Report of the State comptroller of Israel | January 2024

Systemic Topics

The Supervision and Control of Government Companies

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Background

In 2021[1], the Government Companies Authority supervised 71 government companies[2], 19 government subsidiary companies[3], 4 associations[4,] and 15 mixed companies[5]. In 2021[6], their combined assets, were about NIS 235 billion. That year, the government companies' revenue turnover was about NIS 76.3 billion, with a net profit of NIS 3.8 billion. The workforce in government companies in 2021 comprised about 57,000 employees, about 1.4% of the total workforce in the economy[7]. The dividend they distributed to the state treasury that year was NIS 121.7 million. Of the 71 government companies, 17[8] are prominent in their respective markets within the Israeli economy. Their revenue is about 97% of the revenue generated by all government companies, and they hold 96% of the total assets of all government companies.

The Government Companies Authority was established under the Government Companies Law, 1975 (the Government Companies Law), addressing government companies, government subsidiary companies, and specific associations. Certain provisions within this legislation also apply to mixed companies, as defined by the Government Companies Law.

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1 The Government Companies Authority, Report on the Government Companies for 2021, Report No. 61.

2 Pursuant to Section 1(a) of the Government Companies Law,1975, in a "government company" over half of the voting power in its general meetings or the right to appoint over half of its directors is owned by the State or the State and a government company or a government subsidiary company.

3 Pursuant to Section 1(a) of the Law, in a "government subsidiary company" over half of the voting power at its general meetings or the right to appoint over half of its directors is held by a government company, by a government subsidiary company or by a government company and a government subsidiary company.

4 Pursuant to Section 1 of the Associations Law, 1980, the right to establish an association is granted to two or more people, who are adults, who wish to incorporate as a corporation for a legal purpose that is not aimed at the distribution of profits among its members, and whose main purpose is not to make profits; The association is established upon registration in the Register of Associations.

5 Under the Government Companies Law, in a "mixed company" half or less than half of the voting power in its general meetings or the right to appoint half or less of its directors is owned by the State. Such a company is not a government company, and the State's control over it is limited relative to its control over a government company and a government subsidiary company.

6 The Government Companies Authority, Report on the Government Companies for 2021 (2022).

7 According to Bank of Israel data, in 2021 there were 3.957 million employed in the economy.

8 These are the leading companies in turnover and the complexity of their activities: Israel Electric Company (IEC), Mekorot, Israel Natural Gas Lines, Energy Infrastructure Ltd., Israel Aerospace Industries, Rafael, Netivei Israel, Metropolitan Transit System Ltd. (NTA), Israel Railways, Ayalon Routes, Israel Ports Company, EAPC Company – Europe Asia Pipeline Co. Ltd., Ashdod Port, Israel Post, the New Amidar, the Environmental Services Company Ltd. and the Association for Community Centers.

The Authority's functions and powers are determined in the law and encompass the following key responsibilities: Advising the government and relevant ministers concerning government companies; Advising and supporting government companies in managing their operations; Handling, under the government directives, matters common to all government companies or specific types of companies; Maintaining ongoing supervision of each government company's activities; Reviewing reports submitted by the companies, and providing feedback to both the companies and ministers; Facilitating and assisting in the establishment, dissolution, merger, settlement, arrangement, renewal, and organization of government companies, as well as the sale of their shares; Advising the Ministerial Committee on Privatization and overseeing the implementation of resolutions and privatization efforts. The Authority operates as an auxiliary body within a government ministry[9]. In 2021, the Government Companies Authority's budget was NIS 66 million.

9 Government Resolution 460 (April 19, 2023) resolved on transferring the Government Companies Authority's from the Ministry of Finance to the Ministry for Regional Cooperation. In May 2022, there was a change of personnel in the position of director of the Government Companies Authority and a director was appointed to the Authority.

