



Report of the State Comptroller of Israel | May 2024

Systemic Issues

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# **The Financial Statements of the State of Israel as of December 31, 2022 – Fixed Assets**





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## Background

According to Section 12 of the State Comptroller Law, 1958 [Consolidated Version], every year, at a date set by the state Comptroller, no later than six months after the end of the fiscal year, the Minister of Finance shall submit to the State Comptroller a "comprehensive report on the state's revenues and expenditures for that year." Moreover, at a date set by the Comptroller, no later than nine months after the end of the fiscal year, the Minister of Finance shall submit to the State Comptroller the "balance sheet of the state's assets and liabilities as of the end of the fiscal year." The state's consolidated financial statements as of December 31, 2022, were submitted to the State Comptroller and published on July 16, 2023.

Fixed assets are tangible items kept for use in the production or supply of goods or services, for rental to others, or administrative purposes, which are expected to be used for more than one period. The fixed assets in the state's financial statements are a significant part of the overall financial statements and include, among other things, civilian infrastructure assets, military assets and defense equipment, buildings and assets under construction, public housing assets, machinery and equipment, office equipment and office furniture, vehicles and transportation, hardware and computing systems, and medical equipment and devices. Fixed assets also include state-owned land, although these are presented in a separate section.



Key Figures

**212**

all bodies<sup>1</sup> whose financial data were included in the state's consolidated financial statements for 2022

**49**

bodies whose financial data were included in the state's consolidated financial statements for 2022 but did not have audited financial statements (23%)

**NIS  
2,009  
billion**

all assets presented in the state's consolidated financial statements as of December 31, 2022

**NIS  
1,166  
billion**

book value of the land item owned by the state, included for the first time in the consolidated financial report as of December 31, 2022

**NIS 532  
billion**

the book value of the fixed assets item (excluding land) as of December 31, 2022, compared to NIS 518 billion as of December 31, 2021 (an increase of about 3%)

**the year  
2006**

the year in which the Government Companies Authority issued a circular on fixed assets. The circular has not been updated since, nor was it found that the authority enforced the obligation to implement it

**125  
years**

the estimated useful life of infrastructure assets for depreciation purposes, which are mainly roads, according to the financial statements of the Ministry of Transportation for 2022, compared to estimates of various government infrastructure companies ranging from 6.67 years to 50 years


**NIS 9.9  
billion**

the budget surplus of government activity in 2022. This is the first year since 1987 in which the government finished with a budget surplus

<sup>1</sup> State authorities, government ministries, auxiliary units, government companies, and more.



## Audit Actions

 From March to October 2023, the State Comptroller's Office examined various trends raised in the consolidated financial statements of the state and the financial reports of several government ministries for 2022. The fixed assets item in the financial statements was also examined. The audit was conducted mainly in the Accountant General's Department at the Ministry of Finance and several government ministries, auxiliary units, and other government bodies, including the Ministry of Foreign Affairs, the Ministry of Construction and Housing, the Israel Land Authority, the Ministry of Transportation and Road Safety (Ministry of Transportation), and the Ministry of Health. Supplementary examinations were conducted at the Government Companies Authority.

## Key Findings




### Trends Raised in the State's Financial Statements for 2022


- 2022 concluded with a net accounting surplus of about NIS 72 billion. Compared to 2021, the net accounting deficit decreased by about NIS 207 billion (from a net accounting deficit of about NIS 135 billion to a net accounting surplus of about NIS 72 billion). The net accounting surplus in 2022 was due to increased state revenues and reduced state expenditures compared to 2021.
- The overall decrease in the budget deficit relative to GDP in 2022, by about 5 percentage points compared to the deficit in 2021, is attributed to an increase in state revenues by about 0.6 percentage points of GDP from tax revenues, a reduction in expenditures on the economic program to address the Covid-19 pandemic by about 3 percentage points of GDP, and a decrease in current expenditures by about 1.3 percentage points of GDP.
- In 2022, the state's revenues from direct taxes, indirect taxes, and fees, according to the financial statement data, were about NIS 535 billion – a growth of about NIS 61 billion compared to 2021. The main source of this increase was several large payments due to capital gains, trapped profits, and corporate income tax advances.
- The primary expenditures in 2022 were in the following areas: defense and internal security: about NIS 95.5 billion; the rest of the ministries: about NIS 77.2 billion; education: about NIS 71.9 billion.



