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SUMMARY

Summary of Report 12/2016, relating to Equipaments i Edificis de Catalunya, SA, year 2011

Barcelona, 6 July 2016

The Public Audit Office for Catalonia has issued Report 12/2016, relating to the construction company Equipaments i Edificis de Catalunya, SA (EECAT), financial year 2011, in accordance with its Annual Programme of Activities.

The report, which was presented by Board Member Ms Emma Balseiro, was approved by the Audit Office Board at its meeting on 18 May 2016.

In 2011 EECAT, which was absorbed by Infraestructures.cat in September 2012, was a company 100% owned by the Catalan Government (*Generalitat*) which charged it, from its creation, with the construction, on a full financial-risk basis, of buildings to be used as schools, health care clinics, police stations and other facilities, and also their upkeep and maintenance.

The purpose of this report was a regularity audit. Thus, the objectives laid down for this assignment were aimed at obtaining reasonable assurance that the entity's business and financial information had been presented in accordance with applicable accounting principles and that its business and financial activities were carried out in compliance with current legislation.

In the opinion of the Audit Office, except for the limitations specified in findings 2 and 3 of the report and the matters described in findings 1, 4 and 6, the annual accounts represent in all significant aspects a true and fair view of EECAT's assets and financial position as at 31 December 2011, and also its results, cash flow and budget outturn for the financial year ending on that date, in accordance with the applicable financial reporting regulatory framework and, in particular, the accounting principles and criteria contained therein.

As described in the Conclusions section, the aforementioned limitations and findings can be summarised as follows:

- As regards the limitations, the report indicates that in 2010 the company had designated as a hedging transaction a fixed-to-variable interest rate swap to manage its exposure to interest rate fluctuations in its loans to the Catalan Government for financial leasing operations, and had accounted for it as a fair value hedge, which requires formal designation and documentary evidence of the hedging relationship at the outset. EECAT did not have this documentation for the derivative consisting of an interest rate swap on loans to the Catalan Government for financial leasing operations.

This meant it was impossible to verify whether this hedging transaction had been correctly accounted for.

There was also another derivative, to cover the interest rate risk on a loan it had arranged with a financial institution, for which the company did not provide any document evaluating the effectiveness of the cash flow hedge at the close of financial year 2011. Hedge effectiveness needs to be assessed, at the very least, every time annual accounts are published.

- Finding 1 in the report refers to the way the company's main activity was accounted for: the Audit Office noted that EECAT should have applied the rules for adapting the General Accounting Plan to real estate companies. As a consequence, the building work in progress and unoccupied finished work should have been recorded as end of year stock holdings; revenues generated should have been included in the calculation of net turnover, and fluctuations in building work in progress should have been recorded as fluctuations in stock holdings.

- In finding 4 the report notes that the expenditure item corresponding to the annual commission for the bank guarantee provided by the Catalan Finance Institution (ICF), for € 7.39 m, was calculated using the notional value of the financial derivatives, instead of using the contingent liability amount. This meant it was overvalued by € 5.83 m.

- In finding 6 the report points out that the budget outturn only registered the net movement of the overdraft facility held with the ICF, as € 88.64 m in chapter 9 of the revenue budget, when it should have shown the additional credit taken up, € 109.52 m, and the amount paid back, € 20.88 m.

The report also makes other findings, of which the following can be highlighted:

- In the review of the assessment criteria applied to offers received, in some procurement procedures it was observed that assessment subcriteria or mathematical formulae were used to judge offers which had not been envisaged in the tendering conditions; that it was not sufficiently clear for what elements and under what conditions tenderers were allowed to offer improvements; that the formula for assessing the price offered was not a single straight-line progressive one for all reductions on the maximum price which were presented; that the personal or material characteristics of tenderers were assessed in the offer evaluation phase, without having stipulated the minimum solvency requirements to be fulfilled in the first phase (to confirm the tenderers' suitability), or that these were assessed in both phases.

- In some of the contracts reviewed certain anomalies were detected relating to the contracts' purpose, amounts, dates or type which constituted an infringement of current legislation; therefore the report considered that there had been an improper splitting up of the contract.

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