Key Figures

NIS 76.3 billion
the aggregate revenues of the government companies in 2021

NIS 3.8 billion
the aggregate net profit of the government companies in 2021

only NIS 1.07 billion
the government companies transferred to the state treasury in 2018–2021. Their accumulated surpluses in 2021 were over NIS 9 billion (without IEC, with surpluses at NIS 29 billion[10]), and a gap of many years in transferring the dividend was created

only NIS 85 million
(about 6%) one government company transferred in 2022 out of the NIS 1.4 billion declared by the government companies

270 director positions
out of 620 (about 44%), positions on the government companies' boards are not staffed; 52 of the 109 companies and associations that the Government Companies Authority supervises (about 50%) operated in 2022 without a chairman of the board, including 28 government companies (about 40% of the 71 government companies)[11]

only 5%
the women rate serving as CEO in government companies; The women rate serving as chair of the board of directors is only 14%; The target is 50%[12]

about 1.5% only
about 6% (28) of the incumbent directors of the government companies' employees are from the Arab population, compared to their rate in the population – 21%. About 1.5% of the incumbent directors are from the ultra-Orthodox population (6) compared to their rate in the population – 13%

in 51 (about 72%)
government companies, the external auditor has been serving for over six years. This is in contravention of the rules for appointing an accountant

10 The accumulated surpluses of the Electric Company at about NIS 29 billion were discounted, as it is not obligated to declare and distribute a dividend until the end of 2025.

11 As at January 2023.

12 The target is about 50% according to the proportion of women in the population.

Audit Actions

From April 2022 to May 2023, the State Comptroller Office audited the Authority's supervision and control procedures over the companies and associations under its supervision (from 2018 to January 2023), the board members, including the processes for appointing board members by the ministers, the Authority's implementing of corporate governance within the supervised companies, as well as the rectification of deficiencies noted in the State Comptroller's reports from 2012 and 2017[13]. The appointment processes of accountants were also examined. The audit was conducted at the Government Companies Authority and the Ministry of Finance. Completion examinations were conducted at the Ministry of Justice and several government companies.

In January 2023, the State Comptroller's Office sent an online corporate governance questionnaire to 38 government companies. Of these, 34 companies responded to the questionnaire, which aimed to formulate a situation report on the Government Companies Authority's supervision of government companies. Furthermore, the State Comptroller Office assessed the Authority's supervision various aspects, including the functioning of boards of directors, internal auditors and external auditors, compliance with the code of ethics, registration of fixed assets and real estate, protection of information and cyber systems, and other relevant matters.

Key Findings

Staffing the Boards of Directors in the Government Companies by the Ministers

- Despite significant Government Companies Authority's investments in recent years in characterizing candidates for boards of directors in supervised companies and associations, and establishing a pool of directors, as of January 2023, about 270 director positions (about 44% of the total 620 positions) in government companies, government subsidiary companies, and mixed companies are not staffed by ministers and 96% of government companies (68 out of 71) lack directors.

13 See the State Comptroller, **Annual Report 63A** (2012), "The Supervision and Control Procedures of the Authority – The Government Companies Authority", pp. 42–83; **Appointment of directors and senior officers in government companies** (2017).

- Twenty-eight government companies (about 40%) have no chairman of the board of directors, including four key government companies[14], such as the Israel Electric Company (IEC) and Rafael – Advanced Defense Systems Ltd. Additionally, 11 government subsidiary companies (about 58%), 11 mixed companies (about 73%), and two associations (50%) operate without a chairman of the board.

- Six government companies (about 8%) have no external director, including two major government companies: Mekorot Water Company Ltd. and the New Amidar Company – the National Housing Company in Israel.

- Four government companies (about 6%) are without a director expert in financial and accounting, including a major government company – the Amidar company.

- Eighteen companies and associations lack the necessary quorum for board activity, i.e., a single director can adopt resolutions.

- Among the twenty-one government companies (about 30%) that have set a quorum of directors, lack a quorum of sitting directors. Five government subsidiary companies and three mixed companies lack a quorum.

- In twenty-five government companies (about 35%), including a vital defense firm – Raphael, more than half of the director positions are unfilled. Similarly, there is a shortage of over 50% of the directors required on the board in five government subsidiary companies, one mixed company, and one association.

