



Report of the State Comptroller of Israel | May 2023

Ministry of Finance

**The Financial
Statements of the
State of Israel as of
December 31, 2021
and the Information
Systems Underlying
the Financial
Statements**



The Financial Statements of the State of Israel as of December 31, 2021 and the Information Systems Underlying the Financial Statements

Background

Under section 12 of the State Comptroller's Law, 1958 [Consolidated Version], every year – at a time determined by the Comptroller, but no later than six months after the end of the State's fiscal year – the Minister of Finance shall submit to the State Comptroller "a comprehensive account of the State's revenues and expenses in the same year." The section further stipulates that at a date set by the Comptroller, but no later than nine months after the end of the State's fiscal year, the Minister of Finance will submit to the State Comptroller the "balance sheet of the State's rights and liabilities as of the end of the fiscal year." The State's consolidated financial statements for December 31, 2021, were submitted to the State Comptroller and published on June 30, 2022.

The information and the financial processes managed in operational information systems and dedicated financial information systems of the State bodies are of utmost importance as they are part of the infrastructure on which the recording of the State's financial assets included in its financial statements and all the work processes of its authorities are based.

The financial operations of the government and the other reported bodies are managed in dedicated operational and financial information systems and the Merkava (Comprehensive Lateral System in Government Ministries) system, containing data on assets, liabilities, income, and expenses of state bodies in an aggregate value of trillions of NIS.



Key Figures

**NIS 135
billion**

the State's net accounting deficit in 2021

**NIS 50
billion**

the increase in domestic and foreign loan balances from 2020 to 2021

**NIS 800
billion**

state assets in 2021, according to the financial statements

**NIS
3,458
billion**

state liabilities in 2021, according to the financial statements

230

financial information systems operated in 2021 in 52 government ministries and reporting bodies, according to the reports of the bodies' accountants

**about NIS
1,226
billion**

the financial sum that was managed in 2021 in the financial information systems of the reporting bodies (excluding Merkava), according to the accountants' reports


**67%
of the
systems**

in 154 out of 230 reported financial information systems, no risk surveys nor audits were performed

**56%
of the
systems**

127 out of 226 financial information systems do not have an automated interface to Merkava

Audit Actions

 From February to November 2022, the State Comptroller's Office examined the various trends emerging from the State's consolidated financial statements, the reports of several government ministries for 2021, and the financial information systems underlying the financial statements. The examination was carried out mainly in the Accountant General's Division of the Ministry of Finance as well as at several government ministries, auxiliary units, and other government bodies, including the Ministry of Justice, the Ministry of Economy and Industry, the Ministry of Construction and Housing, the Israel Tax Authority, the Ministry of Education, the Population and Immigration Authority, the Israel Lands Authority, the Ministry of Foreign Affairs, the Ministry of Agriculture and Rural Development, the Ministry of Interior, the Ministry of Transport, the Ministry of Religious Services, the Ministry of Aliyah and Integration, the Courts Administration, the Ministry of Welfare and Social Security, the Ministry of Health and the Government ICT Authority.



Key Findings



Risks and Trends Found in the Government's Financial Statements for 2021

- The State's accounting deficit for 2021 was about NIS 135 billion, and the cumulative deficit was NIS 2,658 billion on December 31, 2021. The balance of assets in the financial statements does not include various assets of substantial value, including some of the State's investments in the defense system, land owned by the State, some of the assets abroad, and some of the intangible assets.
- The effect of the Covid-19 crisis on the State's financial reports for 2021 – in 2020, the government took extensive fiscal policy measures to inflow aid and reduce the damage to the economy due to the Covid-19 pandemic. The increase in public expenditures, alongside the reduction in tax revenues, led to a sharp increase in the government deficit. Hence, there was an increase of about 52.3% in the balance of foreign loans. However, the increase in total State revenues in 2021 compared to 2020 was more significant than the increase in State expenditures during this period. Therefore, the budget deficit for 2021 was 4.4 percent of the GDP (NIS 69.2 billion), and the net accounting deficit decreased by about NIS 34 billion, amounting as mentioned to NIS 135 billion.
- Subsidies and allowances – in 2020–2021, there was an increase of about NIS 27,704 million in the National Insurance benefits, which resulted from an increase in the insurance funds, among other things, due to actuarial changes such as a change in the interest rate vector, the update of the basic amount according to the change in the Consumer Price Index and changes in certain assumptions in the calculation of the funds. Another significant increase occurred in the general disability section (an increase of NIS 55,879 million) due to an increase in the number of benefit recipients, from a one-time grant given in 2021 to benefit recipients and from the revision of the women's retirement age.





