



Report of the State Comptroller of Israel | May 2022

Ministry of Finance

**The State of Israel's
Financial Statements
as of 31.12.2020 –
Accounts Receivable**



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Background

The State's financial statements present, among other things, the scope of debts to the State. The debts can arise from the supply of services on behalf of the State and from the imposition of charges, such as fees, fines or financial sanctions under various laws. Furthermore, sometimes the State is entitled to compensation or to reimbursement of expenses under judgments, agreements or for other reasons.

According to Section 12 of the State Comptroller Law, 1958 [Consolidated Version], every year, the State Comptroller may determine the time, but no later than six months after the expiration of the State's fiscal year, in which the Minister of Finance will submit to the State Comptroller of Israel "a comprehensive report on the State's income and expenditure during that year". Furthermore, the State Comptroller may determine the time, but no later than nine months after the expiration of the State's fiscal year, in which the Minister of Finance will submit to the State Comptroller of Israel the "balance sheet showing the assets and liabilities of the State as of the expiration of that fiscal year". The State's consolidated financial statements as of 31.12.2020 were submitted to the State Comptroller of Israel and published in July 2021.



Key figures

**NIS 732
billion**

the total State assets according to the financial statements, by 31.12.2020 – an increase of about 5.3% compared to 2019

**NIS 69.2
billion**

the total net debts to the State according to the financial statements, by 31.12.2020 – an increase of about 3.9% compared to 2019

**NIS 14.1
billion**

the total provision for doubtful debts according to the financial statements, by 31.12.2020 – an increase of about 4.5% compared to 2019

5%

the accounts receivable rate from the GDP for 2020, compared to the rate in the United States, Canada, Australia and New Zealand (1.5%–7.5%)

**NIS 164
billion**

the increase in domestic and foreign loans in 2020, among other reasons, due to the Covid-19 pandemic

**NIS 170
billion**

the consolidated accounting deficit in 2020, among other reasons, due to the Covid-19 pandemic

64%

of all the government ministries' debts are not managed by the MERKAVA portal (government ministries' transverse computing system)

**NIS 921
million**

the sum of the debts collected in 2020 by the Centre for Fine Collection – an increase of about 17% compared to 2019

Audit actions



From July to November 2021, the Office of the State Comptroller examined the various trends arising from the financial statements and the Government's methods in documenting the debts in the "Accounts Receivable" section, in the State's consolidated financial statements, and the government ministries' financial statements¹. The examination was performed at the Accountant-General Department in the Ministry of Finance (the Accountant-General Department) and at the Law Enforcement and Collection System Authority (the Authority), as well as in several government ministries, auxiliary units, and other government entities, including the Ministry of Justice, the Ministry of Economy and

¹ It should be noted that the matter was also examined in the 2017 audit on "The State Balance as of 31.12.16 – Accounts Receivable". See the State Comptroller's **Annual Report 68C** (2018), "The State Balance as of 31.12.16 – Accounts Receivable", pp. 191–256.



Industry, the Ministry of Public Security, the Courts Administration, the Ministry of Construction and Housing, the Israel Land Authority (ILA), the Ministry of Transport and Road Safety (the Ministry of Transport), the Ministry of Health, the Ministry of Energy, the Governmental Authority for Water and Sewage, the Israel Tax Authority (the Tax Authority), the Ministry of Education, the Ministry of Interior, the Ministry of Communications and the Ministry of Tourism. Supplementary examinations were conducted in the Israel Postal Company.

Key findings



The Covid-19 pandemic's effect on the State's financial statements for 2020

– from the financial statements data in 2020, the expenditures were reduced by about NIS 31 billion compared to 2019 (among other reasons, due to a public expenditure increase and a reduction of about NIS 105 billion, the actuarial commitment of the National Insurance Institute expenditure to entitled persons). Furthermore, according to the financial statements in 2020, the State revenue decreased by about NIS 17 billion compared to 2019, and changes in the sum of NIS 66 billion in the net assets were added to the annual accounting deficit, which was about NIS 170 billion (an increase in the deficit). This led to an increase in the accumulative accounting deficit to about NIS 236 billion, financed mainly by a Government debt increase (domestic and foreign loans, including current maturities) of about NIS 164 billion.



