



## Foreword

**The annual audit report** submitted today to the Knesset is the first part of the State Comptroller's annual report presenting the audit findings regarding the audited entities for 2021.

The report mostly deals with audits concerning the economy and the national infrastructures, which are essential building blocks for the development of the economy and improvement of the quality of life of the country's citizens and residents. The report also includes an extensive chapter on the salary structure and employment in the public service. The audit chapters focus on important and diverse issues, and the audit is also done "through the eyes of the public", that is, the issues are also examined from the public's point of view and regarding their impact on the daily lives of the citizens and residents. Following is an overview of some of the audit chapters.

- **Consumer Protection Issues:** The consumer public in Israel, especially consumers from among populations deserving support, such as new immigrants, the elderly and minors, are in many cases at a disadvantage vis-à-vis business owners. Consequently, laws were enacted to ensure the rights of consumers and a government regulation system was established to implement the provisions of the laws on consumer issues and to enforce them.

The audit on consumer protection issues raised deficiencies in a variety of topics related to service to the consumer and the quality of the response given by various government bodies in cases of violation of its rights. A public participation survey conducted by the State Comptroller's Office raised that more than 76% of the public experienced consumer wrongs in the years 2020–2021. The value of vouchers that consumers who are members in membership clubs do not redeem every year is estimated at approximately NIS 16.6 million; Of which approximately NIS 6.3 million is the value of expired vouchers, which the Pais (lottery) Club (NIS 2.9 million) and the "Tov", "Hever" and "Together for You" membership clubs did not return to consumers who did not use them. About 77% of consumers are not aware of the terms that allow them to cancel credit card payments. About 20% of the open complaints at the Israeli Consumer Council in 2018–2020 were closed to reduce the number of complaints registered as not handled; Only 31% of the sanctions imposed by the Consumer Protection Authority on businesses in 2018–2021 were collected (NIS 37 million out of NIS 119 million).

The parties entrusted with assisting and protecting consumers – including the Minister of Economy, the Consumer Protection and Fair Trade Authority, the Israel Consumer Council and the Ministry of Economy and Industry – should rectify the deficiencies brought up in the audit and consider the implementation of the recommendations to prevent harm to consumers, improve the service and raise the level of satisfaction with the entities responsible for protection of their rights and the trust in them.



- **Digital Banking:** Digital banking provides a variety of tools and solutions designed to benefit consumers as they enable the consumption of banking services through digital channels – on mobile phones and on the Internet.

The audit on digital banking raised that the average discount rate on tariffs for the execution of an action in the banking system through a direct channel, compared to its execution by a clerk, is 69%. It was further found that the average annual profit of the five largest banking groups increased from NIS 10.4 billion in 2014 to NIS 22.1 billion in 2021. This indicates the centralization in the banking industry and the lack of sufficient competition, raises doubts as to whether the savings due to digital efficiency are fully passed on to the public and highlights the need for the Bank of Israel and the Banking Supervision Department therein to initiate actions to increase competition in the banking industry, so that digital efficiency manifests itself more significantly in the reduction of costs for the consumer. The Ministry of Finance and the Bank of Israel promoted the reform without addressing the barriers that make it difficult for the public to effectively use the mobility system, including the psychological barrier, poor financial education and the lack of substantial differences between the banks. It was found that about a third of Israelis aged 20 and up are unable to perform banking operations through direct channels without the help of a bank teller; Low success rates were recorded among the elderly (more than half of those aged 65 and up), in the Arab sector compared to the Jewish sector and among women compared to men. It was further raised that in 2020 there were 16.2 bank branches per 100,000 adults in Israel compared to an average of 18.3 in the OECD countries.

The frequent changes in the financial system, which originate in significant technological developments, require adaptation of the regulation. The regulation should be inclusive, relevant and flexible to promote innovation, remove barriers and create certainty. Digital banking facilitates potential for increasing competition in a conservative and centralized market and for reducing the black economy. It is recommended that the Bank of Israel and the Ministry of Finance encourage the entry of local and international entities to optimize the industry, benefit consumers, and contribute to reduce the cost of living in Israel. It should also be ensured that the transition to digital banking is done with attention to populations deserving support, who do not have the literacy required to navigate the financial and digital world.

