



Report of the State Comptroller of Israel | May

Ministry of Religious Services

Financial Audit at the Religious Councils



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Background

A religious council is an independent public authority (non-profit organization) subject to governmental regulation, mainly of the Ministry of Religious Services, established and operates under the Religious Jewish Services Law [consolidated version], 1971, and its regulations¹ (religious council or council). The law states that councils are authorized to handle religious services. 129 religious councils are active in Israel: 108 are local religious councils that provide religious services to a single municipality (local councils), and 21 are regional religious councils that provide services to several small municipalities (regional councils). The Religious Jewish Services Law states that the government and the local authority should bear the expenses of the religious council, which is a "budgeted entity" (publicly funded entity) according to the Budget Foundations Law, 1985.

¹ Including Jewish Religious Services Regulations (council management), 1970, file 2573; Jewish Religious Services Regulations (religious councils' budget), 1985, file 4798; and Jewish Religious Services (service fees), 2013, file 7294.



Key Figures

**NIS
919 million**

the turnover of all religious councils in 2020. About NIS 670 million from the Ministry of Religious Services and the local authorities

NIS 427 million

the accumulated surplus in 2020 (not including the development of cemetery funds) in 125 religious councils

73%

accumulated surplus' increase rate (not including the development of cemeteries funds) in 2018–2020

88.8%

budget performance rate of all religious councils in 2020

**NIS
394 million**

the total cash and cash equivalents not invested by all religious councils in 2020 (90% of the total cash and cash equivalents available for investment)

0.23%

the return rate of all religious councils' investments in 2020, compared to the inflation rate in Israel of 4.6% as of September 2022


18.8%

the increase rate in general and administrative expenses 2018–2020, compared to a 6.3% rise in operation expenses and a 1.9% rise in wages and other expenses

36%





religious councils' rate with no internal auditor (46 out of 129 religious councils)

Audit Actions

 From November 2021 to July 2022, the State Comptroller's Office conducted a financial audit of the religious council's activity by analyzing the audited financial statements for 2018–2020 compiled by the Ministry of Religious Services. The audit included an examination of the financial situation reports – balance sheets, financial performance statements, budget statements vis-à-vis performance, and audit reports' notes. Additional data were collected from the Ministry of Religious Services' Reporting System (ORI system), including all religious councils' financial statements. In addition, relevant corporate governance issues that may impact the financial position of the councils and the Ministry's supervision of the councils were examined. The examination focused on the Ministry of Religious Services and its financial relations with the councils.



Key Findings

-  **Accumulated Surplus (net assets) from Ongoing Activity** – it was found that in 2018–2020, there was an increase in the balance of accumulated surplus of all religious councils, not including the cemeteries' development funds, from NIS 247 million to NIS 427 million (73% increase). The above increase was found in many religious councils; thus, for example, in 2018–2020, the number of councils whose accumulated surplus was higher than NIS 10 million was doubled (from 5 to 10 councils), and the number of councils with the surplus of NIS 1–10 million increased from 61 councils to 90 councils. However, the Ministry of Religious Services' guidelines do not refer to a situation in which religious councils have high balances relative to their turnover and in which the surplus is not used to fund operations, similar to the guidelines published by the Registrar of Associations and those included in the Ministry of Finance's policy (state budget supports designated for public institutions). Furthermore, it was found that in 2018–2020, the number of councils whose ratio of accumulated surplus out of the turnover was higher than 100% quadrupled and included 16 religious councils as of December 31st, 2020. One of the reasons for the accumulation of surplus is not financing the councils' goals.
-  **The Current Ratio of Religious Councils** – this ratio examines the accounting entity's ability to meet its current liabilities, its assets' liquidity, and its ability to cope with future challenges. The current ratio is the ratio between the current assets and the total of current liabilities; the higher the ratio is, the more capable the entity is to meet its liabilities in the short term. A ratio higher than 1 indicates a strong entity and vice versa. However, a very high ratio in the religious councils might indicate inefficiency of using the accumulated surplus and maintaining high cash balances. The audit raised an upward trend in the average of current ratio in 2018–2020 in all types of religious councils. In 2020, 118 regional councils had a current ratio which was higher than 1.5, which allows the councils to use their surplus according to the Ministry of Religious Services' circular in July 2022. In 2018 98 councils had the same ratio (20% increase).
-  **Religious Councils' Investment Management** – it was found that NIS 394 million out of NIS 438 million, the cash and cash equivalent, was not invested in 2020 (about 90%). Of the 129 religious councils, 110 (85%) had no investment portfolios. Hence, only 10% of the accumulated cash available for all the councils was invested, compromising the cash real value. The investment return rate of all the councils in 2019–2020, out of the total cash and cash equivalent, was 0.09% and 0.23%, respectively, compared to the annual inflation rate in Israel, which was 4.6% in September 2022.
-  **Local Authorities' Debit Balance (allowances and grants)** – it was found that alongside the significant rise (10%) in the religious councils' turnover in 2018–2020,



which increased the participation of the local authorities, the local authorities' debts to the religious councils increased by 3.5 times from NIS 18 million to NIS 64 million. In 2020, 88 religious councils documented debts of local authorities (including the five religious councils undergoing a financial recovery process at the end of 2020²), compared to 67 councils in 2018. In 2019–2020, there was a decline in the number of councils to which local authorities owed money (1.21 times smaller).


