

**THEMATIC COMPILATION OF RELEVANT INFORMATION SUBMITTED  
BY ISRAEL**

**ARTICLE 9, PARAGRAPHS 2 AND 3 UNCAC**

**MANAGEMENT OF PUBLIC FINANCES**

**ISRAEL (SIXTH MEETING)**

*Provide for transparent and public procedures for adopting of the national budget, that specify the type of information required as part of the submission to the legislature, with opportunity for public input and debate;*

The national budget, which is determined by provisions set out in the **Foundations of the Budget Law, 1985**, is the most detailed work plan of the Israeli government. The procedures for its approval ensure proper administration of public funds and transparency. Drafts of the proposed economic plan for each future fiscal year, its final version and other relevant information, such as government decisions, appear on government websites. There is a system for parliamentary queries with respect to the state budget, and the budgets for previous years are published. Prior to the adoption of the budget there are frequent intense debates about the different issues amongst the general public, facilitated by extensive media coverage of the governmental and parliamentary deliberations and decision-making process.

The **Basic Law: The State Economy, 1975**, lays down the procedures for the adoption of the national budget. Section 3(a) provides that the State's budget shall be set in a law every year for one year. Section 3(b) provides that the government must present to the Knesset (the Israeli Parliament) a detailed **Budget Law** proposal, by a specific date determined by the Knesset but no later than 60 days before the beginning of each fiscal year. Section 3A provides that every year, the government must prepare a budget plan for the next three years. The Foundations of the Budget Law establishes the legislative framework for the annual Budget Law, including limitations on government power to revise the budget and utilization of budget reserves. The annual Budget Law is enacted in a similar manner to any other law enacted by the Israeli Parliament. The Budget Law can also be enacted biannually, for a two year period, under certain circumstances.

An omnibus statute submitted annually or biannually to the Knesset dealing predominantly with the Budget Law, is called an **Arrangements Law** (or "Program Law"). The government decision specifying the amendments to be made to the Budget Law is made before publication of the proposed Arrangements Law. Following the approval by the government, and 7-10 days before the final draft is approved in a Ministerial Committee, the proposed Arrangements Law is published on the Ministry of Finance's website. After the proposed Arrangements Law is approved by the Knesset, it is published as any other law in the official Gazette ("Reshumot") and on the Knesset website.

The procedures described above are implemented every one or two fiscal years. The documents issued pursuant to these legislative instruments are publicly available as follows: the drafts and final version of the proposed economic plan and budgets for previous years are published on the website of the Ministry of Finance, and government decisions relating to the subject are published on the Prime Minister's Office's website. The Knesset website publishes voting outcomes and other budget-related procedures such as committee meetings protocols.

***Ensure that reporting on revenue and expenditure is public, timely and regular, and that there are consequences for the responsible agency and officials for failure to report at all or in a timely fashion;***

The Minister of Finance presents to the Knesset a report on the execution of the national budget, on an annual basis, as provided for in **Basic Law: The State Economy** (Section 3(e)); According to the Basic Law: The State Economy, the Minister of Finance must submit, no later than six months from the end of the fiscal year, reports containing information on revenues and expenditures along with conditional expenditures. The information is presented in a manner that enables comparison with the budgeted amounts (Foundations of the Budget Law, Section 49). This report presents data on revenues and expenditures for the fiscal year, as approved by the Knesset. In addition to comparing the budgeted amounts and the actual allocations, the report notes amendments to the budget, and is prepared according to the rules outlined by the international standards of the System of National Accounts (SNA) 1993 (jointly formulated by the International Monetary Fund, the European Union, the Organization for Economic Co-operation and Development, the United Nations and the World Bank). In practice, and in accordance with the Accountant General's Directive, the Minister of Finance submits the report much sooner than required by law –reports are submitted every three months during each fiscal year.

Moreover, Section 40 in the Foundations of the Budget Law prohibits the enactment of any regulations or administrative provisions which require budgetary expenditure or a commitment for a budgetary expenditure unless they were explicitly mentioned in the annual Budget Law for their first year of execution.