Accounts Receivable and provision for doubtful debts – an international comparison






– it was found that the scope of accounts receivable by 31.12.2020 is about NIS 69.2 billion out of the total scope of assets totaling about NIS 732 billion (about 9.5%). This figure is high in comparison to most selected countries. This gap can indicate that the collection potential of the debts is higher than the actual execution compared to most selected countries. It should be noted that the gap could also arise because extensive financial assets scales are not included in the State of Israel's financial statements. Furthermore, it was found that selected countries calculate the provision for doubtful debts in their financial statements differently.




Substantive auditor's reservations concerning the data of the "accounts receivable" section, under the Tax Authority's responsibility

– since 2009, substantive auditor's reservations concerning the data of the "accounts receivable" section, under Tax Authority responsibility, have been included in the State's financial statements. This section is presented in the financial statements in about NIS 15 billion by 31.12.2020. It was further found that although the Tax Authority claimed it had begun to improve the financial statements' data several years ago, as of the audit completion date, it had not completed this action.



-  **The computerized systems used for the debts management** – according to data from the Accountant-General Department, 64% of all government ministries' debts are not managed by the MERKAVA system, and 44% are included manually. This situation hinders a complete knowledge of the list of debts at the ministry and the Government level, and an absence of comprehensive data on the debts to the government ministries and the auxiliary units as well as the actual collection data. Consequently, there is no adequate accounting control regarding the possibility of government ministries fully realizing their rights.
-  **Incentives for improving the collection proceedings** – it was found that the Accountant-General Department and the Budgets Department at the Ministry of Finance held several discussions concerning the incentives model. The incentives model aims to encourage government ministries to improve the collection and enforcement proceedings and increase the State revenue by providing positive and negative incentives to the ministries for increasing revenue or achieving significant milestones in improving the collection and enforcement proceedings. During the audit, no incentives model for debt collection was determined for the government ministries, contrary to the 2013 Government Decision regarding "Deepening the Government Debt Collection Activity".
-  **Collection of professional fees in government ministries** – Government Decision 4813 dated 12.1.2020 stated that a committee should be established to examine the collection improvement of Government fees, including transferring them for collection by the Centre for Fine Collection (the Centre for Fine Collection). By the Committee for Government Fees draft report, there is no orderly methodology for handling all 723 ministries' professional fees. This leads to a lack of coordination and uniformity in the ministries' activity. The professional fees, which should be collected once a year, are collected in various ways and sometimes are not.
-  **Accounts receivable aging report** – the Accountant-General Department does not have a complete aging report of the debt balances noted in the State's financial statements.
-  **Provision for doubtful debts in government ministries** – 14 out of the 15 government ministries and auxiliary units examined do not comply with the disclosure requirements of the mutations in the provision for doubtful debts account, as required by the relevant TAKAM directive (Financial and Economy Regulations), and in particular they do not present the amounts of the debts which were written-off and the amounts of the doubtful or lost debts collected if any. Likewise, the Law Enforcement and Collection System Authority performs a general provision only at the fixed rate of 57% (in a sum of about NIS 2.4 billion as of 31.12.2020 out of the gross debts in the sum of about NIS 4.3 billion), which is based on a calculation made by an external accounting firm in 2017.







 **The method of presenting and publishing the separate financial statements of government ministries (solo statements)** – it was found that the way of presenting the various sections of the financial statements varied from ministry to ministry. For example, some ministries include the "advance expenses" or the "income receivable" in the accounts receivable section. In contrast, other ministries present these sections separately or include them under different sections. Likewise, some ministries split in the financial state report the "accounts receivable" section into "debtors from non-exchange transactions," "debtors from exchange transactions," and "other debtors." In contrast, other ministries present this separation only in the financial statements' notes. Furthermore, it was found that the government ministries' separate financial statements are not published to the public.