The Pool of Directors – in November 2013, the Government Companies Authority established a pool of candidates for the position of director known as the "pool of directors." According to the Authority's publications, the process of selecting the pool of directors is transparent, competitive, and unbiased. The process is designed to identify the most highly experienced candidates best suited to serve in government companies while also encouraging director independence and activities for the benefit of government companies. In 2022, the pool of directors was reconstituted, requiring all candidates to undergo a reselection process. Consequently, both the Authority and the candidates expended resources, some of which could have been saved. It was raised that the Authority began to anchor the pool of directors through legislation. However, from the beginning of 2014, about ten years after the establishment of the initial pool of directors by the Authority, and until the audit end, the process of selecting directors through this pool was not regulated by legislation.

Selection of Directors Through a Pool-Compatible Process – directors are selected not from the pool of directors but through a pool-compatible procedure.

14 Leading and significant companies in the markets where they operate in the Israeli economy (the key companies). Their revenue rate is about 97% of the revenue of all government companies, and they own 96% of the total assets of all government companies.

According to the Deputy Attorney General's letter from 2014, the selection of directors through a pool-compatible process is a deviation, as ministers are obliged to select candidates from the pool of directors.

Between January 2018 and May 2022, the ministers in charge of government companies and the minister in charge of the Government Companies Authority selected 118 directors through a pool-compatible process (42 of these appointees, about 36%, were appointed in the large government companies), one-third of the total board members were appointed during this period.

In June 2022, the Government Companies Authority informed the then-Minister of Finance, in charge of the Authority, of an opinion issued by the Deputy Attorney General (Public-Administrative Law). The opinion stated that as the new pool of directors is to be announced in June 2022, ministers must refrain from promoting appointments of candidates who are not from the pool of directors. About eight months following the Government Companies Authority's announcement, in June 2022, until the audit end, the Authority did not provide the ministers in charge guidance in comparing candidates not in the pool of directors with those who are part of the pool. Subsequently on May 16, 2023, the Government Companies Authority published a guideline, to guide the ministers.

Adequate Representation for Diverse Populations – ensuring proper representation of diverse populations being under-represented stems from the principle of equality, which not only prohibits discrimination but also obligates company managers to take proactive measures to achieve substantial equality. Regarding adequate representation in government companies, various laws and provisions apply to all levels of staff, management, and boards, for various groups, such as women, the Arab population, the ultra-Orthodox population, the Ethiopian community, persons with disabilities, and new immigrants (the diversity populations).

Adequate Representation Among the Government Companies' Employees

- Neither the government companies' laws nor the government's resolutions set measurable targets for the diverse population. At the same time, it was found that in 2022, the Government Companies Authority set diversity targets for 17 (about 24%) of the government companies. These companies employ about 88% of all employees of government companies (50,000 employees out of 57,000 employees in all government companies). However, for the other 54 government companies, the Authority did not set diversity goals.

- In 2020, about 27%, of the employees in government companies were female. This is roughly half of their share in the population (50%). About 5% of the CEOs in government companies were woman and woman served in a quarter of the vicepresident and other senior positions (division manager, legal counsel, or company secretary).

- In 2020, 1.5% of government company employees were from the Arab society. This rate is low in comparison with their representation in the general population (21%). The employee rate among the Druze population was 1.3%, a lower rate than their rate in the population (1.7%). The Government Companies Authority has not set goals for integrating the ultra-Orthodox population and the Ethiopian community, and it does not measure the rate of employees in government companies among these sectors. Although the Authority has set a target for integrating persons with disabilities in government companies, it was found that it does not have data on their rate among all employees.

Adequate Representation Among the Government Companies' Boards of Directors

- In 2018–2022, 390 directors were appointed to the government companies, of which 155 are women (about 40%); Only 10 directors (about 3%) are from the ultra-Orthodox population; while only 36 (about 9%) are from the Arab population. Only two (about 1%) are from the Ethiopian community; while only four (about 1%) were persons with disabilities; New immigrants were not appointed at all.

