

State of Israel

Office of the

State Comptroller

and Ombudsman

Annual Report 71C



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Foreword

The **Annual Report 71C** for 2020 and for the 2019 fiscal year is the third part of the Annual Audit Report submitted to the Knesset pursuant to the State Comptroller Law, 1958 [Integrated Version] (hereafter: “the State Comptroller Law”). The report’s chapters deal with audit of State Ministries, State Institutions, Local Government, and Government Companies and Corporations.

In accordance with the vision of the State Comptroller and Ombudsman's office (hereafter: the “State Comptroller’s Office”), the chapters of the report deal with the core issues of the audited bodies, while focusing both on social issues and on the provision of services to citizens; as well as the significant risks affecting the activity of the audited bodies and the issues relating to good governance and ethical behavior. The Report raises important audit findings relating to all areas of life. Naturally, this foreword includes an overview of only a few of the Report’s chapters, as detailed below:

Pursuant to article 19 of the State Comptroller Law**, the Financial Statements of the State of Israel as of December 31, 2019 – the State’s Long-Term Liabilities** have been examined. The financial statements are presented on a cumulative reporting basis, and they include the government's long-term liabilities, and emphasize certain financial risks. The State of Israel has very large long-term liabilities, amounting to NIS 2,920 billion; the main liabilities are those of the National Insurance Institute (NIS 887 billion), whose financial data are consolidated in the State Financial Statements, and the liability for state budget pensions for government employees (NIS 794 billion). The audit indicated that actuarial calculations have not been used optimally in examining the government’s long-term liabilities, and that there is no government actuary advising the government regarding actuarial aspects before decisions with long term budgetary impacts are made. The government must use professional, up to date actuarial tools and must ensure coherent calculation of these liabilities by the various entities. It is recommended that the Accountant General at the Ministry of Finance promote the implementation of advanced actuarial standards, under the professional supervision of an actuarial expert. It is also recommended that the Accountant General, in cooperation with the Minister of Finance, present the financial statements to the Government and the Knesset upon their publication annually, in order to present the essential information decision-makers comprehensively and methodologically. This conduct can contribute to increasing the government’s accountability, improve the use that it makes of public resources allocated to it, and create a platform for an essential discussion regarding the assets and liabilities (and in particular, long-term liabilities) and an examination of the State’s short-term and long-term financial challenges.

It is significantly important to conduct a systemic audit regarding issues that has broad impact, which are being handled by several Government ministries and public authorities, which require planning and integration. One of these issues is the **handling of monopolies and the high centralization in the food industry.** The issue of the cost of living in Israel, including food prices, is important for every household in Israel. Expenses for food, beverages and tobacco in the year 2018 amounted to NIS 132 billion (approximately 18.5% of all expenses). The Israeli economy is characterized by multiple sectors centralization in comparison to other markets.[[1]](#footnote-1) In the years 2015-2020, the market share of the ten largest suppliers in the food industry and the consumer product industry was, on average, 54%, and the supplier holding the largest market share held approximately 12% of the food market in 2020. In light of the need to deal with the prices in the food industry and the consumer products industry, the government must work to reduce the impact of the monopolies and centralization groups, to promote competition in the economy, and to reduce product imports barriers. Although in recent years the gap in food prices between Israel and the European Union countries and the OECD countries has been partially reduced, the price difference index of food prices in Israel – in regard to purchasing power – is still high, as compared to the European Union countries and OECD countries, and there are still barriers preventing the reduction of food prices and increase competition in the industry. All relevant bodies must act using the tools available to them, in order to achieve the objectives presented by the government regarding the reduction of the cost of living in Israel, including increasing the public’s consumer awareness. Increasing such awareness will encourage the public to perform price comparisons, examine existing information regarding the various alternatives and joint purchases.

