets at employment offices has been discontinued.				
A small ratio of domestic workers claim the grant; some of their claims were denied because their employment was not reported by their employers.				
Applications are not being approved by the Tax Authority because the real-estate taxation database is not up-to-date.				
Citizens' work grant applications are being denied because of the real-estate data – unjustifiably.				

Key findings

-  **The average ratio of utilization of the work grant in the Arab sector** – the utilization ratio in the Arab sector is lower than its ratio in the entire the population. For example: 60% of the citizens in the Arab sector included among the potentially entitled citizens according to the Tax Authority's data¹ did not file a claim to receive a grant, even after the Tax Authority sent the letter to them, compared to 47% of the entire population. Furthermore, only 50% of the grant claimants in the Arab sector were found to be entitled, compared to 61% of the entire population.
-  **The exercise ratio of the right to the grant among employees in the Haredi sector who were employed by multiple employers** – the ratio of entitled citizens among claimants for a work grant in the Haredi sector is higher than the ratio of entitled citizens in the entire population. However, the more employers that a grant claimant has, the smaller is the ratio of entitled citizens among the grant claimants.
-  **Required assistance among people with disabilities** – some people with disabilities are encountering difficulties exercising their right to a work grant by themselves and need the assistance of a family member, a social worker or of private NPOs. This situation is even more severe due to the lack of a body responsible for exercising their right to the grant and for identifying and removing obstacles that are preventing the exercise of this right, and which possesses all information regarding potentially entitled citizens. Furthermore, people with disabilities who are employed by a family member are not entitled to a grant (due to employment by a relative). About 2,000 people with disabilities file claims for a work grant each year, out of about 6,000 people whom the Integration Unit has determined have partial work capacity. This attests that, among this population, entitlement to a grant and grant claims are not being fully utilized, despite the fact that, among 5,688 people with disabilities who claimed the grant for the tax years 2007 to 2018, the ratio of disabled citizens who were entitled to the grant was 92%.

¹ The number of citizens potentially entitled to a work grant, who meet all eligibility criteria for the grant (income, census registry and real estate) according to the Tax Authority's data, but did not file a claim for a work grant by August of the current year for the previous tax year.



The activities of the Tax Authority's work grant team – the team took personal initiative and exerted efforts from 2018 to 2020 to ensure that about 400 employees of the "Hameshakem" plant² exercised their right, who are people with disabilities who were defined as workers with partial work capacity. Upon completing the audit in March 2020, the team sent about 33,000 text messages to the mobile phones of citizens who are potentially entitled to a work grant for the 2018 tax year.

Adapting the activities of the Israel Postal Company for use by people with disabilities – the company adapted most of its units and the service provided in them for the use of people with disabilities.

Key recommendations

-  **It is recommended that the Tax Authority should take action to increase awareness of the grant among the Arab population**, should clarify the reason why the ratio of entitled citizens among claimants is far lower than its ratio of the entire population, and should clarify what are the obstacles prevent this population from exercising its right to a work grant, including language accessibility. It is also recommended that the Tax Authority should ensure, in coordination with the Israel Postal Company, that mail that it sends to potentially entitled citizens in the Arab sector is indeed reaching its destination.
-  **Publicizing the right to a work grant among disadvantaged populations** – it is recommended that the Tax Authority, which is responsible for issuing the work grant, should take action so that the right to exercise the work grant is optimally accessible, particularly by people with disabilities, and it should take action, with assistance from the Integration Unit, to increase the exercise ratios of this right. Inter alia, it is proposed that the Tax Authority should publicize the right to a work grant in a focused manner to all people with disabilities who are employed in the labor market.
-  **Promoting cooperation to implement the right to a work grant among people with disabilities** – it is proposed that the Tax Authority should consider cooperating with the Integration Unit and the Equality Commission in relation to people with disabilities, and with the National Insurance Institute, so that all of these bodies will assist in publicizing the right to a work grant among people with disabilities.

² "Hameshakem" is a nationwide company that employs the elderly and people with limited occupational capacity. The company, which was founded in 1962, is owned by the Ministry of Welfare and the World Zionist Organization. About 2,700 employees are employed at the plant who have limited occupational capacity and a wide spectrum of physical, sensory, cognitive, mental and social impairments.



Granting the work grant to people employed by a relative – the Tax Authority should consider criteria for also issuing the grant to people who are employed by a relative, since a sweeping disqualification of these people for a grant is discriminatory against them. At issue is a large group of people from weak population groups, without training or education, who have difficulties integrating in the labor market, including people working in a family business and people with disabilities.

Section 3 - Exercising the right to a work grant

Key findings



Making the personal zone and online applications accessible by the public – for the purpose of utilizing the grant, the Tax Authority provided the information fully in Hebrew, partially in Arabic, and not at all in English, Russian or Amharic.



Handling of material inquiries submitted by the public to the Tax Authority – the handling of the work grant is not optimal and is a prolonged process in both the public inquiries call center, in the tax assessment offices and in the real estate taxation department. For example, in the tax assessment offices, the handling of inquiries took an average of about 62 days. Only 34% of the people who called the call center about the work grant in 2019 were answered by a service representative, after they expressly requested to do so.



Assimilation of information in the personal zone – in 2019, the Tax Authority began adding information in the personal zone for the benefit of all of its customers, including representatives, taxpayers, dealers and citizens, in order to all the relevant information possessed by the Tax Authority, and to enable the updating of this information if necessary. These efforts should help citizens exercise their rights, improve the potential for citizens to be entitled to the grant and should increase the ratio of citizens who exercise their right among all entitled citizens.

The Tax Authority is sending letters – in June 2019, the Tax Authority began sending letters about the work grant to the citizens' addresses that are listed in the Population Register, pursuant to the Address Update Law.

The Israel Postal Company's service relating to the work grant – from 2014 to 2019, the Israel Postal Company took action to improve the service relating to the work grant, to improve the assistance being provided by the postal units and by the company's public inquiries department when people submit claims for a work grant, and to improve the data in the company's back office department. For example: the company receives grant claims at 611 postal units nationwide and 95.7% are physically accessible by people

with disabilities. Furthermore, the number of inquiries due to non-receipt of the grant money is negligible – only 345 (about 0.1% of all claims submitted at a postal unit).

Key recommendations

-  **Publicizing the right to a grant** – it is recommended that the Tax Authority should expand its publicity about the eligibility requirements for a work grant also at postal units and at branches of the Employment Service and should adjust the mode of publicity to all of the population groups and to people with disabilities, including providing accessibility of all online means accessible to people who speak English, Arabic, Russian and Amharic.
-  **It is recommended that the Tax Authority should update the data regarding people who are potentially entitled for a work grant and should eliminate obstacles among all groups of eligible citizens**, so that this potential will include all people in the possible groups of entitled citizens, while increasing the Authority's cooperation with the NII, the Equal Rights for People with Disabilities Commission and the Ministry of Labor's Unit for Integrating People with Disabilities. The Authority should consider how to enable the various groups to fully exercise their right, and it should take action to eliminate obstacles to these groups' full utilization of their entitlement, including among domestic workers, people with disabilities and the self-employed.
-  **it is recommended that the Authority should continue developing a personal zone** that will present to every citizen the personal information contained in the Tax Authority's databases, will enable the citizen to update this data and will make it easier for citizens, inter alia, to fully utilize their entitlement to a work grant. The Authority should also update the databases in its possession, including information contained in the real-estate taxation department.
-  **It is recommended that the Authority should set up an integrated public inquiries telephone center to handle citizens' inquiries and complaints** that will enable the Authority to provide optimally efficient service to all appliers and reduce the need to refer to the tax assessment offices.

Section 4 - Grant targets from local and international perspective

Key findings

-  **Lack of awareness of eligibility criteria for a work grant** – a 2014 work grant survey³ found that the main reason why people entitled to a grant are not claiming it is that they were unaware of it or about ways to receive it: about one quarter of entitled citizens reported that they had not known about the grant at all. The survey also shed light on the sources of information that provide entitled citizens with maximum exposure to details about the Work Grant Law, including letters about entitlement that the Tax Authority sends to entitled citizens.
-  **Reporting obligation for the purpose of receiving the grant** – the work grant is one of the types of benefits that may be utilized only through reporting, unlike other benefits in respect of work-related expenses that are granted to salaried employees through their employer, inter alia, through the credit points system that grants benefits to employees without their needing to submit documents.



The work grant is effective in narrowing social gaps – according to an analysis by the Ministry of Finance's Chief Economist, the work grant is an effective tool for reducing poverty and social gaps. About 80% of the grant payments reach households in the four lowest deciles.

The poverty level of households with two wage-earners, and a decrease in the inequality index – according to an analysis by the Ministry of Finance's chief economist, the work grant leads to improvement in the poverty index, particularly among households with two and more wage-earners, and increases their disposable income.

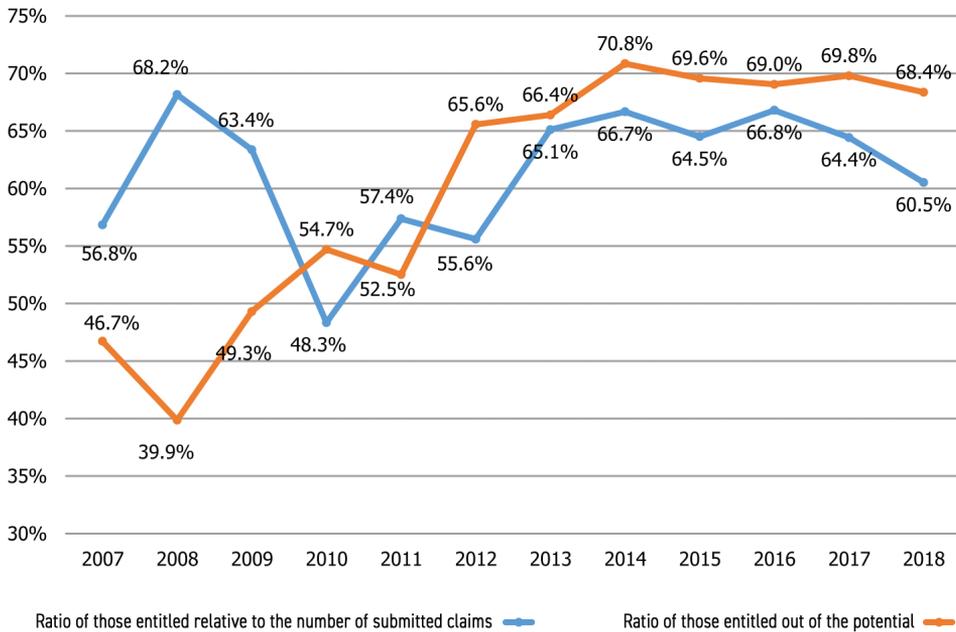
Key recommendations

-  **It is recommended that the Tax Authority, the Chief Economist's department in the Ministry of Finance, the National Insurance Institute and the Central Bureau of Statistics** should jointly formulate a full database and a reliable and agreed method of measurement that will be used to deduce, inter alia, the impact of the grant as a tool for reducing poverty in Israel and for increasing the employment ratio.

3 By the inter-ministerial team headed by the Bank of Israel regarding a work grant.

 **It is recommended that the Tax Authority should consider increasing taxpayers' utilization of rights**, including a work grant, using a declarative reporting method or in ways that will enable a reduction in bureaucracy for improving the efficiency of the process.

Work grant utilization ratios in the 2007 to 2018 tax years (%)



Summary

After more than a decade has passed since the beginning of the implementation of the Work Grant Law, it appears that the work grant is having a positive impact on employment in all population groups, among males and females alike, is reducing people's motivation to stop working and is reducing social gaps among the employed. The audit raises substantive obstacles to utilizing the entitlement to receive the grant, which derive from a shortage of information and the Tax Authority's failure to provide full and adequately accessible information in various languages, or because service that it is providing to those applying regarding their entitlement is deficient. These obstacles are harming disadvantaged populations, including people with disabilities.

The Tax Authority should work with the relevant authorities to ensure that all entitled citizens utilize their right to a grant and should remove the various obstacles to utilizing it, some of which were already raised in State Comptroller Report 66A of 2015 regarding

the implementation of the work grant program in the Tax Authority, and which have not yet been rectified. In this way, the Authority will increase its effectiveness as the authority responsible for implementing the Work Grant Law and will create suitable mechanisms to control its implementation and increase utilization among entitled citizens.

The importance of this report is magnified in light of the COVID-19 crisis, which emphasizes the need to provide service and assist the population of citizens entitled to the work grant at this time.



Office of the State Comptroller
Annual Report 71A | 2020

Ministry of Energy

Research and Development in the Energy Sector

Abstract

Research and Development in the Energy Sector

Abstract

Background

Innovation and technology are a source of economic growth, improving the standard of living and increasing life expectancy. Market failures, including a high level of risk, knowledge spillover between companies and financing difficulties, are causing entrepreneurs' volume of investments in research and development to be suboptimal. These barriers are particularly significant in the Energy sector.

Government authorities responsible for promoting R&D in Israel are the Ministry of Science, the academy, The Chief Scientists in government ministries and the National Authority for Technological Innovation, which is the government's central authority for promoting R&D in industry. Israel is one of the countries with the highest volume of investments in R&D in the western world in terms of GDP; however, in the Energy sector, the volumes of investment in R&D in Israel are among the lowest in the western world.

Key figures

4.4% of the GDP

Israel's national expenditure on civilian R&D¹ in 2016 - the highest among OECD countries. About 86% of R&D is conducted in the business sector

ILS 7 billion

total government support of R&D in 2016

0.6%

ratio of the government's R&D investments in production and utilization of energy² out of all government R&D investments in 2017

70%

of R&D in the energy sector is conducted in academy

ILS 1.7 billion

the Innovation Authority's budget for R&D grants for 2018, about 75% of which is invested in high-tech

ILS 0.6-1.1 billion

potential addition to the GDP as a result of increasing government investments in the energy sector, out of the Authority's budgets, at the volume of ILS 200 million

ILS 43 million

average annual investments in projects by the Chief Scientist in the Ministry of Energy in 2016 to 2018

1.8%

ratio of the sectors of electricity supply, sewage and waste treatment services (which are part of the energy sector) out of the total GDP. Gas discoveries (which are also part of the energy sector) contribute about another 1.4% to the GDP each year

¹ The national expenditure on civilian R&D is after deducting defense R&D.

² According to the Central Bureau of Statistics' definition: R&D intended to improve the manufacturing, storage, transport, distribution and intelligent use of any form of energy. This definition includes only a portion of the energy fields and is also used by the OECD, thereby enabling international comparisons.

Audit actions

 From March to December 2019, the Office of the State Comptroller audited the R&D activity in the energy sector, including the volumes of government support to R&D activity, the activity of the government authorities responsible for promoting R&D in this sector, their characteristics and the effectiveness of their actions. The audit was conducted in the Innovation Authority, in the Chief Scientist's Unit in the Ministry of Energy and in the Israel Electric Corporation Ltd. (IEC). Supplementary audits were conducted in the Ministry of Science and Technology, in the National Council for Civilian Research and Development, in the Government Companies Authority, in the Electricity Authority and in the Authority for Industrial Cooperation and Promotion of Foreign Investments.