- There are gaps between the representation of the diverse populations on the boards of directors and their rate in the population. Furthermore, the women's rate on the boards was 38% compared to 50% their rate in the population. Of the 43 chairmen of the boards, only six are women (about 14%), and the others (37) are men (about 86%).

Adequate Representation Among the Pool of Directors 2022 – the pool of directors for 2022 was gender-balanced (50% women), but the rate of diverse populations was lower than their rate in the population: the rate of candidates among the Arab population was only 5% (67 candidates) compared to 21%, their rate in the population; Among the ultra-Orthodox population – only 2% (31 candidates) compared to 13% their rate in the population; From among the Ethiopian community – only 1% (15 candidates) compared to 1.7% their rate in the population; Directors who are persons with disabilities – only 2% (34 candidates) compared to 17% their rate in the population; And new immigrants – only 2 candidates (about 1% of the pool).

Dividend Transferred from the Government Companies to the State

- The government companies do not declare a dividend and transfer it every year based on their current profits. 40% of the companies (6 out of the 14 companies obligated to pay a dividend) did not transfer a dividend to the government in the last four years examined (2018 to 2021). It was also found that only NIS 1.07 billion was declared in 2018–2021 as a dividend from the government companies, whose accrued surpluses in 2021 were over NIS 9 billion (not including IEC, which had surpluses totaling NIS 29 billion[15]). A gap of many years in dividend transfer has been created.

- The Government Companies Authority has not established an individual policy for declaring a dividend for any government company or group of government companies with similar characteristics.

- The Government Companies Authority did not request annually that the government companies declare and transfer dividends. As a result, the companies did not declare a dividend distribution according to the Authority's Dividend Circular.

- In 2022, the Government Companies Authority's requested that the government companies declare and transfer dividends. The authority insisted that the public is entitled to receive its share of the profits from the government companies. As a result, 11 government companies declared a dividend of NIS 1.4 billion and informed the Government Companies Authority that they intend to transfer profits for the year 2023 of an additional NIS 600 million. However, only NIS 85 million (about 6%) of these profits were transferred to the Ministry of Finance. It was found that the ministers (the minister in charge of the Authority and the minister in charge of the company) did not convene the general meetings of the companies when this was required for a declared dividend to be transferred. This follows the Minister of Finance's instruction to the Authority, followed by the minister in charge of the Government Companies Authority in 2023, to suspend the dividend transfer until they formulate their policy on this matter.

Appointing an External Auditor – due to the difficulties in convening the committee to appoint external auditors for 51 government companies, many auditors have been serving for over six years, contrary to the rules for appointing an accountant. In 18 companies (about 20% of the government companies and government subsidiary companies) the auditors have served for over 15 years. It was further found that, at the audit end, seven years after the Committee for the Appointment of Accountants ceased its activities, the Ministers of Finance and Justice did not appoint members of the Committee for the Appointment of Accountants (except during five months when the Committee did not convene). Consequently, the Government Companies Authority was unable to appoint new external auditors. As a result, the external auditors of government companies serve longer than permitted by Law.

15 The accumulated surplus of about NIS 29 billion of the Electric Company, which is not obligated to declare a dividend and distribute it until the end of 2025, has been discounted.

The Internal Auditor in the Government Companies – the Government Companies Authority's Internal Audit Circular states, among other things, that in companies classified 7 and above[16], the internal auditor will be an employee of the company. The company's classification is determined by the "Committee for the Classification of Government Companies." It is influenced by the size of the company, the scope of its revenues, its profitability, the number of its employees, and its complexity.

- As of the audit end, the Authority have not updated the information regarding the employment of internal auditors in companies that did not implement the provisions of the internal auditor circular.

- As of July 2023, among the nine companies classified as 9, Tomer – Government Company Ltd. did not appoint a company employee as an internal auditor. This company began operating on a large scale on November 25, 2018, and upon commencing operations, about 500 employees were employed. Among the 12 companies classified 7 or 8, four have not appointed an internal auditor as an employee.

