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SUMMARY

Summary of Report 11/2019, relating to the General Account of the Government of Catalonia, year 2017

Barcelona, 31 July 2019

The Public Audit Office for Catalonia has issued Report 11/2019, relating to the General Account of the Government of Catalonia (*Generalitat*) for financial year 2017, 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 26 June 2019, with a concurring vote, involving matters of reasoning, by Board Member Mr Jordi Pons i Novell.

The purpose of the report was to issue an opinion on whether the accounting and financial information presented conformed to applicable accounting principles and also on whether it was compliant with legislation.

The report also proposes measures of a general nature considered necessary to improve the Catalan Government's performance.

The government's General Account for year 2017 was presented by the Catalan Government's Comptroller General's Office (*Intervenció General*) (IGGC) on 27 July 2018, before the statutory deadline.

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

The IGGC drew up and presented, as part of the General Account, aggregate accounting statements for the Government Administration plus CatSalut and the autonomous agencies of an administrative nature, but it did not submit a consolidated General Account covering the Administration Account plus the accounts of *all* subsidiary organisations. It is therefore not possible to have a clear overview of all the monetary and financial activity of Catalonia's public sector.

The large number of organisations included in the General Account precludes carrying out a financial, legal compliance and accounts management audit of them all. General accounts, because of their nature and size, cannot be subject to a comprehensive review through performance audits or analyses of how they have been managed, as laid down by article 2 of the Public Audit Office Act.

The auditing work carried out by the Public Audit Office on the GGA, the autonomous agencies of an administrative nature and CatSalut is described in sections 3 to 5 of the report. The Audit Office limited the scope of its auditing procedures to the areas of staffing, public procurement and managing grants and subsidies. Analytical review procedures were applied but the legal compliance of management procedures in these areas was not checked.

As regards all the other individual annual accounts presented within the General Account, the Audit Office carried out a check that the accounts submitted had complied with formalities, with the scope described in section 6 of the report. Given the large number of subsidiary entities, the diverse nature of their individual annual accounts and the risks inherent to the activities they carry out, these accounts were not subject to any specific audit work.

Bearing in mind the aim, scope and methodology used for this report, as described in the Introduction, the Audit Office's opinion is that, except for the possible effects of the limitations described in findings 4, 13, 14, 16 and 18, and for the effects of the matters described in findings 7, 11, 15 and 17, the General Account, as audited within the scope described in sections 1.2, 5 and 6 of the report, 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 2017, and also of its results, cash flow and budget outturn corresponding to the financial year ending on that date, in accordance with the relevant financial reporting regulatory framework and, in particular, the accounting principles and criteria contained in that framework.

According to the data presented by the IGGC, the consolidated budgetary result for year 2017 showed non-financial recognised commitments (expenditures) of €28,734m and non-financial realised receipts (revenues) of €27,648m, with a non-financial deficit of €1,086m, which was a reduction of €583m compared to the funding shortfall as at 31 December 2016.

Consolidated financial debt in year 2017 stood at €68,700m, which was an increase of 4.8% on year 2016.

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

- The IGGC presented a Balance Sheet and an Operating Statement which were aggregated without taking into consideration any of the items requiring elimination to produce consolidated accounts. There is a need to establish a systematic procedure to reconcile balances held between the GGA and the rest of the public sector to enable consolidated accounting statements to be provided.

- For the 2017 financial year, the medium-term GDP growth rate for the Spanish economy, as determined in the Spanish Cabinet Agreement of 2 December 2016, was 2.1%.

Catalonia reported a 3.3% increase in its expenditure levels in relation to the previous year. Thus, the Government of Catalonia failed to comply with the expenditure rule.

- The IGGC did not include infrastructures and public facilities which had been considered public investment in the Balance Sheet it drew up. Each year the IGGC accounts for the expenditure arising from paying leases or periodical charges, and includes future outlays in the Statement of Expenditure Commitments for Future Years.

- The GGA and CatSalut budget outturns did not include part of the expenditure incurred during year 2017, due to insufficient budgetary funds, because expenditure commitments incurred during the budget cycle went over the limits of available budget allocations. The expenditure incurred during the 2017 financial year and not put on the books came to €1,673.73m; of this total, €1,009.44m corresponded to CatSalut. Expenditure reported in the budget outturn for year 2017 but actually incurred in 2016 was €1,442.83m.