Another comprehensive audit was conducted regarding the subject of **accessibility of government and public databases to the public**. The principle of ensuring accessibility of information to the public is one of the main principles of open governance. According to this principle, government-held information as an asset belonging to the public. The audit findings reflect a partial implementation of the actions established in the Government Resolution and in the Government ICT Authority's guidelines; the findings indicate insufficient handling of various challenges in relation to the implementation. Approximately one third of the ministries conducted only a partial mapping of their databases or did not perform the mapping at all, and approximately 28% of them did not prepare a work plan for making databases accessible. The rectification of these deficiencies and the implementation of the recommendations set out in this report will contribute to the realization of the potential lies in the accessibility of Government databases. It is therefore necessary for the ICT Authority to take broader and engaged action regarding issues related to this matter. Without cooperation of the Government ministries, deriving from their recognition of the value of making databases accessible – this matter will not be advanced optimally.

As part of the audits regarding social matters, the State Comptroller’s Office pays special attention to the examination of issues relating to disadvantaged populations who have difficulty to stand up for their rights, and who often have no one to speak up for them; one of these issues is **prisoners rehabilitation in Israel.** The audit indicated that during the past decade a perception has been established, claiming that prison sentences have not achieved their goals in terms of reducing the level of recidivism, and this perception underpins the need to increase government actions in the area of prisoner rehabilitation. In the year 2011, the recidivism rate was 43.2% and in 2019 it was 39.3%. The integration of prisoners in various rehabilitation programs as part of the Israel Prison Service (hereafter: “the IPS”) is insufficient. The audit also showed that approximately 75% of the prisoners that were sentenced for prison for a period of up to one year were not given any designated treatment matching their offenses, due to the short prison term; and that only half of the prisoners were integrated into employment within the IPS, despite the fact that stable employment after release is an important starting point for a released prisoner's integration into society; the audit also showed that the IPS data bases lacks relevant information for the treatment of prisoners– a fact which can adversely impact on decision-making, and consequently affect the IPS’ ability to provide the prisoners with rehabilitation programs required toward their release. Regarding released prisoners who had served the full period of their sentence – the audit indicated that the Released Prisoner Authority (hereafter: “the RPA”) and the IPS do not generally operate joint rehabilitation programs, toward their release, prisoners are not required to participate in the RPA’s preparation programs; that the RPA only handles approximately a third of the criminal Israeli residents prisoners who are released each year; that the RPA isn't involved in the procedures for approval of private rehabilitation programs; and that there is no Government body that collects data regarding the recidivism rate of prisoners who participated in private rehabilitation programs. In the years 2016-2020, 20,802 prisoners were granted administrative release (which is 64% of all Israeli resident prisoners who were released during those years). These prisoners are not required to participate in treatment and rehabilitation programs after their release, although they have the potential to endanger the public. In recent years, the number of prisoners being released from prisons has increased, and this increases the duty imposed on the rehabilitation entities to accompany the prisoners, and to treat them continuously - from arrest through release, including ensuring their integration into the community and the labor market after their release. The IPS and the RPA should therefore examine – in cooperation with the Ministry of Justice –the formulation of an outline that will encourage and incentivize most prisoners to participate in treatment, accompaniment, rehabilitation or supervision processes. This is most important with respect to those prisoners exposing the public to a high level of risk.

As part of the audit of Government representatives in courts, the issue of **legal counsel for police investigations and approval of investigation exercises** was examined. A basic principle in a criminal proceeding is the need to ensure the separation between the investigative body and the prosecuting body and ensuring of the independence of the legal judgment of the prosecuting body. An exception to this principle is performed in certain cases in which a prosecutor accompanies the police investigations, for the purpose of directing the investigators and advise them regarding legal issues. The prosecutor should not carry out any investigation work. The fact that the prosecutor accompanies an investigation before it has been completed creates a risk of obscuring the boundaries the prosecutor’s role and that of the investigator, and the definition of these boundaries needs to be defined in order to ensure control. The audit found that the authority to allow accompaniment to investigation has not been established in primary legislation and that the official directive that has been formulated has become an internal directive – but this directive has not been implemented in all the state prosecution or police prosecution units. Additionally, the audit found that there is no accurate documentation of the accompaniment procedures in the databases of the investigation units and the prosecution units. Regarding the approval of investigation exercises, there is no structuring of the prosecutor's judgment in the process of approving the investigation exercises. Additionally, the audit found that the prosecution does not conduct an official drawing conclusions process, in order to prevent the repetition of violating rights of witnesses and suspects. In light of the need to protect the right to due process and the human rights of suspects and witnesses, an additional attention must be paid in cases in which there is a deviation from the separation of power principal. It is recommended that the Ministry of Justice and the Attorney General determine the normative framework required to regulate the authority to act in cooperation with the investigation unit during t an investigation and to guide the judgment of prosecutors in their interaction with the investigation unit. It is also recommended that the State Attorney's office document the processes properly, and promote the drawing conclusions process, as an integral part of the ongoing work.