- **Aspects of Effectiveness of the Tax System:** The tax system is intended to serve as a tool for collecting taxes from the country's residents to finance public services such as security, physical infrastructure, health, education and welfare. Deficiencies in the tax system directly affect the general public. In 2020, the state's revenues from direct and indirect taxes were NIS 362 billion (gross). The audit examined various aspects of the effectiveness of the tax system in Israel.

The aforementioned examination raised various deficiencies in these aspects, affecting the operation of the Tax Authority and its efficiency vis-à-vis the taxpayer. Among other



things, it was raised that as of 2020, 825,000 (about 70%) of the reports that were required to be submitted to the Tax Authority, are from self-employed persons when the tax collected therefrom constitutes 6% of the total collection of direct and indirect taxes in the said year. The audit also presents findings on tax benefits that have been granted over the years without a periodic review of their compliance with the legislator's goals. It was also found that at the time of the completion of the audit, approximately 20 years after the government's decision on the consolidation of the activities of the "Customs and VAT Division, the Income Tax Commission [Division] and the Computerized Processing Service (Shaam)", the consolidation of the regional offices and the vision of "One Point of Service" is still far from being realized, and is different from what is customary in tax authorities in leading countries in the world.

The Ministry of Finance and the Tax Authority should rectify the deficiencies raised in the audit while considering its recommendations, to improve the effectiveness of the tax system in Israel. The tax laws in Israel are complex and include many legal provisions, regulations and precedents, and this highlights the need to base the tax rules on short, unambiguous and easy-to-implement principles in a way that minimizes the need to publish supplementary administrative instructions. Digitization processes should also be promoted, including creating a computerized audit file and abbreviated assessments for relatively small businesses; Shorten appeal procedures on tax assessments and promote equitable enforcement among taxpayers.

- **Optimizing the Israel Electric Company Ltd.:** The Israel Electric Company Ltd. (IEC) is a government and public company and approximately 99.85% of its shares are held by the Israeli government. The Company produces electricity and supplies it to all the economy sectors in Israel. Until the last decade, the industry was largely operated by IEC, which had a monopoly in all electricity sectors. In 2018, the government adopted a resolution on a reform in the electricity sector and a structural change in the Israel Electric Company, among other things to optimize the industry, encourage competition therein and strengthen IEC's financial stability.

The audit on optimizing the IEC was conducted in the middle of the reform's implementation period, but it is already evident that about 44% of the benefits that were expected to be obtained therefrom (NIS 2.72–2.78 billion, out of NIS 6.237 billion) will not be obtained due to the presentation of high benefit estimates when the resolution on the reform was adopted. The cost of the reform (in capitalized values) amounts to NIS 7.1 billion, of which NIS 6.4 billion are for financing the retirement costs of employees retiring within the framework of the reform and for an increase in the pension allowance for all Company employees.

It was further found that in 2021, 196 minutes of non-supply were recorded, an increase of about 28% compared to 2017. This is despite the fact that the reform is supposed to reduce the minutes of non-supply. IEC is implementing the various optimizing measures set in the reform, but it is evident that these measures as a whole do not realize the



necessary improvement in the Company's efficiency in particular and the efficiency of the electricity sector in general, and it is clear that further steps will be required for the optimization of the Company and the electricity sector.

It is recommended that the Minister of Energy and the Minister of Finance, together with the Committee for Monitoring Financial Soundness of the IEC and the Committee for Monitoring the Implementation of the Reform, survey the progress of the reform implementation and the Company optimization and consider additional ways to streamline the Company and the electricity sector. Furthermore, the Ministry of Energy, the Ministry of Finance, the Government Companies Authority, the Salary Commissioner, and the Electricity Authority should analyze the results of the reform and draw the lessons for the benefit of formulating future reforms in the electricity sector and in general.