Reporting the Assets of the Government Companies

- It was found that the Government Companies Authority presents in its reports the total assets of the government companies by combining the financial statements of the government companies without eliminating inter-company transactions. Furthermore, the information published by the Government Companies Authority is partly based on the government companies' draft financial reports without these being examined and approved by the company's board of directors.

- It was found that the Government Companies Authority does not examine the scope of assets of the government companies, including assets that are not in use, assets that are recorded at nominal cost, and those that are not recorded at all in the reports. As a result, the report on the balance of fixed assets presented in the Authority's reports regarding buildings and land is incomplete. It does not adequately reflect the value of the buildings and land held by the government companies and the current aggregate value of all the fixed assets they held. Moreover, the Authority does not have a list of the state assets used by the government companies, and it did not check whether the companies have an orderly record of the state's rights in these assets.

Cyber Risks in Government Companies – it was found that at the audit end, the Government Companies Authority did not publish a government company's cyber risks circular. The Authority does not have an updated report on the management of cyber risk in government companies, and it has not yet conducted a cross-sectional audit of

16 Large companies are ranked seven and above.

the companies to examine their preparedness to cope with these risks. As part of its control and enforcement system. It was further found that the Authority does not have personnel with knowledge and expertise in cyber and information systems audits.

Appointment of Employees to a Senior Management Position in the Government Companies – it was found that the Government Companies Authority does not have for each government company, specific instructions regarding the qualifications required of every employee in a senior management position in the company, the manner of their selection and the procedure for the board of directors' supervision and approval of the appointment. The Authority did not examine the nature of a position that will be defined as a senior management position entitled to increased salary benefits. It did not examine the definitions of the positions in government companies or their compatibility with the benefits and entitlements granted to managers.

The Transparency of Government Companies to the Public – the Government Companies Authority publishes annual financial reports on government companies on its website. However, the Authority publishes only the financial statements. In contrast, the chapters of the annual report describing the company's activities, the structure of its management and board of directors, and the industry in which it operates are not published. Furthermore, the Authority does not publish the implementation of government policy regarding ownership in companies, the scope of employment in the government company, public policy goals, the composition of the board of directors, or the directors' remuneration. It was also found that the Authority did not request the government companies to publish their complete periodic reports on the Internet. In 2021, 25 government companies published complete periodic reports, while the other government companies (46 companies) published only the financial statements chapter, which does not include, among other things, the board of directors' report on the company's activities.

Powers, Computer and Control Systems Operated by the Government Companies Authority

- **The powers of the Government Companies Authority –** it was found that since 2017, the bill to amend the Government Companies Law has not been advanced and that the Government Companies Authority has not yet been given additional tools customary today in other supervisory and regulatory bodies in Israel. These tools allow measures to be taken against the persons responsible for deficiencies discovered in the companies' functioning. Among the powers that have not yet been added to the Government Companies Authority is the imposition of financial sanctions on the company and its officers.

- **Decentralization of information in the Government Companies Authority –** it was found that the information on various supervisory requirements imposed by the Government Companies Authority over the years on government companies and the situation regarding deficiencies, if any, are scattered among the consultants and the various units in the Government Companies Authority. No single information system contains the data on all the deficiencies, and there is no uniform format for saving information and generating reports. It was further found that the Government Companies Authority does not have operating procedures regarding the nature of the documents that it should keep on the central drive, the folders in which they should be kept, and the permissions for those folders.

- **A computerized system for appointing directors –** the existing computer systems do not work efficiently, and extensive manual work is required from the Authority's employees. It was found that there is no interface between the "Pool of Directors" computer system and the other computer systems, despite overlapping information. It was further found that the computer systems do not save the previous versions of the data for tracking, internal control, and learning lessons. Hence, the "Pool of Directors'" computer systems does not meet the complete needs of the Authority.

