



State of Israel

State Comptroller

Local Government Audit Report 2022



Jerusalem | July 2022



Foreword

The Local Government Audit Report for 2022 deals with a variety of topics that are at the core of the local authorities' work. Local government has a key role in shaping the lives of residents and in providing public and additional services. The local authority serves as a public trustee in all its actions, and as such it is obliged to exercise its authority in accordance with the provisions of the law.

In accordance with the State Comptroller and Ombudsman's vision, we are working to position the State Audit as an action-motivating audit, an innovative, relevant and effective audit, dealing with the core areas of the audited body and focusing both on issues of a social nature and service to the citizen as well as on the significant risks affecting the activities of the audited bodies. This is in addition to topics related to good governance and integrity.

The chapters of the report bring to the public agenda important audit findings concerning a variety of areas, including: individual welfare, information systems, engagements and budgets, and hazardous buildings. Following is an overview of some of the chapters included in this report:

There are 257 local authorities in Israel, managing budgets of about NIS 71 billion and employing about 165,000 workers. The authorities manage many financial processes – such as procurement processes, collection of property taxes and payment of wages – as well as manage property and equipment. For the first time in the State Comptroller's Office, we conducted an audit on the topic of **prevention of embezzlement and fraud in local authorities**. In an international survey from 2020 concerning about 2,500 embezzlement cases exposed worldwide, it was estimated that the loss from such embezzlements stands at about USD 3.6 billion, and that organizations around the world lose about 5% of their revenue each year due to fraud, embezzlement and financial irregularities. The risk of embezzlement and fraud is inherent in the activities of every organization. In recent decades, professional knowledge about the prevention of embezzlement and fraud has developed in the world, and principles have been formulated for its regulation as well as guidelines for improving the control and risk management environment. However, the audit found deficiencies in the Ministry of Interior's regulation in this matter. This is reflected in the lack of guidelines for action in all aspects of the prevention of embezzlement and fraud at the pan-organizational level and regarding the control environment; In the lack of reporting and drawing of conclusions and in the scarcity of audits focused on this area. The audit of the 21 largest authorities in terms of the scope of their budget revealed that they do not implement many pan-organizational actions which, according to international standards and professional literature, are effective in mitigating the harm from embezzlement and fraud and their quick exposure. In the audit of the four municipalities that were examined in depth, deficiencies were found, such as a scarcity of audits by the Ministry of Interior and of the authorities'



auditors regarding the prevention of embezzlement and fraud. It was also found that as a rule, the municipalities that have been examined in depth implement preventive and locating controls in the areas examined, however there are individual work processes that require improving, and individual controls must be added and some of the controls tightened. As public trustees, local authorities are obliged to manage their financial affairs and assets carefully and take steps to maintain the integrity of the assets and public funds. The Ministry of Interior must work towards a comprehensive regulation of the matter, and local authorities must formulate policies on the subject and implement actions and controls to prevent embezzlement and fraud and to protect public funds. Actions to prevent embezzlement and fraud are an expression of the aforesaid duty, and ensure good governance and integrity.

The intelligent development of the tourism industry and its proper management can contribute to the economy of the state, the region and the local authority – bring about growth and prosperity by creating jobs and increasing consumption; Increase local government revenue sources from business property taxes and contribute to reducing social and cultural disparities. The audit on the topic of **tourism management in local authorities** raised that until the outbreak of the Covid-19 pandemic in March 2020, the tourism sector in Israel was growing, and that in 2019 about 4.9 million tourists entered Israel – an all-time record, but still less than the estimated potential of 17.9 million tourists. The Covid-19 pandemic caused a crisis in the industry – in 2020, revenues from tourism in Israel fell by about 67%, and the volume of tourists entering Israel fell by about 82%. Despite this, analysts predict that the industry may recover almost completely by 2025. Therefore, from a forward-looking perspective, it is important that local authorities analyze the state of tourism and the possibilities for improving the industry's infrastructure and the potential for its development, so that they are suitably prepared for tourists visiting after the passing of the Covid-19 pandemic. The Israeli government and five of the local authorities examined in the audit have invested about NIS 670 million in the development of tourism areas over the last eight years. Alongside this investment, maintenance deficiencies and a low level of cleanliness were found. The audit further indicated that the management of tourism in the local authorities is not regulated. There are also disparities between the municipalities examined in the level of management, its scope and its consistency. To prepare for the day after the Covid-19 pandemic and realize the potential inherent in the tourism industry, it is advisable to characterize the required management and planning bodies, determine their powers, formulate guidelines for the desired working methods and define standards and control mechanisms for the quality of service to tourists and the quality of the public tourism expanse, its maintenance and cleanliness. It is recommended that the elected ranks at the local authorities be more involved in overseeing the management, promotion and development of tourism, and that the development and promotion of tourism be anchored in comprehensive and effective urban planning of the localities.

One of the essential services that every local authority is obligated to provide to its residents is the disposal of waste from the public domain and removal of household waste, pruned branches and scrap in its jurisdiction. The report includes a chapter on **waste disposal in**



local authorities and landfilling. The audit raised that some of the authorities examined had a long-term contract with one disposal contractor, although in the tenders for waste disposal published by those authorities, bids were submitted by several disposal contractors; In 2019, the average waste weight per capita in Israel was 680 kg – more than the average waste weight per capita in OECD states, which stands at 538 kg per capita. In the last decade, the growth rate of waste production in Israel has averaged about 2.6% per year; This increase requires local authorities to plan the waste disposal system and use technological tools to collect relevant data on the matter and provide residents with efficient and quality service. The average rate of landfilling in Israel (83%) is very high compared to the average rate in the OECD states (42%), in the United States (53%) and in OECD Europe (35%); Landfill sites in Israel are shrinking, although the amount of waste is increasing. The shortage of landfill sites is leading to an increase in waste disposal costs for local authorities and may lead to waste dumping in unregulated areas. The crisis created due to the shortage of landfill sites requires all relevant parties, led by the Ministry of Environmental Protection, to work together to find solutions to the crisis and implement them. Local authorities must take steps to reduce the quantities of waste production and to reduce the amount of waste transferred to landfills.