In the environmental protection area, which affects the quality of life of all residents in Israel, the State Comptroller's Office examined the issue of the **handling of construction waste** that is created out of the remnants of materials used in new construction, in the renovation of existing structures, and in the development of infrastructures or due to the demolition of buildings and infrastructures. According to the assessments of the Environmental Protection Office (hereafter: “the EPO”), a third of construction waste is not treated as required by law and is instead discarded in open areas. The audit findings indicate that no optimal solution has yet been formulated to deal with the issue of construction waste disposal in open areas: in 2011, the EPO estimated that as of that time, more than 100 million tons of construction waste had been disposed in open areas, its handling costing the economy more than 5 billion NIS. Since then, the EPO estimates that 2-3 million tons of waste have been disposed of in open areas each year. The audit indicated that main actions that could promote recycling of the waste and transforming it into an economic resource, and save the economy millions NIS every year, haven't been made. Although in recent years there has been an increase in the percentage of recycled construction waste in Israel, this percentage (approximately 55%) is still substantially less than the percentage in European Union countries – some of which reach the rate of 100%. The enforcement activity carried out by the EPO is not sufficient to significantly reduce the illegal disposal of construction waste. The EPO must, in cooperation with other relevant Government authorities, act to regulate the matter of construction waste and determine clear areas of responsibility for each of the entities dealing with the issue – the waste producers, the local authorities and the waste treatment end facilities. It is recommended that all the relevant government authorities, led by the EPO, should act together, taking a comprehensive view of the area of consumption of the recycled construction materials, in order to remove the obstacles to the recycling and use of construction waste. The EPO must strengthen its own enforcement actions and at the same time act– together with the various government entities dealing with enforcement of construction offenses – to strengthen the cooperation among them, in order to increase enforcement and eliminate the phenomenon, which impacts not only the environmental protection issues but also the preservation of public lands, the building and planning laws, and various economic issues.

Regarding the area of education, the State Comptroller’s Office also examined the **appointment and training of new school principals.** The Ministry of Education appoints and employs the principals of the schools in State education institutions, and also establishes the appointment procedures and the threshold requirements for holding administrative positions in all types of institutions. The Ministry of Education operates – through the “*Avney Rosha* Institution” – a program for training principals; participation in that program is a threshold requirement for appointment. The audit found that between September 2016 and August 2020 school years, there has been an increase in the rate of acting appointment of State Education principals (from 43% to 52%). Approximately 48% of appointments that were acting appointments. The audit also found that almost 60% of the appointed principals were not graduates of the training program. The audit also indicated that the effectiveness of the training program was not sufficient: approximately 40% of the program graduates between September 2010 and August 2019 have not served as principals after graduating. There is also a trend of quitting new principals, but the Ministry of Education has not examined the reasons for this, and it has not drawn any conclusions or determined what is considered a reasonable of a quitting rate. Generally, the roles and areas of responsibility of a principal are not outlined in a methodological document but are derived from many Director-General Circulars; which adds to the bureaucracy and creates difficulties with respect to the management of the principals on an ongoing basis. The performance and quality of the principals has a significant impact on schools' conduct, on the achievements of their students, and on the educational system in general. It is recommended that the Ministry of Education examine ways to improve the process of appointing principals for schools in all sectors, including in the ultra-Orthodox sector. It is also important that the Ministry and the *Avney Rosha* institution take measures to improve the effectiveness of the principal training program, so that its graduates can be integrated into management positions.

