

SUMMARY

Summary of Report 31/2020, relating to the General Account of the Government of Catalonia, year 2018

Barcelona, 19 February 2021

The Public Audit Office for Catalonia has issued Report 31/2020, relating to the General Account of the Government of Catalonia (*Generalitat*) for financial year 2018, 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 30 December 2020, with a concurring vote, involving matters of reasoning, by Board Member Mr Jordi Pons i Novell.

The aim of the report on the Government of Catalonia's General Account is to issue an opinion on whether the accounting and financial information presented conforms to applicable accounting principles and also on legal compliance. The purpose of the report is to offer an opinion on the General Account as a whole, not on the individual financial statements of each of the entities included within it, since that would require having consolidated financial accounts for everything within the perimeter of the General Account.

The report also proposes measures of a general nature, based on the information obtained, which it considers are needed to improve the Catalan Government's performance.

The Government's General Account for Year 2018, as drawn up by the Catalan Government's Comptroller General's Office (*Intervenció General*) (IGGC) was forwarded to the Public Audit Office on 30 July 2019, before the statutory deadline.

The General Account submitted includes the General Government Administration (GGA) Account, the Catalan Health Service (CatSalut) Account, one for the nineteen autonomous agencies of an administrative nature, and the individual annual accounts of the other subsidiary entities referred to in article 80.2 of the Consolidated Catalan Public Finance Act.

The IGGC also drew up and submitted, within the Notes to the GGA Account, a Consolidated Budget Outturn Statement for the administrative public sector and, for the first time, a Consolidated Budget Outturn Statement for the administrative sector *and* the non-administrative sector. The submission of these statements meant a considerable improvement in the information included in the General Account in relation to previous years, even though not all the consolidated accounting statements defined in the Accounting Order for the Government of Catalonia (Order VEH/6/2019, of 15 January) were included.

Section 2 of the report presents the conclusions from the audit carried out. Bearing in mind the aim, scope and methodology used for the report, the Audit Office's opinion is that, except

for the possible effects of the limitations described in findings 1, 2, 3, 4, 5, 6 and 9 and for the matters described in findings 7 and 8, the General Account represents, in all significant aspects, a true and fair view of the Government of Catalonia's assets and financial position as at 31 December 2018, and also of its results, cash flow and budget outturn corresponding to the financial year ending on that date.

The Audit Office gave special emphasis to certain matters, which can be summarised as follows:

- In year 2018 the Government of Catalonia complied with budget stability and public debt objectives, and with the expenditure rule.
- On 1 January 2018 the new General Public Accounting Plan for the Government of Catalonia (PGCPGC), approved by Order VEH/13/2017 of 29 June, came into force. The Government's General Account for 2018 is therefore the first to be submitted according to this new schedule of public sector accounts.
- For the first time, a Consolidated Revenue and Expenditure Budget Outturn Statement was provided, covering all the entities where the Government of Catalonia had a majority equity holding. However, the other consolidated statements established in Order VEH/6/2019 were not submitted.
- In year 2018 the Government Administration included in its Balance Sheet part of the infrastructures and complexes linked to concessions and land construction rights.
- The Audit Office noted the delicate financial position of the Catalan Government as at 31 December 2018 in regard to its funding requirements, given its negative budgetary year-end net working capital (*romanent de tresoreria*) and equity figures, its high financial debt levels and its expenditure commitments affecting future financial years.

Seventeen findings are included in the report, of which the following can be highlighted:

- The IGGC submitted an aggregated Balance Sheet and Operating Statement for its administrative public sector and another aggregate for its non-administrative public sector, without any of the eliminations needed for consolidated accounts. This meant that the accounting statements submitted were not fully representative of the operations, assets and financial position of the public sector as a whole, because of duplicated and over-valued items in some accounting categories.
- The value of tangible fixed assets in the GGA Balance Sheet showed their estimated worth calculated by the Directorate-General for Government Property on 31 December 1992 plus the additions and subtractions from that date until the end of year 2018.

The data in the CatSalut Balance Sheet as at 31 December 2018 showed recurring deficiencies in the areas of tangible fixed assets and property holdings.

The composition, location and valuation of the main groups of items in tangible fixed assets were not described in a comprehensive and up-to-date year-end inventory capable of being reconciled with the accounting records.

