



# **The Office of the State Comptroller and Ombudsman**

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70 A



Jerusalem | March 2020

## Foreword

**Annual Audit Report 70A**, which has been submitted to the Knesset, is the first part of the State Comptroller's report which will present the audit findings concerning the entities audited in 2019. For the most part, the report is focused on the areas of economics and national infrastructure, areas that are foundation stones, essential to the development of the economy and to the improvement of the lives of the State's citizens. The report also includes a broad and comprehensive audit of the burial system in Israel.

Upon my assuming the position of State Comptroller, a vision for the Office of the State Comptroller and Ombudsman was formulated, according to which –

**The Office of the State Comptroller and Ombudsman shall conduct constructive, objective, and respectful audits, which are directed toward future challenges, promoting the assumption of responsibility by audited entities, enhancing their activities, and advancing the fulfillment of their objectives and maximizing the public benefit that can be derived from them.**

**The Office of the State Comptroller and Ombudsman shall act to achieve the objectives laid out in the law through professionalism, efficiency, and working independently and with organizational transparency, by aspiring to excellence and continual improvement, and grounded upon a workforce of auditors of the highest order in qualitative and ethical terms.**

In line with my vision, we will act to position state audit as constructive, relevant and effective audit, dealing with the core areas of the audited entity, through focusing both on issues with a broad impact from the perspective of society and service to the citizen, and on the essential risks affecting the activities of the audited entity. Such audits will be undertaken in parallel with audit of subjects related to good governance and ethical practice.

**This report is the first annual report that I will sign as the State Comptroller and Ombudsman, and it reflects the vision of the Office and the constructive audit reform framework.**

Special emphasis by the Office of the State Comptroller was placed on conducting audits on systemic topics having broad national impact. This report details the findings of several systemic audits, including the audit of the burial system in Israel, in which a range of aspects of burial service provision to the general public were examined. The examination revealed significant deficiencies in this area, and consequently, recommendations for comprehensive reorganization in the area of burial service provision were formulated. These included recommendations to: intensify efforts to exploit to the maximum ground resources; adhere to the regulations intended to ensure that cemeteries are closed for burial when they are filled to capacity; be meticulous in ensuring that the number of plots that burial entities offer for sale at a full price is not greater than the number fixed by law; update the financial model to balance between the expenses of burial entities when opening new cemeteries and their income from selling burial plots; undertake long-term planning that will enable coping with the issue of anticipated lack of plots in areas of high demand; establish supervision and oversight policies related to planning offenses and construction within the cemetery grounds; be meticulous in following the regulations requiring the vaccination of employees handling the deceased; organize the system regarding burial of non-Jews. The entities involved in the area of burial must act to repair the deficiencies so that the principle of respecting the dead will be implemented vis a vis everyone ac-

cording to their beliefs and traditions. It is worth noting some initiatives that have already been advanced in this area for the benefit of citizens, among which are the establishment of a call center for the public and the launching of a navigation app for graves.

Each year, the Office of the State Comptroller will focus on areas designated as national objectives. This year, within this framework, aspects of the national housing project "Buyer's Price" were examined. This is the State's flagship project for dealing with the housing crisis and assisting young couples and individuals who do not own a home to purchase one at a reduced price. To implement the project, the State invested numerous resources and awarded those eligible significant discounts in the price of land. Accordingly, the National Housing Headquarters, the Ministry of Housing and the Israel Land Authority must examine the mix of apartments being offered and their location and do their utmost to shorten timetables and prevent delays in the apartment construction chain, so as to advance as much as possible their handover to those eligible to purchase them.

The Office of the State Comptroller began, in 2019, to conduct an in-depth study of the health system's preparedness for dealing with diseases that could lead to high levels of infection and difficult challenges for public health. These included flu, hepatitis and Ebola epidemics. The report was passed on to the audited entities in November of 2019 for their responses and was given to the Prime Minister on February 14, 2020. The situation that prevailed in China in December of 2019, toward the time at which the audit was completed - demonstrated the great danger involved in the spread of the Corona epidemic; and at the time the report was given to the Prime Minister, the virus had not yet appeared in Israel.

The audit found deficiencies regarding the preparations at the Ministry of Health, the health funds, and with the hospital system – with respect to their ability to deal with new and spreading diseases. It appears that pursuant to the Ministry of Health's scenario, it was expected that – upon an outbreak of the flu virus –

some 2.25 million Israeli residents (approximately 25% of the population) would become ill; the increased infection rate would take place over the course of some eight weeks, and during that time some 150,000 new patients would require hospitalization; an additional 25,000 new patients approximately would need to be hospitalized in intensive care units and another 12,500 patients would need to be placed on respirators. The instructions regarding the necessary arrangements do not refer to the number of isolation beds that would be required. It should be noted that the hospital system is overburdened at all times. Many departments in the general hospitals are working at overcapacity levels already and there is a definite shortage in ICU beds.