Unfunded Pension Liabilities – as of 2020, 13 religious councils (10% of all councils) did not deposit provisions from employees' salaries in central funds for severance pay at a total of about NIS 3.8 million, not according to the Israel Economic Recovery Program Law.


Utilization of Budget Addition to Institutional Revenues – the religious councils' institutional revenues originating from budgetary additions requested by the Ministry of Religious Services increased by NIS 94 million in 2018–2020. Still, only NIS 19.6 million was utilized to improve salaries and public services. I.e., the rise in the clauses for which the addition was designated: improving the services provided to the public (activities 6.3%) and improving terms of employment (1.9%) – did not reflect the rise in the institutional revenues (16.3%). On the other hand, the administrative and general expenses increased by 18.8%.

Efficiency Metrics Based on the Financial Performance Statement – it was found that the Ministry of Religious Services did not set efficiency metrics for the religious councils or any turnover volume metrics. It was further found that there are differences between the religious councils of all performance metrics examined annually (the portion of turnover used for salary, activity, and administrative and general expenses). Moreover, the council's performance metrics vary over the years.

Budget vs. Performance – according to the analysis of the budget vs. performance, the budget rate performance in religious councils in 2019 and 2020 was 90% (NIS 787 million and NIS 772 million, respectively, out of a total of planned expenses of NIS 870 million for each year). Regarding specific clauses, the rate of budget performance was lower; for instance, – the rate of budget utilization for activities in 2020 was 77.4% (214.4 out of NIS 276.9 million), and the rate of budget utilization for other purposes was only 35% (20.1 out of NIS 57.9 million). Among the five councils in ultra-orthodox municipalities, the budget's performance rate was significantly lower than the other councils – 54% in 2020 (15.5 out of NIS 29 million), compared to 90%, the average in all the other councils. The low budgetary performance rate of councils in ultra-orthodox municipalities regarding the other-purposes clause was 20% in 2020, compared to the average of all other councils, which was 35%.

² According to the Jewish Religious Services Regulations, (Management of Councils) 1970 in case of a high deficit or improper management of the budget "The Minister may appoint a comptroller to ensure proper financial management among other things, to prepare a recovery plan for the council.

 **Audit of the Religious Councils Performed by the Ministry of Religious Services** – it was found that over a fifth (22%) of the 129 religious councils were not audited from January 2019 to August 2022. It was also found that even when these in-depth audits raised repetitive issues and deficiencies at some of the councils, such as the absence of internal auditors and distribution of supports without guidelines, the Ministry of Religious Services did not conduct a thorough investigation across all religious councils.


 **Internal Audit and Risk Survey at Religious Councils** – minutes of the meetings held by the Ministry's Audit Committee from January 2019 to March 2022 raised that 46 (36%) of the 129 religious councils operate without an internal auditor. It was further found that the Ministry's in-depth audit of the religious councils did not include the examination of whether the internal auditor's job scope complies with its responsibilities and that the Ministry did not instruct the religious committees to conduct risk surveys in various areas such as financial risks, information system security, and safety risks.




Accumulated Surplus (net assets) from Current Activity (not including cemetery development funds) – the number of religious councils with a deficit decreased from 10 in 2018 to 4 in 2020.

Publication of Religious Councils' Financial Statements – the Ministry of Religious Services publishes each council's semi-annual and annual financial statements (solo) on a designated website³. Moreover, it publishes the budgetary reports vs. the budgetary performance of each council. However, it does not publish the aggregate reports.

Key Recommendations





 It is recommended that the Ministry of Religious Services sets accumulating surplus metrics, including reference to the scope of the allowed accumulated surplus relative to the turnover of each council, as well as current ratio measures relative to the level of allocated budgeting to encourage religious councils to utilize the surplus for the benefit of citizens. In this regard, it is recommended that the Ministry of Religious Services sets a utilization of surplus policy by the religious councils and monitor it according to pre-defined criteria to ensure that the councils' surplus for public services is utilized for this purpose.

 It is recommended that the Ministry of Religious Services reexamine its guidelines about managing investment portfolios by the religious councils and advise them about the investment of cash balance so that the real value is not eroded. It is further recommended that the Ministry guides the religious councils about the corporate structure suitable for