Key findings

-  **The recommendations of the Energy Committee in the National Council for Civilian R&D** – as time passes, it has become evident that no material change has occurred in the volumes of R&D activity in the energy sector, inter alia, as a result of a non-implementation of the Energy Committee's recommendations.
-  **The Innovation Authority's focus on investments in high-tech** – about 75% of the Innovation Authority's investments are focused on high-tech industries, even though the high-tech sector has significant sources of funding in the business sector, while other sectors' sources of funding are limited.
-  **Maximizing the Innovation Authority's return on investments** – diversifying the Authority's investments beyond the high-tech sector to more traditional sectors, such as the energy sector, could increase the potential addition to GDP by a minimum of ILS 600 million up to ILS 1.1 billion per annum.
-  **The Israel Electric Corporation's investments in R&D** – the IEC's investments in R&D are low relative to its volume of operations and to the level recorded in electricity utilities in selected countries (0.02% of the IEC's total income). When comparing the IEC's investments to the recorded level of investments by electricity utilities in the comparison, the IEC's annual underinvestment is estimated at about ILS 80 million.
-  **The Israel Electric Corporation's recruitment of professional manpower** – the lack of innovation in the energy sector and in the electricity market in particular impedes the IEC's ability to recruit and retain engineers, which may later adversely affect activities that are vital to Israel's economy. The IEC is taking action to eliminate its manpower problems



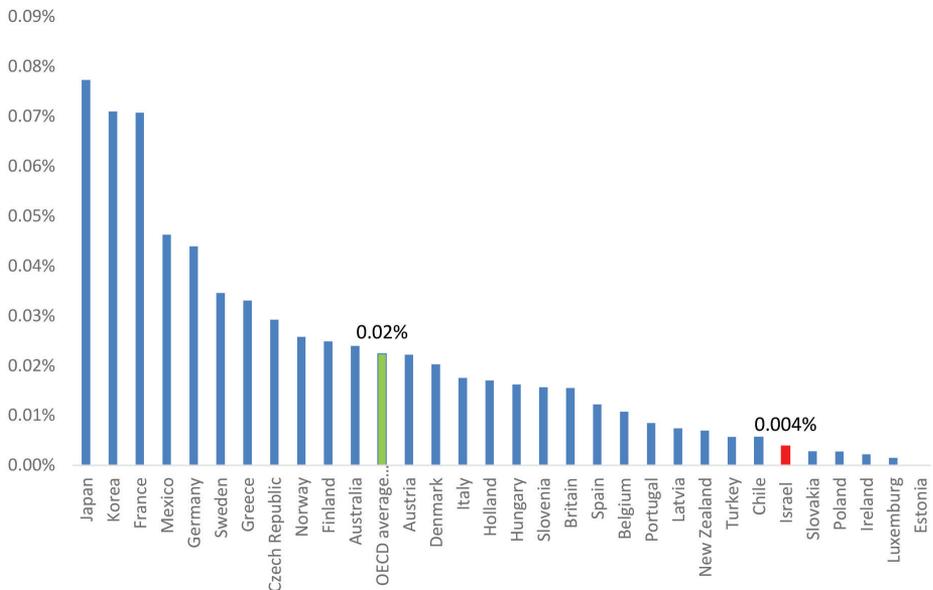
The focus of the investments by the Chief Scientist in the Ministry of Energy – the segmentation of the investments by the chief scientist in the Ministry of Energy indicates investments in segments that the government has sought to promote over the last decade.

Effectiveness of the investments by the chief scientist in the Ministry of Energy – according to the chief scientist's data, its investments are very effective, and this is reflected in the significant increase in investments in energy R&D on the part of the business sector, in the high ratio of ventures that have proceeded to the next lifecycle stage and more.

Key recommendations

-  The Ministry of Science and the Ministry of Energy should examine the Energy Committee's recommendations and their validity considering the years that have passed and should take action to formulate a plan for promoting R&D in the energy sector.
-  It is recommended that the Innovation Authority should reconsider its investment mix, subject to mapping of the needs of the economy's various sectors and identifying market failures requiring government intervention, particularly in the energy sector, in order to ensure that its activities lead to maximizing of the public benefit from its grants, assisting in the advancement of innovation and technology in all sectors of the economy and encouraging growth and increased productivity in the economy.
-  It is recommended that the Authority for Industrial Cooperation and Promotion of Foreign Investments and the Ministry of Energy, should examine possibilities of applying existing reciprocal procurement commitments to also advance R&D activity in general and in the energy sector in particular, whether through direct investments or through knowledge sharing.
-  It is recommended that the IEC should review the R&D potential in the company, analyze its strengths and weaknesses and formulate a plan for strengthening and enhancing the company's R&D activities. It is also recommended that government authorities, in collaboration with the IEC, should examine ways to take advantage of the knowledge amassed in the company and its existing unique infrastructures to enhance innovation and R&D in the electricity market in particular and in the energy sector in general.
-  It is recommended that the Electricity Authority should examine ways to encourage R&D activities in the IEC and remove existing barriers to the IEC's R&D activities, such as the uncertainty involved with regard to reimbursement of R&D costs and the negative incentive to develop technologies that would cause a decrease in the company's revenues.

Government investment in R&D in the energy sector* in terms of the GDP ratio in OECD countries, 2017



According to OECD data.

* Energy is classified according to NABS 2007³ and it includes the following fields: the manufacturing, storage, transport, distribution and use of any type of energy, processes to increase the efficiency of energy generation and distribution, energy conservation, energy savings, sources of renewable energy, nuclear fission and fusion, storage of CO₂, hydrogen cells and fuels and other manufacturing and storage technologies.

Summary

R&D investments in Israel (as a percentage of the GDP) are some of the highest in the world but in energy sector are among the lowest in the world, notwithstanding the sector's criticality. The majority of the R&D activities in Israel is conducted in the high-tech sector and major gaps exist between the volumes of R&D in high-tech and the volume in all other sectors of the economy. The government's R&D policy should handle market failures in R&D, such as the high risk in R&D activities, the funding difficulties and the unique barriers in particular sectors. However, the government's policy is ostensibly neutral and actually, is not leading to any change in the current situation. The government should formulate a policy that will infuse innovation into all sectors of the economy and in the energy sector in particular, and that will contribute to increasing the productivity in these sectors.

3 Nomenclature for the analysis and comparison of scientific programs and budgets used by international bodies conducting comparisons; in this instance, it is the OECD.



Office of the State Comptroller
Annual Report 71A | 2020

Ministry of Energy

The Supervision of Gas Stations and The Handling of Illegal Gas Stations and Internal Gas Stations Follow-up Audit

Abstract

Part A – The Supervision of Gas Stations

Abstract

Background

At the end of 2019, there were about 3.65 million vehicles on the roads in Israel and 1,209 public gas stations providing fuel and related services. About 77% of the stations – 927 of them – are owned by the four major fuel companies. In 2011, in order to promote competition on the prices of gasoline and diesel fuel, the government decided to promote competition in the sector. The Office of the State Comptroller examined the implementation of this decision and government supervision over services provided by gas stations.

Key figures

14 Agorot¹

average difference in the amount of the discount from the controlled price of gasoline between the major companies' gas stations and the small companies' gas stations

65%

the ratio of the tax component of the gasoline price in January 2020. The State's tax revenues from fuel for transportation in 2018 was about ILS 24 billion.

3.6 billion

liters of fuel are sold per annum

56 Agorot

per liter is the sales margin (in January 2020) – that portion of the fuel cost on which a discount can be given to consumers

42%

At 500 gas stations (42% of all stations in Israel) a the accuracy of the gasoline pumps had not been inspected for more than a year (the required time frame is up to one year)

3

times a year the quality of the fuel is inspected at each station

77%

the ratio of the gas stations owned by the four major fuel companies, out of the total of 1,209 stations in December 2019

¹ 1 US dollar = 350 agorot or 3.5 ILS

Audit actions

 Part A of the report “The Supervision of Gas Stations”: from November 2019 to February 2020, the Office of the State Comptroller audited the actions taken by the Ministry of Energy, the Competition Authority and the Israel Lands Authority to promote competition on fuel prices at public gas stations, and the supervisory actions: of the Ministry of Energy relating to fuel quality; of the Ministry of Economy relating to the volume of fuel supplied to customers; and relating to particular services that gas stations provide, including making them accessible to people with disabilities. The audit was conducted in the Ministry of Energy, in the Israel Lands Authority, in the Competition Authority, in the Fuel Administration in the Ministry of Energy and in the Weights and Measures unit in the Ministry of Economy. Supplementary information was gathered from the National Road Company, the Planning Administration in the Ministry of Finance, the Municipality of Bat Yam, the Municipality of Rishon LeZion, and the Commission for Equal Rights for People with Disabilities in the Ministry of Justice.

Part B of this report is a follow -up audit on the State Comptroller’s report of 2013 - “Dealing with Illegal Gas Stations and Internal Gas Stations².”

Key findings

-  **Location of gas stations in an area of concentrated competition** – an examination conducted by the Competition Authority in 2015 found that, out of 715 municipal gas stations, 360 stations were selling gasoline in an area where the competition was characterized as “lacking competition”, of these 309 stations were in an area with no small competitor, and 297 stations were in an area where there was only one gas station and it was owned by one of the four major fuel companies. This examination was conducted based on definitions of “municipal station” and “area of competition” and its determination for each gas station.
-  **Differences in gasoline price discounts between gas stations** – according to the Ministry of Energy’s data for 2016, about 70% of gas stations sold 95-octane gasoline without any discount. Among the major companies, the ratio of stations that did give a discount was between 8% and 34% and the volume of the discount was between 1 and 5 agorot per liter. On the other hand, nearly all of the small companies (operating from 9 to 55 gas stations) gave a discount ranging between 14 and 25 agorot per liter.

2 Stations providing fuel to the entity in which they operate that are not supposed to carry out commercial operations. These gas stations are located in kibbutzes, moshavs, factories and companies.

- Marketing of new lots for gas stations:** according to the government resolution of 2011, a target was set for the marketing of 40 lots for the construction of gas stations by entrepreneurs not defined as a concentrated entity (one of the four major gasoline companies in the sector). In the past nine years, the actions needed to achieve this target pursuant to the resolution were not completed.
- Fuel Sector Law:** nine years have passed since the government resolution about increasing the competition in the fuel sector. However, a draft amendment to the Fuel Sector Law (Promoting Competition), 5754 – 1994 has yet to be completed. The amendment, which the Minister of Finance had been required to draft in collaboration with the Ministry of Energy, the Ministry of Economy, the Competition Authority and the Ministry of Justice aimed to eliminate barriers to competition in the fuel market. Some of the actions taken by these authorities have not promoted competition between gas stations.
- Fuel pump quality:** the supervisor of the Weights and Measures Unit in the Ministry of Economy directed that the accuracy of fuel pumps at all gas stations must be inspected annually. According to the data of the Weights and Measures Unit at year-end 2019, the unit had inspected only about 58% of the pumps within a year since the previous inspection. The rest of the stations (about 42%) were inspected after more than one year.
- Supervision of quantities of liquefied petroleum gas (LPG):** the Weights and Measures Regulations do not define LPG as a fuel substance and therefore, the supervisor does not have authority to approve a model for LPG dispensers (fuel pumps) to verify their initial accuracy at the time of installation or for performing a periodic inspection of their accuracy. Therefore, it is not possible to guarantee that owners of LPG-powered vehicles are receiving the quantity of LPG they purchase.
- Fuel quality inspection:** from 2017 to 2019, 2,764 random inspections of diesel fuel and gasoline were performed at gas stations, and 64 deviations from the fuel standards were found and two from LPG standards. In 16 out of the 64 cases of deviations in fuel quality, more than 10 days elapsed until an announcement of the deviations was published on the Ministry of Energy's website.
- Inspecting tire inflating equipment:** it was found that there is no regulation requiring periodic inspections to determine the accuracy of tire inflation equipment in gas stations. Therefore, there is no assurance that tires are inflated in accordance with vehicle manufacturers' recommendations.
- Making gas stations accessible to the disabled:** complaints by people with disabilities to the Office of the State Comptroller show that an adequate response to their needs is not being provided at gas stations. Furthermore, the work plan of the Commission for Equal Rights for People with Disabilities did not include accessibility inspections at gas stations from 2017 to 2019. The Commission was unable to produce for the audit team inspections or investigations in this regard from previous years.

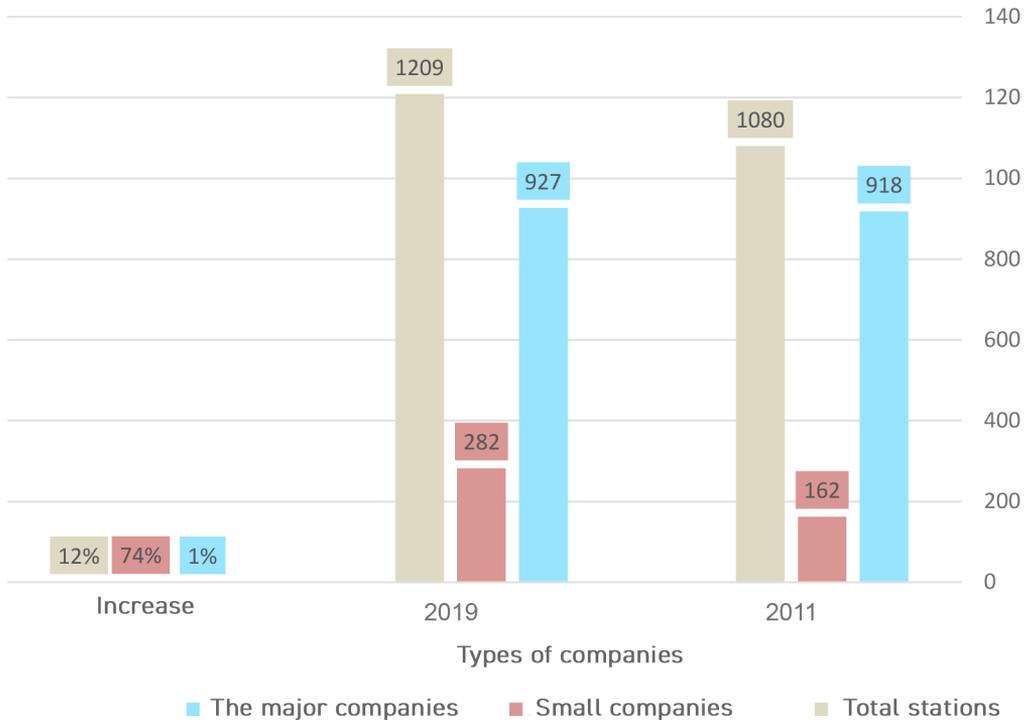


Number of gas stations operated by small companies: from 2011 to 2019, 120 gas stations operated by small companies were added, compared to the addition of 9 gas stations operated by the major companies.

Key recommendations

-  It is recommended that the Ministry of Energy and the other authorities involved in the planning and construction of gas stations should take action to increase the number of gas stations, mainly in areas with no competition, and in a manner that will also facilitate the entry of new competitors into the market. This action is necessary in light of the lower costs of gasoline and diesel fuel at gas stations owned by small companies compared to gas stations owned by the major companies.
-  It is recommended that the supervisor of the Weights and Measures Unit in the Ministry of Economy should consider setting an inspection schedule at a fixed interval or utilize risk management techniques in order to assure consumers that there is periodic supervision of fuel pump accuracy at gas stations.
-  It is recommended that the Ministry of Energy should consider defining an explicit procedure regarding the timeframe for publishing details of deviations from the fuel quality standards. It should facilitate means for notifying consumers who fueled their vehicles with inferior fuel and consider additional notification channels besides the ministry's website so that the information will be disseminated to consumers who purchased gas at these gas stations.
-  Considering the large number of LPG-powered vehicles on the road, it is recommended that the Ministry of Economy and the supervisor should consider regulating inspections to verify the accuracy of LPG pumps.
-  It is recommended that the Commission for Equal Rights to People with Disabilities should examine disabled access to the service and structures at gas stations throughout Israel.

Growth in the number of gas stations between 2011 and 2019



According to data from the Ministry of Energy, processed by the Office of the State Comptroller

Summary

In the coming decade, the volume of vehicles in Israel is expected to increase by more than 3% per annum. It appears that the role of gas stations will change in the future, due to the future use of compressed natural gas for fueling cars and the increase in the number of charging stations for electric cars, and as a result of the Ministry of Energy's policy regarding the discontinuation of sales of gasoline and diesel-powered vehicles by 2030. All these are expected to change the nature of the services being provided at gas stations. Those expected changes should be considered while planning new stations.

