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## SUMMARY

### **Summary of Report 24/2016, relating to the General Account of the Government of Catalonia, year 2014**

*Barcelona, 13 February 2017*

The Public Audit Office for Catalonia has issued Report 24/2016, relating to the General Account of the Government of Catalonia (*Generalitat*) for financial year 2014, in accordance with its Annual Programme of Activities.

The report, which was presented by the Chairman, Mr Jaume Amat, was approved by the Audit Office Board at its meeting on 16 November 2016, with a concurring vote, involving matters of reasoning, by Board Member Mr Jordi Pons.

The purpose of the report is to issue an opinion on whether the accounting and financial information presented conforms to applicable accounting principles, and also on legal compliance. The report also proposes measures of a general nature considered necessary to improve the Catalan Government's performance.

The report corresponds to a regularity audit of the General Account of the Catalan Government, which according to the Catalan Public Finance Act is composed of the General Government Administration (GGA) Account, the Account for the Autonomous Agencies of an Administrative Nature and the Account for the Social Security Management Entities (the Catalan Health Service –CatSalut–, the Catalan Health Institute –ICS– and the Catalan Institute for Social Services and Assistance –ICASS–). To this General Account of the Catalan Government, according to the aforementioned Finance Act, shall be joined the accounts of autonomous agencies of a commercial, industrial, financial or similar nature; the accounts of public enterprises; the accounts of other public sector entities, such as consortia and foundations, whose budgets are approved by Parliament, and the accounts of the four provincial councils (*diputacions*). These accounts are reviewed in terms of their form in this report.

From the results of the audit work carried out it can be stated that the General Account of the Government of Catalonia corresponding to financial year 2014, drawn up by the Comptroller General's Office (*Intervenció General*) of the Government of Catalonia, except for the possible effects of the limitations described in findings 17, 20, 22 and 29, and the effects of the matters described in findings 7, 12, 18, 24, 25 and 28, represents in all significant aspects a true and fair view of the assets and financial position of the Government of Catalonia as at 31 December 2014, and also of the results, cash flow and budget outturns corresponding to the financial year ending on that date, in accordance with the applicable financial reporting regulatory framework and, in particular, the accounting principles and criteria contained therein.

According to the data presented by the Comptroller General's Office (IGGC) the consolidated budgetary result for the 2014 financial year shows non-financial recognised commitments (expenditures) of €27,236m and non-financial realised receipts (revenues) of €23,527m, with a non-financial deficit of €3,709m, which is an increase on year 2013, when it was €3,203m.

Consolidated financial debt currently outstanding according to actual value in year 2014 came to €54,699m, which was an increase of 14.1% on year 2013.

Consolidated budgetary year-end net working capital (*Romanent de tresoreria*) came to minus €2,007m for 2014. This was a reduction of more than 50% in relation to year 2013, when it was minus €4,234m.

The Conclusions section of the report brings together twenty-eight findings arising from the audit work carried out. Some of the most significant ones are as follows:

- Catalan legislation does not regulate for the submission of one consolidated account bringing together all the financial activity of the Catalan public sector. Catalan legislation should be modified to bring it in line with the new accounting framework established by Order HAP/1489/2013, of 18 July, which approved the rules for drawing up consolidated annual accounts in Spain's public sector.
- The funding requirements for the 2014 financial year, calculated according to the criteria for the European System of National and Regional Accounts (ESA), came to €5,406m.
- As regards the Budget Stability Act, in year 2014 the Catalan Government was not compliant with the objectives for deficit, public debt and the expenditure rule established by the Spanish central (State) government. The deficit was 2.75% of GDP, when the objective was 1.0%. Public debt was 32.8% of GDP, when the objective was 32.7%. As for the expenditure rule, there was an increase of 2.5% relative to the previous year, when the upper limit was 1.5%.
- According to the information provided by the IGGC, capital expenditure undertaken but not included in the 2014 budget was estimated at €120.17m, which represents a reduction of 12.6% in relation to year 2013.
- The GGA had on its books €685.53m in revenues pending from the tax on deposits in lending institutions. However, Spain's Constitutional Court, in May 2015, declared this tax to be unconstitutional and null and void. Therefore the €685.53m in revenues pending will never be received and should be struck off the books.
- The statement of acquired expenditure commitments affecting future financial years includes, amongst other items, the expenditure in alternative financing arrangements for the construction of public facilities or infrastructures. This expenditure commitment limits the budget group 2 allocations available to cover running expenses in the affected government departments.
- The budget outturns for GGA and for the CatSalut, ICS and ICASS fail to include part of the expenditure incurred during the year, due to lack of sufficient budgetary allocations.