In the context of audit diversity and increasing the area of financial audit, the Office examined the **management of investments in higher education institutions.** The higher education institutions in Israel manage investment portfolios with a total amount of more than NIS 17 billion (as estimated in 2018). Some universities manage portfolios holding capital of more than NIS 1 billion. These portfolios and the annual yields from them support academic and administrative activity, and serve as an important and long-term source of income. The audit found weaknesses and deficiencies in the investments of higher education institutions, alongside points of strength. The higher education institutions– both universities and colleges – must rectify the deficiencies raised in this report, in order to establish a high professional threshold for their activity in investments. Between2011 and 2018, there were deficiencies in the planning and budgeting committee (hereafter: “the PBC”) regulation actions regarding the institutions’ financial investments: the PBC did not act to ensure that its own Procedure regarding this matter, had been implemented. In 2019, the PBC began to collect data and to ascertain that the procedure was implemented by the universities and colleges. It is recommended that the supervision and control exercised by the PBC regarding investments include continued, consistent and methodical collection of the annual reports of all the institutions, in order to obtain a proper picture of their management of their investments, and in order to determine whether the PBC’s Procedure was actually implemented and whether there is a need to update it. The committee should also examine the existence of concerning signs for inappropriate activity require initiated and in-depth review. It is also recommended that the PCB examine all of its Procedures, in particular with regard to WGEM – an investment portfolio managed by the Weizmann Institute for Science in the United States, which holds approximately NIS 11 billion (in September 2019 data)– and regarding the investments held in Israel by the colleges. The audit also dealt with the impact of the Endowments Register within the Ministry of Justice and of the Israel Tax Authority, with respect to the management of the investments of the higher education institutions. The State Comptroller’s Office recommends to the Ministry of Justice to examine whether there is a need to update the investment routes permitted by the trust regulations. The State Comptroller’s Office also recommends that the Israel Tax Authority complete its examination of the issue and clarify to all the higher education institutions that the investment guidelines pursuant the Guidelines for Application of Section 46 do not apply to them. These changes can contribute to the efficiency of the higher education institutions regarding their investment portfolios' management.

This report also includes audits regarding the **service provided to the public** **by the Rabbinical Courts and by the Israel Lands Authority.**

This report also includes follow-up audit regarding five subjects including the **operation of operating rooms in general hospitals, education for shared living and the prevention of racism, and the prevention of violence in sports.** The follow-up audits regarding the rectification of deficiencies indicated in previous reports is an important tool, in order to ensure that the audited bodies have indeed rectify required deficiencies, and I intend to expand the follow-up audits and improve the performance of these audits.

**The preparation of this report required great effort by the employees of the State Comptroller’s Office, who conducted a professional work with thoroughness, fairness and care and who carry out their public role out of a true sense of mission and I am grateful to them.**

To conclude, this wide-ranging report covers many varied subjects, and each chapter in it opens to the public a window into the activity of the audited bodies. In this way, the report helps all of us to ensure proper public service in Israel and makes a significant contribution to increase efficiency, savings, and ethical behavior within the audited bodies, as well as the observance of all the rules for good governance.

It is not unnoticed that audited bodies took positive actions. In accordance with the State Comptroller’s Law, these actions have been properly reflected in this Report, in order to provide a whole picture of the situation indicated by the audit. The audited bodies are obligated to act quickly and efficiently to rectify the deficiencies raised in this report, in order to promote the public service in Israel, and thus to improve the quality of life and of the environment of the public.

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Jerusalem, May 2021

1. Industrial centralization is a situation in which a few companies who operate in a certain industry hold together a substantial market share, and it is one of the causes of reduced competition. [↑](#footnote-ref-1)