The regulatory authorities should prepare to regulate the activities of gas stations and the services that they are supposed to provide, and should take action to rectify the deficiencies raised in this report in order to continue creating the conditions for a competitive market without monopolies and concentration groups in order to reduce the cost of living.



Part B – The Handling of Illegal Gas Stations and Internal Gas Stations

Follow-up Audit

Abstract

Background

In 2013, the Office of the State Comptroller published a report on the handling of illegal gas stations and internal gas stations (hereinafter – the previous report).³ During that year, there were about 100 gas stations in Israel that had been constructed without a building permit and without a business license and sold gas to the public in violation of the law (hereinafter – illegal gas stations). Illegal gas stations are liable to expose the public to safety, health, environmental and transportation risks and cause the State financial losses as a result of nonpayment of taxes. There are also hundreds of gas stations in Israel that serve closed groups of customers (internal gas stations). From January to March 2020, the Office of the State Comptroller audited the government authorities' actions to rectify the main deficiencies reported in the previous report.

Key figures

2

illegal gas stations were closed by the police in 2019

206,000

liters – the volume of fuel confiscated from illegal gas stations from 2017 to 2019

93

enforcement operations against illegal gas stations from 2017 to 2019

1

number of pecuniary sanctions imposed by the Ministry of Energy on suppliers of fuel to illegal gas stations from 2013 to 2019

³ The State Comptroller, **Annual Report 64A** (2013).

Audit actions

-  In 2013, the Office of the State Comptroller published a report on the subject of the handling of illegal gas stations and internal gas stations. From January to March 2020, the Office of the State Comptroller audited the actions taken by the Ministry of Energy, the Israel Police, the Israel Lands Authority and the National Fire and Rescue Authority (hereinafter – the supervisory bodies) to rectify the main deficiencies reported in the previous report.

Key findings

- 
-  **Coordination of monitoring activities** – the previous report stated that, in light of the decentralization of enforcement activities relating to gas stations and the Ministry of Energy’s ministerial responsibility for the fuel sector, the Ministry of Energy should lead the effort against illegal gas stations in collaboration with all supervisory bodies involved. This deficiency has been partially rectified. The follow-up audit found that no organized periodic actions are being initiated to lead the effort against illegal gas stations and that the issue is being handled by a number of supervisory and enforcement bodies (the Ministry of Energy, the Ministry of Environmental Protection, the Ministry of Economy, the Ministry of Public Security, the Ministry of the Interior, the Israel Police, the Israel Lands Authority, the local authorities and the planning and building committees). There is only partial coordination among these bodies, and there is no updated map showing the location of the illegal gas stations
 -  **Procedures** – the previous report stated that the Ministry of Energy failed to define work procedures for enforcing the Fuel Sector Law (Prohibition of the Sale of Fuel to Particular Fueling Stations), 5765 – 2005 or actions that ministry inspectors are required to perform to prevent the supply of fuel to illegal gas stations when such stations are discovered. This deficiency has not been rectified. The follow-up audit found that the Ministry of Energy has not yet defined procedures for enforcement actions pursuant to this law.
 -  **Work plan and manpower training** – the previous report stated that the Ministry of Energy had no work plan defining clear targets for initiated enforcement actions against fuel suppliers to illegal gas stations and for the closure of these stations. The Ministry did not train its employees to monitor illegal gas stations. This deficiency has been partially rectified. In its March 2020 response, the Ministry of Energy advised that, in 2019, inspection and enforcement training was provided to the department’s inspectors and investigators, adding that, in 2020, additional training will be provided to supervisors on the subjects of investigations, documenting evidence, preliminary inquiries and more.
 -  **Joint database** – the previous report stated that the supervisory bodies do not have

a database on illegal gas stations and internal gas stations that are selling fuel to the public. Field units were not efficiently forwarding information about these stations to the home office. This deficiency has not been rectified. A database, which is needed in order to present an updated integrated report and which would help supervisory bodies and other decision-makers when formulating enforcement plans against illegal gas stations, has still not been compiled.

-  **Enforcement activities initiated by the National Fire and Rescue Authority** - the previous report stated that the National Fire and Rescue Authority had no information about illegal gas stations and that it is not initiating inspections at these gas stations. This deficiency has not been rectified. Methods for forwarding information about illegal gas stations from all supervisory bodies to the National Fire and Rescue Authority have not yet been formulated.
-  **Pecuniary sanctions against suppliers of fuel to illegal gas stations** – the previous report stated that, for a two year period, when approximately 100 illegal gas stations were operating, the Fuel Administration had imposed only four pecuniary sanctions, but failed to collect them; the legal department in the Ministry of Energy had discontinued its handling of the collection of 22 pecuniary sanctions imposed during the years prior to the completion of the previous audit; and the Fuel Administration failed to exercise its powers against parties who are selling or supplying fuel to illegal gas stations. These deficiencies have not been rectified. The Ministry of Energy has not yet defined a procedure for imposing pecuniary sanctions on anyone selling or supplying fuel to illegal gas stations, and has also not yet defined a procedure for collecting the fines levied on them.
-  **Storage of confiscated equipment** – the previous report stated that the Ministry of Energy had allocated a budget for activities relating to the storage of equipment and fuel confiscated from illegal gas stations up to 2006 but that it had stopped budgeting these activities as of 2007. As a result, enforcement bodies stopped demolishing illegal gas stations. This deficiency has been partially rectified. A solution has not yet been found for storing equipment confiscated from illegal gas stations that were built on land not owned by the State. This raises difficulties during enforcement actions against them.
-  **Internal gas stations** – in the previous report, the Office of the State Comptroller stated that the Ministry of Energy should inspect the quality of the fuel at these stations and noted that no authority has a full database on internal gas stations. This deficiency has not been rectified. The Ministry of Energy is not inspecting the quality of the fuel at internal gas stations and has failed to compile a database containing details about internal gas stations that would help it and all other supervisory bodies perform their supervisory activities.



The inspection department in the Ministry of Energy – the number of inspectors in the Ministry of Energy’s enforcement department has increased from 15 inspectors in 2013 to 26 inspectors in 2020..

Key recommendations

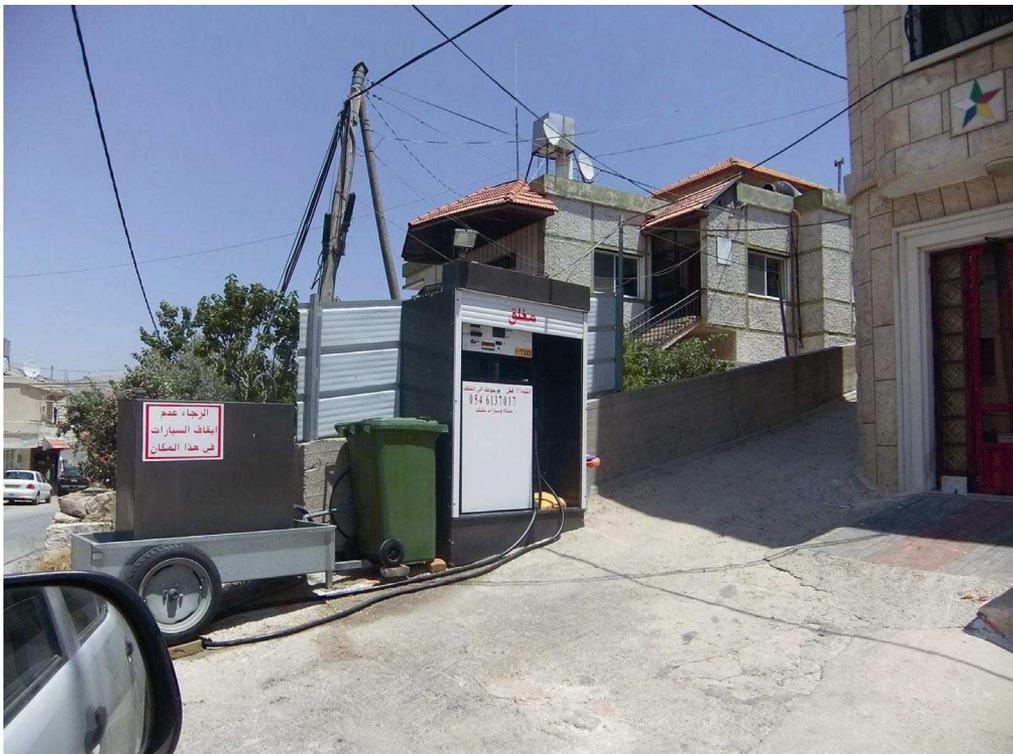
-  It is recommended that the Ministry of Energy should coordinate and lead the efforts to eradicate the phenomenon of illegal gas stations, which are endangering people’s lives, and should increase the coordination among the various authorities for the purpose of improving and strengthening inspections, enforcement, mapping and eradicating this phenomenon.
-  It is recommended that the Ministry of Energy should complete the drafting of procedures needed to enforce the Fuel Sector Law (Prohibition of Sale) and procedures for imposing pecuniary sanctions in conformity with the law.
-  It is recommended that the Ministry of Energy should compile a database to be used by all supervisory bodies that will contain updated, integrated full information about illegal gas stations, thereby streamlining monitoring efforts.
-  It is recommended that the Ministry of Energy and the Israel Police should consider methods to regulate the storage of equipment that was confiscated from illegal gas stations operating on land not owned by the State.
-  It is recommended that the Ministry of Energy should compile a database about internal gas stations for the purposes of coordinating inspection activities, and should publicize the findings of fuel quality inspections at these stations and the list of stations that are not cooperating with the ministry.

Status report on rectification of deficiencies

Handling of illegal gas stations and internal gas stations – key findings of the follow-up audit					
Audit item	Deficiencies reported in the previous audit report	Extent of rectification of the deficiency found in the follow-up audit			
		Not rectified	Somewhat rectified	Considerably rectified	Fully rectified
Ministry of Energy HQ activities	Lack of designated manpower who have been trained to inspect and conduct enforcement actions against illegal gas stations.				
	The Ministry of Energy is not leading the battle against illegal gas stations.				
Procedures	The Ministry of Energy failed to define work procedures for enforcing the Fuel Sector Law against illegal gas stations, including procedures for imposing pecuniary sanctions on anyone selling or supplying fuel to them.				
Work plan and manpower training	The Ministry of Energy has no work plan defining targets for initiated enforcement actions against suppliers of fuel to illegal gas stations and for closing these stations.				
Uncoordinated inspection efforts	The flow of information in this regard between field units and district units to HQ units in the Ministry of Energy, in the Israel Police and in the Ministry of Environmental Protection are inefficient.				
Compilation of a joint database	The supervisory bodies have no database on illegal gas stations and on internal gas stations that are selling fuel to the public, and the forwarding of information about these stations from field units to the HQ is deficient.				
Enforcement actions	The Fire and Rescue Authority is not initiating enforcement actions.				
	The supervisory bodies have not found a solution for the storage of equipment confiscated from illegal gas stations located on private land.				
Pecuniary sanctions	The Ministry of Energy is not working effectively according to procedure in order to impose pecuniary sanctions on anyone selling or supplying fuel to illegal gas stations.				
Internal gas stations	The Ministry of Energy is not inspecting the quality of the fuel at internal gas stations.				
	The Ministry of Energy has not compiled a database containing details of internal gas stations, which is needed for monitoring purposes.				

Summary

The operation of illegal gas stations is a phenomenon that must be eradicated since it jeopardizes the safety and health of citizens of the State and causes economic damage. The findings of the follow-up audit indicate that deficiencies still exist, that recommendations have not yet been implemented and that the supervisory bodies are failing to exercise their extensive powers to take action against these gas stations. The Office of the State Comptroller emphasizes that illegal gas stations located in populated areas are a safety hazard that could result in loss of life and therefore, the supervisory bodies are required to fully exhaust all preventive and enforcement actions against this phenomenon. To this end, it is important that a central body manages this effort. The Ministry of Energy should monitor all internal gas stations and ensure that it possesses the tools needed to inspect the quality of the fuel in them. It is essential for the Ministry of Energy to compile a database about internal gas stations for the purpose of managing inspections and to publicize the findings of fuel quality inspections in these stations and the list of stations that are not cooperating with it.



Illegal gas station located adjacent to residential dwelling.



Office of the State Comptroller
Annual Report 71A | 2020

Ministry of Transportation
and Road Safety

Road Safety of Heavy Vehicles

Abstract

Road Safety of Heavy Vehicles

Abstract

Background

According to multiyear data, the involvement of trucks and buses in road accidents in Israel – and particularly road accidents causing severe injuries or fatalities – is higher than for other types of vehicles, and Israel's situation in this regard is worse than in most developed countries. The management of matters pertaining to the safety of heavy vehicles is under the spheres of responsibility of several government bodies, mainly the Ministry of Transportation and Road Safety (the Ministry of Transportation), the traffic department of the Israel Police and the National Road Safety Authority (RSA). These matters were previously examined by various committees. The main committee – the Sagis Committee – submitted its recommendations in 2002. These committees alerted about deficiencies and raised recommendations, but some of them have still not yet been implemented.

Key figures

104,000

number of trucks weighing more than 3.5 tons in 2018; about 3% of all vehicles in Israel

22,000

number of buses in 2018; about 0.6% of all vehicles in Israel

91

number of fatalities from road accidents involving heavy vehicles in 2018

27%

ratio of fatalities from road accidents involving heavy vehicles out of all road accident fatalities over the last decade

18 years

have passed since the Sagis Committee published its recommendations, the majority of which have not yet been implemented

30 years

have passed since the last comprehensive national survey of trucks was conducted

12 hours

maximum shift of an Israeli driver, which is one third longer than the maximum shift in the European community – 9 hours

53%

percentage of heavy vehicles found to have deficiencies out of all heavy vehicles inspected by Ministry of Transportation's mobile inspection units in 2018

Audit actions

 From March to December 2019, the Office of the State Comptroller audited the subject of the road safety of heavy vehicles. Supplementary audits were conducted until March 2020. The audit focused on the handling of the human factor and matters relating to the management of safety issues regarding heavy vehicles, the supervision, control and regulation of the vehicle sector, the operability of vehicles and the handling of safety-support infrastructure, were also examined. The audit was conducted in the Ministry of Transportation and in RSA. Supplementary audits were conducted in the traffic department of the Israel Police, in the professional training and manpower development department of the Ministry of Labor (Professional Training Department) and in the Medical Institute for Road Safety (MIRS), which is a subsidiary unit of the Ministry of Health.

1. Management of safety issues regarding heavy vehicles

Key findings

-  **The responsibility for managing the safety of heavy vehicles** – is dispersed among various government ministries with no central entity responsible to integrate the management of the matter and to coordinate between the various ministries.
-  **Master plan for cargo transport** – in 2007, the Ministry of Transportation began preparing a master plan for cargo transport. On the audit completion date, the preparation of the master plan and the implementation of the recommendations presented during the interim stages of its preparation (the last one being in 2014) have not yet been completed – and an action plan for implementing these recommendations has still not been formulated.
-  **Information collection** – there is no methodological procedure for collecting information about cargo transport by trucks and a comprehensive national survey of trucks has not been conducted since 1990.



Consolidation of units in the Ministry of Transportation – in October 2019, most of the units responsible for handling issues relating to heavy vehicles in the Ministry of Transportation were consolidated and subordinated to the Traffic Administration in the Ministry of Transportation.

Business intelligence system for road accident investigations – RSA established a BI system that facilitates the investigation of data on all road accidents.