The Auditors' Opinion of the Solo Financial Statements of the Government

Ministries – in the State's financial statements for 2021, published on June 30, 2022, the financial data of 211 bodies were included. 69 of the bodies (about 33%) did not have audited financial statements when the State's financial statements were drawn up. The statements of 113 bodies (about 54%) included a "partial" (unqualified) opinion by the auditors; in the statements of 25 bodies (about 12%), a qualified opinion was included, and in the report of one body, the auditors refrained from giving an opinion.






The audit examined the auditor's opinion without qualification for a sample of five government ministries: The Ministries of Health, Interior, Construction and Housing,



Economy and Justice. It was raised that for three of them – the Ministry of Health, the Ministry of Interior, and the Ministry of Construction and Housing – the auditors added notes to the financial statements of the ministries for 2021. For the financial statements of the Ministries of Economy and Justice, no qualifications were included by the auditors. The following are the main findings regarding the above-mentioned ministries:


- **The Ministry of Health** – the financial statements included notes by which the cost of fixed assets does not reflect all the assets owned by the Ministry and includes assets that may have become obsolete but were not written off from the assets. In some hospitals, fixed property data was not presented except for buildings. Intangible assets owned by the Ministry are not managed according to accepted accounting rules or included in the financial statements.
 - **The Ministry of Interior** – the auditors noted they did not receive the information and evidence required to audit the provisions for legal claims and, hence, could not take alternative procedures to verify the legal claims and the provisions for those claims.
 - **The Ministry of Construction and Housing** – the income and expenses are calculated at each development site, and the relative part of the income is recognized and included in the financial performance report according to the execution of the incurred costs, not according to the Government Accounting Standard Number 11 – Construction Contracts, by which an estimate of the costs and revenues are recognized according to development site progress rate.
-  **Merkava** – the management of the financial operations of the government and the other reporting bodies is carried out in dedicated operational and financial information systems and the lateral financial system – Merkava. It was raised that an information systems audit was not conducted in Merkava, with an emphasis on the financial processes in the system, and a risk survey was not conducted in the last eight years, at least. It was also found that there is no detailed documentation of the financial processes managed in the system and of the controls built into it, except for documentation embedded in the system code and documentation carried out by the risk management unit in the Accountant General's Division. Furthermore, there is only partial documentation of the acceptance tests performed when making changes to the system.
-  **Powers of the National Digital Agency and the Accountant General Regarding the Financial Information Systems** – the Government ICT Authority in the National Digital Agency directs the information systems departments in the government ministries and the auxiliary units. The financial systems were exempted by government resolution from the obligation of the ministries CEOs' and the information systems divisions managers in the government ministries and auxiliary units, to consult with the Commissioner of Government ICT. Still, this area was not exempted from the binding

professional guidelines of the Commissioner of Government ICT. It was raised that there is no clear division of powers between the National Digital Agency and the Accountant General, there is a risk that in the absence of a guiding professional entity, the financial information systems will be exposed to risks, and the professional knowledge of the Commissioner of Government ICT will not be reflected in all that concerns these systems.