**Reports on the revenues and expenditures of the State:** Every audited body in Israel (i.e. any public institution in Israel) must submit to the State Comptroller an annual report on its revenues and expenditures (**State Comptroller Law, 1958**, Section 11(a)). The Minister of Finance is obligated to submit to the State Comptroller a comprehensive annual report on the revenues and expenditures of the State, within six months of the end of each fiscal year, as well as the balance sheet of assets and liabilities of the State (within nine months of the end of the fiscal year) (State Comptroller Law, Section 12). The State Comptroller also conducts audits in regard to such annual reports, their preparation and the oversight of those involved in their preparation. Most recently, the results of the audit concerning the report submitted in 2014 regarding the State's revenues and expenditures during the year 2013 were published in May 2015 as part of the State Comptroller's Annual Audit Report.

All financial reports must comply with the Israeli Government Accounting Standards, which are derived from the ISPAS (International Public Sector Accounting Standards). Budgeted or supported institutions (including government companies and their subsidiaries) are required to submit to the Ministry of Finance all information relevant for the enforcement and review of the budget, according to Section 33(a) of the Foundations of the Budget Law. This information is included in the Ministry of Finance's reports to the Knesset. The Law further requires every public institution to annually report the terms of employment of all employees to the Wages Commissioner in the Ministry of Finance. Additionally, according to the Law, every budgeted or supported institution is required to submit some information regarding the terms of employment of certain employees.

**Ensuring public access to information: The Freedom of Information Law, 1998** mandates that every resident and citizen of Israel has the right to receive information from a public authority (written, recorded, filmed, photographed, or computerized) in accordance with specifications of the Law. These authorities include any Government Authorities, Government Companies or any other agency fulfilling a public function, which is an audited agency as defined in Section 9 of the State Comptroller Law.

The specifications include restrictions that are intended to safeguard protected rights and interests, such as national security, protection of privacy and trade secrets. The law determines who is entitled to receive information, what kind of information the authority is required to provide, details regarding the contents of the information provided, the scope of a public authority's discretion in handling requests for information, and instructions and provisions regarding application procedures and the processing of applications. In order to receive information, the applicant can submit a request to the Supervisor for the Implementation of the Freedom of Information Law. In most cases, this requires payment of a nominal fee, calculated in accordance with the time required to handle the request. Certain bodies are exempt from the requirement of the fee, including, *inter alia*, non-governmental organizations and academic institutions.

Pursuant to Section 5 of the Freedom of Information Law, every public authority is required to publish an annual report, which must include information about its activities and responsibilities and an explanation of its functions and responsibility. The person responsible for the implementation of this law in each public authority must also submit a report regarding freedom of information requests received by the authority, but he/she is entitled to publish this report separately. Section 5 of the **Freedom of Information Regulations, 1999** requires that the annual report be published no later than July 1st of the same year. Section 6 further requires that the report include, among other details, the annual budget for the past and current year and a breakdown of expenditures in the past year according to the budget items. Section 8(a) provides that an annual report of the public authority must be open for public inspection at the headquarters of the public authority, as well as in its district offices, if any. In addition, Section 8(d) requires a government ministry to post a copy of its annual report on the website of the Ministry. Other public authorities that have a website are required to post a copy of their annual report online within a year of operating the website.

***Ensure that effective system of accounting and auditing is put in place and that there is effective oversight over the budgetary revenue and expenditure with regular training and accreditation requirements for government accountants and auditors;***

Israel has a robust system of accounting standards, designed to ensure accurate calculation of State revenues and expenditure. To complement this, and to enhance the integrity of accounting, various laws create a set of comprehensive requirements regarding timely reporting on fiscal matters and documenting reports. The falsification of such documents is an offence. The Minister of Finance can prescribe regulations in regard to the implementation of the Foundations of the Budget Law including in matters relating to state accounting and management of public finances (Section 50(a)).

The State Comptroller conducts audits to ensure that all expenditures are within the scope of legal appropriation, that revenues are received according to the law and that each expenditure or revenue is accompanied by appropriate documentation (State Comptroller Law, Section 10). As mentioned above, all audited bodies must submit to the State Comptroller an annual report on their revenues and expenditures, and the Minister of Finance is obligated to submit to the State Comptroller a comprehensive annual report on the revenues and expenditures of the State.

In addition to audit reports published concerning the annual reports submitted by the Minister of Finance in accordance with the Law, the State Comptroller includes in its auditing plan various audits connected to the revenue and expenditure of specific governmental bodies and companies. The findings of such audits, such as reports concerning the departments within municipalities dealing with expenditures, are made public in the State Comptroller's Annual Reports.