Publication of the TAKAM directive – in November 2018, the then Accountant-General published a TAKAM directive² on the "Collection and Enforcement in Government Ministries." This was to uniformly guide the government ministries in formulating work procedures and work processes to support the management and collection activity of the debts, including supervision and control over their collection.

Mapping all the types of charges in government ministries – the Accountant-General Department, together with the government ministries, has mapped out all the types of charges in government ministries.

Key recommendations

-  It is recommended that the Ministry of Finance formulate a multi-year plan to reduce the deficit to the levels planned before the Covid-19 pandemic.
-  It is recommended that following the Government decision, the Minister of Finance, in conjunction with the Accountant-General Department, determine a model of positive and negative incentives for government ministries for debt collection.
-  Due to the importance of the information included in the separate statements of government ministries (the solo statement), it is recommended that the Accountant-General Department publish these statements on its website.
-  It is recommended that the Accountant-General Department act to complete the solution of a transverse collection system, which will reflect a reliable status of the debtors in the government ministries and maximize the Government's collection potential. It is further

² No. 3.3.1.



recommended that the Accountant-General Department complete, in conjunction with the Centre for Fine Collection, the regulation of optimizing the Government collection of professional fees.



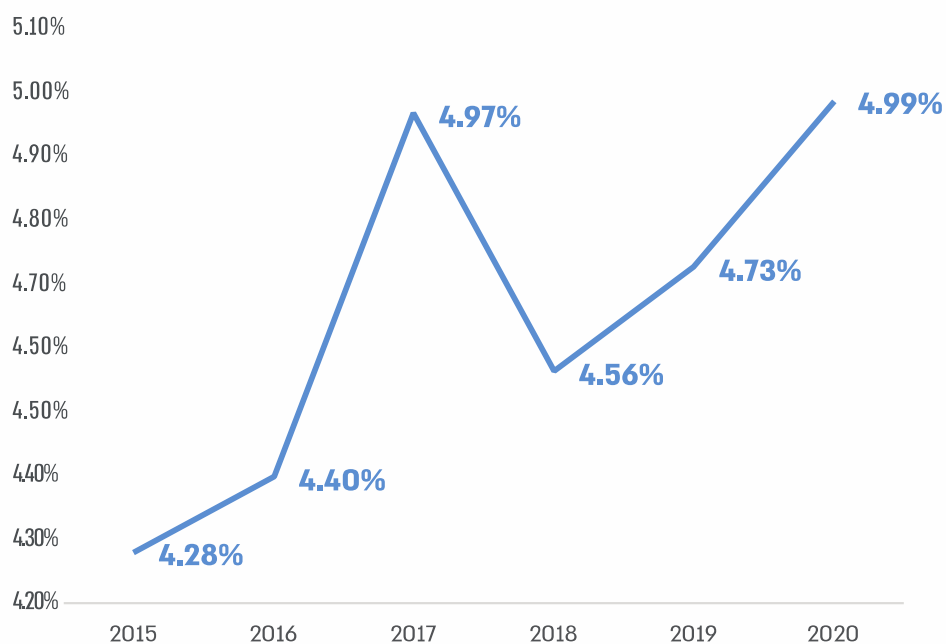
It is recommended that the Law Enforcement and Collection System Authority, the Application Administration, and the Accountant-General Department consider the establishment of a computerized system for transferring the debts to the Government Collection Administration. This method would prevent possible errors and save time and resources when transferring debts.



It is recommended that the Accountant-General Department and the Law Enforcement and Collection System Authority continue to improve the cooperation between government ministries and the enforcement bodies, among other things, by signing a service treaty document and advancing the establishment of a board of directors to encompass the entire government collection activity, so that the collection of the debts for the State will be performed most effectively.



