



State of Israel

Office of the State Comptroller and Ombudsman

The 71A Annual Audit Report



Jerusalem | October 2020



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 **status 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