Expenditure incurred during year 2014 but not put on the books came to €2,917.13m, of which €1,509.40m was for the CatSalut. Expenditure incurred in 2013 and accounted for in 2014 came to €2,309.79m.

- GGA debt was accounted for at issuing values, which in some cases did not coincide with nominal values. As at 31 December 2014 these differences meant that GGA debt was undervalued by €68.90m.
- The statement for budgetary year-end net working capital (*Romanent de tresoreria*) does not distinguish between earmarked and non-earmarked funds. Although reduced by 52.6% in relation to year 2013, the negative consolidated year-end net working capital as at 31 December 2014 was minus €2,007.48m, giving rise to liquidity problems.
- The amount for budget group 9 in the statement of expenditure commitments for future financial years presented by the IGGC did not coincide with the figure for the principal included in the calculations of future debt financing costs presented by the Directorate-General for Finance Policy. The difference was explained by the fact that the IGGC's figures were obtained at a different date to the closing of the accounts; this meant that this statement was undervalued by approximately €1,063.90m.
- The 31 December 2014 figure for risk exposure arising from bank guarantees issued was €3,851.89m, still a large amount, although down by 12.7% from year 2013.
- The GGA is still using the General Public Accounting Plan for the Catalan Government approved in 1996. The adaptation of this schedule of accounts to the new General Public Accounting Plan approved in 2010 is still pending.
- The governmental public sector needs to improve its inventories and update them so that they coincide with the figures in the accounts.
- In twelve of the eighteen transactions for the sale of buildings carried out by the GGA in year 2014, the amounts obtained at auction or through direct sales were below the purchase cost. The records of these transactions in the IGGC's financial accounts show a net loss of €38.58m. The Public Audit Office detected that the IGGC had not recorded the financial losses from the sale of four of these properties, which it estimated at €41.77m.
- The GGA figure for permanent financial investments includes a number of amounts which the Audit Office considers should have been accounted for when the transactions occurred as part of the yearly result; they should not, therefore, have been included in this Balance Sheet item.
- The final results of the programme-contracts for 2009-2010, 2011-2012 and 2013, between the Spanish central government and the Metropolitan Transport Authority indicated that the public transport system would generate a deficit estimated at €492.77m as at 31 December 2014. The GGA does not have any liability item on its books under this heading.

The Audit Office recommends that corrective measures are taken to resolve the deficiencies detected, and also notes the delicate financial position of the Catalan Government as at 31 December 2014, bearing in mind its funding needs, its negative year-end net working capital and equity, its high financial debt levels and its statement of expenditure commitments payable in future years.

For the Catalan Government Administration Account, the most significant details can be summarised as follows:

- The budget outturn shows realised receipts (revenues) of €35,853m and recognised commitments (expenditures) of €33,932m, with a surplus of €1,921m arising from budgetary execution and a non-financial deficit of €3,827m.
- The sum of €35,853m for realised revenues shows a reduction of €2,334m on the previous financial year (6.1%).
- Tax receipts represent approximately 50.1% of realised revenues.
- Revenues for the 2014 financial year from the Catalan Government's participation in Spanish central government (State) revenues came to €488m, compared to €1,507m in year 2013.
- Total recognised commitments (expenditures), at €33,932m, showed a reduction of €3,404m in relation to the previous year (9.1%).
- Catalan government staff levels as at 31 December 2014 showed 124,105 persons on the payroll, compared to 124,094 the previous year. The number of tenured civil service employees fell by 2.6% and staff on a labour contract by 9.6%, whereas those in interim civil service posts increased by 15.6%.
- During the 2014 financial year, the Catalan Government continued to use certain extraordinary funding mechanisms set up by the Spanish central Government. The details are as follows:
  - ICO-Suppliers credit line (phase III.2): €2,309m
  - Regional government liquidity fund (ICO loan): €7,914m
- The statement of acquired expenditure commitments affecting future financial years totalled €101,594m for year 2014; this is an increase of 9.9% on the 2013 figure.
- As regards public sector procurement undertaken by the Catalan Government and its public sector, in year 2014 a total of 23,733 contracts were awarded, worth a combined €1,534m.

<p>This summary is solely for information purposes. The audit report (in Catalan and Spanish) can be consulted at <a href="http://www.sindicatura.cat">www.sindicatura.cat</a>.</p>
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