Key recommendations

-  It is recommended that the Ministry of Transportation should appoint an integrating entity to receive responsibility and suitable means in order to lead and coordinate, both within the Ministry of Transportation and among the various ministries, all matters pertaining to the management of the safety of heavy vehicles.
-  It is recommended that the Ministry of Transportation should advance the preparation of the last stage of the master plan for cargo transport so that it can formulate long-range policy recommendations, should complete the implementation of the recommendations submitted during the interim stages of the master plan and prepare a plan for collecting information in the truck sector.
-  It is recommended that the Ministry of Transportation should ensure that manpower resources and all other resources provide an adequate response to the tasks imposed on the units handling heavy vehicles.
-  It is recommended that RSA should improve the data collection system, in collaboration with all other relevant authorities, including by analyzing the reasons for road accidents and factors that could prevent serious injuries during road accidents, while cooperating with additional parties possessing relevant information.

2. Managing the human factor

Key findings

-  **Training for Heavy vehicle drivers** – deficiencies were found in the theoretical and practical training of heavy vehicle drivers, inter alia: many drivers were trained using an outdated curriculum; study materials were missing; the instructions regarding the required syllabus for driving lessons are inadequate; there are no driving practice lots in Israel; the training on the matter of cargo transport was found to be inadequate; deficiencies were also found in relation to the training of and threshold criteria for theoretical course instructors, driving instructors and driving testers, and deficiencies were found in the supervision of the driving schools.
-  **Apprenticeships and continuing education program**– an apprenticeship period was not made compulsory for heavy vehicle drivers upon receiving their license and periodic continuing education courses were not regulated.
-  **Shortage of drivers** – a series of actions were not taken to contend with the existing shortage of heavy vehicle drivers, by improving the processes for locating and

recruiting candidates, improving the efficiency of the driver licensing process and drivers' work conditions. The cooperation between the Ministry of Transportation and other authorities, such as MIRS and the IDF, was inadequate; some of the work methods during the driver licensing process are outdated and do not provide an adequate solution for today's needs, and there is a shortage of professional manpower in MIRS.

-  **Revoking or suspension of a driver's license** – the provisions of Regulation 15C of the Traffic Regulations, 5721 – 1961 (the Traffic Regulations) regarding the revoking or suspension of a driver's license in the event of noncompliance with the conditions of the license are only partially being enforced: the Licensing Department in the Ministry of Transportation (the licensing department) is not regularly receiving information from the State Attorney's Office; the police forwards on-line information regularly to the licensing department, but the licensing department is exposed to information only when a request is made concerning a particular driver; and information about medical conditions that disqualify drivers is not forwarded regularly from the medical system.



Theoretical training – in recent years, the Ministry of Transportation and the professional training department took action, in collaboration with RSA, to update the curricula in professional training courses and to update some of the study materials in the courses.

Licensing of drivers – in recent years, the licensing department and MIRS began taking action to improve the efficiency and shorten the driver licensing processes.

Key recommendations

-  It is recommended that the Ministry of Transportation, in collaboration with the Ministry of Labor, RSA and additional relevant bodies, should prepare an extensive work plan, which includes implementation of suitable solutions to rectify the deficiencies and to narrowing the gaps found in relation to the training of heavy vehicle drivers.
-  It is recommended that the Ministry of Transportation, the Ministry of Health, the Ministry of Labor, RSA and the IDF should take joint action to increase the number of heavy vehicle drivers, by advancing the efficiency of the licensing processes and by improving their work conditions.
-  It is recommended that the Ministry of Health should re-examine the format of MIRS activity and should take action accordingly to recruit the manpower needed by MIRS for it to carry out its role. It is recommended that the Ministry of Transportation and the Ministry of Health should periodically review the issue of transferring the handling of drivers' medical examinations to private bodies and

the implications of doing so.

-  The Ministry of Transportation, the Israel Police and the State Attorney's Office should cooperate to define suitable arrangements through which the Ministry of Transportation will receive all relevant criminal and traffic information regarding drivers regularly and in real time from the law enforcement authorities. This will allow the licensing department to receive an immediate update in this matter, thereby enabling it to fully carry out Regulation 15C of the Traffic Regulations. It is also recommended that the Ministry of Transportation should consider instituting a procedure for re-examinations of "certificate of integrity"¹ from the police when renewing professional drivers' licenses.

3. Supervision, enforcement and regulation of the sector

Key findings

-  **Supervision of driving and rest hours** – there are difficulties in compliance with the rules – inter alia, due to the shortage of drivers and the lack of rest and refreshment stop. In addition, there is some unclarity in the wording of the rules applying to drivers with regard to hours of driving and rest.
-  **Regulating the use of a digital tachograph²** – the use of a digital tachograph, which can be expected to lead to significant improvement in the supervision and enforcement of drivers' compliance with the rules of driving and rest hours and driving speed restrictions, has not yet been regulated – notwithstanding a government resolution of 2005 that mandated the installation of a tachograph in heavy vehicles, and notwithstanding the announcement by the Director-General of the Ministry of Transportation during a Knesset meeting in 2017.
-  **Activities by the Ministry of Transportation's mobile safety inspection units** – there has been a continuous decline in the number of inspections being conducted by the Ministry of Transportation's mobile safety inspection units. The number of mobile units and the number of employees manning them have decreased and they are provided with only two old scales. The mobile units' activity is being performed without any methodological work plan, manually for the most part, and the computer systems are outdated and do not provide adequate solutions for their needs.

1 Information received from the police certifying no convictions for traffic violations or criminal offenses.

2 A tachograph (travel data recorder) is a mechanical device installed in a vehicle that enables the recording of the vehicle's movements and the driver's activities.

-  **Systemic enforcement** – the Ministry of Transportation, the Israel Police and RSA failed to prepare a systemic enforcement program for all enforcement authorities, which defines the spheres of responsibility of each of the authorities responsible for enforcement.
-  **Database for license revocations** – a database containing full and reliable details about license revocations imposed by the various authorities has not yet been established. This diminishes police officers' ability to carry out effective enforcement against drivers who continue driving after their license has been revoked.
-  **Traffic safety officers** – rules regarding the format of employment of traffic safety officers have not yet been instituted; there is a shortage of safety officers and there is no requirement that safety officers must have practical experience driving the types of vehicles under their responsibility; the Ministry of Transportation is not offering organized periodic continuing education courses for safety officers, and its supervision of the safety officers' activity is inadequate, inter alia, as a result of a shortage of manpower and computerized tools.
-  **New standard for restraining of cargoes** – the standard was published in 2014; however, since its directives have not yet been anchored in the Traffic Regulations, the standard is not binding upon those engaging in cargo transport and cannot be enforced.
-  **Supervision and regulation of the conveyance and transport of hazardous substances** – there are deficiencies in the regulation of the conveyance and transport of hazardous substances, in the training of officials engaging in this field and in supervision and enforcement in this field, inter alia, due to a grave shortage of resources – both human resources, computer systems and vehicles.



Enforcement unit in the Israel Police – in 2017, a unit responsible for law enforcement on heavy vehicles was established in the Israel Police.

Safety officers – in 2018, the Traffic Regulations were amended to regulate the role of safety officers.

Cargo restraining – in 2014, a new standard regarding the restraint of cargoes was formulated.

Key recommendations

-  The Ministry of Transportation, the Ministry of Justice, the Ministry of Foreign Affairs, the Ministry of Public Security, the Israel Police and RSA should cooperate promptly to regulate the use of a digital tachograph and to clarify the rules regarding driving and rest hours.
-  It is recommended that the Digital Israel Headquarters³, in collaboration with all other relevant authorities, particularly the Israel Police, should take action to complete the project establishing a database of revoked licenses in order to improve the accuracy of the information presented in the database of revoked licenses.
-  It is recommended that the Ministry of Transportation should review its fleet of safety mobiles, its scales and its workforce and should prepare a plan for enhancing the effectiveness of the inspections of heavy vehicles. It is also recommended that the computer systems should be upgraded and that detailed annual work plans should be formulated.
-  It is recommended that the Ministry of Transportation should review the format of employment of safety officers and consider designing a model that will create the necessary balance between the various parties – safety officers, company owners, company managers and drivers. It is also recommended that the Ministry of Transportation should periodic continuing education courses for safety officers, enhance the supervision over them and create appropriate interfaces between all units responsible for enforcement in and supervision of the heavy vehicle sector.
-  It is recommended that the Ministry of Transportation should complete the regulation of the new standard for the restraining of cargoes; it should take the measures necessary to implement the Haulage Services Law and its regulations and should take action to improve the regulation and supervision of the transport sector in general and the transport of hazardous substances in particular.

³ The Headquarters for the National Digital Israel Initiative is subordinated to the Ministry of Social Equality. Subsequent to the audit period, it was subordinated to the National Digital Ministry.

4. Operability of vehicles and the construction of safety-support infrastructure

Key findings



-  **Age of trucks** – there is no limit on the age of trucks.
-  **Vehicle inspections** – there is no coherent and updated methodology for vehicle inspections.
-  **Safety-support infrastructures** – the infrastructures supporting the safety of heavy vehicles are quite lacking, such as rest areas for drivers to rest and freshen up, parking bays, wide shoulders, crawler lanes and overnight parking areas. The Ministry of Transportation has not yet formulated a program for reducing the lack of safety-support facilities.

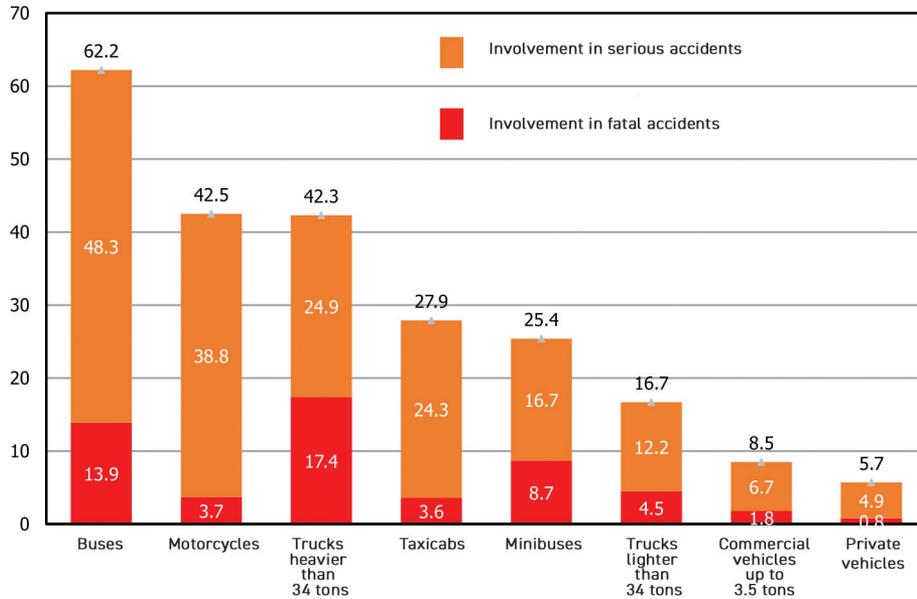


Safety infrastructures – In 2018, TransIsrael Highway Ltd. began preparing a plan the designing of emergency parking and rest bays along Route 6.

Key recommendations

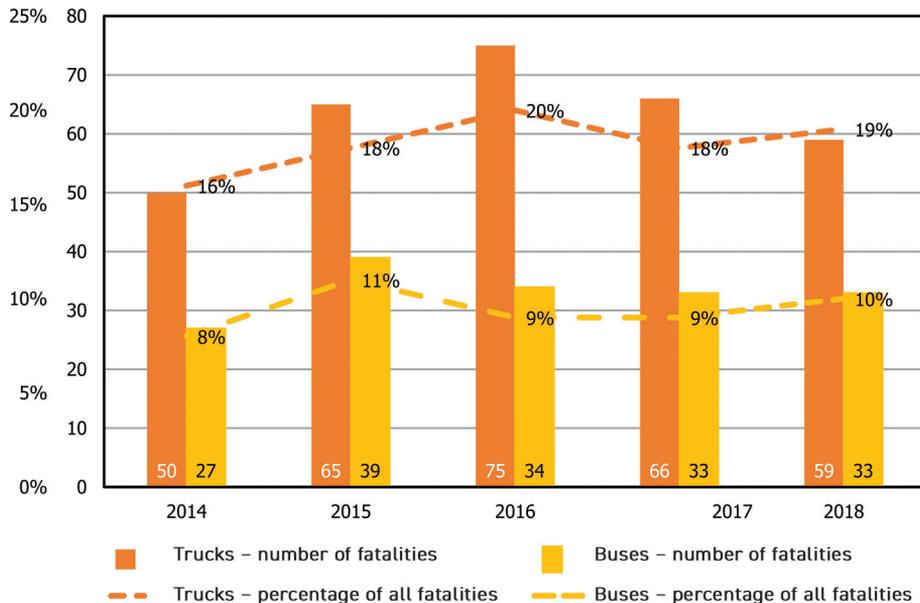
-  It is recommended that the Ministry of Transportation and RSA should continue their activity for identifying and implementing technological systems that may contribute to the prevention of accidents, such as: systems to monitor “blind spots” and systems to monitor driving patterns, particularly of heavy vehicles.
-  It is recommended that the Ministry of Transportation, in collaboration with its performance arms, such as the National Roads Company, the National Transport Infrastructure Company Ltd. and TransIsrael Highway Ltd., and in coordination with local authorities and planning institutions, should take action to formulate a national plan for adding parking bays, rest areas, widened shoulders, crawler lanes and overnight parking areas.

Ratio of involvement in serious and fatal road accidents per 10,000 vehicles, by type of vehicle, 2018



Source: National Road Safety Authority, "Trends – a Decade of Road Safety in Israel 2008 – 2018", November 2019.

Fatalities during accidents involving heavy vehicles



Source: National Road Safety Authority data, processed by the Office of the State Comptroller.

Summary

Various committees and teams have been indicating safety problems relating to heavy vehicles since 2002 and submitted recommendations for resolving them. However, the handling of some of the issues has been delayed for long periods of time and many of these recommendations have not yet been implemented. Considering all raised deficiencies and the immediate dangers posed by the issues pointed out in this report, all authorities responsible for handling the sector – primarily the Ministry of Transportation and RSA – should prepare a coordinated work plan for rectifying all of the deficiencies raised and should take action to implement it in order to improve the road safety of heavy vehicles and prevent personal injuries and property damage.



Office of the State Comptroller
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Ministry of Transportation
and Road Safety

Public Bus Transportation in Jerusalem

Abstract

Public Bus Transportation in Jerusalem

Abstract

Background

Jerusalem is the largest city in Israel. According to data from the Central Bureau of Statistics, Jerusalem's population totaled about 919,400 residents at the end of 2018. In 2019, about 20-25% of the motorized transit within metropolitan Jerusalem for all purposes was via public transit (PT) by bus, and about 25% was by light rail.

Urban development and planning geared towards the use of PT is designed to increase the use of the PT network, thereby contributing to reductions in road congestion and air pollution. Increased PT use also reduces the need to allocate land for parking spaces for private vehicles in the city. In recent years, the Ministry of Transportation and Road Safety, in collaboration with the Jerusalem Municipality, has been taking action to improve the PT service in the city, such as by expanding the light rail lines and by constructing fast lanes.

Key figures

20% - 25%

of motor vehicle transit in metropolitan Jerusalem for all purposes is via PT

5.1%

nonperformed travels of PT lines in Jerusalem in 2018 (8.5% in 2017) compared to 2.4% nationwide

ILS2,642 per resident

cumulative investment in PT infrastructure in metropolitan Jerusalem, compared to ILS 7,600 in metropolitan Tel-Aviv and about ILS 6,700 in metropolitan Haifa

200 bus drivers

are lacking in Jerusalem to provide optimal PT services

1,355 overnight parking spaces

for buses need to be added in order to provide optimal PT services in 2030

30%

increase in passengers' complaints to the Ministry of Transportation in 2018 (3,943 complaints in 2017, compared to 5,106 complaints in 2018)

Audit actions

 From November 2018 to October 2019, the Office of the State Comptroller audited the level of service provided by PT bus service in Jerusalem and examined aspects impacting the quality of the service. The audit was conducted in the Ministry of Transportation and in the Jerusalem Transportation Master Plan Team. Supplementary audit was conducted in the Jerusalem Municipality and in Egged Transit Company Ltd.