The review showed that the Ministry of Health does not have a plan to fill in the gaps regarding the number of hospital beds, or the gaps in terms of medical staff and equipment needed in the event of a flu pandemic in order to enable appropriate care for the many patients who will need hospitalization in such a situation.

The preparedness plan provides that the system needs to supply stocks of sufficient anti-viral medications to provide for 25% of the population. But the audit found that the stock of these medications is sufficient for only 16% of the population.

This chapter demonstrates the manner in which the Office of the State Comptroller's policy was implemented in terms of conducting a constructive and effective, forward looking system audit that deals with risks before they are actually realized.

The chapter can be seen to be even more important in light of the World Health Organization's announcement on March 11, 2020 that Corona has reached the level of a world pandemic.

I hope that this chapter, which as noted was submitted before the outbreak of the Corona virus in Israel, has helped the relevant parties to make the best possible

decisions, and has contributed to the preparations being made by the Ministry of Health and the Israeli government for prevention of the outbreak of the Corona virus in Israel; and that now, with its publication, it will increase the public's awareness of the need for following instructions from the competent authorities regarding such prevention.

My office also focused on the subject of **decision-making in the Ministry of Finance in the following areas: meeting the target deficit for 2018; forecasted revenues for 2019; and salary increases because of lack of occupational security.** The audit revealed that the actions of the accountant general and the tax authority toward the end of 2018, regarding which no authoritative irregularities were found, led to meeting the deficit ceiling at a rate of 2.9% of the gross domestic product (GDP). Nevertheless, these actions were undertaken without any consultations or discussions having been held. The updated revenue forecast for 2019 was presented to the government only in January 2019, after the State budget had already become binding. The updated forecast presented a deficit of 3.6% of the GDP (7% more than forecast), and this had implications for the government's ability to meet its targets; cooperation in the decision-making process in the Ministry of Finance was harmed as a result of the fact that relations within the Ministry, as discovered by the audit team, were not optimal. Considering the significant cost of the lack of an occupational safety scheme, which totaled 22 billion shekels, the process of authorizing this scheme was completed within a very tight schedule and accompanied by significant budget cuts in order to fund it. The Ministry of Finance, which plays a central and essential role in strengthening the Israeli economy, must make decisions in an orderly and inclusive fashion that will enable it to cope with future challenges. It would be appropriate to draw conclusions about the government's handling of the agreement for salary supplements in the case of lack of occupational security, with an eye to the future, and to map agreements and exposure bearing economic significance, and to hold orderly discussions about these issues and to make decisions ahead of time.

In my view, the types of audits performed by the Office of the State Comptroller should be diversified and move forward into the area of financial audits. In this framework, the subject of the **construction of the new sea ports and readiness for competition among the ports** was examined. The sea ports function as a primary gateway for the entry of merchandise and goods into the country and, consequently, make a crucial contribution to increasing competition and reducing the cost of living in a concentrated and isolated market such as Israel. Since 2005, the government has been promoting significant changes in the sea port industry in Israel. The peak of these changes is expected to occur in 2021, with the start of operations of the new sea ports – the Haifa Bay Port and the South Port. The Israel Ports Development & Assets Company (Israel Ports) and the Ministry of Transport must advance an updated master plan upon which basis the necessary actions for developing the port industry in Israel can be determined. The Ministry of Transport, Israel Ports, the Ministry of Finance, the Haifa Port Company and the Ashdod Port Company must take the necessary steps as soon as possible to ready the existing ports for the expected competition, in order to ensure that the port sector in Israel will be competitive in all areas of operations.

An additional important economic area that is discussed in the report is economic aspects of the **arrangement of assets and the reform in the electricity sector**. In 2018, after negotiations that extended over two decades, the State and the Israel Electric Company reached agreement on all the issues related to arrangement of proprietary rights regarding assets held by the company and to changes in the electricity sector. The formulated arrangement provides the company with not insignificant monetary benefits and leaves in its hands proprietary rights of over 200 critical properties and of thousands of secondary operational assets, whose overall monetary value is unknown. In return for this, the company will return to the State 16 properties for the benefit of the public valued at 1.6 to 2.5 billion shekels. The arrangement contributed to the financial soundness of the Israel Electric Company. It is important that all the entities involved in the arrangement of properties and the reform work to realize fully the various agreements between the State

and the Israel Electric Company (IEC), for the benefit of both sides as well as the public. An examination of the results of agreements made between the Ministry of Finance and the IEC and government companies in previous cases for which the concession period has ended\*, indicates a lack of a strategy for handling the return of properties at the end of the concession period, even when there exist explicit instructions regarding division of the assets. Therefore, the Ministry of Finance must formulate as soon as possible regulations for allocating concessions and handling the return of State assets and drawing conclusions from the way the State handled the properties held by the IEC during the past two decades. This should be done with an eye to the future, taking into account the distinction between companies intended to be privatized and companies meant to continue holding the properties.

