



Part B – Corporate Governance Aspects in Five Statutory Corporations

Abstract

Background

The principles of corporate governance were specified in Part A of this report. Part B examines particular aspects of corporate governance in five major statutory corporations. Although each statutory corporation operates according to its own enabling legislation, the report cites several deficiencies that substantiate the conclusion presented in Part A of the report, regarding the need to regulate corporate governance in statutory corporations.

Key figures

ILS 417

annual income of the Standards Institution

ILS 608

Sports Betting Board's total annual support for sports

4,500

number of sports associations benefiting from the Sports Betting Board's support

10%

of State land is under the responsibility of the Nature and Parks Authority

ILS 878 Million

Magen David Adom's income in 2018, out of which, ILS 185 million derived from public donations

ILS 3.8 billion

Israel Airports Authority's annual income


ILS 1.77 billion

total royalties transferred to the State in 2018 by the Israel Airports Authority and the Sports Betting Board

8 million

annual number of visitors in the nature reserves and national parks







Audit actions

-  From December 2018 to December 2019, the Office of the State Comptroller audited certain aspects of corporate governance in three major statutory corporations: The Standards Institution of Israel (the SII), the Israel Sports Betting Board and the Israel Nature and Parks Authority. Additionally, follow-up audits regarding corporate governance issues raised in previous reports of the State Comptroller were conducted in two statutory corporations – Magen David Adom and the Israel Airports Authority (IAA).

Key findings

The Standards Institution of Israel



-  **Approval date of the financial statements** – the SII’s management forwarded the institution’s financial statements for each of the years 2015 – 2018 to the executive committee for its perusal and approval in August-September of the following year.
-  **Transparency** – the SII is not publishing financial statements, the executive committee’s meeting minutes or information regarding implementation of its work plans on its website.
-  **Institutional conflicts of interest** – pursuant to the standards law, the Commissioner of Standardization in the Ministry of Economy is a member of the SII’s executive committee. The commissioner is responsible for deciding whether to authorize entities to conduct standards compliance testing (those entities are competitors of the SII in these activities) and setting procedures for opening fields to competition with the SII (fields over which the SII has had a monopoly). These multiple roles could cause institutional conflicts of interest between his various positions.
-  **Multi-year work plan** – in 2014, the executive committee resolved to prepare a comprehensive strategic plan for the SII. On the audit completion date, more than five years after this resolution was passed, the multi-year plan has not yet been prepared.
-  **Convening the investment committee** – the investment committee did not convene in 2018 and 2019, and it did not receive performance reports from the investment managers.
-  **Appointment of a director for the administrative department** – in November 2019, as part of the SII’s reorganization, the administration division was subordinated to the director of the human resources division. It was found that from December



2016 until November 2019, the administration division didn't have a permanent director. During this period, an employee was appointed to the role in a position of trust, without clearly delineated responsibilities.



Code of ethics – as a result of the audit, the SII's CEO submitted the code of ethics to the executive committee for ratification.

Israel Sports Betting Board (Toto)



- Public representatives' participation in board meetings** – seven to ten board meetings were held in each of the years 2016 – 2018, and each year, various public representatives were absent from three to seven of the meetings.
- Board composition** – the composition of the Sports Betting Board's board of directors is incomplete, which hampers the board's management and the operation of its subcommittees.
- Approval of the annual budget** – in 2017, the proposed budget was not submitted for approval by the Knesset Finance Committee and, as a result, it was not approved in violation of the Sport Betting Regulation Law, 5727 – 1967. In 2018, the Sports Betting Board's budget was approved only in June of that year.
- The audit committee** – the audit found that that the board of directors had not submitted an audit committee report to the ministers as required by law. In March 2019, during the audit, the report was submitted to the Minister of Culture and Sport and to the Minister of Finance as is required.





In 2018, the Sports Betting Board transferred approximately ILS 608 million from its retained earnings to the State. In February 2019, the Sports Betting Board transferred an additional sum of ILS 458 million to the State to cover the balance of the designated funds being transferred to the State.

The Nature and Parks Authority



- Board composition** – over the past decade, the composition of the Nature and Parks Authority's board of directors has been incomplete. The enabling legislation authorizes appointing 19 board members. As of the beginning of 2020, only eight

members were serving on the authority's board of directors, three were women and one was a minority representative. Additionally, there has not been a permanent chairman of the board for nearly three years. From 2016-2018 the ratio of serving directors to available positions on the board of directors was 63%, 60% and 43% respectively.




-  **Remuneration for participation in board meetings** – regulations have not yet been promulgated enabling remuneration to be paid to the chairman of the board and to the board members. This situation is contributing to the poor attendance during board meetings and is affecting its management and the decision-making process.
-  **Transparency** – the Nature and Parks Authority does not publish its budget, information, regarding budget performance, complete financial statements or board meeting minutes on its website.



In 2016, the Nature and Parks Authority completed the preparation of a risk survey.

