

## Opinion on the 2019 General State Account – Overview

The Court of Auditors issues its Opinion on the 2019 General State Account, including the Account of Social Security, in accordance with the Constitution of the Portuguese Republic and the Law and expresses a judgment with a scope limitation, qualifications, emphasis and recommendations.

A qualified opinion is issued on legality, financial accuracy and internal control. It includes 43 recommendations covering the areas of: cash; assets and liabilities (mostly omitted from the General State Account - GSA); the quality of the report; and upon the implementation of the public financial reform.

The Opinion is aimed at the Parliament, responsible for the approval of the GSA, and at the Government, accountable for implementing the Court's recommendations. In the context of diversified support measures, of high amounts, in order to minimize the impact of the pandemic, the recommendations become even more relevant. It is also aimed at informing citizens about the application of public resources, promoting transparency, integrity and accountability.



## 2019 General State Account

The General State Account is the State's main accountability document. It concludes the annual budgetary cycle and it is presented by the Government to Parliament by June, 30th of the following year. The GSA comprises the central administration (CA) accounts, compiled on a cash basis, and the social security (SS) account, both on cash and accrual basis.

The Court stresses the importance of the ongoing public financial reform to the sound management of public resources. Ensuring its implementation is paramount for a more comprehensive report, required for a medium-term framework of the selected budgetary instruments.

The Court points out that defining the implementation strategy as well as those responsible for the projects and for its monitoring are fundamental steps to reduce risks of postponing the reform that includes as fundamentals the production of the State Accounting Entity (SAE), programme budgeting and the presentation of both cash and accrual consolidated accounts.

### Consolidated revenue and expenditure: CA and SS

- Cash effective revenue: 81,400 M€ ↑ 4.3%
  - Tax revenue: 46,914 M€
  - Contributions to Civil Servants Pension Scheme and SS: 22,413 M€
- Cash effective expenditure: 82,407 M€ ↑ 2.1%
  - Pensions and social benefits: 33,879 M€
  - Personnel expenditure: 17,487 M€
- Deficit: 1,007 M€ (↓ 1,658 M€ compared to 2018)

### SS Account

- Net assets: 30,932 M€
- Revenues: 36,145 M€
- Costs: 33,330 M€
- Surplus: 2 815 M€ ↑ 135.8%

## Opinion on the 2019 General State Account - Highlights

### Main conclusions on performed verifications

- 238,138 M€ – consolidated public debt, generating 7,361 M€ of interest payments
- 313 M€ – overdue payments
- 46,173 M€ – financial assets (consolidated for the CA)
- 21,146 M€ – tax and non-tax receivables
- 3,877 M€ – earmarked tax revenue
- 11,233 M€ – cash and cash equivalents in State treasury balance
- 372 M€ – cash and cash equivalents out of the State treasury in breach of the treasury unit principle
- 2,531 M€ – balance of financial flows with the European Union
- 13,171 M€ – tax benefits
- 17,120 M€ – liabilities for State guarantees
- 2,556 M€ – public support to the financial sector
- 2,762 M€ – public support to entities outside the budgetary perimeter
- 1,035 M€ – coverage of Novo Banco's losses by the Portuguese Resolution Fund
- 27,573 M€ – pensions (64% financed by contributions and in 34% by the State Budget)
- 20,360 M€ – SS Financial Stabilization Fund covers 17.2 months of pensions (falling short of the 24 months target)

## Scope limitation and Qualified Opinion

### Scope limitation - central administration

Absence of financial statements (accrual).

### Financial accuracy - central administration

7 entities omitted from the budget execution.

Revenue and expenditure operations incorrectly specified, namely due to an outdated organization of the economic classifier.

The account omits the inventory of real estate assets, debt issued by autonomous funds and services and guarantees provided by these entities.

Complete and comprehensive information on financial assets is not disclosed.

Cash and cash equivalents out of the State treasury in breach of the treasury unit principle.

Tax expenditure through tax benefits undervalued and unquantified tax expenditure.

### Financial accuracy – social security

It is not possible to validate taxpayers' debt shown in the balance sheet.

Overvaluation of receivables presented in the balance sheet due to lack of uncollectible debts write-offs.

Overvaluation of social benefits' debt shown in the balance sheet compared to the beneficiaries' current accounts.

Non-compliance with the accrual principle on interest, thus undervaluing taxpayers' debt, retained earnings and net income.

It is not possible to validate real estate value in balance sheet due to lack of documentation and inaccuracies in depreciation estimates.

Non-recurring revenue and net income overvalued; cash and cash equivalents and provisions for doubtful debts from taxpayers undervalued.

### Legality – social security

Enforcement procedures not initiated for debts resulting from reimbursement of food assistance benefits for underaged and for undue payments to applicants arising from employment contracts.

Failure to comply with rules for real state amortizations.

### Internal control – social security

Absence of information on the location of movable assets, making physical control impossible; in real estate, the lack of information and procedures makes it impossible to verify its value.

Absence of control procedures relating to receivables (due to no individual account for debtor) and beneficiaries (due to doubtful debt arising from undue pension payments).

## Recommendations

### Public financial reform

Ensure a timely reformulation and monitoring of the Budgetary Framework Law (BFL) implementation plan, the governance model and both human and material resources necessary for its completion.

Promote programme budgeting through the definition of a legal framework, proper methodologies, indicators and goals.

On updating the economic classifier, ensure it includes proper lines for the operations carried out by reclassified public entities, the flows with the corporate public sector and those associated with financial assets.

Ensure that the regulatory framework of the State treasury reinforces compliance with the treasury unit principle.

Ensure updating Real Estate Management and Inventory Programs and completion of the inventory thus ensuring the preparation of the balance sheets to be included in GSA and the implementation of the SAE.

### Central administration

Ensure that the State Budget and GSA cover all entities envisaged in the BFL, correctly classified in their respective sub-sectors.

Ensure that the GSA includes information on the consolidated debt stock, the entire portfolio of financial assets, real estate assets and all guarantees provided.

Ensure the basis for the establishment of tax benefits, their systematic reassessment as well as implement procedures to control tax expenditure and its appropriate disclosure in the GSA.

### Social security

Ensure that the SS consolidated account is published with the Opinion of the Advisory Board of the SS Financial Management Institute.

Provide elements to verify the amounts owed by contributor, indicating the debt age and broken down by voluntary or coercive debt collection.

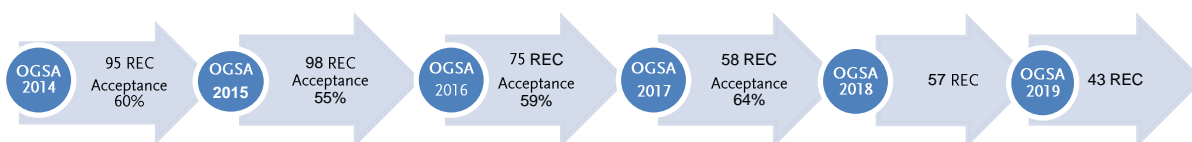
Ensure compliance with the accrual basis principle on accrued interest.

Write off of bad debts once there is no longer any possibility of recovery.

Legislate on regulation of single treasury for SS, of limits to investments by SS Institute of Financial Management and of State's financing of Salary Guarantee Fund.

Harmonizing legal diplomas on financing the providential system capitalization component.

Promote rules' clarification on the allocation of corporate income tax revenue to the SS Financial Stabilization Fund.



Implementation of recommendations issued in previous Opinions