- With effect from 1 January 2018, the Comptroller's Office recorded in the Catalan Government's assets and liabilities the infrastructures and facilities involved in concessions and land construction rights, considered to be public investments under ESA-2010 criteria. In the Audit Office's opinion, the buildings included in the public works concession contract for the construction and subsequent maintenance and running of the Law-Court Complex (*Ciutat de la Justícia*) and the Government Administration and CatSalut facilities leased from the public enterprise ICF Equipaments, SAU (currently Infraestructures.cat) could be considered financial leasing agreements; they should therefore have been recorded in Catalan Government Administration assets and liabilities.
- The Government Administration had not undertaken a detailed analysis of the precise time elapsed for revenues pending collection from previous years managed by its territorial treasury offices, which totalled €627.54m as at 31 December 2018. It was therefore not possible to quantify the figure to be provisioned to cover the risk of bad debts and debt cancellations.
- The closing figures for the programme-contracts with the Metropolitan Transport Authority envisaged a deficit of approximately €463.53m generated by the public transport system as at 31 December 2018, to be shouldered by the different tiers of government involved. The Catalan Government failed to record any liability item under this heading.
- Changes to the conditions for the government concessions for building, maintaining and running various stretches of the C-31, C-32 i C-33 motorways led to setting up a compensation account between the Catalan Government and the concession holder. According to a calculation made by the Department for Territory and Sustainability seen by the Audit Office, the compensation balance as at 31 December 2017 was estimated at €314.46m. In year 2018 a provision of just €34.10m was made. The estimate for the amount owed as at 31 December 2018 needed to be updated with the information included in the audited company accounts of the concession holders.
- According to PGCPGC valuation criteria, the equity investments made in group, multi-group and associate subsidiaries held by the Catalan Government and CatSalut needed to be depreciated, if necessary.

The review carried out by the Audit Office detected that as at 31 December 2018 no valuation adjustment had been made to the Catalan Government's equity holding in Infraestructures.cat, put at €1,206.25m, and the adjustment for the Catalan Audio-Visual Media Corporation was undervalued by €63.45m. As regards CatSalut, at the end of the year this organisation failed to calculate possible valuation adjustments for the decline in value of its subsidiaries' net worth. The review carried out by the Audit Office suggested that CatSalut should make a provision for the decline in value of €257.12m.

- The budget outturns for GGA, CatSalut and the autonomous agencies of an administrative nature failed to include part of the expenditures undertaken in year 2018, due to a lack of sufficient budgetary allocations. Expenditures actually undertaken in year 2018 and not reported came to €2,026.54m, a large part of which was attributable to CatSalut

(€1,366.58m). Expenditures reported in the 2018 budget outturn but undertaken in 2017 came to €1,673.73m. So the increase in transferred expenditures came to €352.81m.

- The Audit Office audited a sample of procurement files by government departments and found various anomalies relating to the procedures followed in the procurement processes it reviewed, which are described in the report.

At the end of the Conclusions section, the Public Audit Office includes eight recommendations on some of the issues brought to light during the audit work carried out on the Catalan Government's General Account for year 2018.

The following are highlights of some of the most significant details in the Government Administration General Account:

- The GGA Budget Outturn Statement for year 2018 showed realised receipts of €40,672.95m and recognised expenditures of €40,701.04m, with a deficit of €28.09m as the budgetary result, and a non-financial deficit of €986.47m.
- The total for realised revenues, €40,672.95m, represented an increase of €4,535.32m (12.6%) in relation to the previous year.
- The total for recognised expenditures, €40,701.04m, was an increase of €5,888.45m (16.9%) in relation to the previous year.
- As at 31 December 2018 Catalan government staff levels stood at 130,233 employees, compared to 128,632 the previous year. There was a 0.8% reduction in tenured civil service staff, and employees on permanent labour contracts went down 5.9%, whereas staff on interim appointments to civil service posts and temporary labour contract staff saw increases of 6.0% and 1.8% respectively.
- The average time lapse for paying suppliers, for government departments and their attached agencies classed as governmental organisations according to ESA criteria, stood at 34.93 days on 31 December 2018, compared to 18.06 days for year 2017.
- As at 31 December 2018 Catalan Government Administration debt levels stood at €70,380.33m for long term debt and €1,630.94m for short term debt.
- As regards the Catalan Government's procurement activity, in year 2018 the different government departments and their public sector entities arranged 179,971 contracts, with the overall amount awarded totalling €1,738.74m. The total number of low-value contracts arranged represented 95.3% of all awarded contracts and 17.2% of the overall amount awarded in year 2018.

This summary is solely for information purposes. The audit report (in Catalan and Spanish) can be consulted at www.sindicatura.cat.