



Report of the State Comptroller of Israel | May 2022

Council for Higher Education

Financial Aspects of Higher Education Institutions' Activity



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Background

The Council for Higher Education of Israel (CHE) is the national authority on all higher education issues in Israel. Its roles, determined by law¹, include recognition of a higher education institution, State participation proposals in the recognized institutions' budgets, recognition of academic degrees, authorizing higher education institutions to award degrees, and supervising them. The Government established the Planning and Budgeting Committee (PBC) as a sub-committee of the CHE to deal with higher education institutions ordinary and development budgets allocations, and track budget utilization to prevent deficits or deviations. According to a Government decision², the PBC also presents its professional opinion to the CHE before it approves to open a new academic institution or a new unit of considerable financial significance. The PBC's responsibility for budgetary supervision and control of the institutions entails taking measures to ensure their long-term ongoing and regular budgetary functioning.

By the 2020–2021 academic year³, there are 59 academic institutions: 10 universities, and 49 academic colleges. The PBC has allocated budgets to 32 of them (Budgeted Institutions): 9 universities and 23 colleges; 10 academic institutions are not budgeted by the State (Non-Budgeted Institutions); and 17 academic colleges of education (this report does not deal with them) are budgeted by the Ministry of Education.

1 The establishment of the CHE and its powers were entrenched in the Council for Higher Education Law, 1958.

2 Government Decision 666, "the Functions of the Planning and Budgeting Committee" (6.6.77).

3 The academic year commences on October 1st and concludes on September 30th. Hereinafter the academic years will be indicated by the year on which the academic year commences and on which it concludes.



Key figures

**NIS 12.3
billion**

the PBC budget allocated for the higher education for the 2020–2021 academic year

**NIS 10
billion**

the PBC's 2021–2020 participation in the budgets of 32 Budgeted Institutions. NIS 8 billion in universities and NIS 2 billion in colleges

**53% and
59%**

53% of the universities' and 59% of the colleges income in 2019–2020 from the PBC budget

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audits of the institutions financial resilience conducted by the PBC with an external accountant aid in the years 2016–2021, out of the 15 which were due to be conducted

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Budgeted Institutions out of 32 were in the red range in 2019–2020 according to the Altman Z-score adopted by the PBC as one of the tools for a financial audit of the institutions. The universities: Tel Aviv, Bar-Ilan, Haifa, and the Hebrew University; the colleges: Herzog, Kinneret, Shenkar, and the Academy of Music and Dance

**NIS 11
billion**

the universities accumulative deficit in the red range according to the Altman Z-score for 2019–2020 from Pension activities and liabilities and without net assets which were earmarked by the management and used to purchase fixed assets: Haifa: NIS 1,013 million, the Hebrew University: NIS 5,767 million, Tel Aviv: NIS 3,386 million, Bar-Ilan: NIS 873 million

**NIS 29.8
billion**


according to the PBC's calculation, the total actuarial liabilities for budgetary pension in the following decades of the universities: Tel Aviv, the Technion, the Hebrew University, and Haifa

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of the 30 institutions were required by the Office of the State Comptroller to submit data did not prepare a general risk surveys



Audit actions


-  From March to August 2021, the Office of the State Comptroller examined the financial aspects of higher education institutions' activity, including their supervision by the PBC. The audit included an examination of the institutions' general, financial and databases risks. The examination relates to the 2016–2020 academic years, and it was conducted at the PBC and academic institutions, mainly at Budgeted Institutions. A detailed examination was conducted at three universities: the University of Haifa, Ariel University, and Bar-Ilan University, as well as three budgeted colleges: Kinneret College, Zefat Academic College, and the Academy of Music and Dance (the Examined Institutions).