Key findings

-  **Strategic plans and master plans for the development of public transit in metropolitan Jerusalem** – in 2014, the Ministry of Transportation, the Ministry of Finance and the Jerusalem Municipality prepared a summarizing report on PT development in metropolitan Jerusalem. Since the report was published in 2014, an updated concentrated report of the relevant information over the years and with an overarching view has not been published, and the preparation of an updated comprehensive master plan for public transit in metropolitan Jerusalem, particularly regarding the aspects of tourism-related transportation, has not yet been completed.
-  **Jerusalem public transit service indicators** – according to the summary report of 2014, there are major gaps between the PT services in metropolitan Jerusalem and the PT services in developed metropolises around the world. The gaps are reflected in the number of kilometers that a public transit vehicle travels per resident per annum (34 km in Jerusalem compared to 45 km in Tel-Aviv and 100 km on average internationally); the average travel speed (16 km/h in Jerusalem compared to 17 km/h in Tel-Aviv and 25 km/h on average internationally); the number of PT boardings per resident per annum (103 boardings in Jerusalem compared to 111 boardings in Tel-Aviv and 250 boardings on average internationally), and more.
-  **PT-support infrastructure** – the quality of the PT services in Jerusalem is adversely affected by the shortage of support infrastructure – fast lanes, priority lanes, overnight bus parking spaces, operating terminals, passenger terminals, etc.
-  **Bus drivers** – there is a shortage of bus drivers, which raises a material obstacle to upgrading the PT services in Jerusalem, particularly at a time when the Ministry of Transportation is taking action to introduce new PT operators into the city.
-  **Planning of PT infrastructure in Jerusalem's neighborhoods** – some of the neighborhoods and streets in Jerusalem were built without any planning for PT infrastructures and therefore, there are shortages of PT services for residents in some of these localities.

-  **Public transit in East Jerusalem** – the transit infrastructure in East Jerusalem is deficient and does not enable PT service to be operated properly in many areas; the multiplicity of operators in the PT network in East Jerusalem impedes the development of efficient lines and, under such circumstances, passengers have to make many transfers between lines in order to reach their destinations.
-  **PT Tenders** – in December 2018, the Ministry of Transportation published two tenders for new operators to operate PT bus lines in Jerusalem. The Ministry of Transportation's inadequate preparedness in relation to various aspects, such as the shortages of drivers, PT infrastructure, priority lanes and fast lanes, may constrain the implementation of these tenders, thereby resulting in an adverse impact on the quality of the PT services in Jerusalem.



Activity to improve and organize the public transit system in Jerusalem – the Ministry of Transportation and the Jerusalem Municipality have been taking action in recent years to improve and augment the PT services in the city. These actions included expanding the bus services in the city and improving the transit system taking passengers to the Western Wall. In recent years, many efforts have also been exerted to organize the PT services in the eastern side of the city. Inter alia, enforcement actions were taken against unauthorized operators, which led to a significant reduction in their activities.

Implementation of electronic control over the activity of the Egged Bus Company – as of April 2019, the Ministry of Transportation has been operating electronic control over Egged to ascertain whether it is achieving the service levels stipulated in the agreement, including checks of nonperformed trips, delays and more. As opposed to the manual control that had been used up until then, which was based on spot checks and public complaints, the electronic control system is precise and more extensive and is at the rate of 100%, and it can contribute to improving the standards of service for passengers.

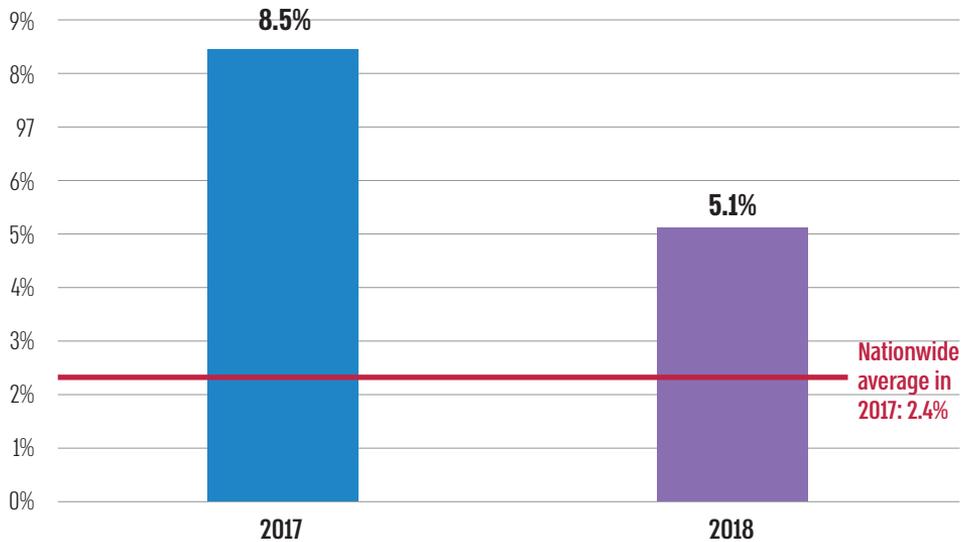
Key recommendations

-  It is recommended that the Ministry of Transportation should complete its preparation of a comprehensive master action plan for metropolitan Jerusalem.
-  It is recommended that the Ministry of Transportation should take action to construct the infrastructure facilities needed in order to expand the service in the bus lines. Without this expansion, the chances of improving the PT services in Jerusalem are low.



- 💡 It is recommended that the Ministry of Transportation should exercise its authority to increase the number of drivers in the economy in general and in metropolitan Jerusalem in particular, so that the PT operators will succeed in recruiting the number of drivers needed to provide and even expand the service.
- 💡 The Jerusalem Municipality should ensure that the planning of new neighborhoods will be PT-oriented planning, according to the principles and guidelines set by the Ministry of Transportation in 2016.
- 💡 It is recommended that the Ministry of Transportation, in collaboration with the Jerusalem Municipality and other relevant authorities, should continue its actions to improve the PT service in East Jerusalem and should consider various ways to improve it, including reorganization of the PT lines to serve additional destinations and new developed areas, increasing the enforcement against the pirate transit system and more.

Ratio of nonperformed travels¹ in Jerusalem in 2017 – 2018, compared to the national average in 2017



According to data from the Ministry of Transportation, processed by the Office of the State Comptroller.

¹ Ratio of trips not provided out of all trips stipulated in the line's license.

Summary

Improving the PT service in Jerusalem requires integrated planning activities by the Ministry of Transportation to provide a solution for the needs of all users of PT service in the city – residents of the city, residents of the suburbs, tourists and visitors of the city. The Ministry of Transportation and the Jerusalem Municipality should also take action to advance the many projects being planned in the city – from the construction of overnight parking lots, PT terminals and lanes, to the construction of the future light rail tracks – all with efficiency and persistence, while maintaining the public welfare and while conforming to the shortest possible timetable. Furthermore, the Ministry of Transportation, the Jerusalem Municipality and Egged should take action to make the PT services accessible to all neighborhoods in Jerusalem and to improve the PT service to the Western Wall.



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Chapter Three

State Institutions, Government Companies and Corporations



Office of the State Comptroller
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Israel Railway Ltd.

**Execution of the
Railway Lines
Electrification Project
and Opening of the
Express Line to
Jerusalem
Follow-up Audit**

Abstract

Execution of the Railway Lines Electrification Project and Opening of the Express Line to Jerusalem – Follow-up Audit

Abstract

Background

Israel Railways company's primary activity is to provide passenger train transportation on regular service lines. Since 2000, Israel Railways company has been taking action to replace its diesel-powered trains with electric trains (hereinafter – the electrification project). Electrifying the railways should shorten travel time, increase the number of trains that may be operated in the network, improve compliance with train schedules, reduce the number of train malfunctions, save on energy costs, reduce the noise at the stations and reduce the level of air pollution. The first electrified line in Israel is the express line from Herzliya to Jerusalem, which is currently running from the Savidor Central Station in Tel-Aviv to Jerusalem.

Key figures

69 million

number of train passengers travels on all lines in 2019

3.1 million

number of express train passengers travels to Jerusalem from the end of September 2018 until year-end 2019

13.3%

percentage of electrified railway tracks route on the audit date (May 2020) out of the planned route (about 64 km out of about 480 km)

2025

forecasted completion date of the electrification project. In 2013, the forecasted project completion date was defined as 2019

ILS12.1 billion

estimated cost of the electrification project in October 2019

31%

cumulative budget utilization ratio at year-end 2019 out of the project's estimated cost (ILS 3.7 billion out of ILS 12.1 billion)

54%

average percentage of kilometers of electrified tracks in the 28 EU countries in 2017. Israel had no electrified tracks in 2017.

2.6%

average ratio of cancellations of the express train travels to Jerusalem between October 2018 and December 2019, compared to 0.5% for the other lines

Audit actions

 From November 2018 to May 2020, alternately, the Office of the State Comptroller audited the rectification of deficiencies in Israel Railways company's management of the electrification project that were raised in its previous reports of 2014 and 2017 (hereinafter – the follow-up audit). Aspects of the processes for opening the express line to Jerusalem were also examined, including a follow-up on rectification of deficiencies in this regard from previous reports. The audit was conducted in Israel Railways company, in the Ministry of Transportation and Road Safety and in the Ministry of Finance. Supplementary audits were conducted in the Israel Police, in the National Fire and Rescue Authority and in Magen David Adom.

Key findings



The electrification project

-  **Completion of the electrification project** – the previous reports found delays in the completion of the electrification project. The follow-up audit found that the delays are continuing. In 2017, Israel Railways company had assessed that the project would be completed in December 2021 but, in May 2019, postponed the project completion date to the end of 2029. In March 2020, Israel Railways company updated the project completion date to the end of 2025.
-  **Cumulative budget utilization** – the cumulative utilization ratio out of the estimated project cost was only about 31% at the end of 2019 (cumulative budget utilization of about ILS 3.7 billion out of the estimated project cost of about ILS 12.1 billion), and the length of electrified tracks route on the audit date (May 2020) out of the planned length was only about 13.3% (about 64 km out of about 480 km).
-  **Approval of work procedures in an electrical environment** – in the previous audit, the Office of the State Comptroller had recommended that the Israel Railways company should review its work procedures and their compatibility with the electrification process. The follow-up audit found that Israel Railways company's CEO at that time had approved the procedures for working in an electrical environment only on the launch date of the operation of the express line in September 2018, even though – according to minutes of Israel Railways company's board meetings – training and train trips were conducted while work was underway on site, action that, according the company's CEO at that time, constitute grave safety violations.
-  **Losses to the economy as a result of delays in the completion of the electrification project** – during previous audits, the Office of the State Comptroller had pointed out that postponement of the operation of the electrification project entails a loss



to the economy of hundreds of millions of shekels per annum. The follow-up audit found additional postponements in the project completion date and therefore, the Office of the State Comptroller is reiterating its comment in its previous report that, as a result of the postponement of the completion of the electrification project, damages reaching hundreds of millions of shekels are being caused to the economy in each year of project postponement.

- ❗ **Losses to Israel Railways company due to delays in completing the electrification project** – the delays in completing the electrification project are compelling Israel Railways company to operate and maintain old diesel-powered engines and cars, to purchase additional diesel-powered equipment, and might cause a delay the receipt of the new electrical equipment that it already purchased at high cost.

Operation of the Herzliya-Jerusalem express train line

- ❗ **Mobile operation equipment** – when the Jerusalem express line was opened in September 2018, Israel Railways company did not have mobile equipment for operating it; therefore, it was compelled to operate the line using cars diverted from other train lines. This caused a reduction in their frequency and increased the congestion on the other train lines.
- ❗ **Appropriate expression of the economic repercussions** – when the decision was made to divert the mobile equipment from other lines when the new line was opened, appropriate expression was not given to all the economic repercussions of the decision.
- ❗ **Line operation with passengers without proper proof of reliability** – in its previous report, the Office of the State Comptroller pointed out the need to perform a thorough and exhaustive test-run process to map malfunctions. The follow-up audit found that the Jerusalem express train was operated in a test-run format, with passengers, without any proper proof of reliability, and that, during the test-run period, which continued for about a year, higher ratios of train cancellations were recorded than the average on the other lines (for example: the average train cancellation ratio on the Jerusalem express line between October 2018 and December 2019 was about 2.6% compared to about 0.5% on the other lines).
- ❗ **Emergency situations in tunnels and on bridges** - Delay in purchasing dual-purpose vehicles for transporting emergency forces – at the time of the audit, about three and a half years after the initial examination of the possibility of using dual-purpose vehicles, and about a year and a half since the decision was made to budget the purchase of these vehicles, their purchase has not yet been completed. The budget for the purchase of trains for Magen David Adom has not yet been transferred, the Israel Police has not yet published a tender for purchasing the vehicles, and only the National Fire and Rescue Authority has showed progress in the purchasing process. However, as a result of the coronavirus crisis, at the time of the audit, the supply date of the vehicles to the National Fire and Rescue Authority is undetermined.

🔴 Emergency situations in tunnels and on bridges – transporting emergency forces via a stand-by train is not optimal – it may prolong the duration of the evacuation and result in the loss of lives. The audit found that an additional full drill was not performed for the purpose of rectifying deficiencies found during the previous drills transporting emergency forces and evacuating casualties via the train; a shortage equipment necessary to Magen David Adom at the Navon Station was found; difficulties can be expected when evacuating casualties from the station's lower level to the entry level; and telecom links between Magen David Adom and the other emergency forces have not been arranged.



The electrification project

Appointment of a director of the Electrification Administration on behalf of Israel Railways company and an increase in the project's output – in September 2019, Israel Railways company appointed a manager on its behalf to the role of manager of the Electrification Administration to coordinate all of its activities, including the work on completing the express line. The changes in the project's management led to an increase in the project's output as of the second half of 2019.

Appointment of a safety officer and preparation of a safety program – the Office of the State Comptroller alerted in a previous report about the possibility of diminished work safety during the electrification project. The follow-up audit found that in September 2019 Israel Railways company had appointed a safety officer in its development division and that it took action to prepare a work safety plan with company A.

Project acceleration actions – Israel Railways company signed an agreement with company A for the purpose of accelerating the project, and the planned project completion date has been brought forward by four years (from 2029 to 2025).

Operation of the Herzliya-Jerusalem express train line

Drawing of conclusions – Israel Railways company performed a process for drawing conclusions with regard to the opening of the Jerusalem express line, including on the subject of tests and test-runs of the line.

Emergency situations in tunnels and on bridges – transporting emergency forces using specialized vehicles (Zibar) – Israel Railways company and the National Fire and Safety Authority have provided specialized vehicles to transport first-responder rescue forces of Israel Railways and the Fire and Safety Authority to the site of the incident.

Key recommendations

-  It is recommended that Israel Railways company should continue analyzing and implementing ways to advance and accelerate the electrification project in conformance with the timetables, budgets and requisite standards. The Ministry of Transportation and the Ministry of Finance should increase their supervision and control over Israel Railways in order to prevent additional delays in the timetables.
-  It is recommended that, when setting the electrification dates and prioritizing the operation dates of the various lines in the project, the Ministry of Transportation should also consider the benefits to the economy of the alternatives for advancing electrification of the lines in the project. It is advisable that Israel Railways company should analyze the economic repercussions to the company when electrifying each of the lines, for the purpose of prioritizing the electrification of the various lines in particular, and the service to passengers in general.
-  It is recommended that Israel Railways company and the Ministry of Transportation should set criteria for optimal allocations of the mobile equipment to lines to be opened, considering the demands for the various lines, the operating and economic implications and a possible adverse impact on the quality of the service deriving from shifting the equipment between the various lines.
-  It is recommended that Israel Railways company and the Ministry of Transportation should prescribe clear and transparent criteria for ensuring proper service reliability prior to opening future passenger train lines on test-runs and not on test-runs, including when changing a diesel-powered line to an electricity-powered line.
-  Israel Railways company, the Ministry of Transportation, the National Fire and Rescue Authority and Magen David Adom should take action to improve emergency forces' ability to respond rapidly to emergency incidents along the route of the express line at bridges, in tunnels and at the Navon Station in Jerusalem.