- **The Progress of the Light Rail Project in the Tel Aviv Metropolitan Area:** The Tel Aviv metropolis spans an area of approximately 1,500 square kilometers. Annual travel using public transport is distributed as follows: approximately 767 million travels by bus (about 87%); Approximately 68 million travels by Israel Railways (about 8%); And approximately 45 million travels by the light rail (about 5%). In view of the scarce use of public transportation and the low scope of the transportation infrastructure in Israel, the country suffers from the greatest traffic congestion among the OECD countries, and according to the OECD data, in 2019 the loss of GDP as a result of congestion was approximately NIS 20 billion. In the years 2005–2016, the governments of Israel adopted several resolutions to promote the mass transportation system, intended to improve the accessibility of public transportation and its availability.

The audit on the progress of the Light Rail Project in the Tel Aviv Metropolitan Area raised the following deficiencies: the completion date for the construction of the Red Line was postponed six times by approximately five years, cumulatively (five of the six postponements occurred in the years 2010 to 2013 before the start of the main construction works, that began in 2015). The opening of the Purple Line was postponed from 2025 to 2026, and the opening of the Green Line was postponed from 2025 to 2027 and there may be a postponement of another year on these two lines. In the Red Line Project, at least 12 updates were made to the project cost estimate, and in at least eight of them the total project cost was updated; In the last update, the cost estimate was about NIS 18.71 billion, an amount that is about NIS 8 billion higher than the original cost estimate (75%) and after deducting the effect of price increases and a change in VAT, is about NIS 7.5 billion higher (about 70%). Many changes were made to the Green and Purple Lines in the scope of hundreds of millions of NIS, both in the total estimate and in the main budget items of the project. Examining the cost estimates of the Green, Red, and Purple Lines against international comparative numbers shows that the cost of establishing an above-ground light rail project in Israel is higher than the cost of establishing it in other countries, and the cost of establishing more complex light rail projects, in which there is a large underground component, is more comparable to the cost of establishing them in other countries.



Rectifying of the deficiencies raised in this chapter may improve the quality of life of public transportation users in the Tel Aviv metropolis, reduce the difficulties experienced by the residents of the metropolis on the route of the lines during the construction phase and save high costs for the economy. It is recommended that the Ministries of Transport and Finance draw conclusions from the project segments that were carried out and apply them to the planned segments of the light rail and in future mass transit projects such as the metro. It is further recommended that when bringing transportation projects for government approval or for the approval of budgetary changes in projects of this type, the Ministries of Transport and Finance present lessons learned from similar projects.

- **The Supply of Drinking Water in Times of Emergency:** Water is an essential and existential commodity for human and living things. Disruption of the water supply or damage to the quality of drinking water may affect both public health and orderly life routines. The potential threats to the water supply are diverse and may materialize without prior warning. According to the position of the National Emergency Management Authority (NEMA) and the Water Authority, the most serious reference scenario the water sector should prepare for in terms of water supply during an emergency is an earthquake.

The audit on the supply of drinking water in times of emergency raised that more than 2.4 million Israeli residents live in local authorities that are not properly prepared for the supply of water during an emergency, and that 13,161 hospital beds are located in hospitals whose water reservoirs are not protected against earthquakes. It was further found that the Water Authority has no information on the amounts of water that residents store for emergencies; it did not undertake publicity activities to raise the residents' awareness of the need to store water as required, and the water suppliers are not fully prepared for alternative supply of water.

The Ministry of the Interior, the Water Authority and NEMA should work together to improve the preparedness of small local authorities and authorities ranked in low-level clusters according to the socio-economic index, for supply of water during an emergency. It is recommended that these bodies consider providing an alternative solution for water supply in the first hours after an emergency event occur. The Ministry of Energy, the Water Authority, the Ministry of Health and the hospitals should examine the recommendations included in the audit report and rectify the deficiencies that have been brought up.

- **Energy Infrastructures Ltd. – Financial Audit:** Fuel products are essential for the normal operation of the entire economy, and they currently play a central role in the development of the economy and its financial growth. Energy Infrastructures Ltd. is a government company fully owned by the state, established to meet the needs of the fuel industry, including storage, flow and supply of fuel products.