Key findings


-  **The financial state based on the institutions' financial statements** – it was raised that at the end of 2019–2020, four universities that were included in the red range according to the Altman Z-score (as set out below): the Hebrew University, Tel Aviv, Haifa, and Bar-Ilan, had an accumulative activities deficit of approximately NIS 11 billion (including about NIS 8.9 billion for pension liabilities); about NIS 1.3 billion net assets were designated by the management and about NIS 11 billion net assets were used to purchase fixed assets; the Hebrew University, Haifa, the Open University and the Academy of Music and Dance had a deficit activity turnover (income and expenditure during the year of activity). These indices requires consistent examinations of the institutions' financial situation and observation of the development of their financial difficulties.
-  **Budgeted students' data** – from 2019–2020 to 2020–2021 the number of budgeted students increased by 2.4% in the universities and 1% in the colleges. 183,785 students were budgeted for 2020–2021. The number of students increased during these years by 5.9% at the universities and 7.3% at the colleges; 193,069 students were enrolled in 2020–2021, and the number of non-budgeted students increased from approximately 1,000 in 2019–2020 to about 9,300 in 2020–2021. It should be noted that the PBC decided to add about 2,600 quotas to increase the number of budgeted students in 2021–2020.
-  **The institutions' commitment to budgetary pension** – according to PBC data presented to the audit in August 2021, the actuarial commitments of four universities (the Hebrew University, Tel Aviv, Haifa, and the Technion) for the future decades' budgetary pension is NIS 29.8 billion, and their average annual pension payments



expenditure in the present decade is approximately NIS 1,331 million. It should be noted that the institutions do not have designated funds to cover these liabilities fully, and these expenses constitute a burden on their budgets. In recent years, the PBC's participation in their expenses ranged from 48% to 55%. Under the agreements between the PBC and the Ministry of Finance, this custom is expected to continue as part of the new multi-year plan (ending in 2021–2022) and is likely to continue in the future. The financial statements for the years 2018–2019 and 2019–2020 for the Hebrew University and the Tel Aviv, Haifa, Ben-Gurion, and Bar-Ilan universities presented their future budgetary pension liabilities deducted by the maximum rate of the PBC's participation – 55%, even though the PBC has not approved it.


 **Management and general expenses at Kinneret College** – Kinneret College did not properly reflect required management and general expenses in its financial statements for 2017–2020, at least during the past three years.


 **The Altman Z-score** – the PBC has adopted the Altman Z-score as one of the tools for financial supervision over the institutions. Still, it did not proactively inform the institutions of the particular use it is making of the Altman Z-score, and neither did it share with the institutions the results of the scores it calculated. The PBC believes that the Altman Z-score does not provide a sufficient solution. The OFS⁴ grades the higher education institutions in England according to levels it has determined and publishes the grading to the public. The grading relates to the quality of teaching and its environment and achieving the students' study objectives, as well as the institutions' financial situation, including accumulative data on the institutions, their income and expenditure segmentation, surpluses or losses from their activity, and their liquidity situation. On the other hand, the PBC's website includes the financial statements of higher education institutions. Still, it does not include analyses and individual and accumulative data regarding these statements and the institutions and their situation.


 **Frequency of in-depth examinations at the institutions** – the PBC did not meet the target set in the multi-year plan for 2016–2021 to conduct a financial resilience audit at 15 institutions with an external accountant aid; during this period, it conducted eight audits, in seven institutions (three in-depth examinations and five financial surveys, on a smaller scale than that of the in-depth examination). In 2018–2021, in-depth examinations were conducted at the Zefat Academic College and Bar-Ilan University, among them one "red" institution (Bar-Ilan). Seven "red" institutions were not examined, including the Universities of Haifa and Tel Aviv, Kinneret College, and the Academy of Music and Dance. It was raised that even though the summary of the multi-year plan determined that the PBC would present the Budgets Division at the Ministry of Finance with the findings of the audit it conducted, this had not been done.


⁴ The Office for Students (the OFS) is the regulator of the higher education system in England, and it oversees, among other things, the budgeting of higher education institutions in England.




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Actions following the in-depth audit at Zefat Academic College – after the PBC received the in-depth audit report from Zefat Academic College in June 2019, the PBC plenum did not discuss the report's findings. In June 2021, two years after this date, the PBC's management was instructed to examine the rectification of the deficiencies presented by the Zefat Academic College.

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The streamlining and in-depth audit plan at Bar-Ilan – the PBC plenum decided to assist Bar-Ilan in balancing its budget on the condition that Bar-Ilan presents a recovery plan and adopt streamlining measures. Bar-Ilan submitted the plan to the PBC, but its professional team did not present it before the PBC plenum for discussion; thus, the plenum did not discuss it and did not approve it, nor the support framework that Bar-Ilan had requested. Nevertheless, Bar-Ilan received tens of million NIS, partly for establishing the Medicine Faculty in Zefat. The PBC did not require the professional team to report about Bar-Ilan's financial situation following the streamlining it adopted; as opposed to the PBC plenum's decision from June 2019 that the professional team would report the progress in Bar-Ilan's financial situation until it reached a balance in the budget's base; the team did not do so. At the beginning of 2020–2021, Bar-Ilan had not reached a budgetary balance, and a report by the professional team regarding Bar-Ilan's financial situation was submitted to the PBC plenum during the audit, in June 2021, in preparation for the 2021–2022 academic year. Furthermore, the PBC's directive that the professional team concludes the clarifying of the salary findings was not implemented, and thus neither were the salary excesses presented to the commissioner, according to its responsibility and jurisdiction.