- Non-earmarked budgetary year-end net working capital (*romanent de tresoreria*) reported by the IGGC was minus €340.62m as at 31 December 2017; this was a reduction of 78.3% relative to 2016. In spite of the improvement, this year-end budget outturn figure is still negative.

- In the analysis of expenditure commitments stretching over several years, the audit noted that section 9 of the GGA expenditure budget, extended to cover year 2018, was unable to cover the expenditure commitments made in previous years. Furthermore, budget sections 3 and 6 for the GGA and sections 6 and 7 for CatSalut had prior expenditure commitments respectively worth 96.2%, 75.3%, 93.9% and 70.4% of initial budget appropriations, which hampered their ability to manage the budget.

- Although the figure for new bank guarantees issued over the last few years is negligible, the total risk exposure from bank guarantees as at 31 December 2017, at €3,182.83m, is still at a high level.

- The governmental public sector needs to improve its inventories by adapting and updating them so that they coincide with the figures given in the accounts.

- The GGA figure for permanent financial investments included 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 Audit Office was not given information on the length of time the revenues receivable from previous years reported by the territorial treasury offices had been pending collection. If there are items receivable which have remained pending for a long period, the possibility of establishing an allowance for them should be considered.

- The IGGC did not include, in the General Account it submitted to the Audit Office, the annual accounts of the public enterprise Catalan Railway Infrastructures, the Catalonia-

World Council – Public Diplomacy Board for Catalonia or the Urban Planning Consortium Gateway to the Costa Brava – Precinct of Blanes, because these entities had not sent their accounts in to the IGGC. The annual accounts of the Catalan Institute for Climate Science Foundation were sent in by the IGGC after the established deadline.

- In general, a significant number of entities required to draw up and approve their annual accounts and send them to the IGGC did not comply with the statutory deadlines laid down in articles 81.2 and 81.3 of the TRLFPC. One public-law entity, six public sector consortia and one foundation submitted annual accounts to the IGGC which had been drawn up but not approved.

- As at 15 April 2019 sixteen public sector consortia whose accounts were presented as part of the General Account had not adapted their Statutes to determine which government administration they were attached to.

The Audit Office recommends that the necessary steps are taken to resolve the issues described in the findings presented in the report, especially those which recur year after year. The officials in charge should inform the Audit Office of the corrective measures undertaken to deal with the deficiencies described in the audit report.

The improvements in comparison with the General Account for year 2016 were as follows:

- With the modification of article 80.2 of the TRLFPC, which came into force in year 2017, it was no longer necessary to include the general accounts of the four provincial councils (*diputacions*) in the Catalan Government's General Account for year 2017.

- In the 2017 financial year the Government of Catalonia successfully complied with Spain's budget stability and public debt objectives, established by the Cabinet Agreement of 2 December 2016.

- The revenues derived from the delivery of social services funded by copayment arrangements were recorded as realised after providing the service and issuing the invoice.

- European Agricultural Guarantee Fund (EAGF) revenues and expenditures were both recorded on the budgetary accounts as current transfers in year 2017.

Some of the most significant data for the Government's General Administration Account are as follows:

- The budget outturn showed realised receipts (revenues) of €36,138m and recognised commitments (expenditures) of €34,813m.

- As at 31 December 2017 Catalan government staffing levels stood at 128,632 employees, compared to 124,028 the previous year. Staffing levels for tenured civil servants and for permanent staff on labour contracts went down by 3.4% and 5.8% respectively, while staff on interim appointments to civil service posts and temporary labour contract staff increased by 25.5% and 10.6% respectively.

- During the 2017 financial year, the Catalan Government continued to use different extraordinary funding mechanisms set up by Spain's central (state) government; prominent among these was an ICO loan of €7,757m from the Regional Government Liquidity Fund.

- Of the Catalan Government Administration's €70,234m in financial debt outstanding as at 31 December 2017, €54,455m was debt corresponding to financing funds set up by the Spanish central government.

- The statement of acquired expenditure commitments affecting future financial years showed €107,190m for year 2017; this was an increase of 0.2% on the 2016 figure.

- As regards public sector procurement undertaken by the Catalan government and its public sector, in year 2017 a total of 85,307 contracts were awarded (of which 76,565 were low-value contracts), worth a combined total of €1,656m.

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