-  **Accountants' Approval of the Operation of Financial Information Systems** – despite the provisions of the Directives on Regulation, Finance, and Economy (TAKAM Directives) requiring the receipt of the accountant's approval for the operation of information systems or for the execution of changes in these systems, which include financial aspects, in all the government ministries and bodies examined in this audit, there is no documentation of such approval in the systems and changes that were implemented after the publication of the TAKAM directive.
-  **Conducting Risk Surveys and Audits in Financial Information Systems** – although in 2016–2021, there was an increase (from 21.6% to 33%) in the number of information systems in which risk surveys and/or audits were carried out, the rate of these systems out of all financial information systems reported in 2021 is still low – 76 out of 230 systems.
-  **The Information Systems that Manage the Largest Financial Scope** – in the 22 information systems of the reporting bodies in which the most considerable sums of money are managed, the total amount managed was about NIS 1,157 billion. 13 of these 22 information systems operate in the Tax Authority. Only 8 of the 22 systems have an automated interface with the Merkava system. Furthermore, only 8 systems have documentation for the financial processes therein. A risk survey was conducted in only 2 systems in the last five years.
-  **How Old are the Financial Information Systems** – by the bodies' accountants reports to the Accountant General's Division regarding 169 financial information systems, 32 systems were first activated before 1995; 18 systems – in 1996–2004; 28 systems – in 2005–2011; 40 systems – in 2012–2015. The rest of the systems, 51 in number, were activated in 2016 and thereafter.
-  **Financial Information Systems in some of the Audited Bodies**
 - **The Tax Authority** – despite the large sums of money handled by the Tax Authority's financial information systems, and despite the risks arising from these volumes due to the age of the systems, a large number of users, and the accessibility of some of them to the general public, in 40 of the 44 Tax Authority financial systems there is no documentation of the financial processes in the systems, and there is no analysis of their consequences; In only one system a risk survey was conducted in the last ten years (according to a report by the Ministry's accountant); And only two systems were audited. Failure to carry out identification



processes, lack of preparation as required, and failure to conduct audits as required exposes the Tax Authority to serious risks.








- **The Ministry of Construction and Housing** – since 2015, a risk survey has been conducted in only one financial information system out of the nine systems operating in the Ministry. In the last five years, an audit was conducted on the financial processes in only two financial information systems.
 - **The Ministry of Social Affairs** – no information systems audit was conducted in seven financial information systems. No risk survey was conducted in eight of the nine systems in the last five years.
 - **The Ministry of Justice** – in one of the four financial information systems in the Ministry of Justice, there is no analysis of the consequences of the financial processes. In three of the four systems, no risk survey was conducted; And in one system, no audit was conducted.
 - **The Ministry of Economy and Industry** – in none of the 11 financial information systems in the Ministry, risk surveys or audits were carried out, and no analysis of the consequences of the financial processes was done.
 - **Ministry of Foreign Affairs** – no risk surveys or audits were performed in all seven financial information systems at the Ministry of Foreign Affairs. In most of the financial information systems of the Ministry, there is no documentation of the financial processes. About 90 Israeli embassies operating outside the country's borders are not connected to the Merkava system but are managed through the Ministry's internal financial management system.
-  **The Financial Statements of the Tax Authority** – due to the qualifications of their auditors, their opinion was not given on these statements, consisting of hundreds of billions of NIS per annum. These qualifications and the auditors' audit summary letter detail a series of material deficiencies in the financial information systems of the Tax Authority. These deficiencies raise concerns about the data's reliability in the statements.



At the beginning of November 2021, the State budget for 2021–2022 was approved. After 22 months, the government operated under a continuation budget due to repeated election campaigns.