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Plan for the University of Haifa's dealing with the deficit – in 2017–2020, the Provision for workers' rights at the University of Haifa was 9% greater than its net liabilities and assets; the Provision for workers' rights increased over time by NIS 212 million (approximately 30%); in each of the years there was a net income deficit, an increase from NIS 20 million deficit to a NIS 37 million deficit (85%), and the University's accumulated activities deficit was NIS 1,013 million. It should be noted that alongside the accumulated deficit, the management designated NIS 208 million net assets, and NIS 1,176 million were used to purchase fixed assets. It was raised that until August 2021, the University of Haifa did not present the PBC with a plan dealing with the deficit above. The PBC did not demand it even though during this period, the PBC classified the University as "red". By the audit completion date, no plan had been formulated for the University of Haifa to balance its accounts.

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PBC providing credit permits to the Budgeted Institutions – even though more than a decade has passed since a deed of consent was made whereby the Minister of Finance authorized the Director-General of the CHE to grant institutions permits for obtaining credit (May 2011), the procedure and the credit frameworks determined at that time for every institution were not updated.

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Risks surveys performed by Budgeted Institutions – the Office of the State Comptroller requested that the Budgeted Institutions present its general, financial and



information systems risks surveys they had conducted. The data showed that 13 institutions (out of 30) had completed surveys in the three examined fields. Eight institutions had not prepared a general risks survey, and three had prepared general and partial risks surveys. One institution had not prepared any risk surveys. It was also found that the institutions carried out different risk surveys. Some institutions referred comprehensively and professionally in the surveys to possible risks, while others related to them in a more limited way. 17 of the surveys were conducted over three years ago.



Implementation of accounting standards – it is commended that during the 2017–2018 academic year, the institutions began to implement in their financial statements the provisions of Accounting Standard 39, "Employee Benefits" (Israeli standard), based on International Accounting Standard 19, "Employee Benefits" (IAS 19). This standard prescribes the accounting treatment of employee benefits. According to an opinion by the accountants who audited the institutions' financial statements, these statements include Provision for workers' rights upon retirement, based on an actuarial evaluation, as required by the accounting standards. The provisions are presented in the financial statements deducted by the designated funds⁵, and insofar as the institution lacks funds, the provision is presented as a liability.

Key recommendations



It is recommended that the PBC continue to ascertain that all institutions, budgeted or non-budgeted, reach a balance, among other things, by tracking the institutions' financial situation, as presented in their financial statements and with an emphasis on institutions with indicating risks of economic-financial difficulty. It is also recommended that it continue to ascertain the implementation of its decisions concerning the streamlining plans. It is further recommended that the PBC regulate the format for regular discussions with the institutions concerning their annual financial statements results, or at the very least with those that raise a concern of ongoing operation financial difficulties over time, expressed, for example, in the PBC index for the institutions' financial resilience examination. Likewise, it is recommended that the PBC include the higher education institutions' supervision and control arrangements in an internal procedure.