As noted, government companies and their subsidiaries are required to submit to the Government Companies Authority, on an annual basis, audited financial reports including declarations of the managers and a directors' report, a report on the work of the Board of Directors, internal audit and internal controls and a detailed budget performance report (**Government Companies Law, 1975**). A “government company” is defined in Section 1(a) of the Government Companies Law as one in which more than half of the voting power at general meetings, or the right to appoint more than half of its directors, is held by the State, or by the State together with a government company or with a subsidiary thereof.

***Ensure that effective and efficient system of risk management and internal control is put in place, with clear allocation and description of the roles and responsibilities and description of how the offices responsible for risk management and internal control maintain, organize and store records;***

Israel recognizes the importance of employing effective and efficient systems of risk management and internal controls in public governance. The Israeli government, through its Ministry of Finance, has established comprehensive risk management and internal control systems. According to the **Internal Audit Law, 1992**, every government entity

must conduct internal controls by an internal auditor. The internal auditor examines, inter alia, the management of assets including accounts, moneys and investments. According to the Law, the internal auditor of the Accountant General's Department in the Ministry of Finance is responsible for the internal control in regards to the implementation of the State budget by the different accounting units of the government Ministries.

It should be noted that there is still a need to consider the implementation of a risk management methodology in government offices and government financing mechanism as a whole. The adoption of internationally recognized accounting standards, as described above, is one of the steps intended to enhance the sustainability of Israel's public financing system.

***Provide for corrective action in case of failure to comply with the legal requirements, with description of the procedure for oversight and implementation.***

Basic Law: The State Economy; the Internal Audit Law; the Foundations of the Budget Law, 1985; and the State Comptroller Law, all provide for review and supervisory procedures which are used as a basis for corrective actions in case of failure to comply with the legal requirements. Additionally, several general mechanisms apply to the conduct of public officials responsible for management of public affairs.

Public officials who knowingly fail to abide by the procedures relating to the adoption of the budget or who order others to do so can be subjected to disciplinary action (Foundations of the Budget Law, Section 34). The Law further imposes similar liability on senior government officials, when the disciplinary offence was committed by a non-senior official, if the senior official cannot prove either that the offence was committed without his/her knowledge, or that he/she took reasonable measures to prevent it (Foundations of the Budget Law, Section 36).

Additionally, an audit by the State Comptroller detecting unexplained discrepancies may result in a report to the relevant minister, the Prime Minister, or to the Knesset's State Control Committee which may decide to establish an inquiry commission to investigate the matter. If there are grounds to believe that criminal conduct has occurred, this must be reported to the Attorney General who then informs the State Comptroller and the Knesset's State Control Committee of the chosen approach to handle the matter (State Comptroller Law, Section 14). Additionally, every audited body must appoint a team to correct deficiencies uncovered by the State Comptroller (Section 21A of the Law). An employee of an audited body who is responsible to correct a deficiency and fails to do so without reasonable justification, is guilty of a disciplinary offense (Section 21C of the Law).

Similarly, an internal auditor must report to his/her supervisor (as defined specifically in a government decision) or to the State Comptroller any findings regarding the possibility of criminal conduct (Internal Audit Law, Section 11). Failure to appoint an internal auditor without reasonable justification, the appointment of an incompetent internal

auditor and interference with the conduct of an internal audit are criminal offenses, each of which may result in the imposition of fines (Internal Audit Law, Section 15).

According to Section 43(b) of the Foundations of the Budget Law, contracts formulated by a state entity, which require spending more than NIS 960,000 (approx. 231,000 Euro), and are not budgeted in the Budget Law for the year in which the contract was signed, will become void.

There are sanctions in case of misuse of funding assistance given to public institutions in response to subsidy requests from the government. In addition to termination of the funding assistance, additional sanctions are available. The Ministry of Finance also has the authority to conduct financial supervision over recipients of such funding assistance, including on-site visits when necessary.

According to Section 29 to the Foundations of the Budget Law, the public sector is subjected to general rules and limitations regarding employment conditions and salaries. Section 29(b) subjects all public entities to the supervision of the Minister of Finance. This authority has been delegated to the Director of Wages at the Ministry of Finance, and it empowers him/her to intervene with the labor and employment policies in these institutions (although as independent entities, they remain responsible for their own budget) and exercise his/her discretion to cancel labor contracts. This Section also authorizes the Director of Wages to instruct the budgeted institution to file a suit for the restitution of monies paid in violation of the relevant regulations, based on. Such suits are filed with the Labor District Court which reviews the decision according to the general principles of the administrative law.