



Foreword

The 72a Annual Audit Report – Part Two, submitted to the Knesset, is the second part of the State Comptroller's annual report presenting audit findings on the audited bodies for 2020. The report contains audits regarding national infrastructures and economy, areas that are essential keystones for the development of the economy and for improving the quality of life in Israel.

Over the years, the State Comptroller's office has given special emphasis on auditing systemic issues with broad national effect. This report includes findings raised in systemic audits regarding the following issues: National programs for developing the north of Israel; Investment management at various entities and in Mifal Hapayis (the national lottery of Israel). Following is a short overview of these audits:

The population in Israel's northern district, as of 2019, totaled 1.5 million residents, constituting 16% of the total population in Israel; there are 424 settlements in the northern district, and its area covers 4,473 square kilometer. The audit regarding **the national programs for developing the north of Israel** raised that in 2016 the government decided on formulating a strategic multi-year program for developing the northern district and presented it in 2017. A budget of NIS 17.3 billion was allocated for the implementation of the program. The audit found that some of the obstacles the northern district faces in various aspects preventing an optimal implementation of the projects included in the government decision, were not examined, and therefore the preference given to the northern district was not effective. Some of the allocated budgets for the national program were not fully utilized, and objectives set in the government's decision were not achieved. In addition, the audit found that the strategic steps for financial development in the mid-range in the northern district, which could lead to the necessary change in the northern district in all aspects of life, were not sufficiently promoted. For example, as of the audit concluding date only NIS 37.5 million of the NIS 400 million allocated in accordance with the government decision for projects recognized as "national ventures" were utilized. In terms of current poverty levels and disparities between the northern district and other districts in various areas, including employment and salaries, education, higher education and health, the audit found that since the government decision was made there has not been a significant improvement in these disparities, and the northern district is staged lower compared to all other districts in most of the examined parameters. For example, in 2018 the number of hospital beds in the northern district was 1.5 per 1000 capita, the lowest rate of all districts. It is recommended that the government ministries review the situation of the northern district compared to other districts and the effectiveness of the actions included in the government decision in order to promote a follow-up program to narrow the gaps between the northern district and all other districts and ensure the provision of appropriate and ongoing services to all the residents of Israel.



In the chapter dealing with **investments management at various entities** the audit found that as of 30.6.20 the value of ongoing investments of the audited institutional bodies, government companies and statutory corporations totaled NIS 9.4 billion of which NIS 6.4 billion are designated for pensions; the value of long term investments made by the audited local authorities totaled NIS 4.9 billion. The audit found deficiencies in the administrative and professional aspects of investments committees' activities in the audited entities. In times of crisis, where fluctuations on the capital markets can erode the investments portfolios, it is highly important to increase the supervision and control on investments in these entities, inter alia through the investments committees and through educated risk management. The performance of an educated investment management by local authorities and public sector entities – including determination of a suitable investment policy taking into account considerations of financial gain or maintaining the real value of the investment, investment periods and risks – will maximize the inherent benefits of the funds held by the entity.

The commitment of the society in Israel to ensure the rights of persons with disabilities is based on acknowledgement of the principle of equality, of the value of every human being and in human dignity. Public transportation is essential for persons with disabilities, providing them with independence and access to employment, education and health services, and allowing them to pursue community life and integrate into the society. This report includes a chapter on the subject of **providing accessibility in public transportation to persons with disabilities**. According to the Central Bureau of Statistics, the number of persons with disabilities in Israel in 2019 totaled 1.56 million (of which 1.2 million are age 20 and over); 50% of the number of persons with disabilities are unemployed; 33% travel daily using city busses compared to only 15% that travel by intercity busses. Many have to deal with low incomes (75% are persons with severe disability and with difficulties in financing monthly expenses (19% of persons with severe disability and 11% of persons with moderate disability), in maintaining a car (63%) and in obtaining a driver's license (60%). In addition to these difficulties, it is complicated for persons with disabilities to use the transportation they need in order to travel independently. Adapting the physical and human environment to the motorical, sensory, emotional and cognitive abilities of persons with disabilities is consistent with the principles of ensuring equal rights for persons with disabilities. This adaptation will enable them to live independent, respectable and equal lives in the community. Improving the ways of transportation for persons with disabilities will increase the opportunities for receiving essential services, provide new employment possibilities, and increase employment productivity. In addition, this improvement will reduce of the need for special transportation, resulting budget savings and financial benefits. Taking care of the weak is not only important for its contribution to individuals, but also for its contribution to society as a whole, in terms of values and moral standards. This a test as to the moral resilience of the society, being the foundation for its existence.