- **Risk management at the Government Companies Authority –** it was found that the Authority did not carry out a risk survey to identify the threats to its activities, assess the risk, and define the control actions required to mitigate the risks. The Authority does not have an updated situation report of the entirety of its risks and does not have a policy document for risk management. The Authority's response to the State Comptroller's report from 2012 stated that the Director General of the Ministry of Finance would instruct the Ministry's internal auditor to prepare a risk management plan including the Government Companies Authority. It was found that for over ten years no internal audits have been conducted regarding the Government Companies Authority's activities.

- **Cyber risks at the Government Companies Authority** – it was found that the Authority did not review its computer systems and the extent of their exposure to cyber risks and did not implement a plan to protect against these threats. It was further found that the Authority did not audit the computer systems and did not perform drills to respond to cyber incidents.

Establishment of the Pool of Directors – the State Comptroller Office commends the establishment of a pool of directors, a vast pool of candidates enabling a more equitable and professional selection, and the Authority's efforts to expand the pool of directors and include additional qualified candidates.

The Government Companies Authority's Approval of Bonuses for Senior Officers in the IEC – the State Comptroller Office commends the Government

Companies Authority for its activity, its steadfast position with the IEC, and the temporary suspension of the senior officers' bonuses for 2021. The Authority's instruction to the IEC for 2021 to pay a personal bonus grant of one month's salary only to each senior officer led to savings of about NIS 2.4 million to the public.

Establishment of Financial Objectives – the State Comptroller Office commends the Government Companies Authority for setting financial objectives for the 18 key government companies whose assets and operational turnover are over 95% of all the government companies' assets and activities. Thus, it creates professional discourse with the companies' directorates and management and increases the Authority's involvement in their activities. However, three of the 18 companies have yet to approve the objectives by the directorate, and the Authority has not yet established goals for the remaining companies.

Key Recommendations

- All the ministers in charge of the companies and associations under the supervision of the Government Companies Authority and the minister in charge of the Government Companies Authority should, as soon as possible, appoint directors in these companies and associations from among the pool of directors under the rules and law to at least maintain the quorum necessary for the companies' proper operation. Furthermore, the ministers in charge should appoint a chairman of the board of directors in all the companies and associations under the supervision of the Government Companies Authority, as required by law. It is further recommended that the ministers in charge emphasize appointing women as chairman of the board of directors so that gender equality is achieved.

- It is recommended that the Government Companies Authority consider, in cooperation with the Ministry of Justice, reducing staffing gaps in the boards of directors, including the possibility that the ministers in charge of the companies and associations supervised by the Government Companies Authority will appoint more directors than the maximum number of directors permitted for the board of directors, to serve as a reserve for the board of directors. When a director's term ends or when a director resigns, it will be possible to appoint one of the replacements as company director in an abbreviated procedure.

- It is recommended that the Authority consider periodically updating the pool of directors and base it on the pool of candidates already included in the existing pool. Thus, as long as the criteria for entry into the pool are not changed, the pool will be "continued": new candidates will join, and candidates who are no longer relevant will be removed from the pool. Directors who have already gone through selection stages in the past will update their details if necessary, and they will not have to go through the whole process again.

Adequate Representation and the Diverse Populations

- **Among the employees of the government companies –** it is recommended that the Government Companies Authority improve the representation of diverse groups among the employees of the government companies, encourage the allocation of vacant positions, and consider setting quantitative goals for the diverse populations.

- **Among the board members of the government companies and the pool of directors –** it is recommended that the Government Companies Authority and the ministers in charge consider increasing the representation of the diverse populations on the boards and setting quantitative goals for the adequate representation of the diverse populations and that the ministers in charge examine the situation report as presented to them regarding the under-representation of diverse populations in all the boards and in the list of suitable candidates for the boards. It is further recommended that the minister in charge of the Government Companies Authority work with the ministers in charge to increase the representation of women in the position of board chair. Furthermore, the Government Companies Authority should increase its efforts to encourage the diverse populations to submit applications for the pool of directors thereby expanding the pool.

