



Foreword

The annual audit report presented to the Knesset (Parliament of Israel) today primarily addresses the auditing of the economy and national infrastructure, both of which significantly influence the daily lives of the country's citizens and the prospective development of the economy in the years to come. The following is an overview of select chapters from this report:

- **Aspects of the Government's Handling of Imports**

The issue of the cost of living in Israel has an impact on all households and the standard of living of its citizens. Consequently, addressing this issue is of paramount importance. One approach to dealing with the cost of living is to open the domestic market to competition including by increasing import. A substantial portion of the products consumed in the State of Israel is not produced domestically and must be imported from other countries; however, trade with neighboring countries is constrained, resulting in the characterization of the Israeli economy as an "island economy". In 2023, goods valued at approximately \$90 billion were imported to the State of Israel, including: raw materials, consumer goods, investment goods, energy materials and diamonds. The financial scope of imported consumer goods stands at approximately \$22 billion, predominantly in the following categories: furniture and household electrical appliances (20%), food and beverages (17%), vehicles (16%), and clothing and footwear (13%). The import-to-GDP ratio of Israel, which was 26.9% in 2023, is notably lower than the OECD average of 51.9% for the same year.

An examination conducted by the Office of the State Comptroller in November 2024 revealed price discrepancies between products from parallel imports and those from direct imports, with the latter being approximately 4.8% to 226% more expensive. In addition to parallel imports, personal imports represent another mechanism to reduce the cost of living, whereby consumers procure products directly from abroad at competitive prices. A subsequent examination by the Office of the State Comptroller in February 2025 identified price differentials between products obtained through personal imports and those acquired via commercial imports, with the latter being approximately 20.6% to 130.3% more expensive. In July 2024, the "No Stopping at the Port" reform was implemented, intended to modify the import system so that goods categorized under Import Groups 2 and 3, which are subject to less stringent regulations, will not experience delays at port gates and will gain entry into the Israeli market based solely on a declaration by the importer. Supplementing this reform, the "What's Good for Europe is Good for Israel" reform came into effect in January 2025, entailing the adoption of European regulations and the importation of products marketed in Europe or compliant with European standards,



contingent upon proof of marketing in Europe and without necessitating a product portfolio, which may also lead to an increase in the volume of parallel imports into Israel.

It is recommended that the Minister of Economy conduct an examination of the implementation of the "No Stopping at the Port" and "What's Good for Europe is Good for Israel" reforms, while addressing the inconsistencies between Israeli law and the stipulations of European regulation. Furthermore, it is recommended to investigate the expansion of the reform to encompass imports from additional countries, such as the United States.

Expenditure on vehicles represents one of the most significant categories of consumer spending among households in Israel. The four principal direct car importers account for approximately 60.3% of the total vehicle imports (the eight largest direct importers collectively constitute around 87.7% of the market). An analysis conducted by the Office of the State Comptroller revealed that in 2022, there was an increase in the profits of importers, despite rising costs and a decline in the volume of vehicle sales.

It is advisable that the Ministry of Transport and the Competition Authority leverage the opportunities presented in the automotive market - in light of the significant transformations within the industry and the electric vehicle revolution - so as to enhance competition. The Minister of Transport is advised to take measures for reducing concentration in the automotive sector, capitalizing on the opportunities arising from the changes that have taken place within the sector and the entry of new manufacturers, by facilitating the entry of new or small importers to the sector.

• **Economic Feasibility Studies of Transportation Projects**

The Ministry of Transport and Road Safety is tasked with managing and establishing policy within the transportation sector, as well as providing services for maritime, aerial, and terrestrial transportation systems. Among its responsibilities, the Ministry engages in the planning, development, and regulation of integrated transportation infrastructures and systems that facilitate mobility and logistics for both Israeli citizens and visitors, as well as various components of the Israeli economy.

A 2019 analysis conducted by the Bank of Israel found that Israel's investment in transportation infrastructure accounts for approximately 1% of its Gross Domestic Product, comparable to the average investment rate among OECD countries. However, this rate is deemed inadequate due to the rapid growth of Israel's population and given the relative scarcity of infrastructures in Israel. The estimated cost of damage to the Israeli economy due to road congestion, according to the Ministry of Finance estimate from 2024, and the OECD estimate from 2023, is NIS 24-48 billion.

This audit report focuses on land transportation projects, the majority of which are funded through the state budget. From 2020 to 2023, the Ministry of Transport allocated financing



for transportation projects at an average expenditure of approximately NIS 20 billion annually, representing about 4% of the total state budget. This amount constitutes the highest civilian investment budget, among all governmental ministries' investment budgets. Given the importance of these projects for economic functionality, the reduction of social disparities, and the alleviation of congestion costs borne by residents, as well as their complexity and budgetary implications, it is imperative that the construction of the projects be undertaken following a rigorous selection process, while examining their economic viability, involving a comprehensive examination of project costs and the anticipated benefits to the public, with the objective of identifying the most advantageous projects within the established budgetary framework.