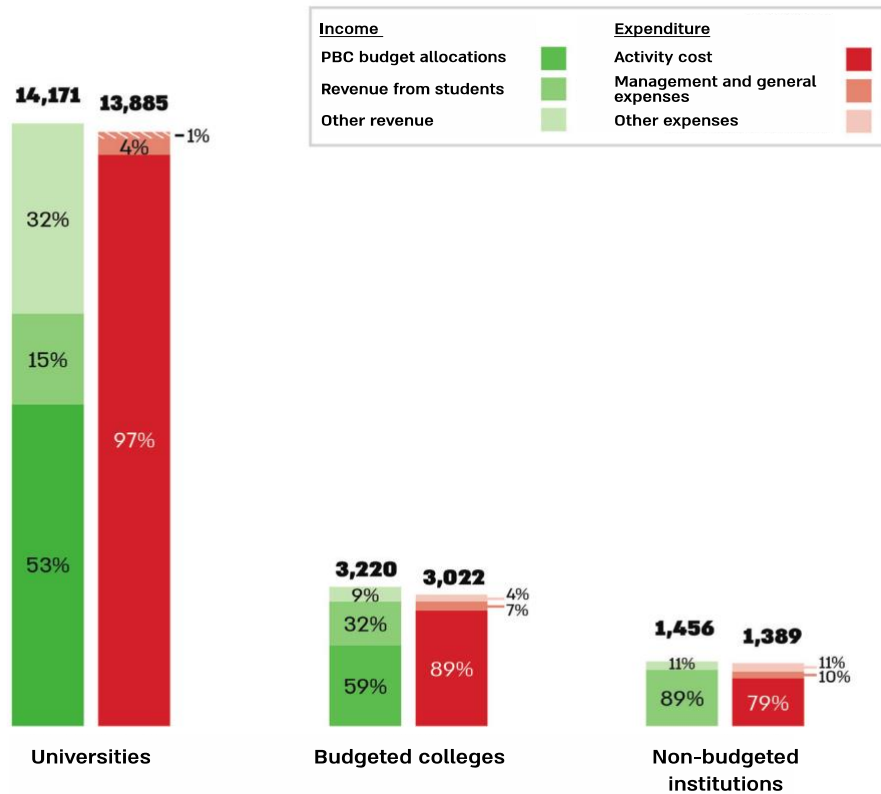
⁵ Designed funds – assets that have accumulated for the purpose of utilization of the liability recorded as a reserve.



- 💡 It is recommended that the PBC consider adopting a similar publishing model to the one used in England, where the information about the grading is published to the institutions and the public. In particular, this is important regarding Non-Budgeted Institutions.
- 💡 The PBC should implement its August 2018 decision and conduct in-depth audits with an emphasis on institutions where it has raised a concern about their financial resilience – the "red" institutions. It should also submit the findings arising from the audits to the Budgets Department at the Ministry of Finance.
- 💡 Since the subject of long-term liabilities for the institutions' budgetary pension has financial implications on their financial statements in the scope of NIS billions, it is recommended that the PBC and the Ministry of Finance jointly examine their implications, determine the PBC's future participation in these expenses, and instruct the institutions accordingly. The PBC, the Ministry of Finance, and the institutions' management must find a solution for the required cover of the provisions for workers' rights, particularly the liabilities for budgetary pension, from the long-term aspect.
- 💡 It is recommended that the PBC and the institutions formulate a solution for the presented difficulties and reduce the deficits of the University of Haifa, the Academy of Music and Dance, and Bar-Ilan University.
- 💡 In consultation with the PBC, the Ministry of Finance should consider simplifying and optimizing the procedure for granting credit permits to institutions to prevent a technical delay in producing them. It is further recommended that the Ministry of Finance and the PBC complete the examination of the procedure and the credit frameworks previously determined for every institution and update them according to the requirements based on professional tests.
- 💡 It is recommended that the PBC, as part of its budgeting student quotas discussions and according to its policy, consider the gaps between the number of budgeted students and their actual number implications. Likewise, it is recommended the PBC examine the gaps according to the increase in student number in the national priority study field such as the hi-tech fields.
- 💡 It is recommended that the institutions' management conduct ongoing risks surveys to track the anticipated substantive risks and prepare to minimize their possible damage. It is recommended that the PBC recommend to the institutions' management that they conduct periodic risk surveys. This recommendation should become binding for "red" institutions.



Data Summary of the activities reports of all institutions, 2019–2020 (in NIS millions)





Summary

The government has entrusted the PBC to deal with higher education institutions' allocations of ordinary and development budgets and track their utilization to prevent deficits and deviations. Accordingly, it is recommended that the PBC continue to track the institutions' financial situation, as presented in the financial statements, mainly institutions with possible economic-financial difficulty. The audit found deficiencies regarding the PBC's supervision and control over these academic institutions. It is recommended that the PBC act with transparency and in cooperation with the institutions to track their financial situation, improve, and define, in an internal procedure, the supervision and control arrangements it operates over them. It is further recommended that the PBC consider using additional assisting tools to examine the institutions' resilience and financial situation, particularly the Non-Budgeted Institutions, and publish the financial resilience examination findings of all the institutions.