3 <https://ori.m-datit.org.il/>

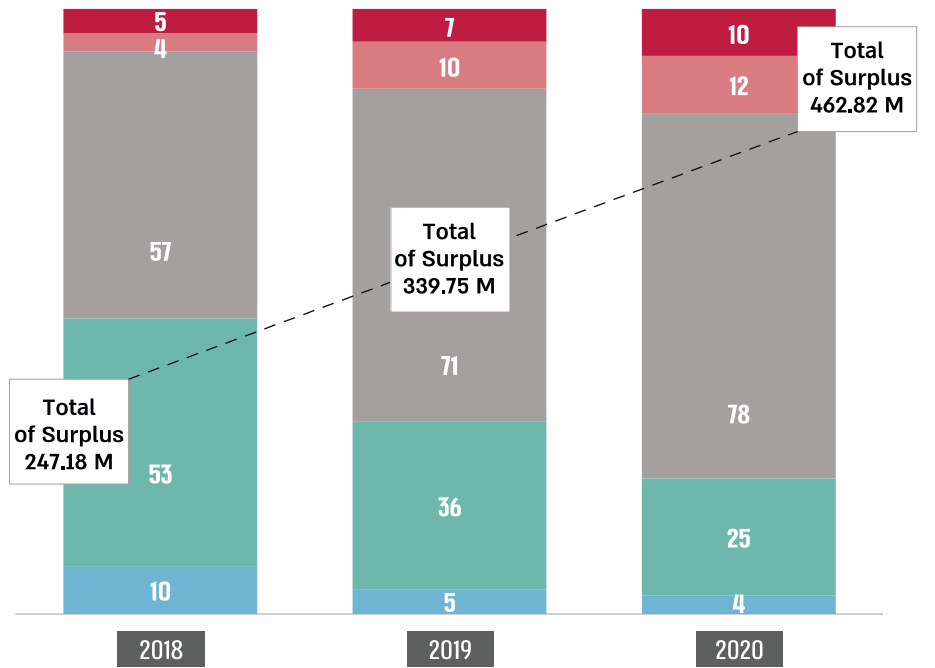


managing their investments, including establishing investment committees and appointing relevant professionals. It is appropriate that how the councils' funds are invested complies with the nature of their activities and exposure to risks so that funds used by the councils for different periods are invested in suitable channels to maintain the value of money according to their needs and purposes. Since the councils cannot always plan their investment management independently, it is appropriate that they consider receiving support from the Ministry about investment management through investment alternatives that the councils can choose from or by other means.

-  The Ministry should ensure that the budgetary addition of over 16% of institutional revenues in 2018–2020 is utilized for the set purposes – improving the services provided to the residents, regulating essential manpower, improving terms of employment, and advancing computerization of work processes.
-  It is recommended that the Ministry of Religious Services set applicable annual and semi-annual objectives and efficiency metrics, publish them, and encourage the councils to improve the services provided to the public. The Ministry and the councils can use the Ministry's objectives and metrics to plan their activity according to the different characteristics of the various councils, such as the number of residents, the type of council, the volume of its turnover, and the potential activity (for example, depending on whether or not the council provides burial services). It is further appropriate that the Ministry publish the analysis results of councils' efficiency metrics.
-  It is recommended that the Ministry regularly monitor the budgetary performance of the religious councils compared to the approved budgetary plan and before the approval of the annual budget. It is further recommended that the councils utilize their approved budget to the fullest to ensure that the public receives the services they are entitled to, including quality and scope.
-  The Ministry should ensure that in-depth audits are conducted at each of the councils triennially, according to its audits' frequency guidelines. It is recommended that the Ministry of Religious Services conduct audits at the religious councils according to an annual work plan, similar to the audits conducted by the Ministry of Interior at the local authorities. Moreover, the Ministry of Religious Services should ensure that each council appoints an internal auditor under the Internal Auditing Act.



The Volume of Accumulated Aggregate Surplus of all Religious Councils, 2018–2020



- Number of councils with a surplus of NIS 5–10 million
- Number of councils with a surplus of more than NIS 10 million
- Number of councils with a surplus of up to NIS 1 million
- Number of councils with a surplus of NIS 1–5 million
- Number of councils with a deficit

According to the religious councils' certified reports for 2020, coordinated by the Ministry of Religious Services and processed by the State Comptroller Office.



Summary

The audit report examined the financial aspects of the religious councils' operation providing Jewish religious services in Israel. The audit raised gaps and deficiencies in the degree of involvement of the Ministry of Religious Services in the financial conduct of the councils and its monitoring and supervision of the councils. As of the end of 2020, the religious councils have accumulated a surplus of NIS 427 million. In 2018–2020, the total cash and cash equivalent increased by 30%, 54% of all their aggregate assets, and the net surplus per year tripled during the period above and reached about NIS 82 million in 2020. On the other hand, the budget vs. performance report indicates a decline in the rate of budgetary performance in 2019–2020, and the analysis of the rate of budgetary performance and efficiency metrics conducted by the State Comptroller Office indicates a significant variance amongst the different councils – which might indicate a low level of service provided to the residents that consume religious services in those councils.

Given the councils' accumulated surplus of NIS 427 million, the State Comptroller Office recommends that the Ministry of Religious Services examine the budgeting of religious councils and increase its involvement in the financial conduct of the councils as well as their monitoring and supervision. It is further recommended that the Ministry set applicable annual and multi-annual objectives and efficiency metrics, publish them, and encourage the councils to improve the services they provide to the public. The Ministry should set guidelines for the councils' financial conduct, including management of their investments and preventing the erosion of the cash's real value. It is appropriate that the Ministry make the councils' financial information more accessible to the public, including the aggregate financial statements and their analysis.