



State of Israel

State comptroller Report

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Abstracts



Office of the State Comptroller | Jerusalem



Foreword

The State Comptroller's Annual Audit Report – May 2025 is submitted to the Knesset in accordance with the State Comptroller's Law, 1958. This report encompasses the findings from the audit of government ministries, state institutions, government companies and corporations, and the defense agencies.

Since October 2023, the State of Israel has been engaged in the "Iron Swords" War, following the murderous attack on October 7th by the Hamas terrorist organization on communities in the Gaza Envelope and its vicinity during the Jewish holiday of Simchat Torah. As previously announced, our office is conducting a comprehensive audit on matters related to the failure on October 7th 2023, and to the Iron Swords War. In my view, there is a public and moral obligation to conduct an audit on this topic. **Consequently, in February 2025, an initial compilation of reports was publicized addressing the terrorist attack and the Iron Swords War, specifically in regards to support and care for the country's civilian population, and to assessing the state's preparedness to providing necessary care and support to the population affected by the attack and the war, thereby ensuring the resilience of the civilian populace in Israel.**

Concurrent with this audit on matters concerning the war, our office continues to conduct audits in other areas. Below is a summary of select chapters from the report.

- Pursuant to Section 19 of the State Comptroller Law, **the financial statements of the State of Israel as of December 31, 2023, were examined, with particular emphasis on government capital funds.**

The year 2023 ended with a net accounting deficit of approximately NIS 132 billion. Compared to 2022, this represented an increase of the net accounting deficit by approximately NIS 203 billion (from a net accounting surplus of about NIS 71 billion to a net accounting deficit of approximately NIS 132 billion). This net accounting deficit in 2023 was driven by a rise in state expenditures relative to 2022, particularly a NIS 24.9 billion increase in Iron Swords War-related spending (in the last quarter of 2023), coupled with a decline in state revenues following a sharp rise in 2022. The impacts of the war were primarily reflected in a decrease in the employment rate, reduced private spending, and a substantial rise in public spending, especially defense expenditures. From a monetary standpoint, inflation has continued to decline, remaining within the target range; however, on the fiscal side there was a budget deficit of NIS 77.1 billion, exceeding planned levels (4.1% of the GDP compared with 3.7% of it).

The significant increase in financing needs led to a notable rise in debt issuance in the last quarter of 2023, resulting in a debt-to-GDP ratio of 61.9% in 2023, up from 60.5%



in 2022, despite expectations of a continuing downward trend. Amid growing uncertainty, credit rating agencies responded to geopolitical developments and shifts in Israel's macroeconomic and fiscal indicators by downgrading the credit rating and adjusting the rating outlook. The Iron Swords War has had a materially adverse effect on the macroeconomic indicators of the State of Israel, and the continuation of the conflict is expected to result in further deterioration in these indicators, requiring the implementation of responsible fiscal policy led by the Ministry of Finance.

Typically, the funds deposited in capital funds are utilized by the government to meet its current obligations, with liabilities documented against such actions; thus, the capital funds are themselves merely nominal in nature. The audit revealed deficiencies in the regulation of the characteristics of capital funds that compromise the integrity of their status and the fulfillment of their intended purpose over time. These deficiencies primarily concern the methods employed for transferring surpluses and balances across fiscal years, the assurance of the funds' intended utilization, and the mechanisms for preserving their real value and maximization. Additionally, the audit identified a lack of an agreed-upon framework between the Budget Division and the Accountant General's Division (AGD), undermining the completeness of the information presented concerning capital funds and potentially leading to their misuse as a means to circumvent the state budget.

It is important that the management level of the Ministry of Finance, including the Budget Division and the Accountant General's Division, reassess the use of the fund mechanism, as well as the need it is intended to fulfill, its scope, and the significant increase in its use over the past decade. Furthermore, it is advisable for the Budget Division and the Accountant General's Division to collaborate in formulating a uniform framework for defining capital funds (both budgetary and extra-budgetary), as well as for their creation, characteristics, and coordination of information regarding their scope and ongoing monitoring, including comprehensive recording methods. Such a framework will enhance clarity, certainty, and reliability concerning the budgeting processes of capital funds and their recording in financial statements, ensuring capital funds are established only under explicit and transparent criteria and only where circumstances warrant their creation – and eliminating the possibility of their establishment when not required – and that their intended objectives are achieved.

- Sustainable Development, a concept derived from the notion of sustainability, aims to fulfill the needs of the present generation without jeopardizing the capability of future generations to meet their own needs. This framework is predicated upon principles of economic growth while concurrently enhancing quality of life, mitigating social inequality, and conserving the Earth's resources. In 2015, all United Nations member states, including Israel, reached a unanimous agreement to adopt 17 universal goals



deemed critical to humanity and the environment, which include sub-goals and indicators for assessing their accomplishment (2030 Agenda). The 17 goals are centered around three interrelated domains of sustainable development – economy, society, and environment – and the Agenda advocates for their consideration as an integrated system with reciprocal influences, thereby informing the formulation of improved policies concerning their interrelationships. The designated timeline for the implementation of the Sustainable Development Goals (SDGs) and their establishing in the governments' work was set for the period from 2016 to 2030.

