
SUMMARY

Summary of Report 11/2016, relating to the Catalan Water Agency, years 2011, 2012 and 2013

Barcelona, 29 June 2016

The Public Audit Office for Catalonia has issued report 11/2016, relating to the Catalan Water Agency (ACA), financial years 2011, 2012 and 2013, in accordance with its Annual Programme of Activities.

The report, which was presented by Board Member Mr Miquel Salazar, was approved by the Audit Office Board at its meeting on 18 May 2016.

It consisted of a regularity audit which included reviewing the ACA's annual accounts and checking that in the audited period the entity had carried out its activities in accordance with applicable legislation.

The ACA is the public enterprise owned by the Catalan Government (*Generalitat*) which exercises its powers in matters relating to water. In the audited period it reported to the Department for Territory and Sustainability.

Its balance sheets as at 31 December for years 2011, 2012 and 2013 showed assets and liabilities totalling €2,251.72m, €2,053.42m and €2,035.23m, respectively.

The ACA's profit and loss accounts for the years covered by the audit show significant improvements to operating results. This has led to positive end-of-year results since 2011 (for €34.95m in 2011, €105.24m in 2012 and €139.23m in 2013), even though it continued to have large losses in its financial results.

The figures in the budget outturns show income and expenditure at €507.10m and €468.94m in financial year 2011, €791.76m and €788.45m in year 2012 and €438.01m and €369.56m in year 2013.

The Audit Office's opinion, as expressed in section 3, Conclusions, is that, except for the matters described in findings 1 to 6 of the report, the annual accounts express, in all significant aspects, a true and fair view of the assets and financial position of the ACA as at 31 December 2013, and also of the results for the financial year ending on that date.

The most important findings from the audit can be summarised as follows:

- The ACA calculated the amounts allocated to fixed asset depreciation using estimates of the average useful life of the elements making up each type of asset group, considering its installations as a whole, whereas it should have calculated the depreciation

allocation for each element individually, something which the current lack of information does not allow.

- In 2011 seven installations, with a total asset value of €15.18m, ceased functioning. In 2013 the ACA made an allocation of €6.97m to cover the deterioration of the two main installations which had been halted since 2011, when it should have also made partial or total allocations for the net value of the other five (€3.63m as at 31 December 2013).
- As at 31 December 2013 the ACA had assets on its books with a net value of €43.47m corresponding to improvements and reconstruction work to some wells it did not officially own. Because these assets had fallen into disuse, the ACA should have made a deterioration provision for the entire amount.
- Out of the contributions from the Department for Territory and Sustainability corresponding to 2012, totalling €11.91m, a certain part, worth €3.36m, should have been accounted for as capital grants, and not as contributions to equity within Own Funds.
- The correlation between the amounts recorded as revenues from grants received from the Ministry for Industry and the Environment (€7.74m in year 2011, €7.59m in 2012 and €7.05m in 2013) and the depreciation of the assets being financed needs to be revised.
- Starting with financial year 2013, the ACA has presented its Budget Outturn using the criterion of recording revenues and liabilities according to the date the administrative decision was made, whereas until the end of 2012, it had followed an accrual criterion. Applying this new criterion to the 2013 Budget Outturn increased the budgetary result by €21.57m.
- As a result of its Business and Financial Plan for 2011-2014, presented in October 2011, the ACA reached an agreement with financial institutions on a debt restructuring package which involved postponing loan repayments to later years and increasing the debt-servicing costs of the restructured loans.
- The ACA had payments pending to suppliers which had exceeded the maximum time limits for payments envisaged in legislation. However, it was noted that average payment times had gone down, from 245 days in 2011 to 186 days in 2012 and 74 days in 2013.
- As regards the review of governmental procurement and, specifically, the procurement of services for running the water treatment systems whose contracts had expired at different times, the report found that the ACA, because of its difficult financial position in the audited period, opted to divide up the tendering for essential or required services into reduced periods and amounts and use negotiated procedures and low-value contracts, instead of the usual open tendering procedure, in order to avoid contracts for very large amounts involving future commitments it was unable to take on.

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