

## **SUMMARY**

### **Summary of Report 10/2022, relating to the industrial investment company Empresa de Promoció i Localització Industrial de Catalunya, SA (AVANÇSA), year 2019**

*Barcelona, 27 July 2022*

The Public Audit Office for Catalonia has issued Report 10/2022, relating to the industrial investment company Empresa de Promoció i Localització Industrial de Catalunya, SA (AVANÇSA), financial year 2019, in fulfilment of its Annual Programme of Activities.

The report, which was presented by Board Member Mr Josep Viñas, was approved by the Audit Office Board at its meeting on 28 June 2022.

The subject of this report is a limited-scope financial and legal compliance audit, focused on reviewing financial investments and the contributions received from shareholders to finance them, and verifying that the investment and disinvestment regulations and guidelines applied in year 2019 were in line with current statutory requirements. It also included auditing the budget and checking that during the 2019 financial year the company had carried out its activities in accordance with applicable legislation.

AVANÇSA has the status of a Catalan public enterprise. In year 2019 it was fully owned by the Government of Catalonia and attached to the Department for Business and Knowledge. Its mission is to give a boost to companies at different stages of their business cycles, by taking an equity stake in them or promoting business projects through participatory loans.

The net value of the investments made by AVANÇSA as at 31 December 2019 came to €127.57m, of which €78.79m corresponded to stakes in companies' share capital, €45.02m to participatory loans, and €3.76m to other loans that had been put on its books through processes of mergers or free transfers.

The acquisition cost for these investments was €167.89m and their decline in value €40.32m.

From the audit work carried out, the Audit Office's general conclusions are as follows:

- In general terms, the 31 December 2019 figures stating the value of equity holdings and participatory loans issued and the calculations of their decline in value were correct and were adequately reported in the company's financial statements.

- Equity investments made by AVANÇSA in 2019 were given Cabinet approval and complied with the Cabinet Agreement of 10 July 2012 that laid out the guidelines for setting up, modifying and closing down entities with Catalan Government shareholdings and for taking stakes in, or cutting links with, existing entities.
- The investments undertaken in year 2019 through participatory loans met the criteria laid down in each of the investment lines given approval through the relevant Cabinet agreements.

The most significant findings from the audit work carried out, as explained in section 3.1 of the report, can be summarised as follows:

- AVANÇSA considered the €1.16m it contributed to the company Actius de Muntanya, SA (ACMUSA) in 2019, for the purpose of financing the day-to-day running of the Boí Taüll mountain skiing resort, as an increase in its stake in the said company, whereas, according to the Catalan Government's General Public Accounting Plan, this contribution should have been put on the books as an expenditure item in year 2019. Therefore the 31 December 2019 figures for long-term investments in group and associated companies and for the result for the year were overvalued by this amount.
- AVANÇSA took a stake in the shares of the company Comercial de la Forja, SA (COMFORSA) in 1988 as a temporary measure. Even though AVANÇSA's Board of Directors unanimously agreed on 19 October 2017 to start the process for selling off COMFORSA, as at 31 December 2019 it continued to hold its stake in this company.

As at 31 December 2019 AVANÇSA had put €56.36m into COMFORSA's share capital, and had set up two participatory loans worth a total of €8.70m. Investments in COMFORSA represented 41.64% of all investments made by the entity. In addition, AVANÇSA had guaranteed a €8.00m loan from the Catalan Finance Institute to COMFORSA.

COMFORSA is considered a public sector entity of the Government of Catalonia, because its shares are 100% owned by AVANÇSA, but it was not included in the budgets for the Government of Catalonia.

- AVANÇSA had no protocol for, or any register of, capital investment applications received. Incoming applications were controlled by one of AVANÇSA's project managers using a spreadsheet. This arrangement evidenced a weakness in internal controls. Thus, the Public Audit Office was unable to verify the integrity of the information contained in the spreadsheet.
- As at 31 December 2019 AVANÇSA had provided two participatory loans to COMFORSA: one worth €3.00m, made on 16 May 2015, and the other for €5.70m, made on 19 July 2017. Because of COMFORSA's funding needs, when AVANÇSA's Board of Directors met on 29 January 2019 they gave their approval to delaying the start of repayments of loaned capital for these two loans until the first quarter of 2021. On 23 December 2020 the Board of Directors once again delayed the start of loan repayments until 2022.

At the close of year 2019 AVANÇSA had not written down the value of these loans, because they had not fallen due, but it should have taken into account that there was a delay in future estimated cash flows. As a consequence, AVANÇSA should have taken into consideration a partial decline in the value of the loans, in order to provide a more true and fair view of the situation in its annual accounts.

- In year 2019 AVANÇSA failed to collect default interest payments for the non-payment of standard interest on the loans provided to the company Draconis Pharma, SL, and to the Cambrils Agricultural Cooperative, amounting to €26,799€ and €91,878€ respectively. Neither did it collect default interest payments from Gas Gas Motos, SA, when this company failed to make capital repayments on its loan, amounting to €204,740.
- Under the heading Equity Contributions, the accounts showed €56.00m from the Department for Business and Knowledge. These funds were used to finance the return of a bank loan, which had fallen due in 2014, that had been set up between AVANÇSA and CaixaBank, SA, on 28 July 2011, to provide funding to Spanair, SA, through a participatory loan for the same amount. At the time the money was received from the Department to pay back the loan AVANÇSA had with CaixaBank, SA (years 2013 and 2014), the actual participatory loan to Spanair, SA had been written down as bad debt, since AVANÇSA had considered it uncollectable; therefore, the contributions received to fund the return of the bank loan from CaixaBank, SA, should have been put on the books against results from previous years.
- As regards its public sector procurement, AVANÇSA failed to publish its low-value contracts corresponding to year 2019 on its procurement profile web page; it also failed to submit information on them to the Public Contracts Register.

AVANÇSA had not properly tendered out the business, tax and fiscal consultancy services provided by Guillén Bécares, SLP since 2009, which in year 2019 amounted to €59,361.

Lastly, the report includes nine recommendations. Of these, the ones relating to the way investments and participatory loans are managed stand out as ones that, in the Audit Office's opinion, would help to improve some of the issues mentioned in the findings.

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