Follow up on the execution of the electrification project and the opening of the Herzliya-Jerusalem express line							
Audit item	Audited body	The deficiency / the recommendation in the audit report	Extent of rectification of the deficiency found in the follow-up audit				
			Not rectified	Somewhat rectified	Considerably rectified	Fully rectified	
The electrification project							
Delays in completing the construction of the electrification infrastructure above the tracks and in Israel Railways' facilities	Israel Railways company	Prolongation of the tender could cause project delays					
Economic and operating repercussions of delays in completing the electrification project	Israel Railways company	Postponing the project operation by five years entails a loss of hundreds of millions of shekels per annum					
	Ministry of Transportation	Performing an updated economic cost benefit analysis when material changes occur in the project's contents and costs					
Towing of electric trains to a garage for maintenance	Israel Railways company	One garage was adapted to repair electric engines					
Mapping of additional infrastructures	Israel Railways company	The company has no precise data about the infrastructures located adjacent to tracks designated to be electrified					
Appointment of a manager to manage the project	Israel Railways company	A foreign manager and an Israeli manager headed the Electrification Administration, and the spheres of responsibility and divisions of tasks between them were not clearly defined					
Work safety during the Electrification Project	Israel Railways company	Israel Railways' ambition to launch the Tel-Aviv-Jerusalem express line in March 2018 is liable to adversely affect safety					
		As part of Israel Railways' preparations for the electrification project, all of Israel Railways' existing procedures should be analyzed and adapted for electrification					
The Herzliya-Jerusalem express line							
Lack of quality-of service criteria for initiating a test-run of the line with passengers	Israel Railways company	A thorough and exhaustive test-run process to map malfunctions should be performed					
Shortage of telecom links at Magen David Adom for communicating with other emergency forces	Ministries of Health and Finance	Magen David Adom is not connected to the telecom systems of the other emergency forces					



Summary

The electrification of the national railway track network is Israel Railways company's largest and one of its most important projects in recent years. The previous audit found deficiencies in the management of the project, which caused numerous delays in its completion. The follow-up audit conducted by the Office of the State Comptroller found that the project's completion date has been postponed several times, and the updated forecasted completion date is at the end of 2025. Towards the end of the audit, Israel Railways and the Ministries of Transportation and Finance took action to accelerate the project and to advance its completion date by four years – from 2029 to 2025. The Office of the State Comptroller recommends that these bodies should analyze the economic implications, including the benefits to the economy, when prioritizing the electrification of the various lines. Israel Railways company, the Ministry of Transportation and the emergency forces (the National Fire and Rescue Authority, Magen David Adom and the Israel Police) should draw conclusions from the deficiencies discovered during the preparations for emergency events when operating the Jerusalem express line, because if they are not rectified, they might result in loss of life due to the duration of evacuations during an emergency on the express line and on other lines.



Office of the State Comptroller
Annual Report 71A | 2020

Government Water and
Sewage Authority

**Water and Sewage
Corporations
– Regulation,
Management and
Supervision**

Abstract

Water and Sewage Corporations – Regulation, Management and Supervision

Abstract

Background

In 2001, the Water and Sewage Corporations Law was enacted. It transferred the management of the water and sewage systems from the local authorities to water and sewage corporations. The law sought to ensure proper standards of service, professional efficient business management and the utilize revenues for investments in water and sewage infrastructures (hereinafter – the incorporation reform). Until the beginning of 2020, 56 corporations were formed that included 158 local authorities that were obligated to incorporate¹; 24 local authorities that were obligated to incorporate have not yet done so. Attempts have been made since 2006 to establish regional corporations to consolidate the number of corporations and increase their service areas. At the audit completion date in December 2019, the proposed formats for regional incorporation have been unsuccessful.

Key figures

ILS 4.6 billion

the volume of revenues of the water and sewage corporations in 2018. Total profit in 2018 was ILS 273 million

45%

of the average uniform tariff to household consumers for 2019 constitutes the corporations' cost component (ILS 9.059 per m³)

60%

of the benefits budget allocated for populations entitled to a discount off their water bills in 2015-2019 was not utilized (ILS 153 million)

ILS 8.6 billion

the corporations' total investments in water and sewage infrastructure in 2011-2018

43%

of the volume of the grants given to local authorities and to corporations in 2007-2016² in order to incentivize incorporation and regional incorporation and to help during the initial incorporation period was not utilized – about ILS 940 million, out of ILS 2.2 billion

56 corporations

exist on the audit completion date. These corporations provide service to about 95% of the population of those local authorities required to incorporate by law, although at this time, the maximum number of corporations by law is supposed to be 30

1 Additionally, two local authorities incorporated that were not required to incorporate.
2 The grants were paid up until 2018.

Audit actions

 From May to December 2019, the Office of the State Comptroller audited various aspects of the water and sewage corporations, including an examination of the success of the incorporation reform and an examination of the fulfillment of the objectives defined in the Water and Sewage Corporations Law. The mechanism of benefits to disadvantaged populations was also examined. The audit was conducted in the Water Authority and in several water and sewage corporations with differing characteristics, including population size, number of authorities holding the corporation, the average socio-economic rank of the population and sectors.

Key findings

-  **The water tariff to household consumers** – in 2010, as a result of the tariff reform³, the water component of the water and sewage tariffs (i.e., excluding the sewage tariff) increased by 30%. Subsequently, the tariffs were lowered until July 2018, followed by a moderate increase until January 2020.
-  **Partial reduction in the water loss ratio**⁴ – from 2011 to 2018, the average water loss ratio improved. The savings was achieved due to the decrease in the average water loss during the years 2011-2018. The annual savings in 2018 was approximately 29 million m³ worth roughly ILS 203 million. Nevertheless, in 2018, the actual average water loss ratio (9.64%) was still higher than the average water loss ratio defined by the Water Authority (7.97%). The annual gap totals about 10 million m³ and equivalent to an annual financial loss of about ILS 69 million. The highest gap was recorded in corporations defined as entitled corporations that serve minority populations⁵. Consequently, one of the main goals of the incorporation reform has not been fully achieved.

3 The Water Authority Council was responsible for the water tariff reform. With this reform, the Council changed the mode of calculation of the water tariffs and based them, inter alia, on the principle of the recognized cost, on discontinuing the government subsidy and on imposing all of the costs on consumers, including water desalination costs and higher sewage treatment costs for the purpose of achieving better quality treated waste water. It should be noted that the tariffs that the Authority defines since 2010 includes a sewage component, while previously, the sewage fees were set according to municipal bylaws.

4 Water loss is the difference between the volume of water purchased (or produced) and introduced into the water system and the volume of water that consumers are billed. Water loss can derive, for example, from faulty water meters, from trickling, from water leaks and from water theft.

5 These corporations were classified as "entitled corporations" for grants and for more lenient norms. "Entitled corporations" were defined as weak corporations with particularly high water loss ratios that are incapable of independent financial subsistence during their initial years of operation and are eligible for grants and more lenient norms.

- ❗ **Partial reduction of the collection loss ratio**⁶ – among the corporations examined, an average decrease was found in the current collection loss ratio in 2011 compared to the ratio in 2018. The average current collection loss ratio in 2018 among the entitled corporations (28%) was significantly higher than that ratio among the rest of the corporations (11%). Even after two years of collection efforts, the gaps are still significant. Thus, the cumulative average collection loss ratios as of December 2018 for billing in 2016 among the entitled corporations (13%) was higher than that ratio among the rest of the corporations (3%) and fails to achieve the norm defined by the Authority for the weak corporations – an average ratio of about 3%.
- ❗ **Significant differences between the corporations** – there are significant differences between the entitled corporations and the rest of the corporations. Although the entitled corporations received financial assistance through a cross-subsidy in tariffs and grants so that they will be capable of achieving the norms defined by the Water Authority, correct to 2018, this objective has not been achieved. The differences were found in all operation aspects: profitability, financial robustness, water loss, investments and collection losses.
- ❗ **The corporations' accounting control and supervision tools** – the accounting control and supervision tools that the Water Authority required the water and sewage corporations to implement were found to be deficient. The process that the Water Authority instituted in 2017 to regulate this issue was discontinued, even though a decision had been made to continue it in another format. The possibility of continuing it through an alternative procedure was not considered.
- ❗ **Implementation of compulsory regional incorporation** – the government policy since 2006 has been, inter alia, to encourage regional incorporation, which was supposed to reduce the number of corporations. Compulsory regional incorporation has been anchored in law since 2013. Nevertheless, on the audit completion date, the number of corporations has not been reduced. Local authorities with a low socio-economic rank established mainly low rank corporations⁷ ranked low on the socio-economic index. The format of regional incorporation that the Authority proposed in 2013 and in 2019 was not implemented, despite the incentives and grants offered by the Water Authority to encourage regional incorporation. Only 24 of the current 56 corporations are serving more than 100,000 residents each.

6 Collection loss is calculated as a ratio of uncollected billing out of an issuing corporation's total billing. The Office of the State Comptroller examined the corporations' current annual collection loss values in 2011 compared to 2018 as on each December 31. It should be noted that the calculation of the current loss as on December 31 of each year did not take into account revenues from billing collections subsequent to the end of the year, such as billing not yet due on December 31 and collections from enforcement actions received after the end of the year.

7 The social economic rank of the corporation is derived from the average rank of the local authorities that the corporation serves.

 **The assistance mechanism to disadvantaged populations** – the assistance mechanism to disadvantaged populations is not leading to full utilization of the benefit allocated for this purpose. Two and a half years have elapsed since the date the Knesset Finance Committee issued a directive to prepare a new model for providing assistance to disadvantaged populations. The directive aimed to amend the regulations. The Water Authority forwarded a proposal for a new model and amendments to the regulations to the Ministry of Finance May 2017. Nevertheless the Ministry of Finance has not yet submitted a draft amendment to the regulations to the Finance Committee and the assistance mechanism has remained unchanged. It should be noted that about 60% of the assistance available to the customers eligible for a discount on their water bills in 2015-2019 was not utilized (ILS 153 million).



The corporations' profitability from 2011 to 2018 – the corporations' profitability improved between 2011 and 2018. In 2011, there were 52 corporations operating and their total profit was about ILS 10 million which reflected a negligible annual return and 58% of the corporations ended 2011 with a loss. In contrast, the corporations' total profit in 2018 was estimated to be approximately ILS 273 million, reflecting an annual return of about 6%. This is the customary return for the controlled infrastructure service sector - which is a monopoly. 18% of the corporations ended 2018 with a loss.

Corporate investments - during the years 2011 - 2018 the corporations invested ILS 8.6 billion in the water and sewage systems including ILS 1.3 billion in 2018. Additional sums were invested in sewage treatment plants.

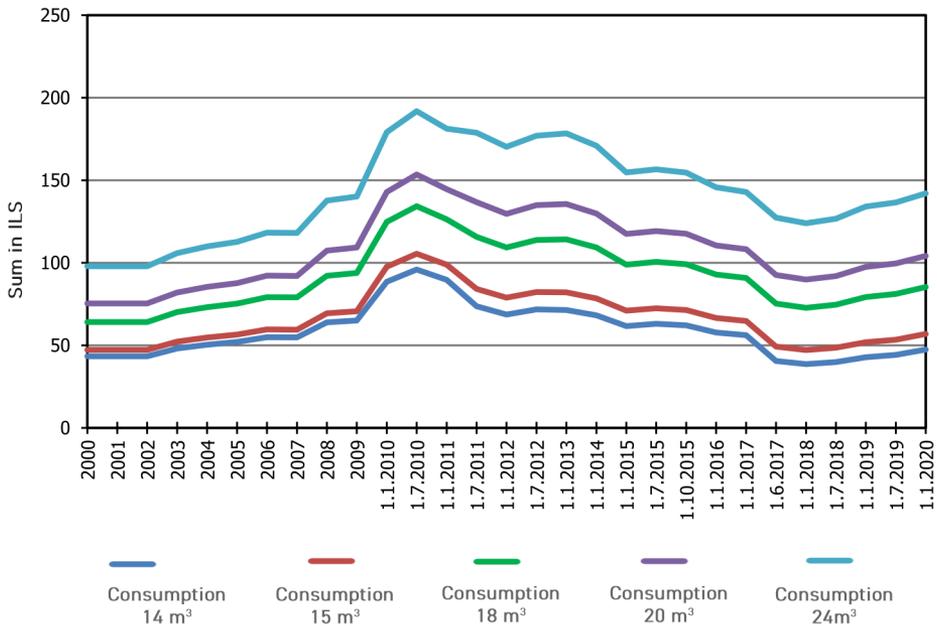
Using water disconnections as a collection tool from household consumers – the promulgation of rules regarding water disconnections in 2015 by the Water Authority Council and its activities to implement these rules almost completely eliminated the practice of corporations using water disconnections as a means to collect household consumers' current debts.

Key recommendations

 It is advisable to consider ways to ensure the financial robustness of the entitled corporations ranking low on the socio-economic index, of corporations with a low profit margin and those recording losses, in order to ensure that they comply with the norms stipulated for them. It is also recommended to consider offering grants in the future that will be contingent upon meeting clear targets regarding required infrastructure improvements and compliance with norms that define milestones and measurable interim targets. These yardsticks will enable supervision and monitoring grant fund usage.

-  Consumers' payments for water and sewage services are intended as a financing source. In light of high annual and cumulative losses due to collection losses, the Water Authority and the corporations, particularly the entitled corporations, should monitor debt collection and consider additional ways to improve the collection ratio. These steps include utilizing additional collection methods and mapping of additional governmental entities outside of the water system that could assist them to achieve significant improvement as well as meeting the normative collection loss norm.
-  It is recommended that the Water Authority focus on corporations deviating from the water loss norm and take action so that the corporations formulate a plan for achieving the required norm. as, The Water Authority should develop mechanisms to encourage corporations to streamline and maximize profit. It is also recommended that the Water Authority should consider the corporations' infrastructure investment plans according to the expected growth in population.
-  The Water Authority should take action to regulate internal control in the water and sewage corporations, and consider raising the topic for discussion by the Water Authority Council, which has the authority to set rules that will apply to all of the corporations.
-  It is recommended that the Water Authority submit a proposal to the Water Authority Council to amend the service criteria so that they will contain detailed regulations regarding the publication of consumer inquiries to the corporations in order to create reporting uniformity. Inter alia, it is advisable that the Water Authority Council should also consider adding a requirement that the corporations report data to their consumers about increased consumption and the handling time of public inquiries. This will increase transparency regarding relevant consumer information.
-  Considering the low utilization ratio of the benefits by entitled consumers and considering the Knesset Finance Committee's directive, it is advisable that the Ministry of Finance, which is responsible for preparing regulation amendments, and the Water Authority, as the regulatory authority and the supervisor of the water system, take action to revise the assistance mechanism to the entitled populations in a manner enabling optimal benefit utilization.
-  In order to implement mandatory regional incorporation, the Ministry of Finance, the Water Authority, the local authorities and the Federation of Local Authorities should analyze all governance, financial, cultural and topographical considerations. This will assist them in devising a solution to overcome the problems regarding the poor condition of the infrastructure, and the high water loss and collection loss ratios in authorities with a low socio-economic ranking. The resulting regional incorporation plan that shall be proposed, should be used while seeking solutions for these issues.

Water bills for household consumption (without the sewage component) 2000 – 2020 (at real prices)



According to data from the Water Authority, processed by the Office of the State Comptroller.

