

SUMMARY

Summary of Report 27/2021, relating to the General Account of the Government of Catalonia, year 2019

Barcelona, 19 January 2022

The Public Audit Office for Catalonia has issued Report 27/2021, relating to the General Account of the Government of Catalonia (*Generalitat*) for financial year 2019, 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 23 November 2021.

The aim of the report on the Government's General Account is to issue an opinion on whether the accounting and financial information presented conforms to applicable accounting principles and also whether it is compliant with statutory requirements. 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 2019, as drawn up by the Catalan Government's Comptroller General's Office (*Intervenció General*), the IGGC, was sent to the Public Audit Office on 27 November 2020, meeting the statutory deadline established for that year's submission, extended because of the health pandemic caused by Covid-19.

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

The 2019 financial year began without a Budget Act passed by Parliament. For this reason the Budget for year 2017, as passed by Act 4/2017, of 28 March, was automatically extended, for the second year running, to cover the new financial year.

The conclusions from the audit carried out are presented in section 2 of the report. 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 and 8 and for the matters described in findings 6, 7 and 9, the General Account, considered as a whole, represents in all significant aspects a true and fair view of the Government of Catalonia's assets and financial position as at 31 December 2019, and also of its results, cash flow and budget outturn corresponding to the financial year ending on that date.

The Audit Office gives special emphasis to certain matters that do not modify its opinion of the General Account and that are described in the body of the report:

- For year 2018 the IGGC submitted, for the first time, a Consolidated Budget Outturn Statement of Revenues and Expenditures covering all the entities where the Government of Catalonia had a majority stakeholding. For year 2019 it also submitted a series of consolidated financial accounting statements for the administrative public sector.
- The Audit Office noted the delicate financial position of the Catalan Government as at 31 December 2019 in regard to its funding requirements, because its budgetary year-end net working capital (*romanent de tresoreria*) and equity figures were negative, its financial debt levels were high, and there were expenditure commitments affecting future financial years.

The report contains eighteen findings and seven recommendations. Of the findings, the following can be highlighted:

- The General Account for year 2019 included a Consolidated Budget Outturn Statement of Revenues and Expenditures for the whole group of entities within the perimeter of the General Account. With the expenditure budget, the consolidation process was undertaken for initial appropriations, final appropriations and recognised expenditures; for revenues it was carried out on initial planned income, final planned income and recognised revenues. Consolidated budgetary information on payments made and moneys collected in the current year were not included.

For the first time the IGGC presented a Consolidated Balance Sheet and a Consolidated Operating Statement for the government's administrative public sector. It also presented, as it did for the previous year, an Aggregate Balance Sheet and Aggregate Operating Statement for the non-administrative public sector, without any of the eliminations required for consolidated accounts.

The fact that the consolidated accounts submitted did not include all the entities within the organisational scope laid down by article 80 of the TRLFPC and that only aggregate data for its non-administrative public sector was reported meant that the accounting statements were not sufficiently representative of the transactions, assets and financial position of the public sector as a whole, because of duplicated and overvalued 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 2019.

The data in the CatSalut Balance Sheet as at 31 December 2019 evidenced 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.

- The law-court 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 (ICFE), now called Infraestructures de la Generalitat de Catalunya, SAU (Infraestructures.cat), should have been considered financial leasing agreements as per the Catalan Government's General Public Accounting Plan; they should therefore have been included in the Catalan Government Administration's assets and liabilities.
- The Government Administration had not undertaken a detailed analysis of the actual time elapsed for revenues pending collection from previous years at its territorial treasury offices, which totalled €625.87m as at 31 December 2019. It was therefore not possible to quantify the provision amount needed to cover the risk of bad debts and debt cancellations.
- The review carried out found that as at 31 December 2019 there was a net undervaluation in the value adjustments to GGA financial investments totalling €1,755.26m, of which the most significant part was €1,602.74m for Infraestructures.cat.
- The budget outturns for GGA, CatSalut and the autonomous agencies of an administrative nature failed to include part of the expenditures undertaken in year 2019, due to a lack of sufficient budget appropriations. Expenditures actually undertaken during year 2019 but not registered in the budget totalled €2,654.93m. This was a €629.14m increase in budgetary expenditure deferrals in relation to year 2018, when they totalled €2,025.79m.
- The Notes to the GGA Account presented by the IGGC did not fully conform to the minimum requirements established by Departmental Order VEH/137/2017, of 29 June, which approved the General Public Accounting Plan for the Catalan Government.
- Through a cabinet agreement on 23 December 2019 the Government of Catalonia authorised a company capital increase of €380.42m for Infraestructures.cat through a compensation arrangement involving part of the government loans to this public enterprise. Infraestructures.cat's matured and cancelled loans totalled €1,051.33m in year 2019, but only €380.42m was reported in the budget outturn. The Audit Office considers that all the cancelled loans should have been registered as income in the budget. So therefore a budgetary revenue item of €670.91m remains to be reported in budget section 8. With this, the budgetary result before adjustments would be minus €290.41m instead of minus €961.32m.
- The funding requirements for the 2019 financial year, as calculated using the criteria of the European System of National and Regional Accounts (ESA), worked out at €1,457m, representing a deficit equivalent to 0.62% of Catalonia's gross domestic product (GDP), when the objective was 0.1%.

In the 2019 financial year, the Government of Catalonia also failed to meet its expenditure rule objective: the GDP related benchmark was set at 2.7% and Catalonia registered an increase in its spending in relation to the previous year of 6.3%.

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

- The GGA Budget Outturn Statement for year 2019 showed realised receipts (revenues) of €38,331.51m and recognised liabilities (expenditures) of €39,293.33m, with a deficit of €961.81m as the budgetary result, and a non-financial deficit of €1,050.10m.
- The total for realised revenues in year 2019, €38,331.51m, represented a decrease of €2,341.44m in relation to the previous year, which was a reduction of 5.8%.
- The total for recognised expenditures in year 2019, €39,293.33m, represented a reduction of €1,407.72m in relation to the previous year, bringing it down 3.5%.
- Catalan government staff levels as at 31 December 2019 showed 131,490 persons on the payroll, compared to 130,233 the previous year. Total recognised expenditure on staff salaries in year 2019 came to €5,942.68m, whereas in the previous year the figure was €5,648.03m.
- The average time lapse for paying suppliers, for government departments and their subsidiary or attached entities, stood at 39.54 days on 31 December 2019, compared to 34.93 days for year 2018.
- Debt levels for the Catalan Government as at 31 December 2019 stood at €71,199.11m for long term debt and €1,422.60m for short term debt.
- Expenditure commitments affecting future financial years totalled €109,869.28m for year 2019. This was a 0.5% reduction in relation to year 2018, when the figure stood at €110,339.84m.
- As regards public sector procurement:, the number of contracts awarded by the Catalan Government and its public sector in year 2019 came to 203,628, with awards totalling €2,717.48m.

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