### **The Financial Statements Included in the Consolidated Financial Statements of the State of Israel as of December 31, 2022**

- As part of the state's financial statements for 2022, published on July 16, 2023, the financial data of 212 bodies were included. Of these, 49 (about 23%) did not have audited financial statements when the state's financial statements were prepared. Review of the aspect of having an auditor opinion raised that 130 bodies (about 61%) received an unqualified (clean) opinion from their auditors. In contrast, 29 bodies (about 14%) received a qualified opinion, and the auditors abstained from providing an opinion for one body.
- The audit opinion on the financial statements of 23 bodies (about 11%) had not yet been published when the state's financial statements were prepared. Therefore, the information on these bodies is based on bookkeeping data or an unaudited draft. In addition, the information included for ten bodies (about 5%) is based on financial reports from 2021 or earlier, as their 2022 reports had not yet been submitted by the time the state's financial statements were prepared.

 **Audit of the Consolidated Financial Statements of the State of Israel by an External Auditor** – all four compared countries – the United States, Australia, New Zealand, and Canada, present an independent auditor's report on their consolidated financial statements. This report indicates the type of opinion, the basis for the opinion, and key audit points. In contrast, in Israel, the consolidated financial statements are not audited by an external and independent auditor. Unaudited reports result in financial statement users being unable to assess how well the financial condition of the audited body is reflected in the financial reports and the extent to which the reports comply with accepted accounting principles.

 **Completeness of the Asset and Fixed Asset Sections in the State's Financial Statements** – the State of Israel's financial statements should adequately reflect the entirety of its assets and liabilities. The total state assets presented in the financial statements as of 31.12.22 was about NIS 2,009 billion, compared to about NIS 799 billion as of 31.12.21 – an increase of about 151%, from the inclusion of the state's lands for the first time as a balance sheet item in the financial report. These assets do not include many assets whose value or cost is very substantial, such as the state's investments in the defense system, some overseas and some intangible assets, and assets contingent upon proceeds from natural resources at about NIS 34.8 billion<sup>2</sup>.

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<sup>2</sup> Proceeds from natural resources are classified as contingent assets, as defined in Government Accounting Standard No. 19, and are therefore disclosed only in the notes to the financial statements, showing the value of contingent assets.

**Fixed Assets Section in the Financial Statements of the Ministry of Health** – according to the auditors' disclaimer regarding the consolidated financial statements of the Ministry of Health as of December 31, 2022, the cost of fixed assets at about NIS 14,491 million does not fully reflect all the ministry's assets. The cost includes assets that may have been permanently removed from active use and not deducted from the ministry's asset base. Moreover, psychiatric and geriatric hospitals and Ichilov Hospital did not report fixed assets (except for buildings) in their financial statements, and the costs of fixed assets are presented as expenditures when incurred<sup>3</sup>.

**The Fixed Assets Item in the Financial Statements of the Ministry of Foreign Affairs** – the cost of fixed assets in the financial statements as of December 31, 2022, was about NIS 405 million (after completing the identification and measurement of most fixed assets in its ownership in 2022). Fixed assets previously unaccounted for were included at initial recognition based on their fair value estimate. However, it was found that the identification, recognition, measurement, and presentation of certain fixed asset items of the Ministry of Foreign Affairs had not been completed. Consequently, some of the acquisitions of fixed assets in 2022 were included in the financial performance report instead of in fixed assets<sup>4</sup>.

**The Determination Method of the Depreciation Rate on Roads in the Ministry of Transportation's Financial Statements** – no documentation was found at the Ministry of Transportation about the method of determining the depreciation rate of roads, which has been in effect since 2009 at a rate of 0.8% per year (depreciation over 125 years). For comparison, an examination conducted by the State Comptroller's Office in the financial statements of various companies of the depreciation rate on roads and infrastructure raised that:

(a) At Israel Ports Company, the depreciation rate on roads and operational areas is 4%–5% (depreciation over 20 to 25 years);

(b) At Israel Railways, the depreciation rate on infrastructure is 2%–15% (depreciation over 6.67 to 50 years);

(c) At Israel Electric Corporation, the depreciation rate on power stations is 2%–3.33% (depreciation over 30 to 50 years). Another comparison of the valuable life of civil infrastructure assets as listed in the financial statements of the State of Israel compared to benchmark countries showed that in Israel, the depreciation of civil infrastructure assets spans over 20 to 125 years; in Canada, from 10 to 100 years; in Australia from 1

3 The foregoing appears as a disclaimer in the auditors' opinion on the ministry's financial statements as of December 31, 2022.

4 The foregoing appears as a disclaimer in the auditors' opinion on the ministry's financial statements as of December 31, 2022.



to 400 years<sup>5</sup>; and in the financial statements of New Zealand, which are more detailed, it is specified that for foundations of pavement (sidewalks) infrastructure, depreciation spans from 75 to 150 years, for pavement surfaces – from 11 to 14 years, and bridges – from 90 to 100 years.