Magen David Adom







-  **Fair representation in Magen David Adom's institutions** – although the amendment to Magen David Adom's articles of association regarding fair representation of women and minority populations in the corporation's institutions was completed and published on April 2020, Magen David Adom's institutions have not yet been staffed in a way that provides fair representation of woman in its institutions.
-  **Amendment to Magen David Adom's articles of association regarding segregation of duties** – in October 2013, Magen David Adom's board resolved to amend Magen David Adom's articles of association to regulate the standing of the association's CEO (division of authority between Magen David Adom's management and the executive committee), to form permanent committees and ad hoc committees, to define the number of board meetings required every year and to appoint a representative of the Israel Bar Association to the board. As of the audit completion date, the approval procedure for amending the articles of association has not yet been completed.
-  **Board composition** – on the audit completion date, State representatives have not yet been appointed to the board (about 25% of the board should be State representatives): the government's appointments committee has not appointed four board members, the Minister of Finance and the Minister of Foreign Affairs have not appointed three board members, and the appointments of representatives of the Ministry of Health have not yet been completed because the Minister of Health has not yet approved the ministry's four candidates recommended by the appointments

committee. It should be noted that in 2019 and in 2020, the appointing ministers were serving in a government operating during several rounds of elections.

The Airports Authority





-  **Board composition** – from January 2016 until January 2019, three to seven of the 15 board members were not appointed. It should be noted that in 2019 and in 2020, the appointing minister was serving in a government operating during several rounds of elections.
-  **The independent auditor's incumbency** – the IAA's independent auditor has been employed for more than 24 years (since 1995) and has not been replaced since then, despite the 2018 amendment to the Airports Authority Law, in which the Government Companies Authority imposed restrictions on the auditor's incumbency.
-  **Transparency** – the IAA publishes data from its financial statements in its annual report, which is submitted pursuant to the Freedom of Information Law, but it does not publish its full financial statements.
-  **Employees' committee** – three members of the same family – two brothers and a nephew – are still serving in the IAA's employees' committee, even though this matter was cited as a deficiency in several previous State Comptroller reports. Furthermore, the committee's chairman was demoted by five grades, at his request, in an irregular course of action, so that he could run for office in the Knesset. As a result of the discussion held by the central election committee chairman, the IAA's chairman withdrew his candidacy and his rank was restored.









In 2016 – 2018, the IAA transferred royalties to the State totaling ILS 222 million, ILS 962 million and ILS 1,162 million, respectively.

Key recommendations

-  **General** – the appointing ministers should fully staff the boards of directors in all five of the statutory corporations, and should consider the issue of fair representation. It is recommended that each corporation should examine its need to appoint at least one director possessing economic and financial expertise in order to improve the board's work and the financial control over the corporations.
-  **General** – it is recommended that the five statutory corporations should publish budget data, work plans and their implementation, audited financial statements and additional relevant information on their websites.



-  **General** – the five statutory corporations should take action to approve their annual budgets in advance and to complete the approval of their audited financial statements shortly after the end of the relevant year.
-  **The Standards Institution** – it is recommended that the Ministry of Economy, in collaboration with the Ministry of Justice, should examine the need to regulate, if necessary, the possible institutional conflicts of interest of the Commissioner of Standardization, in relation to the fulfillment of his role as a director appointed pursuant to the Standards Law.
-  **The Nature and Parks Authority** – it is recommended that the Ministry of Environmental Protection should complete the regulation authorizing remuneration to independent directors in order to encourage their participation in board meetings.
-  **Magen David Adom** – Magen David Adom should appoint members to its management committees in a way that will allow fair representation of women and minorities.
-  **The Airports Authority** – three members of a single family holding positions in the employees' committee is inconsistent with the principles of good governance. On the audit completion date, this matter has not yet been resolved. The IAA's management and the Histadrut should consider imposing restrictions with regard to relatives as defined in the Government Companies Regulations, including nieces and nephews serving on the committee when they are elected by the same labor sector.
-  It is recommended that the Attorney-General and the Civil Service Commission should clarify their directives with regard to senior civil service employees submitting their candidacy for office in the Knesset, in order to avoid the recurrence of a senior employee being demoted in order to run for office in the Knesset.

Diverse activities of statutory corporations



Source: official websites of the Israel Sports Betting Board, Magen David Adom and the Israel Nature and Parks Authority.

Summary

This report presents deficiencies in the corporate governance of five major statutory corporations whose aggregate turnover has been estimated at billions of shekels, and recommendations for improvements. The corporations should take action to rectify the deficiencies presented in this report.

According to the audit findings relating to corporate governance in statutory corporations, it is proposed that the Ministry of Justice should take action, in collaboration with the Prime Minister's Office and the Ministry of Finance, to comprehensively regulate all statutory corporations, and that that these ministries should consider the possibility of appointing a single government authority to be delegated the responsibility for all statutory corporations and the supervision over them. It is further recommended to prepare and publish a best practice guide to augment the supervision and monitoring over all statutory corporations.