An audit of the **Government's Preparedness to Implement the Sustainable Development Goals in its Work** revealed that, while a commitment to the Agenda was articulated through a government resolution adopted in 2019, this commitment remains largely declarative. Thus, as of the audit end date – marking a decade since Israel adopted the goals, and at the onset of the final third of the implementation period – there is no mechanism capable of ensuring a successful process of SDG implementation within governmental operations. The audit revealed that the government resolution, the responsibility for which was assigned to the Minister of Foreign Affairs and the Minister of Environmental Protection (EP), in coordination with the head of the National Economic Council, was not implemented:

- (a) Sustainable development indicators relevant to the State of Israel have not been developed;
- (b) There is a lack of integration among governmental agencies and insufficient dialogue between the government and civil society entities to enhance awareness of the matter;
- (c) The established implementation mechanism is not aligned with the capabilities of the designated entities and their entrusted authorities;
- (d) No dedicated budgets have been allocated for facilitating the process;
- (e) The Minister of Foreign Affairs and the Minister of Environmental Protection have not submitted any reports to the government on this matter, with only one report submitted to the United Nations in 2019;
- (f) No plans have been formulated for the integration of the goals into governmental operations;
- (g) Significant gaps exist in the capability to collect necessary information for the implementation process and for measuring its progress.

It is recommended that the Prime Minister's Office, the Ministry of Foreign Affairs, and the Ministry of Environmental Protection, in response to the findings of this report,



establish a viable mechanism for the implementation of the Sustainable Development Goals within the work of the Israel's governmental bodies. This mechanism should facilitate an effective implementation process – spearheaded by an integrating entity with suitable authority and capabilities – while ensuring the allocation of requisite resources, with the aim of developing coherent and integrative implementation plans that promote collaboration and address cross-sectional strategic needs. Additionally, this mechanism should guarantee accurate monitoring and follow-up concerning the achievement of the goals and facilitate appropriate reporting. The Office of the State Comptroller emphasizes the necessity for the Prime Minister's Office, the Ministry of Foreign Affairs, and the Ministry of Environmental Protection to fulfill their responsibilities as outlined in the 2019 government resolution until a new mechanism for implementing the goals is established, prompting a revision of the government's resolution as appropriate.

The Sustainable Development Goals have become pivotal within international discourse, with 190 countries submitting 366 reports to the United Nations regarding the extent and methods of the Agenda's implementation from 2016 to 2024; moreover, 73 Supreme Audit Institutions (SAIs) have conducted audits assessing readiness for the implementation of these goals. It is anticipated that the principles embodied in the goals will continue to shape international discourse across social, public, and economic domains for the foreseeable future. Israel possesses substantial potential to emerge as a leading nation in various sectors aligned with the 2030 Agenda and its established indicators, and should endeavor to take advantage of the benefits inherent in the Agenda's implementation, serving both current and future generations.

- Israel Military Industries (IMI) has been operating for several decades within various complexes across the country, encompassing a total area of 80,000 dunams, specializing in the manufacturing of explosives, ammunition, weapons, and related systems. Initially serving as an auxiliary entity within the Ministry of Defense (MoD), it subsequently transitioned to operate as a governmental enterprise. In December 2015, the principal commercial activities of IMI were transferred to IMI Systems Ltd. The rest of IMI's activities remained with IMI, whose name was subsequently changed in 2016 to Netzer Hasharon Ltd. The objectives of Netzer Hasharon, which is a governmental corporation, include a mandate to deal with the environmental issues in regard to IMI complexes. In November 2018, IMI's privatization was finalized with the sale of IMI Systems to Elbit Systems.

Predominantly located in the Sharon region, IMI's complexes are situated in close proximity to residential neighborhoods. Over the years, a pronounced contamination of soil and water, alongside the presence of hazardous materials such as explosives, has been identified in the complexes associated with IMI, posing risks to public safety,



environmental stability, and biodiversity. Furthermore, incidents of explosions and fires have transpired at several factories and complexes; notably, in July 1992, an explosion at the IMI factory in the Nof Yam complex resulted in two fatalities and 34 injuries, incurring financial damages amounting to \$24.5 million. More recently, in August 2023, an explosion at the IMI Systems facility in the Sharon complex, attributed to a workplace accident, led to the death of a worker.