Yad Vashem – The World Holocaust Remembrance Center (Yad Vashem) is a public corporation. Its role is, inter alia, "to gather to the homeland the memory of all members of



the Jewish nation who perished under and fought and rebelled against the Nazi enemy and their collaborators and to commemorate them, their communities, organizations and institutions destroyed because of belonging to the Jewish nation, and to commemorate the righteous among the nations". The Yad Vashem complex is spread over 180 dunams on Memorial Mount in Jerusalem, and its ongoing budget the years 2017–2019 was NIS 200 million. Its annual deficit for 2020 was NIS 25.6 million. In the chapter dealing with **aspects in the activities of Yad Vashem – The World Holocaust Remembrance Center** it was shown that Yad Vashem holds large collection of objects and documents with unique historical value designed to assist in commemorating the holocaust, and which require improvement in their management to ensure their preservation for the coming generations. In order to do so, Yad Vashem should improve its recording and cataloging of the items; should computerize the preservation activities and operate to complete them before the condition of the items deteriorates; should verify adhering to standards of temperature, humidity and lighting in compatibility with updated museum standards. Yad Vashem should examine the annual deficit from its ongoing activities, and take action to balance the annual budget.

Ground water are a primary strategic source of water: half of amount of drinking water provided to the population and 40% of water for agriculture derive from ground water. In Israel, ground water are the major source of natural clear water resources. The Government Water and Sewage Authority is in charge of maintaining and improving the quality of natural and artificial water sources, of their rehabilitation and of preventing their pollution. The audit deals with **preventing and monitoring pollution and salination of water sources, and their recovery**. Found that past activities of defense industries and of IDF bases are the primary source of pollution in the coastal aquifer, which is a vital source of clear water supply to Israel's water resources. The Water Authority, the Ministry of Finance and the Ministry of Defense, which are the bodies responsible for treating pollution, particularly that derived of defense industries and IDF bases activities, have not yet completed performing rehabilitation activities to treat the pollution. The relevant bodies – the Water Authority, the Ministry of Defense, the Ministry of Finance, the Ministry of Environmental Protection and the Ministry of Agriculture and Village Development – should act to rectify the deficiencies detailed in this report and examine implementation of its recommendations, including formulation of a multi-year plan to treat pollutions, allocating financing resources according to determined priorities and act to remove pollutants from the various aquifers.

Our office also audited **the debt management at Israel Electricity Corporation Ltd.** Over recent years the IEC debt decreased: in December 2020 it decreased to NIS 30 billion, a reduction of 42.3% compared to 2012; and the IEC financial ratios have improved: in 2020, the debt ratio to EBITDA was 3.99 compared to a ratio of 8 in 2013. As a result, the capital raising conditions of the company improved, and the interest carried on the latest capital raising process was the lowest since the company began raising capital. The improvement in the financial situation of IEC over the recent years and the reduction of its debt by 2017 are an amendment to the deterioration in its financial situation derived from crises, and a return



to the situation prior to the fuel crisis and the global financial crisis of 2008 and 2009. In 2018 two agreements were signed between the IEC and the State – assets settlement and electricity market reform, which led to an additional improvement in IEC's financial situation and to further reduction in the debt status. The audit showed that analysis of the factors that led to reduction in the debt clarifies that this was made possible mainly due to one-time natured events and not as a result of ongoing steps taken by the company. 16% of the reduced debt is attributed to the actions taken to reduce the debt rate, and some of these actions were performed, at the expense of investments in developing the electricity. It should be noted that the electricity sector is going through major changes that require the investments of significant resources. This places the continued improvement in the company's financial situation at risk. Adaptations to these changes will be required in order to prevent deterioration in the company's situation. The IEC and government bodies must provide the electricity requirements of the economy while maintaining the company's financial resilience.

The State Comptroller's office places special emphasis on following up the rectification of the deficiencies raised in its reports, and I intend to act to significantly strengthen and expand follow-up audits. This report includes four follow-up audits regarding these issues: **Public transportation – use of Rav-Kav cards and payment applications; Inter-city Roads Maintenance; Exercise of tax benefits by the Tax Authority; Foreign currency Balances Management by the Bank of Israel.** The follow-up audit on the subject of **Foreign Balances Management by the Bank of Israel** showed that over the past decade, following implementation of the Bank of Israel Law 2010, the activities of the Bank of Israel on the foreign currency market have been regularized. As part of the regulation process, there is a frequent examination of the need for change in the principles on which the appropriate level of long-term foreign currency reserves, and the guidelines for investment policy. In addition, most of the deficiencies raised in the previous report published in October 2012 have been rectified, including the lack of procedures to regulate the activities of the Bank of Israel and to handle risks in the reserves portfolio in general and in radical events in particular. At the same time, a significant increase over the past decade in the rate of foreign currency reserves held by the Bank of Israel, in addition to global financial developments, caused a deviation in February 2021 of USD 75 billion from the top echelon of the rate set by the governor. In addition, it increased the investment risks and created extensive liabilities in the bank balance to the scope of NIS 555 billion, most of which are related to accrued balances, and reduced bank capital to an accumulated capital deficit of approximately NIS 70 billion, as of December 2020. In order to return to the appropriate investment rate in the foreign currency reserves and to reduce the foreseen risk to the bank's reputation, a contingency plan should be prepared to examine the monetary committee, in order to utilize surplus reserves effectively in suitable circumstances.

It should be noted that one of the chapters prepared as part of this report dealing with cyber security, is going under confidentiality procedures and is not included in the report.



This report was conducted by the Economic departments Division in the State Comptroller's Office. I wish to thank the employees of this division and the Office staff involved in writing the report for their professional, thorough, efficient, and challenging work, especially in the circumstances created by the Covid-19 pandemic.

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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