- 📌 The Measuring Method of Fixed Assets in the Financial Statements of the State and the Examined Ministries** – it was found that all four ministries examined – the Ministry of Construction and Housing, the Ministry of Health, the Ministry of Foreign Affairs, and the Ministry of Transportation, present fixed assets in their financial statements based on the cost method. Therefore, the real value of the fixed assets is not presented in the financial statements. It was also found that the accounting policy applied in the United States and Canada after the item was recognized as a fixed asset is identical to the policy used in Israel based on the cost model. However, Australia and New Zealand apply a different revaluation model.
- 📌 Presentation of Real Estate Investment in the Financial Statements of the Housing Administration** – despite the provisions of Government Accounting Standard No. 16 regarding real estate investment, which requires disclosure of their fair value, the Housing Administration did not include such disclosure in its financial statements for 2022 or previous years. Instead, the financial statements noted that disclosure regarding the fair value of real estate investment was not included due to the scope of assets under the administration's responsibility and its inability to estimate the value of all assets as of the date of the financial statements.
- 📌 Audit Reports on Fixed Assets** – the fixed assets are of substantial proportion out of total assets in the balance sheets of the government ministries audited as of December 31, 2022 (Ministry of Construction and Housing – total fixed assets at about NIS 14,830 million, constituting 94% of total assets in the balance sheet; Ministry of Health – total fixed assets at about NIS 14,491 million, constituting 59% of total assets in the balance sheet; Ministry of Foreign Affairs – total fixed assets at about NIS 405 million, constituting 41% of total assets in the balance sheet; and Ministry of Transportation – total fixed assets at about NIS 148,421 million, constituting 83% of total assets in the balance sheet). However, in recent years, no audit report on fixed assets was prepared either for the Ministry of Construction and Housing or the Ministry of Foreign Affairs. In the Ministry of Health, an audit report was prepared only for laptop computers, and only the Ministry of Transportation has prepared in recent years an internal audit report on fixed assets.
- 📌 Comparison of Depreciation Rates in the State's Financial Statements Relative to the World** – it was found that there is a similarity between Israel and the compared countries (Canada, Australia, and New Zealand) in terms of the useful life of some fixed


<sup>5</sup> Due to the wide variety of these infrastructure assets, which mainly include communication networks, transportation infrastructure, and electricity, the depreciation period ranges from one to 400 years.





asset items, such as military assets and defense equipment (two to 55 years); however, these countries differ in the useful life of other fixed asset items, such as machinery and equipment (two to 30 years). In addition, there are fixed asset items for which the useful life is not presented in Israel's financial statements. In contrast, this information is presented in some compared countries, such as cultural and heritage assets and aircraft. In addition, it should be noted that there are compared countries, such as New Zealand, whose financial statements present more detailed information than those of the State of Israel, for example, regarding fixed assets such as roads, the electricity grid, and the railway network.

 **Signs of Impairment in the Fixed Assets Section** – no documentation was found that the accounting departments of the Ministries of Construction and Housing (total fixed assets as of December 31, 2022, at about NIS 14,830 million); Health (total fixed assets in the consolidated report as of December 31, 2022, at about NIS 14,491 million); Foreign Affairs (total fixed assets as of December 31, 2022, at about NIS 405 million), and Transportation (total fixed assets as of December 31, 2022, at about NIS 148,421 million) examined signs of impairment in the value of fixed assets at the end of each year.

 **Supervision and Control by the Government Companies Authority over Fixed Assets in Government Companies** – it was found that the Government Companies Authority circular on fixed assets in government companies, on the supervision and control of assets in these companies, was issued in 2006 and has not been updated since. In addition, the Government Companies Authority does not examine the scope of assets in government companies, including assets that are not in use, assets presented at a symbolic value, or assets not presented at all in the reports.









**Presenting State Lands as Assets in the Balance Sheet** – the State Comptroller's Office commends the progress made in presenting state lands as assets on the balance sheet in the financial statements for 2022, at about NIS 1.166 billion. However, the financial statements still include several reservations regarding the estimated value of the lands, and the completeness and reliability of the data.



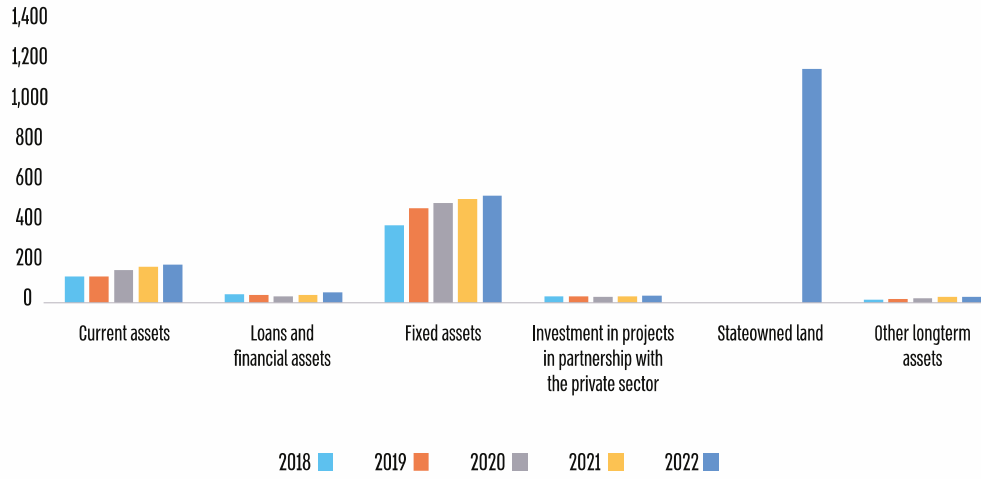
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## Key Recommendations