The audit revealed that although the planning process for transportation projects as outlined in the Transportation Projects Procedure (which serves as the official guideline for assessing the economic feasibility of land transportation projects), includes a mandate that two feasibility studies be conducted during the project's planning stages, in practice, only a single feasibility study is conducted for the majority of projects. Furthermore, this study is not necessarily executed at critical junctions where the decision to proceed with the project is determined, and if approved, in what configuration. The audit also disclosed that the Transportation Projects Procedure is mandated for all types of land transportation infrastructure projects; however, in practice a significant portion of these projects does not undergo a feasibility study at all by the Ministries of Transport and Finance. Additionally, the methodology delineated in the Transportation Projects Procedure predominantly evaluates benefits within the domain of road infrastructure and is not fully adapted for the assessment of mass transportation projects, which include public transport routes, light rail, and metro systems. Furthermore, the Procedure lacks a defined economic threshold for conducting an economic feasibility analysis, and its status and influence within the decision-making matrix remain inadequately articulated.

The audit also identified that the Ministry of Transport experiences a deficiency in engineering personnel, an elevated managerial turnover, and a lack of staffing for senior roles within the Infrastructure Administration, which is tasked with the planning and execution of transportation projects. Additionally, the Ministry lacks an information infrastructure concerning both completed and ongoing transportation projects, with the management of existing information being conducted manually. Consequently, the transition of several individual employees can result in knowledge erosion and the jeopardizing of business continuity, as the management of information largely depends on the memory of specific employees and their familiarity with operational materials.

The implementation of the recommendations embedded within the report's chapters has the potential to enhance the planning processes for transportation infrastructures in Israel, thereby increasing transparency in decision-making regarding project approval and



prioritization, improving the alignment of transportation planning with public requirements, and facilitating a more efficient utilization of public resources.

- **Real Estate Taxation and the Real Estate Information Infrastructure in Israel**

The real estate market in Israel constitutes a critical component of the Israeli economy, with its ramifications observed across various domains, including economic, social, employment, and political spheres. Real estate transactions are among the most significant and financially substantial undertakings in an individual's life. Over the past decade, there has been a notable escalation in housing prices in Israel, attributed, in part, to a deficit in housing supply, the prevailing interest rates since 2008, and the ramifications of global economic crises. The housing price index surged by 77.5% from January 2014 to December 2024, while the consumer price index experienced an approximate increase of 15.3% during the same time period.

Between 2018 and 2020, revenues from real estate taxation averaged approximately NIS 11.37 billion, representing about 7% of total direct tax revenues collected by the Tax Authority. In the years 2021-2022, total revenues from real estate taxation rose to an average of approximately NIS 23 billion, constituting about 9% of total direct tax revenues collected by the Authority. However, in 2023, this percentage declined, partly due to the Swords of Iron War, with total revenue from real estate taxation amounting to NIS 14.41 billion, approximately 6% of total direct tax revenues collected by the Authority.

This audit identified deficiencies within the realm of real estate taxation operations. It was found that assessment personnel in regional real estate taxation offices do not execute assessments uniformly or consistently. There is an absence of a defined timeframe for responding to requests for assessment corrections, and many requests are handled after a considerable delay, which may lead to additional costs for taxpayers. Delays in implementing capital gain corrections in income tax assessments have also been noted, with some exceeding three years, complicating the collection of taxes due from these corrections, alongside a lack of estimates regarding total debts collected or refunds unpaid to taxpayers. Furthermore, cooperation among various tax systems is deficient, and the utilization of the designated system for this activity is limited. Many assessments are processed near the limitation period, suggesting inadequate scrutiny of the assessments or insufficient time allocation for taxpayers to present their claims. Additionally, numerous assessments are determined according to best judgment after the assessment has become statute-barred, in contravention of the law.

Deficiencies were identified in customer service within real estate taxation, including the absence of a work procedure for the main customer service system, a lack of defined response times for handling inquiries, and an absence of computerized oversight over



response quality and response time. Delays in addressing inquiries on various issues remain prevalent, and service via the Authority's phone response system is nearly nonexistent.

This report also highlighted numerous shortcomings in the collection of real estate transaction data stored in the Real Estate Price Registry and its dissemination to governmental entities and the public. It was found that the implementation of the Committee recommendations and the transition to online reporting by representatives have not substantially enhanced the quality of the Real Estate Price Registry data. The file transmitted to Survey of Israel (SOI) for data cleansing has been found to be both unfitting and incomplete. Many properties are absent from the file; numerous properties are inaccurately represented; essential data that could assist in calculating the housing price index, supporting Tax Authority operations and providing information to citizens, is not collected; repeated data cleansing of the file by its users is lacking; the confirmation of property status provided to citizens is lacking and often incorrect; and the exchange of information among governmental bodies is hindered by the lack of a unique identifier for properties. Significant discrepancies have also been found between real estate information presented in databases publicly released by the Tax Authority and the information presented in the database of SOI.