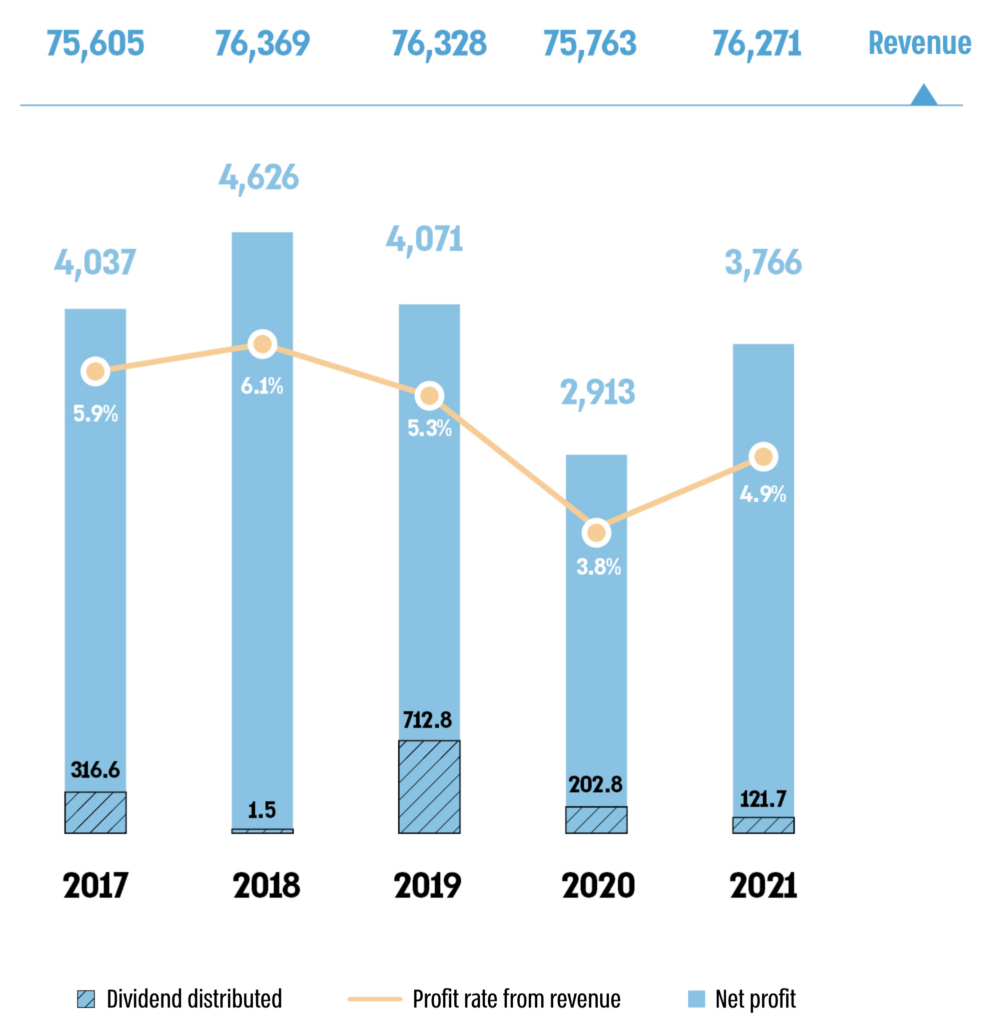
It is recommended that the Government Companies Authority complete the formulation of the financial goals for the three companies included in the pilot while cooperating with the companies' management and boards of directors and monitoring the companies' compliance with the defined goals. It is further recommended that the Authority expand the setting of targets to additional government companies.

It is recommended that the minister in charge of the Government Companies Authority, the minister in charge of the company, the Government Companies Authority, and the Ministry of Finance determine the policy for the transfer of dividends for each government company according to criteria regarding the companies' activities, in a competitive, rated or budgeted environment, while balancing the need for the company to meet all its obligations to its creditors, and provide the State a fair return on its investments and while considering the impact on the cost of living. It is further recommended that the minister in charge of the Government Companies Authority, the minister in charge of the company, and the Minister of Finance, as the Commissioner of State Revenues, through the Government Companies Authority, convene the general meetings of the companies so that the declared dividend is transferred to the State.