An audit concerning the **Evacuation and Rehabilitation of IMI Lands** highlighted deficiencies, such as the absence of regulated norms in primary legislation for assigning responsibility and addressing contaminated land. Netzer Hasharon and the Israel Land Authority (ILA) have not acted as required to safeguard public safety concerning the hazards presented by the Nof Yam complex. Furthermore, the Ministry of Finance, the Ministry of Defense, the Ministry of Environmental Protection, the Israel Land Authority, and the Water Authority have failed to fulfill their commitment made before the Supreme Court to evacuate and remediate the Nof Yam complex by August 2019, resulting in severe land and water contamination. As of the onset of the Iron Swords War, there had been a delay of approximately one and a half years in evacuating IMI Systems complexes from the Sharon region. According to a statement by the ILA Director in May 2024, the war has created an additional anticipated delay of around two and a half years, which could potentially result in approximately NIS 4 billion of deferred revenue for the state. As of December 2024, a plan has been developed to mitigate the impact of the evacuation delays, following an agreement between the Israel Land Authority and the Ministry of Defense to expedite the evacuation dates of IDF camps. However, approximately two and a half years after the designated timeline, Netzer Hasharon has yet to complete soil surveys in the Eliyahu complex within the Sharon complex. The tender committees of the Israel Land Authority and the Accountant General's Division have allowed the Israel Land Authority to enter into contracts with IMI Systems, exempting them from tender processes under the justification of being a "sole supplier" for the evacuation of facilities linked to the evacuation areas in the Sharon region, despite the presence of at least one other potential supplier, Netzer Hasharon, at the time of committee deliberations. The deficiencies revealed in the audit underscore the persistent inability of the parties to meet the challenges involved in the evacuation of IMI complexes and the remediation of associated contamination, thereby exacerbating risks to public safety, health, the environment, the flora and fauna.

The Ministry of Finance, alongside the Ministry of Defense and the Israel Land Authority, must address the deficiencies identified in the audit, taking actions to advance the evacuation of IMI Systems from its complexes in the Sharon and Tirat Carmel regions, while considering the implications of the Iron Swords War. This includes assessing the necessary balance between ongoing production during wartime in these complexes and evacuation efforts, to mitigate public hazards, facilitating the



development of approximately 36,600 housing units in the Sharon region, yielding approximately NIS 33 billion in revenues for the state treasury, and enhancing employment opportunities in the Negev. Additionally, the Ministry of Finance and the Israel Land Authority must collaborate with the Ministry of Defense, aided by the Ministry of Justice and the Prime Minister's Office, to remediate all IMI complexes – both active and inactive – of soil and groundwater contamination, thereby fulfilling the state's September 2015 commitment to the Supreme Court regarding the cleansing and remediation of the Nof Yam complex. The Ministry of Environmental Protection must take decisive action to promote legislation aimed at addressing contaminated land. Simultaneously, until such legislation is enacted, the Israel Land Authority must conduct a thorough risk analysis of lands contaminated by the state and its entities, and based on the findings, work towards establishing a financing arrangement or budget-supported initiative, together with the Ministry of Finance, to facilitate the rehabilitation of these lands, including IMI complexes for which no land marketing plans currently exist.

- Additionally, this report contains two chapters pertaining to cyber defense: **Information Systems and Cyber Defense in Local Authority Elections; Information Security and Cyber Defense in the Israel Lands Authority – Resilience Test Assessment.** These chapters underwent a confidentiality process under the Knesset State Audit Committee sub-committee, pursuant to Section 17 of the State Comptroller's Law, 1958. The Committee resolved to publish only select findings from these chapters to the public, based on the consideration articulated in Section 17 of the Law.
- My office diligently undertakes follow-up audits to monitor the rectification of deficiencies raised in previous reports, ensuring that the audited entities have indeed rectified the issues at hand. This report presents the findings of three follow-up audits – **Enhancing Access to Higher Education for the Ultra-Orthodox Community, Aspects of Public Service at the Israel Land Authority, and Protection Against Flood Damage.**

The preparation of the report required a significant effort by the personnel of the Office of the State Comptroller, all of whom worked diligently to prepare it with the utmost professionalism, thoroughness, fairness and meticulousness. The Office staff conduct their public roles out of a sense of true dedication, both during ordinary routine periods and in times of emergency, and they have my gratitude.

Pursuant to the State Comptroller Law, commendable actions undertaken by the audited entities are proportionately reflected in the report to present a comprehensive overview of the findings of the audit.



It is incumbent upon the audited bodies to promptly and effectively address the deficiencies outlined in this report, thereby enhancing public service within Israel and subsequently improving the quality of life for its residents.

We continue to pray and express our hopes for the return of all hostages, for the triumph of the IDF and the security agencies in safeguarding our nation, and for calm and peaceful days ahead.

Matanyahu Englman
State Comptroller and
Ombudsman of Israel

Jerusalem, May 2025



Foreword