Another section in the report deals with the subject of **transport of cargo on trains**. It was found that even though the economy is expected to benefit greatly from cargo transport by train in a variety of ways, the scope of cargo transport by train has dropped in recent years, and the sector suffers from a lack of infrastructure: The eastern tracks have yet to be completed, depots that have been built are closing because of problems related to protection of the environment, and the construction of new depots and extensions has been delayed for years. The cargo sector suffers from inferiority in terms of accessibility to track infrastructure because of the priority given to passenger transport, and it is characterized by lack of operational efficiency. Israel Railways has not increased the amount of cargo it can transport and has not exploited the potential of this type of transport. Even though already in 2012, the government decided to establish a subsidiary corporation in an attempt to privatize the area of cargo transport by train and increase its scope of activities, its establishment did not produce the hoped-for results. The financial soundness of the subsidiary was impaired and it incurred heavy losses

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\* The property arrangement with the Bazan Group Oil Refineries Ltd., Petroleum & Energy Infrastructure Ltd., and Oil Products Pipeline Ltd.



already in its first year of operations, and due to these, it was unable to exist on its own. The Ministry of Finance, the Ministry of Transport and Israel Railways must work to repair the deficiencies raised in the report to increase the scope of cargo transport by train significantly. They must do this through realizing the substantial financial potential the economy and society can generate through cargo transport given that cargo transport by train instead of trucks is liable to improve the safety of people travelling on the roads.


As the State Comptroller, I place great importance on examining subjects that may affect the lives of the country's citizens, among which are the interface between citizens and government bodies. The role of the government and the public sector is to serve the state's citizens while reducing the bureaucratic burden to the utmost. The audit of the government's actions to reduce the bureaucratic burden revealed that sometimes the public bodies imposed on businesses an excessive regulatory and bureaucratic burden that made it difficult for them to plan their business activities, to carry these out or to expand, and sometimes it even contributed to the closure of businesses. In the end, consumers are the ones who are forced to bear the burden, which causes, inter alia, the cost of living to increase and hurts economic growth, work productivity, residents' standard of living and revenues from state taxes. According to estimates made regarding this subject, not reducing the regulatory and bureaucratic burden by 30% entails a one-time loss of 58 billion shekels. We noted the government activities in the past few years to set up infrastructures and mechanisms that will allow it to estimate in advance the impact of new regulations. Nevertheless, this is insufficient. The government must invest concentrated and creative efforts to reduce the bureaucratic and regulatory burden and work continually to improve processes and procedures.

The Office of the State Comptroller puts special emphasis on tracking the rectification of deficiencies detailed in our reports, and it is my intention to significantly strengthen this trend and every work year to select a number of subjects to follow

up on. This report includes a report tracking **the actions of the tax authority vis-à-vis the subject of diesel fuel arrangements**, in view of the audit report on this subject published in 2015. The diesel fuel arrangement was intended to reduce the damage to economic sectors in which diesel fuel and motor vehicles are the main means for creating income. The cost of the diesel fuel arrangement to the Israeli economy in 2018, because of subsidies to entities included in it, was approximately 3.59 billion shekels. In the previous report, it was shown that the tax authority was not handling the diesel fuel arrangements appropriately, and that it was not achieving its objectives and was creating a negative incentive to using green types of nonpolluting fuel. The present audit found that some deficiencies were rectified, some were partially corrected and some were not fixed at all. Until the completion of the reduction in the diesel fuel arrangement, the tax authority must act to rectify all the deficiencies that have not yet been fixed.

**In summary, it is my pleasant obligation to thank the employees of the Office of the State Comptroller, who work devotedly to conduct examinations and audits professionally, in-depth, thoroughly and fairly, and publish objective, effective, relevant and clear audit reports.**

**The responsibility for acting quickly and efficiently to fix the deficiencies noted in this report, to enable the economy to grow and to improve the quality of life for all the State's citizens, rests with the audited bodies.**



**Matanyahu Englman**

State Comptroller  
and Ombudsman

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