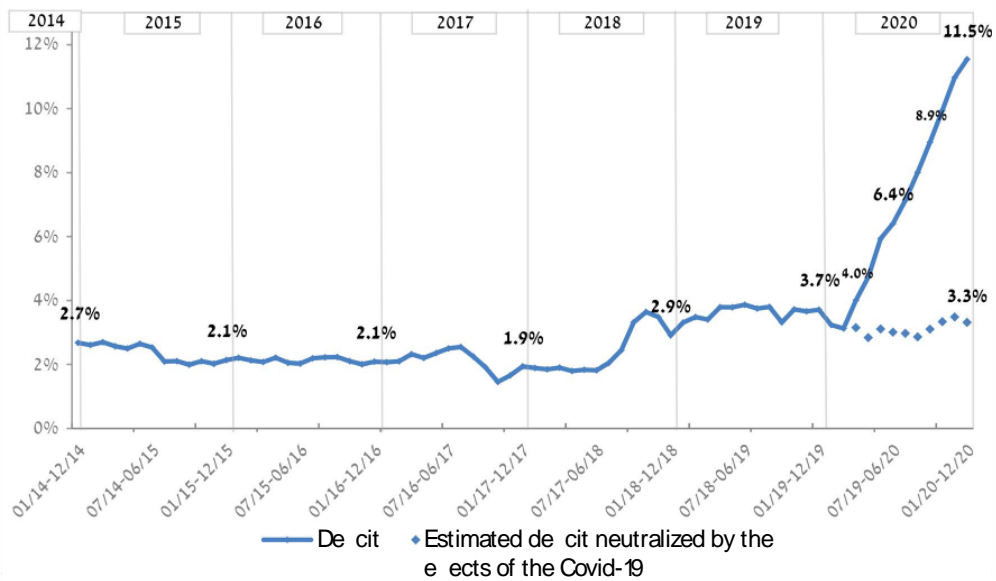
It is recommended that the Accountant-General Department track the amount of the provision for doubtful debts and the rate of this sum in the accounts receivable section, and examine the significances of these figures and strive to reduce them as much as possible.

**Accounts receivable rate out of the entire GDP**

Financial statements for 2015–2020, processed by the Office of the State Comptroller.



The actual deficit, including the effects of the Covid-19 pandemic, compared to the Accountant-General Department forecast before the pandemic



Source: the Ministry of Finance, Introduction to the State of Israel's Financial Statements for 2020.



Summary

As part of the ongoing activities of government ministries, occasionally a ministry has a right to receive funds, which may mature into a debt. According to the State's financial statements by 31.12.2020, in recent years the Accounts Receivable section is on an upward trend – from about NIS 49 billion in 2015 to about NIS 69 billion in 2020 (minus the provision for doubtful debts). Management and collection of the debt balance are essential for preserving State assets and realizing all its rights. The audit found that government ministries use a great deal of manual work rather than automated processes, thus making it challenging to control debt management and avoid arrears and obsolescence of debts. This is expressed in the lack of transparency and knowledge regarding an orderly list of debts at the ministry and the Government level and the absence of complete data regarding the status of the debts to the government ministries and the auxiliary units.

Further, there is no uniformity in the method of managing the accounting record when transferring the debts from the government ministries to the Centre for Fine Collection for handling. Some ministries leave the debt in their books even after transferring it to the Centre for Fine Collection, which can create duplicity of the debt balances in the State's consolidated financial statements. The Accountant-General Department should rectify the deficiencies noted in the report, including completing the implementation of the transverse collection system to obtain a reliable and available status of the debtors and the collection data. Likewise, it must act to improve the ministries' collection process by the Law Enforcement and Collection System Authority to collect all debts. These actions will ensure that the Government collection potential is fully realized. The audit further found that the covid-19 pandemic had an extensive effect on the financial statements for 2020, and the State must prepare itself for closing the gaps in the future from the multi-year aspect.