Hazardous buildings endanger human lives. A concrete example of this is the collapse of a residential building in Holon in September 2021, an event that ended without any casualties as the building's occupants were obligated to evacuate it about a day before it collapsed due to the danger it posed to their lives. The audit on the topic of **the handling of hazardous structures by local authorities** raised that the combination of circumstances of hundreds of thousands of structures built in Israel not according to a binding earthquake resistance standard, the aging of the structures, the difficulty of maintaining them and the lack of comprehensive regulation of the field of maintenance – this combination creates the potential for many hazardous structures in Israel. Hazardous structures that are not maintained can be a "ticking bomb" posing a threat to everyone around them and also exposing the occupants, owners and local authorities to significant consequences they are not always prepared for. The audit raised that in 2021 the number of housing units built before 1980, which may not meet the earthquake resistance standard for buildings was estimated at 610,000; The number of buildings declared dangerous in the 44 local authorities inspected in the audit was 4,840; In 89% of the local authorities inspected, the authority's council did not hold discussions on hazardous structures; 77% of local authorities inspected did not conduct a mapping or survey of potentially hazardous buildings or neighborhoods. At the time of the audit, the central government bodies, mainly the Ministry of Interior and the Ministry of Housing, did not take action to promote the treatment of hazardous buildings by the local authorities and to address the economic and social consequences they entail. These bodies, as well as the local authorities, have not taken proactive action to locate hazardous buildings, and this may prevent giving attention to life-threatening structures. The constant concern of an earthquake in Israel, along with the collapsing of unmaintained old buildings, similar to the events that occurred in 2021, and their considerable potential for damage, highlight the need to regulate the treatment of hazardous buildings and reduce disparities between authorities in this area. Local authorities must take steps to exhaust the means at their disposal, while carrying out



proactive mapping and supervision actions, to ensure the effective treatment of hazardous buildings and the elimination of the safety hazard posed to their occupants and the public, without unnecessarily harming building owners.

Drugs and alcohol are psychoactive substances, which affect the body and mind and change the user's attitude to occurrences around him, without the ability to control the change. The report includes a chapter on **the local authorities' treatment of the drugs and alcohol phenomena within their jurisdiction**. According to an estimate by the Ministry of Welfare and Social Affairs, in 2020 the number of people found on the spectrum of drug and alcohol use in Israel was about 120,000; The number of drug and alcohol addicts known to the local authorities and the various treatment bodies was about 27,000, and the number of patients in all the wards for the treatment of addictions in the local authorities was 15,243. The Ministry of Welfare' total budget for the treatment of addictions in 2020 was about NIS 88 million, and it was fully realized. The audit raised that the local authorities and relevant government ministries did not take steps to map and collect data on the extent of the drug and alcohol phenomena, and in fact, no entity in the country has a complete and up-to-date database. It was further raised that in the absence of a database, government ministries and local authorities find it difficult to contend optimally with the phenomena regarding to prevention and information, detection, treatment and enforcement actions.

The State Comptroller's Office recommends that local authorities increase cooperation with those involved in the struggle against the phenomena of drugs and alcohol, including the Ministry of Welfare, the Israel Authority for Prevention of Alcohol and Drug Abuse, the Israel Police and the Ministries of Education and Health. This, to improve their prevention, information, detection, treatment and enforcement actions, to provide a response for drug and alcohol users and addicts. It is also recommended that local authorities conduct periodic surveys and the Israel Authority conduct an epidemiological survey, to obtain a comprehensive and up-to-date situation report of the extent of the phenomena at the national and local levels.

The spread of drug and alcohol use and addiction to them can also adversely affect the society at all levels, and therefore requires attention to each of the circles surrounding the individual, with a systemic effort by local authorities, government ministries, especially the Ministry of Welfare, Ministry of Education and Ministry of Health, Israel Police, the Israel Authority and relevant bodies in the third sector.

Monitoring the rectifying of deficiencies raised in previous reports is an important tool whose aim is to verify that the audited bodies have indeed rectified what was required. We have therefore acted to expand the scope of follow-up audits and refine the manner in which they are conducted. This report presents the findings of four follow-up audits: **Regulating the use of bicycles and electric two-wheel vehicles in the urban space; Enactment of by-laws of local authorities; Procurement and engagements in local councils; The establishment of Harish.**



The report covers a wide range of topics, and this introduction deals only with a few of the chapters in it. Each and every chapter of the report opens to the public, including decision-makers, a window into the activities of local government in Israel. In this way, it helps all of us ensure the appropriateness of the public service in the Israel and makes a significant contribution to increasing the efficiency, savings and integrity of the audited bodies and to maintaining the rules of good governance.



Considerable effort was expended by the personnel of the Local Government Audit Division and by employees at the Headquarters of the State Comptroller's Office in the preparation of this report. All of them have worked hard to prepare it with the utmost professionalism, thoroughness, fairness and meticulousness, and they carry out their public functions out of a sense of true dedication. They have my gratitude.

It is the duty of the audited bodies to act in a swift and effective way to rectify the deficiencies brought up in this report in order to promote public service in Israel and thus also improve the quality of life of Israeli residents.

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and Ombudsman

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