The Minister of Finance and the Minister of Justice should, as soon as possible, appoint members to the Committee for the Appointment of Accountants to replace the external auditors of the government companies. Simultaneously, the Government Companies Authority should amend the rules so the members of the Committee will have permanent positions, hence, no appointment on the part of the ministers will be required. Thus avoiding the current situation of no committee, and many external auditors holding their position in government companies for decades.

It is recommended that the minister in charge of the Government Companies Authority, together with the Government Companies Authority, examine and update the areas in which they have not yet given the Government Companies Authority additional tools, currently customary in other supervisory and regulatory bodies in Israel. This will allow the Authority, to take measures against the companies responsible for deficiencies in a government company's operation, and accordingly regulate the addition of powers required, including strengthening its powers to issue instructions on the companies' methods of operation, to help the Government Companies Authority ensure the proper management of the government companies. It is further recommended that the Authority staff the company specialist positions and intermediate positions of senior field managers and field managers and staff additional positions in the Government Companies Authority that are not staffed.

The Aggregate Revenues, Net Profit, and Dividend Distributed by the 71 Government Companies and the Net Profit Rate from Their Revenues, 2017–2021 (in NIS millions)



Source: Government Companies Authority data, processed by the Office of the State Comptroller.

Summary

The Companies Authority is the State's proxy for implementing its ownership over government companies. The Authority is a central liaison between the companies, the government, and other regulating bodies. It advises the government and ministers regarding the companies and assists the ministers in the transparent and egalitarian process of appointing candidates to the companies' boards of directors.

The audit's findings indicated that the mechanism for selecting directors is a public, competitive, and equitable mechanism that fulfills the objectives underlying the authority granted to ministers to appoint directors in supervised companies. However, despite the Authority's efforts, due to a lack of appointments by the relevant ministers, the many directors in the supervised companies have not been appointed, and some companies operate without a quorum, without a chairman of the board, and without proper representation. This situation adversely affects the management of the supervised companies.

Moreover, it was found that the accrued surplus of the government companies was over NIS 9 billion in 2021 (after discounting the IEC's NIS 29 billion), yet the average annual dividend declared was only about NIS 270 million. From 2018 to 2021, the government companies distributed dividends of only about NIS 1.07 billion, creating a significant gap in dividend collection over the years. As of May 2022, the Companies Authority requested the transfer of dividends from the government companies and asserted that the public is entitled to receive its share of the profits of the government companies. This led to government companies announcing the transfer of about NIS 1.4 billion in dividends by the end of 2022. Furthermore, government companies announced their intention to transfer about NIS 600 million as dividends from their profits in 2023. However, by the end of June 2023, only one government company had transferred a mere NIS 85 million, mainly because the ministers in charge of the government companies did not convene general meetings in the companies (when required) to ensure that the declared dividends would be transferred to the state treasury. Following the instruction of the Minister of Finance and, subsequently, the minister in charge of the Companies Authority, a decision was made in 2023 to suspend the transfer until a policy is formulated.

It was further raised that the Authority's limited powers and personnel structure are not suited to its tasks and hinder its supervision of the companies and compliance with their objectives. The Authority's computer systems are outdated and not integrated, which impairs the development of an updated and comprehensive situation report of the activities of the supervised companies, as well as the Authority's monitoring and control work.

The Ministry of Finance and the minister in charge of the Authority should examine the allocation of necessary resources to the Authority and the powers required for it to fulfill its tasks. If the range of available tools is expanded, the Authority will be better equipped to

achieve its main task, which is safeguarding the state's interests as the government companies' owner.

The Companies Authority and the ministers in charge of government companies play a crucial role in supervising and regulating government companies' activities. Therefore, the Authority management and the ministers in charge of the companies should strengthen the Authority and address the deficiencies highlighted in this report by the State Comptroller Office.