The financial audit of the Company raised that from the expiry time of the Company's concessions in January 2001, over 20 years ago, the Company and the state do not have



a signed operating agreement. According to an estimate by the State Comptroller's Office, the lack of an operating agreement resulted in an economic loss (losses to the state and the Company) of NIS 216–659 million. It was further found that according to the Company's audited financial statements, at the end of 2020, more than NIS 1 billion were accounting eligible for distribution as a dividend, however, the Company did not distribute dividends to the state on a regular basis. The rate of administrative and general expenses from the Company's revenues in 2018–2020 (13%) was greater than the rate determined by the Price Committee in the Energy area (about 9%).

The Ministry of Finance, under the leadership of the Accountant General, the Ministry of Energy, the Government Companies Authority, the Tax Authority and ILA should complete the formulation of an agreed operating agreement with the Company. The Government Companies Authority should work with the Company's board of directors to distribute dividends to the state.

- **The Salary and Employment Structure in the Public Service:** Salary is a key factor in the set of people's considerations, when deciding whether they wish to work in a certain organization, what position they wish to hold and whether to take steps to move between positions and between organizations. From an employer's point of view, the salary is a central tool for the recruitment and development of skilled and reliable personnel to carry out the organization's tasks. For more than three decades, various professionals, including those appointed by the government, have insisted on the need to address fundamental issues concerning the salary and employment structure in the public service in Israel – having about 540,000 positions (excluding positions in the defense agencies), whose annual employment cost in 2019 amounted to approximately NIS 107 billion.

This audit report indicates deficiencies in the management of salaries and employment in the civil service, in several aspects: **the strategic aspect** – the government did not formulate or approve a government policy in the field of salaries; **The individual aspect of the salary components** – the salary in the civil service includes hundreds of salary supplements and salary components that are no longer applied adequately with respect to their original purpose, and mechanisms to reward and motivate employees for which government spending in 2020 amounted to NIS 707 million, of which NIS 667 million was for incentive pay, even though their effectiveness is questionable. **The aspect of equality among employees and bodies** – in the civil service, and at least in the national occupations therein, the principle of paying similar salaries for work of similar value is not preserved, which may harm the ability of ministries to improve the service they provide to the public due to the relatively low salaries paid to their employees. The report also presents a network of salary linkages and wide-ranging consequences, especially regarding salaries in the defense system, whose manner of application actually increased the disparity between the salaries of those serving in the IDF, the police and the Prison Service and the salaries of civil servants; **The financing aspect of the salary increase** – the government signed a framework agreement in April 2016 and allocated



funds for its realization, not in accordance with the principle underlying the numerator, and as a result was forced to allocate hundreds of millions of additional NIS to finance the agreement.

The findings of the audit and the data underlying them emphasize the need for the government to establish a comprehensive policy in the field of employment and salaries in the civil service system and work towards its implementation.

- **Follow-Up Audits:** The State Comptroller's Office places special emphasis on monitoring the rectifying of deficiencies that were raised in its audit, and in recent years we have significantly expanded the scope of follow-up audits. This report includes five follow-up reports on these topics: **Aspects of Cumulative Pensions and the Pension Distribution Market; The Service for Passengers of the Light Rail in Jerusalem; Israel Postal Company Ltd. – International Mail Handling; The Government's Handling of the Increase in Online Commerce; The Public Service at the Tax Authority** (an extended follow-up audit was conducted on this topic).

**The preparation of this report, like those preceding it, required considerable effort from the State Comptroller's Office staff members, and especially in the Economy and National Infrastructures Auditing Division and at the Headquarters, who fulfil their public duties out of a true sense of dedication. They worked on its preparation with professionalism and thoroughness, and they have my gratitude.**

I do not disregard that in many of the audited bodies, positive actions have been taken and the more notable of them were expressed in the report as required by the State Comptroller Law. At the same time, it is the duty of these bodies to rectify the deficiencies noted in this report to optimize their activities and improve the public service in Israel.

**Matanyahu Englman**  
State Comptroller and  
Ombudsman of Israel

Jerusalem, November 2022







**State of Israel**

# **Report of the State Comptroller**

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