The Tax Authority should enhance its public service, aiming for efficiency and providing effective service while maximizing taxpayers' rights concerning the collection of actual tax. The Prime Minister's Office should examine and define the entity responsible for establishing a national information infrastructure in the property sector, which would compile information from a multitude of sources. This entity would be accountable, among other things, for information acquisition, quality assurance, data cleansing, and distribution, in collaboration with the Central Bureau of Statistics, the National Digital Agency, the Ministry of Justice, the Ministry of Interior, the Planning Administration, the Tax Authority, the Ministry of Construction and Housing, the Israel Land Authority, and Survey of Israel. Furthermore, it is recommended that the Prime Minister's Office formalize the delegation of powers to the entity overseeing this initiative. Establishing such an information infrastructure will enhance governmental operations and improve the delivery of services to citizens concerning real estate matters.

- **Ensuring the State of Israel's Food Security in an Emergency**

"Food Security" refers to a condition wherein all individuals, at all times, possess reasonable physical and economic access to adequate, safe, and nutritious food that satisfies their dietary and cultural preferences, thereby enabling them to lead active and healthy lives. The assurance of a sufficient food supply is important during routine times, and is critical in emergency situations, as a consistent food supply is integral to survival in the initial stages of a crisis. During emergencies, the provision of an adequate and balanced food supply poses substantial challenges. Israel, as an "island state" in the sense of its limited



capacity to depend on neighboring nations, bears the responsibility of ensuring the availability of sufficient food supplies over extended periods.

Ensuring a sustainable food supply during both routine and emergency situations necessitates advance preparation and planning through the formulation of a food management strategy and the implementation of actions prior to the emergence of relevant scenarios. The current audit indicated that the Israeli government lacks sufficient preparedness to sustain functional continuity in food supply during emergencies. It was determined that Israel does not possess an integrating governmental framework responsible for the State of Israel's emergency preparedness, which encompasses overall authority and responsibility for the matter. Furthermore, there is no integrating entity that oversees the food sector comprehensively, addressing both routine operations and emergencies. Additionally, the State of Israel lacks a long-term strategy for food security. In the absence of an integrating body and long-term planning, in practice each government ministry responsible for aspects of food security manages its designated area in both routine and emergency contexts at its own discretion. Consequently, there are deficiencies in the inventory of certain products stored in emergency warehouses, there is inadequate supervision of essential food production facilities, and insufficient preparedness of these facilities for emergency situations. The Ministries of Economy and Agriculture are bereft of the necessary enforcement mechanisms or incentives to ensure the rectification of existing gaps and clearly lack a comprehensive overview of the preparedness of food facilities for the purpose of formulating an actionable plan to address these deficiencies. Additionally, the Israeli agricultural sector, which serves as the foundation for food security, remains stagnant, with local production exhibiting a downward trend, partially attributable to governmental policies that incentivize the sector through indirect support, which creates distortions.

It is recommended that, pending the formulation of legislative measures pertaining to home front emergency preparedness, the National Security Council, NEMA (National Emergency Management Authority), the Ministry of Agriculture, the Ministry of Economy, the Ministry of Health, and the Ministry of Finance collaborate to immediately integrate and strategize Israel's food policy for both routine and emergency contexts, and undertake necessary actions to secure regular food supplies during emergencies, prepare various entities within the food sector for potential crises, identify existing gaps, and take measures to close them.

Follow-up audits serve as an important instrument for enhancing the impact of state audits, motivating the audited entity to rectify the deficiencies identified during the audit, and



preventing their recurrence. This report includes follow-up audits pertaining to the **promotion and development of public transportation within the Haifa metropolitan area.**

This report also includes the audit findings on **the quality of teaching in institutions of higher education.**

In conclusion, I wish to thank the employees of the Office of the State Comptroller, in the Economics and National Infrastructure Audit Division, the Social and Welfare Audit Division and the Headquarters Division, for their hard work in carrying out inspection and audit processes with the highest standards of thoroughness, professionalism and integrity and in publishing clear, effective and relevant audit reports.

It has not escaped my attention that positive actions are taken in the audited bodies, the most prominent of which were described in the audit chapters as required by the State Comptroller Law. At the same time, it is the duty of these bodies to rectify the deficiencies noted in this report in order to better their activities and to improve service to the public in Israel.

We continue to pray and express our hopes for the triumph of the IDF and the security agencies, for the return of all hostages, for the recovery of the wounded, and for peaceful and quiet days ahead.

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Jerusalem, October 2025



State of Israel

State Comptroller Report

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Office of the State Comptroller | Jerusalem