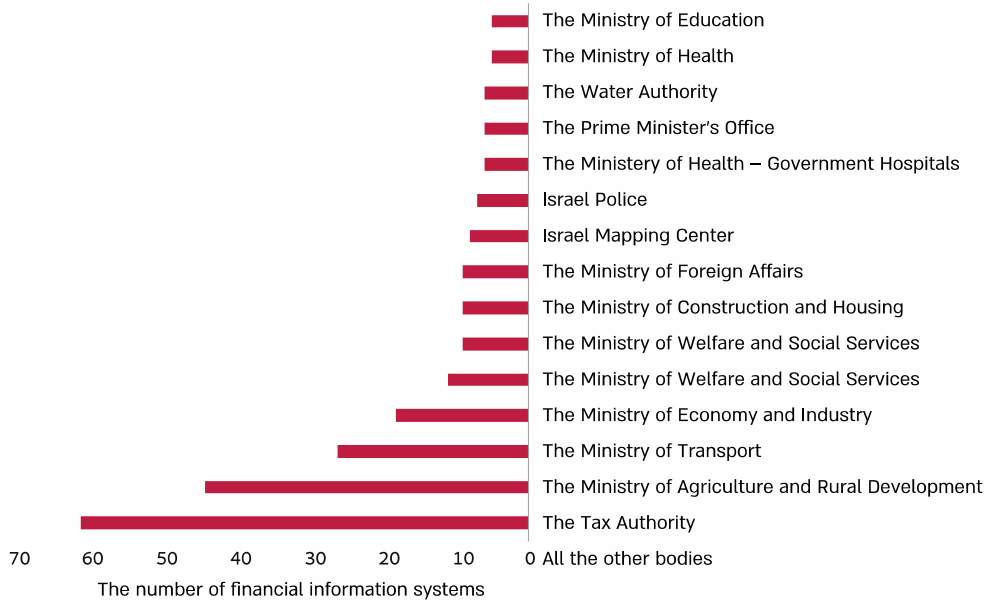


Key Recommendations

-  It is recommended that the government continue to improve, as was reflected in the financial statements for 2021, following the economy's recovery from the Covid-19 crisis, due to economic growth and a decrease in the budget deficit in relation to GDP, while conducting a responsible economy with a long-term vision.
-  It is recommended that the CEOs and accountants of the Ministries of Health, Interior and Construction and Housing rectify the deficiencies included in their financial statement's notes and, accordingly, receive an unqualified opinion.
-  It is recommended that the Accountant General conduct a comprehensive risk survey and a complete information system audit on the financial processes managed by Merkava and ensure that there is detailed documentation of all the financial processes managed in the system.
-  It is recommended that the Accountant General's Division and the Government ICT Authority regulate between them the responsibility for providing professional instructions regarding all aspects that arise in financial information systems.
-  It is recommended that the Accountant General consider amending the TAKAM Directives to coordinate between the various parties to streamline the process of preparing the risk survey in integrated information systems – operational and financial.
-  The Accountant General should instruct the reporting bodies accountants to establish a multi-year plan for conducting risk surveys and audits in the financial information systems under the TAKAM Directives. It is further recommended that the Accountant General conduct risk surveys and audits in the financial information systems and consider the scope of money managed in these systems as part of prioritizing risk surveys and audits by the audit department in the division.
-  The Accountant General and the Director of the Tax Authority should cooperate in conducting comprehensive risk surveys and audits in its financial information systems, formulate a plan to mitigate these risks, and monitor its implementation. It is further recommended that the Director of the Tax Authority increase the cooperation between the Ministry's accounting departments and the Computerized Processing Service Unit on these issues. It is further recommended that the Chief Accountant and the management of the Tax Authority improve the Authority's financial information systems and rectify the deficiencies in these systems as raised in the auditors' audit summary letter.



The Number of Financial Information Systems Reported in Government Ministries and Other Bodies in 2021



According to the data of the Accountant General, processed by the State Comptroller's Office.



Summary

The information and the financial processes managed in operational information systems and dedicated financial information systems of the State bodies are of utmost importance as they are part of the infrastructure on which the recording of the State's financial assets included in its financial statements and all the work processes of its authorities are based. The audit raised deficiencies in the mapping and management of risks in the financial information systems, in the absence of audits in most systems, and the lack of documentation of the financial processes in the systems. The Accountant General and all the government bodies mentioned in the report should rectify the deficiencies within the framework of a multi-year plan.

The government's financial statements for 2021 reflect the turning point in coping with the Covid-19 virus, with the economy recovering and economic growth, a decrease in the budget deficit in relation to GDP, an increase in tax revenues, and a decrease in the scope of the economic plan's expenses for coping with the crisis. It is of great importance that the government continue to improve Israel's economy in a long-term view.