Summary

The objectives of the incorporation reform, which transferred the management of the water and sewage system to water and sewage corporations, were partially achieved. Although there was some improvement in the corporations' operating indicators and most of the local authorities incorporated, there are still gaps compared to the norm, and the regional incorporation format was not implemented. Along with actions to promote regional incorporation, which is part of the spectrum of actions needed to advance the reform's objectives, additional actions should be considered, including contending with the unique issues facing the entitled corporations and the disadvantaged populations, weak internal controls and increasing collection losses. Additionally, the provisions of the law regarding regional incorporation and reducing the number of corporations should be implemented and actions should be taken to streamline the corporations, inter alia, by narrowing the gaps between the actual costs and the normative costs defined by the Water Authority.



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Government Water and
Sewage Authority

**Connection of the
Golan Heights, the
Upper Sea of Galilee
Region and the
Eastern Valleys to
the National Water
System**

Abstract

Connection of the Golan Heights, the Upper Sea of Galilee Region and the Eastern Valleys to the National Water System

Abstract

Background

The national water system is the central water supply network that relies mainly on the national water carrier and connects the main sources of water to the main water distribution system. There are regions that are not connected to the national water system, where water supply is based solely on local sources of water with no back-up supply of water from the national system. These main regions are the Golan Heights, the Upper sea of Galilee region, the Eastern Valleys and the Arava region. On June 10, 2018, the government passed a resolution entitled "Strategic Plan for Contending with Periods of Drought in the Water Economy 2018 – 2030." The resolution stated, inter alia, that the Water Authority should consider by December 31, 2018, a plan for connecting the unconnected regions to the national system in order to create a fully reliable supply of potable water and increase the reliability of the water supply for agriculture, for nature and for tourism in the unconnected regions – the Upper Sea of Galilee region, the Golan Heights, the Eastern Valleys and the Western Galilee region.

Key figures

46%

the water consumption ratio in the unconnected regions in 2018 out of the total consumption of freshwater in Israel for agricultural purposes. According to the Water Authority's assessment¹, in 2019, 45% was consumed.

360 million m³

the water shortage in the natural reservoirs in the hydrological year 2018 – 2019². The water shortage in the natural reservoirs in the hydrological year 2017 – 2018 was 1 billion m³

22 million m³

the forecasted maximum water shortage for agriculture in the Upper Sea of Galilee region and in the Golan Heights in 2030, at a reliable water supply ratio of 80% according to the Water Authority's assessment

51 million m³

the forecasted water shortage for agriculture in the region of the eastern valleys in 2050

ILS 1.6-1.7 billion

the capital and operating costs of connecting the Upper Sea of Galilee region, the Golan Heights and the Eastern Valleys to the national system according to the various alternatives, as per the Water Authority's estimate

ILS 1.5 billion

annual cost of Mekorot's³ development plan in 2020 – 2022

1 The Water Authority informed the Office of the State Comptroller that the 2019 data "are still being processed and precise data cannot be provided."

2 Relative to the recommended green line level.

3 Mekorot is Israel's national water company.

Audit actions

 From April to December 2019, the Office of the State Comptroller audited the planning and implementation of the government resolution of June 2018 regarding the plan for connecting the unconnected regions – the Golan Heights, the Upper Sea of Galilee region and the Eastern Valleys. The examinations were conducted in the Water Authority and in Mekorot.

Key findings



-  **The plan for examining the need to connect the unconnected regions to the national water system** – in June 2018, the government passed a resolution instructing the Water Authority to present a plan to the Minister of Energy by December 2018 for examining the need to connect the unconnected regions. The audit found that the Water Authority had submitted a presentation to the Water Authority Council and to the Minister of Energy containing the main information for discussion purposes, which was revised from time to time. However, up until the audit completion date, it was not found that a detailed plan had been submitted, including explanations that could provide a comprehensive basis for discussions and decision-making. The Water Authority also did not supplement its presentation with all information needed for the decision-making process with regard to the mode of connection of the unconnected regions to the national water system or the contractor that would carry out the connection project.
-  **Presentation to the Water Authority Council of the impact of carrying out each of the alternatives for connecting the unconnected regions on the water tariff to consumers** – the Water Authority did not present economic analyses to the Water Authority Council showing the impact of each of the proposed alternatives on the water tariff to consumers for the purposes of decision-making with regard to connecting the unconnected regions to the national water system.
-  **Managing the process of selecting the contractor to carry out the alternative of connection through the Upper Sea of Galilee region** – the Water Authority has not yet completed its examination of the contractor selection process and has not presented to the Council how it intends to manage the process, a cost assessment, selection criteria, examinations of the candidate's financial robustness, the risks involved in enabling various contractors to potentially gain actual control over the water sources, or its assessments of project duration according to the various alternatives.
-  **Master plans for the unconnected regions** - As of the audit completion date, the Water Authority has not approved master plans for the supply of water for agricultural purposes to the Druze agricultural associations in the Golan Heights,



a plan for the supply of freshwater to the northern Golan Heights and master plans for the Jordan Valley and for the Beit She'an region. However, it has not yet completed the preparation of master plans for the Upper Sea of Galilee region or comprehensive master plans for the eastern valleys. In the absence of master plans, information is lacking that could improve the accuracy of the assumptions applied in the analyses being performed in preparation for submitting the relevant information to the Council members.

-  **Master plan for water and for agriculture** – a master plan for water and for agriculture has not yet been completed. In the absence of an approved joint master plan for water needs and for agriculture needs of water, the Water Authority was unable to take into account all of the water needs required for agriculture during its analysis regarding connection of the unconnected regions, and considered only those needs discussed and approved by the government or those that have been approved by an agricultural program. A master plan containing reliable data is essential for making decision regarding high-cost projects designed to meet the future needs of the unconnected regions.
-  **Information regarding project duration for each of the alternatives** – in the information that the Water Authority presented to the Council, it did not mention plan completion schedule under the various alternatives or critical milestones in the execution of each of the alternatives, relative to the point at which the need to connect these regions will become critical.
-  **The Mekorot development plan's reference to the connection projects** – the delay in decision making regarding the alternative for performing the plan and in selecting the contractor made it impossible to address the matter of the connection projects when the decision was being reached about Mekorot's development plan for the years 2020 – 2022. Consequently, the projects could not be included in the development plan approved for Mekorot for 2020 – 2022.



Initiation and promotion of a government resolution on the matter of connecting the unconnected regions to the national water system within the framework of a Strategic Plan for Contending with Periods of Drought in the Water Economy – the Ministry of Energy initiated and promoted a government resolution on the matter of a strategic plan for contending with periods of drought in the water economy between the years 2018 and 2030, in which, inter alia, it instructed the Water Authority to consider a plan for connecting the unconnected regions to the national water system.

Key recommendations

-  It is recommended that the Water Authority should complete its examination of all matters specified in this report and should submit a methodological plan to the Water Authority Council that details all relevant considerations and aspects of connecting the unconnected regions in order to formulate a decision in this regard.
-  It is recommended that the Ministry of Water Resources, which is responsible for implementing the government resolution of June 2018, should continue monitoring the Water Authority's completion of its examination of the connection projects and the presentation to the Minister of Energy as stated in the government resolution.
-  It is recommended that the Ministry of Agriculture should complete the formulation of the joint master plan for agriculture needs of water.
-  It is recommended that the Water Authority should complete the master plan for supplying water to the Upper Sea of Galilee region.
-  It is recommended that the Water Authority should prepare and present an examination to the Water Authority Council that will explain how it intends to manage the process of selecting the contractors that will carry out the projects connecting the unconnected regions to the national water system, including the format of the process, cost assessments, selection criteria, examinations of the candidate's financial robustness, the risks involved in enabling various contractors to potentially gain actual control over the water sources and assessments of project duration according to the various alternatives.
-  It is recommended that the Water Authority should prepare a long-range master plan for the water economy that will contain, inter alia, the requisite reliable supply level of all types of water.

Chronology of the decision-making process regarding connection of the unconnected regions

Government resolution 3866.	10.6.18
The Water Authority was instructed to consider a plan for connecting the unconnected regions and present it to the Minister of Energy by this date.	31.12.18
Two meetings were held with the Director-General of the Ministry of Energy on the subject of connecting the unconnected regions.	05.2019
Water Council meeting no. 1 – the Water Authority presented its position to the Water Council, whereby: connection of the Upper Sea of Galilee region is not necessary within at least the coming decade if water reservoirs are established; no problems supplying potable water to the eastern valleys are expected until 2030; and water line 64, which currently reaches the Sea of Galilee, needs to be reinforced. The Council members requested additional information.	6.6.19
The Water Authority conducted a public hearing. A plan and alternatives were not included in the "public request" for opinions. The Water Authority submitted a presentation containing data and alternatives only after the public's opinions were received, and in preparation for consultations with the public hearing.	23.7.19
Meeting with the Minister of Energy on the subject of connecting the unconnected regions.	20.8.19
The Water Authority presented the presentation "Examination of the subject of connecting the unconnected regions to the national water system" to the Minister of Energy.	8.9.19
Water Council meeting no. 2 – the Water Authority presented its position to the Water Council, whereby: the unconnected regions should be connected through the Sea of Galilee. The Council members requested additional information.	12.9.19
Water Council meeting no. 3 – the Council confirmed the need to connect the unconnected regions and decided that the mode of connection would be decided after the Water Authority submits additional information to it.	7.11.19

According to Water Authority data, processed by the Office of the State Comptroller.



Summary

The execution of water infrastructure projects takes about a decade. At the audit date, a decision has not yet been reached with regard to the alternative for connecting the Golan Heights, the Upper Sea of Galilee region and the eastern valleys to the national water system. The Water Authority should perform all necessary examinations as specified in this report and present to the Water Council all the information required for the decision-making process. Delaying the decision-making regarding the alternative for connecting the unconnected regions could lead to a water shortage in the unconnected regions within the next decade. This delay could also lead to postponed implementations of other government resolutions to develop the agricultural region, such as the government resolution strengthen the agricultural peripheries and to develop and strengthen agriculture in the Golan Heights.



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Government Water and
Sewage Authority

**The Actions of Local
Authorities and
Water Suppliers
to Assure Drinking
Water Quality
Follow-up Audit**

Abstract

The Actions of Local Authorities and Water Suppliers to Assure Drinking Water Quality – follow-up audit

Abstract

Background

Drinking water is a basic existential need and a critical and strategic national resource. Most of the drinking water for Israel's residents is supplied by the Mekorot Water Company Ltd. (Mekorot) up to the connection to the main consumer, while the water supply to end-consumers within a Local authority's jurisdiction is provided by the local supplier (the water corporation) and in settlement that have not established a water corporation, the water supply to end-consumers is provided by the local authority or the local water association (the water supplier or the local supplier). In order to assure that the water is fit to drink, the water supplier is required: to ensure that the drillings under its responsibility are protected against contamination; to treat the water using various means, such as filters and chlorination; to ensure that the water collection and water supply systems are intact and disinfected ; to regularly sample the water and verify that it contains no microbial or chemical contaminants; and to prevent any connections between drinking water systems and water systems for agriculture, businesses and industry.

Key figures

1.29
billion m³

of freshwater were supplied by the various water suppliers in 2018¹

56 water
corporations

supply water to 6.6 million residents of 155 local authorities in the municipal sector

1,351 other
water suppliers

which are unincorporated local authorities, kibbutzim, moshavim, community settlements and others

0.58%

average percentage of contaminated samples found during testing in 2014 – 2019 (580 out of 100,000 tests performed annually), which detected coliforms and fecal coliforms in drinking water

¹ Corporations, unincorporated local authorities, community settlements, kibbutzes and moshavs; not including the supply of 140 million m³ to Jordan and to the Palestinian Authority and about 20 million m³ of water for Nature.

Audit actions

 In 2015, the Office of the State Comptroller published a report about the local authorities' and water suppliers' actions to assure the quality of drinking water ²(the previous report or the previous audit). From January to March 2020, the Office of the State Comptroller audited the actions of the water suppliers and the local authorities to rectify the main deficiencies relating to quality assurance of drinking water that were specified in the previous report. The current report presents the findings of the follow-up on the rectification of the main deficiencies specified in the previous report. The follow-up was conducted in several water corporations, in local authorities, in Mekorot, in other water suppliers and in the Ministry of Health.

Key findings

 **Suppliers' assurance of drinking water quality** – it was found that the extent of the rectification of deficiencies at three suppliers – the Municipality of Nesher, the local water supplier in Moshav Ahihud and the local committee of Kibbutz Tel Yosef – requires re improvement. These suppliers failed to comply with Ministry of Health directives:

- The previous audit found that the Municipality of Nesher had not been cleaning and disinfecting the drinking water reservoirs under its responsibility since 2008 and for six subsequent years, but did do so during the previous audit. The follow-up audit found that in 2017 – 2019, the Municipality failed to clean or disinfect the reservoirs, but did do so during the follow-up audit, in January 2020.
- The previous audit found that the local committee of Kibbutz Tel Yosef, where testing repeatedly found contaminated samples, failed to fully comply with the Ministry of Health's requirements to resolve the contamination problem and to prevent its recurrence.
- The previous audit found that the local water supplier of Moshav Ahihud failed to comply with the Ministry of Health's requirements, which led to contamination of the drinking water supply and made it necessary to boil the water.

The follow-up audit found that these suppliers are persisting in their noncompliance with Ministry of Health directives, the purpose of which is to assure the quality of the drinking water that they are supplying.

2 The State Comptroller, **Annual Report 66A** (2015), "Local Authorities' and Water Suppliers' Actions to Assure Drinking Water Quality," p. 609



-  **Compliance with the sampling program** – the previous audit found 28 water suppliers that failed to comply with the annual sampling program for conducting microbial and chemical testing of the water supply system. The follow-up audit found that 11 of them failed to comply with the sampling program, mainly in relation to tests to detect harmful metals in drinking water.
-  **Rectification of deficiencies found by the Ministry of Health** – during the previous audit, the Office of the State Comptroller found that in four instances, the Ministry of Health had conducted repeat inspections at water suppliers and found recurring deficiencies that the suppliers had not taken action to rectify. During the follow-up audit, the Office of the State Comptroller found that three of the suppliers had still not completely rectified the deficiencies.
-  **Information about backflow prevention devices** – the Ministry of Health does not have up-to-date information about the suppliers' actions to rectify the deficiencies found in relation in the installation of backflow prevention devices in several settlements in the agricultural sector.



Regulation of drinking water drillings – the previous audit found that 48 drinking water drilling rigs were operating without Ministry of Health certification or a business license and that there were hazards within the bounds of the protective areas around most of the drill rigs, which are liable to cause contamination of the well water. The follow-up audit found that only two drill rigs were operating without approval on the audit completion date.

Installation of an automatic disinfection system – the previous audit found that a controlled automatic disinfection system was not installed during the drillings performed by the Mei Ono, Mei Avivim and Ma'ayanot Hameshulash water corporations. The follow-up audit found that this deficiency has been rectified and that such automatic disinfection systems have been installed at the drilling sites being operated by these water corporations.

Cleaning and disinfecting of drinking water reservoirs in Tirat HaCarmel – the previous audit found that the Municipality of Tirat HaCarmel failed to clean the drinking water reservoirs under its responsibility for about seven years. The follow-up audit found that Tirat HaCarmel had joined the Ma'ayanot Hahof Water Corporation in September 2016 and that, since 2017, the corporation has been cleaning these reservoirs annually.

Compliance with the microbial sampling program – the previous audit found that 28 water suppliers were failing to comply with the annual sampling program for conducting microbial tests. The follow-up audit found that all of the suppliers, apart from one, are properly complying with the microbial sampling program³.

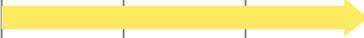
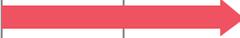
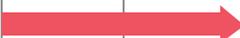
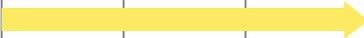
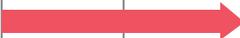
³ Although it was found that some of them are not testing for metals as is required.