-  It is recommended that the Accountant General's Department ensure that the consolidated financial statements of the State of Israel are audited by an external auditor to enhance their reliability.
-  It is recommended that the Accountant General's Department cooperate with bodies consolidated in the state's financial statements to address recurring reservations made by auditors in their opinions in the financial statements, particularly in the financial statements of the audited government ministries.
-  The Accountant General should complete the mapping of fixed assets held by the state, including those in the Ministry of Defense, for proper accounting, registration and presentation in the state's financial statements.
-  The Accountant General should improve the land data to present them completely and fully in the financial statements.
-  It is recommended that the Ministry of Health present all fixed assets in the financial statements of hospitals and ensure the proper presentation of fixed assets in its books. In addition, it is recommended that the Ministry of Foreign Affairs complete the process of identifying fixed asset items, and the processes of recognizing, measuring, and presenting them in the Ministry's financial statements as assets. Furthermore, in collaboration with the Chief Accountant, the Ministry of Transportation should review the depreciation rate for roads in the Ministry's financial statements and ensure it aligns with the allocation of funds for road maintenance according to the budget model developed for road maintenance and as is customary in similar bodies.
-  Given that the fixed assets in the audited government ministries are relatively significant compared to the total assets in the balance sheet as of December 31, 2022, it is recommended that the financial auditors in the accounting departments of the Ministries of Construction and Housing, Health, and Foreign Affairs consider, conducting an internal audit on fixed assets, as part of the annual work plan and in collaboration with the Audit Division of the Accountant General.



**Breakdown of State Assets, 2018–2022 (in NIS billions)**



According to the state's financial statements for 2018–2022, processed by the State Comptroller's Office.



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## Summary

2022 concluded with a net accounting surplus of about NIS 72 billion. Compared to 2021, the net accounting deficit decreased by about NIS 207 billion (from a net accounting deficit of about NIS 135 billion to a net accounting surplus of about NIS 72 billion). The net accounting surplus in 2022 was due to increased state revenues and reduced state expenditures compared to 2021. Furthermore, the total assets presented in the state's financial statements as of December 31, 2022, was about NIS 2,009 billion, compared to about NIS 799 billion in total assets as of December 31, 2021. This represents an increase of about 151%, due to including the state's lands as a balance sheet item in the financial report for the first time. The total fixed assets, plus the total land held by the state, account for about 85% of the total assets.

Fixed assets are tangible items held for the production or provision of goods or services, for lease to others, or administrative purposes, which are expected to be used for over one period. Fixed assets are of great importance in the state assets and significantly impact all of its financial statements; therefore, the recognition of fixed assets, their registration, and their accounting measurement must be conducted properly.

In the audit, it was found that in 2022, progress was made: for the first time, land was included in the balance sheet. However, the fixed asset data are still not fully presented in the state's financial reports; they contain numerous disclaimers and lack significant components, particularly assets of the Ministry of Defense. In addition, several deficiencies were found in the statements of the Ministry of Health, the Ministry of Foreign Affairs, and the Ministry of Transportation concerning the presentation of fixed assets and the integrity of the data. Regarding the measurement method of fixed assets in the financial statements of the government ministries examined (Ministry of Construction and Housing, Ministry of Health, Ministry of Foreign Affairs, and Ministry of Transportation), it was found that in their statements, fixed assets are presented according to the cost method. Thus, the real value of the fixed assets is not presented in their financial statements.

The audit also found that there are items of assets whose useful life is not presented at all in Israel's financial statements, for example, cultural, heritage and, aviation assets, as opposed to some compared countries (Canada, Australia, and New Zealand) where this data is presented. It was also found that there are compared countries, such as New Zealand, whose financial statements present more detailed information than those of the State of Israel, regarding fixed assets such as roads, the electricity grid, and the railway network.

The Accountant General should map the fixed assets held by the state, including those in the Ministry of Defense, for proper accounting registration and presentation in the state's financial statements. In addition, he should rectify the deficiencies raised in this report regarding the presentation of fixed assets and the completeness of the data. In addition, the Accountant



General should improve land data to present them fully and comprehensively in the state's financial statements.