Rectifying the deficiency pertaining to backflow prevention devices – the previous audit found that nine suppliers failed to compile a list of businesses under their responsibility that are obligated to install a backflow prevention device, failed to supervise the installation of backflow prevention devices in these businesses and failed to verify that the backflow prevention devices are working properly by monitoring and enforcement measures as is required. The follow-up audit found that eight suppliers made progress in handling this issue.

Key recommendations

-  It is recommended that the Mateh Asher Regional Council should take action to regulate the approval of drillings in Kibbutz Saar, including by delegating authority to Kibbutz Saar's local committee, insofar as it shall deem this appropriate.
-  It is recommended that the Municipality of Neshet, the Gilbo'a Regional Council, Kibbutz Tel Yosef's local committee and the Mateh Asher Regional Council should take action – including by authorizing Moshav Ahihud's local committee (insofar as it shall deem this appropriate) – to assure drinking water quality in each of their respective supply systems in compliance with Ministry of Health directives.
-  It is recommended that the Ministry of Health should accelerate its handling of the matter of water drilling rigs that are operating without certification or not in compliance with its directives, and should take enforcement measures against suppliers that are failing to comply with the provisions of the law and the Ministry's directives.
-  It is recommended that the Ministry of Health should notify the local authorities about water suppliers that are failing to operate in compliance with the Ministry of Health's directives, in order to enable them to take action and fulfill their responsibility for verifying that suppliers of water to the communities within their jurisdiction will take all measures necessary to assure the quality of the drinking water.

Quality assurance of drinking water – key findings of the follow-up audit

Audit item	Deficiencies reported in the audit report	Extent of rectification of the deficiency found in the follow-up audit			
		Not rectified	Somewhat rectified	Considerably rectified	Fully rectified
certification and licensing of drillings	Operation of drilling rigs by Mekorot and several water companies without Ministry of Health approval				
	Operation of drilling rigs by several local committees without Ministry of Health approval				
Installation of a continuous chlorine meter on drill rigs	Operation of drilling rigs without installing a controlled and automatic disinfection system				
Cleaning and disinfecting water reservoirs	Water reservoirs are not being cleaned at the required frequency				
	Water samples are not being taken after disinfection				
Compliance with the sampling program	Failure to comply with the microbial sampling program				
Recurring deficiencies in drinking water facilities	Failure to rectify recurring deficiencies found in the water corporations				
	Failure to rectify recurring deficiencies found in local committees				
Water contamination and investigative reviews	Resolving problems causing incidents of water contamination				
	Failure to publish irregular results of tests showing contamination and the handling of them, and a failure to conduct investigative reviews				
Backflow prevention devices	Local committees failed to install backflow prevention devices in several agricultural settlements				
	Water corporations failed to supervise the installation of backflow prevention devices in the business-industrial sector				



Summary

Contamination of drinking water is liable to cause grave and extensive harm to the public's health. Meticulous compliance with the provisions of the law and the Ministry of Health's directives is essential in order to prevent contamination of the drinking water supply. The previous report specified numerous instances in which water suppliers weren't complying with the provisions of the law and Ministry of Health directives and jeopardized the health of the residents to whom they are supplying water. The current audit found that most of the deficiencies have been rectified and that the vast majority of the audited suppliers are being diligent about performing the requisite actions to assure drinking water quality. However, the follow-up audit found that some water suppliers are still not being strict about complying with the law and the directives and are not performing the aforesaid actions, thereby jeopardizing the health of their water consumers. The water suppliers, local authorities and the Ministry of Health should take action to rectify the deficiencies specified in this report in order to ensure that drinking water is being supplied to the public at the requisite quality, and that the public will receive a full and accurate report about the quality of the drinking water being supplied to it.



Office of the State Comptroller
Annual Report 71A | 2020

The Standards Institution of Israel – Financial Audit

Abstract

The Standards Institution of Israel – Financial Audit

Abstract

Background

The Standards Institution of Israel (the SII) is a public corporation established pursuant to the Standards Law, 5713 – 1953. The purposes of the SII are standardization and assuring adequate standards of product quality, whether by establishing standards or in any other manner. The SII's principal revenues are generated from its operation of standards compliance testing laboratories for thousands of types of products and from certification of manufacturing and construction processes in public and private companies according to local and international standards. The laboratories' spheres of activity include: construction, industry, agriculture, etc. Over the years, most of the SII's spheres of activity were opened for competition with private entities. Although the SII maintains exclusivity over the matter of standardization, there is a growing trend towards adopting international standards and customizing them for the Israeli economy. As a result of a comprehensive amendment to the Standards Law in 2016, the segment of standards compliance testing of imported products was opened to competition. Subsequently, in November 2017, the SII signed a collective labor agreement that includes the gradual three-stage retirement of 300 permanent employees from the SII by 2022. As a result of these measures, the SII's staff was reduced in 2019 from 1,000 employees to about 900 employees.

Key figures

ILS 417 billion

the SII's revenues in 2018

ILS 20 million

income after expenses (profit) in 2018

100

employees took early retirement from the SII in 2018. Another 200 employees are scheduled to retire by 2022

ILS 169 million

total retirement payments paid to employees in 2018, ILS 135 million of which were financed by the Ministry of Finance

ILS 110 million

balance of prepaid income (commitments) in 2018

ILS 20 million

balance of customers with a credit balance (commitments) in 2018

ILS 270 million

the SII's accumulated losses from units in its construction division over the last decade

ILS 13.8 million

balance of lawsuits against the SII in the 2018 financial statements. The provision in the 2018 financial statements was ILS 2.2 million

Audit actions

 From January to March 2020, the Office of the State Comptroller conducted an audit of financial matters relating to the Standards Institution of Israel. The audit focused on the following topics: the presentation of the financial statements, operating segments, analyses of material items in the statement of financial position and in the statement of profit and loss; financial and economic ratios; the work of the independent auditor; and corporate governance issues. The audit was conducted in the Standards Institution of Israel, in the Ministry of Economy and Industry (the Ministry of Economy) and in the Ministry of Finance. Supplementary audits were conducted in the independent auditor's office.

Key findings



-  **Prepaid income for testing of imported products** – in the SII's industrial division, the balance of prepaid income for testing of imported products in 2017 was estimated at a minimum of ILS 15 million; this balance derives from the SII's commitments to conduct tests on imported products in instances when importers are allowed to release products from customs without testing, contingent upon the importers' undertakings to have the products tested later. Examinations conducted with authorities in the SII and in the Ministry of Economy gave rise to a concern of untested products, including products that could jeopardize human lives, such as flammable costumes and unsafe toys.
-  **Prepaid income** – The SII's 2018 annual financial statements show approximately ILS 110 million in unearned (prepaid) income. This sum represents orders for service that have been paid for and not yet performed. Part of this amount relates to current operations, part is associated with delays in providing service, while the balance is for work that clearly was not performed.
-  **Customers with a credit balance** – the SII's financial data correct to November 2019 contain customer credit balances at the volume of about ILS 27 million. At issue are balances that the SII decided should be refunded to customers but has not implemented his decision. The older the credit balances are, the harder it is for the SII to locate the customers and issue the refund. The SII could be exposed to a class action suit as a result of its failure to issue the refunds to its customers.
-  **Reporting of operating segments** – the SII is not including information regarding segments' activity in its financial statements. Several profitable divisions in the SII are subsidizing other divisions' losses. The SII shows excess profitability in every segment in which the SII has a monopoly.
-  **Assuring the accuracy of the financial statements and the effectiveness of the internal control** – senior officers of the SII are not signing declarations about the

accuracy of the data in the financial statements and about the effectiveness of the internal control. The SII, through its independent auditor, is not performing a thorough examination of the effectiveness of the internal control.

-  **Cumulative loss of two departments in the construction division** – the construction department and the land department have lost of about ILS 20 million on average per annum over the last decade and their cumulative losses totaled ILS 270 million in 2018. An internal audit report written in 2018 found that price quotes to customers in the construction division often cover the direct costs (based on the current pricing) but are insufficient to cover the indirect costs.
-  **Utilization of the SII's office space** – although 60 employees of the SII's Tel-Aviv branch either took early retirement or were reassigned to other branches (about 7% of the branch's employees), the branch's office space was not downsized.
-  **Net negative investment in fixed assets** – the SII's investments in fixed assets, after deducting depreciation expenses for 2016 – 2018 resulted in a negative investment. This fact indicates that the SII is underinvesting in fixed assets. If the SII maintains this policy, the testing equipment in its laboratories will become outdated, causing a decline in the professional standards of its services and in its capacity to compete against other service-providers.



Improvement in the SII's financial ratios – the SII's operating profit, equity ratio and EBITDA improved in 2016 – 2018.

Retirement program – in January 2018, an employee retirement program was launched, and 96 employees retired by the end of 2018. The retirement program was financed mainly by the Ministry of Finance and contributed to the SII's profitability.

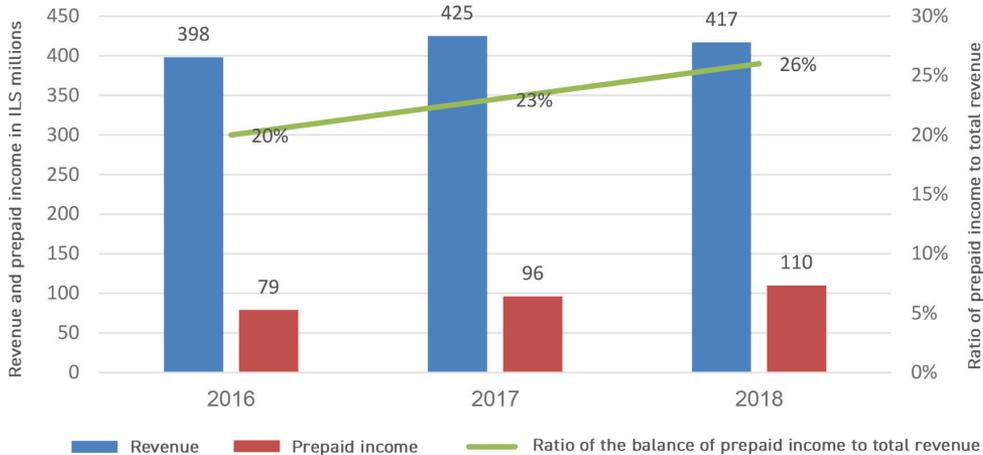
Key recommendations

-  The SII should consider the possibility of conducting tests on products and services for which payment has been received, but the products or services have still not been tested, particularly in relation to products and services that could jeopardize human lives. It is also recommended that the Ministry of Economy should examine those instances in which importers abused the conditional approvals in order to evade testing and should formulate procedures for issuing conditional approvals to release goods that are augmented by mechanisms to detect suspected devious intentions (profiling).



-  It is recommended that the SII should complete a work plan designed to reduce the customer credit balances and, in instances when the SII did not conduct the tests that it committed to conduct, it should ascertain whether it is required to return the funds to its customers.
-  It is recommended that SII's governing board and management should convene annual meetings to discuss the results of the SII's various operating segments, focusing on the construction division's losses, including the division's pricing, and on other unprofitable divisions, and should consider formulating a streamlining program for its continuing format of operation, particularly the operating efficiency of the construction division.
-  It is recommended that the SII should consider attaching declarations of its senior officers to its financial statements regarding the accuracy of the data in the financial statements and the effectiveness of the internal control. The SII should thoroughly examine the effectiveness of the internal control through its independent auditor. It is also recommended that the SII should examine, in coordination with the Ministry of Economy, a format for publishing its financial statements on the SII's website.
-  Considering the high cost of the early retirement program, which was largely financed by the Ministry of Finance, it is recommended that the Ministry of Finance and the SII should perform analyses and draw conclusions, with the aim of examining the success of the reform that opened the testing of imported products to competition and its effects on the SII's financial position.
-  It is recommended that the SII's management should periodically review the insurance coverage for the various lawsuits being filed against it, and should analyze and draw conclusions from the various lawsuits, particularly in relation to claims for damages.

Revenue, prepaid income (in ILS millions) and the ratio of prepaid income to total revenue



According to the SII's financial statements, processed by the Office of the State Comptroller.

Summary

The Standards Institution of Israel is a public corporation of economic importance to the State, which conducts tests for the primary purpose of safeguarding the public's health and wellbeing. The SII's objective is standardization, quality and safety.

The audit findings indicate that some of the SII's financial ratios have improved. In 2016 – 2018, the operating profit ratio (inter alia, due to employee retirements), EBITDA, current ratio and equity ratio showed improvement. On the other hand, the days of customer credit ratio deteriorated in 2016 – 2018 and the SII recorded negative net investments in fixed assets, inter alia, due to non-utilization of the investment budget. A cumulative material lag in investments could later have an adverse impact on the SII's development and innovation.





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Chapter Four

The Security Establishment



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The Security Establishment

Preparedness for Combat at a Battlefront under a Threat of Chemical Warfare Materials

Abstract

Preparedness for Combat at a Battlefield under a Threat of Chemical Warfare Materials

Abstract

Background

The use of chemical warfare materials (CWM) during combat has been a familiar threat for many years (named by the IDF as a CWM threat or as an CBRN threat [Chemical, biological, radiological and nuclear]). During the civil war in Syria that began in 2011, the Syrian regime employed CWM against the rebel forces and against the civilian population. Various militaries are contending with this threat, including the U.S. military, which considers it a major and complex challenge.

Audit actions

 From June 2019 to February 2020, the Office of the State Comptroller audited the IDF's preparedness for combat at a battlefield under a CWM threat. The main topics audited: the preparedness of the ground forces; the CBRN battalions; and anti-CWM equipment management. The audit was conducted mainly in the IDF – in the Ground Forces Command: in the HQ of the chief engineering officer, in the Technology and Logistics Directorate and in the HQ of the chief medical officer; in the Home Front Command; in particular divisions in the Northern Command and in the Southern Command; in the Israeli Air Force; in the Military Intelligence Directorate; and in the Operations Directorate. In the Ministry of Defense; and in the Israel National Security Council.

The subcommittee of the Knesset State Audit Committee decided not to place on the Knesset's agenda and not to publish data from this report for national security reasons, pursuant to section 17 of the State Comptroller Law, 5718 – 1958 [Consolidated Version]. The withholding of these data does not obfuscate the fundamental issues in this audit.

Key findings



-  **Preparedness for contending with CWM at our borders** – it was found that the Ground Forces Command is not performing control to maintain capabilities in this regard.
-  **Preparedness of the CBRN battalions** – these battalions are not performing training exercises as is required.
-  **Responsibility for managing anti-CWM equipment** – although the Deputy Chief of Staff decided in September 2014 that the responsibility for anti-CWM equipment throughout the IDF would be delegated to the Home Front Command, in fact, anti-CWM equipment management in the IDF has remained decentralized among the Ground Forces Command, the Home Front Command and the Israeli Air Force.
-  **CBRN protective goggles for those who wear glasses** – at the very least since 2017, CBRN protective goggles have not been issued to soldiers who wear glasses.



Competence of designated systems – the IDF has significantly improved their competence.

Key recommendations

-  It is recommended that the IDF, led by the Ground Forces Command, should take action to improve the preparedness of the combat units in the standing army and in the reserve units for contending with the chemical warfare threat within the framework of routine defense and in times of war.
-  It is recommended that the Ground Forces Command, led by the chief engineering officer, should take action to close the gaps in the preparedness of the CBRN battalions.
-  It is recommended that the staff work ordered by the Deputy Chief of Staff on the subject of contending with the CWM threat should relate to all of the gaps raised in this report with regard to a CWM threat at a battlefield. According to the results of this staff work, it is recommended that the Deputy Chief of Staff should formulate directives about ways to improve the preparedness for contending with this threat.



Summary

Subsequent to the forwarding of the audit findings to the IDF, the Deputy Chief of Staff ordered staff work to be performed to analyze the IDF's preparedness for contending with the CWM threat. It is advisable that this staff work should address all of the said considerations.

