



TRIBUNAL DE  
CONTAS

ANNUAL REPORT

2018



# 2018 | ANNUAL REPORT





## TECHNICAL INFORMATION

### DIRECTION

VÍTOR CALDEIRA, PRESIDENT OF THE COURT OF AUDITORS

### COORDINATION GENERAL

JOSÉ F. F. TAVARES, DIRECTOR-GENERAL

### EXECUTIVE COORDINATION

ELEONORA PAIS DE ALMEIDA, AUDITOR-COORDINATOR

CONCEIÇÃO VENTURA, AUDITOR-CHIEF

### TECHNICAL TEAM

ANA PAULA VALENTE

ISABEL TRIGO

MARIA LUÍSA JÚNIOR

PAULO ANDREZ

### ADMINISTRATIVE SUPPORT

LÚCIA ALVES GASPAR

### GRAPHIC DESIGN

EDITE COELHO

JOSÉ MANUEL MARTINS

Further information on the Court activity is available on the website: [www.tcontas.pt](http://www.tcontas.pt)

- “Informação estatística e indicadores”
- “Relatório de Atividades da Sede”
- “Relatório de Atividades da Secção Regional dos Açores”
- “Relatório de Atividades da Secção Regional da Madeira”



# CONTENTS

INTRODUCTORY NOTE .....	1
THE COURT OF AUDITORS .....	3
1. HIGHLIGHTS OF THE YEAR.....	7
2. The Activity in 2018.....	12
2.1. PRIOR FINANCIAL CONTROL.....	12
2.2. CONCOMITANT AND SUCCESSIVE FINANCIAL CONTROL .....	20
2.3. INTERNAL CONTROL BODIES REPORTS .....	33
2.4. REPORTING, EXPLANATORY STATEMENTS, CLAIMS AND COMPLAINTS.....	33
2.5. ENFORCEMENT OF LIABILITIES.....	34
2.6. COOPERATION AND EXTERNAL RELATIONS .....	37
3. OUR PERFORMANCE .....	46
3.1. INSTITUTIONAL INDICATORS.....	46
3.1.1. Use of Resources .....	46
3.1.2. Quality and Impact .....	49
3.2. OTHER INDICATORS .....	50
3.3. USED RESOURCES .....	51
SIGLA .....	56



## INTRODUCTORY NOTE

It is an obligation for all public entities to account for their performance and how they have spent the resources that are allocated to them in the pursuit of their mission. It is within this framework of transparency and accountability that the Court of Auditors annually approves and releases its Activity and Accounts Report.

This document is intended to inform the addressees of our work - the other organs of sovereignty, citizens and society in general - who have the right to know how to manage and administer the public res ("thing"), as well as to assess the Court contribution to improve public finances management.

The year of 2018 also entailed stabilization of the internal organization, deepening of working methods, empowerment and thematic evolution on the path of an increasing relevance and usefulness of the Institution.

It was still a period in which a Court Organization and Procedure Law rewording was prepared, within an imperative context of updating, modernization and suitability to new realities. This process has taken into account the assumption of new competences committed by the Court under the Budgetary Framework Law, the adequacy of the financial liability system and the respective procedure, as well as the scope of prior control – including the revision of the acts and contracts subjection to the prior control approval.



Dealing actually with the results of a self-assessment carried out using an internationally recognized tool (The Supreme Audit Institutions Performance Measurement Framework) that encompassed all the organization dimensions, we are asked to deal with the arising challenges, bearing in mind that many of them relate to the internal development level.

We have focused on replying and overcoming some of the shortcomings that have been detected, while at the same time accomplishing our core mission: independent control of public finances.

In this setting, 2018 was a year of evolution towards a more transversal control paradigm, with investment in areas that are a priority in the medium and long term, such as demography and climate change. In this regard, seven preliminary studies whose audits will be completed in 2019 and 2020 were carried out.

On the other hand, the Court has maintained a constant monitoring and adjustment of budgetary and accounting reforms, with a view to active cooperation with the entities involved. The approval of new instructions for accountability sim-

ultaneously with the new electronic platform implementation announces, among others examples, the opening of the Institution to the exterior, which it intends to continue and deepen.

It is desirable that such an opening should be addressed to the entities under the Court jurisdiction, and to the various sectors of society. Contributing to this goal, several conference cycles with the participation of universities and social agents were held.

Institutional indicators require us to be more attentive to the aspects of productivity and efficiency, clearly betting on their improvement. The natural changes arising from the Institution development regarding the challenges posed to it represent an opportunity for modernization and future growth.

This is the case of the preparation and empowerment actions for the Court new mission relating to the General State Account certification, which will only produce visible results in the medium term. The mentioned groundwork is a critical success factor for improving our performance in the coming years.

This greater qualification and rigor is also based on the valorisation and reinforcement of human

resources with the contracting of 30 new technicians, whose selection process took place in 2018.

In summary, during 2018, the Court of Auditors issued all the Opinions on the accounts provided for in the Law, controlled more than € 246 billion of public expenditure, previously audited 2,600 acts and contracts, carried out 57 audits, verified 548 accounts of public bodies and decided 49 enforcement of financial liabilities cases.

Cooperation with other institutions and participation in coordinated audits with similar institutions (in Europe and South America) has intensified, with all the added value in sharing experiences and knowledge that these activities imply.

All this was possible with a cost of 27.2 million euros, equivalent to 0.015% of the total expenditure entered in the State Budget for 2018.

This Report, approved at the General Plenary session of May 29, 2019, contains, attached, the Court consolidated account duly certified by the External Auditor.

The President,



(Vítor Caldeira)



## THE COURT OF AUDITORS



### WHO WE ARE

The Court of Auditors is the Portuguese financial, external and independent Supreme Audit Institution. It carries out the prior, concomitant and successive control as well as the judgement of the responsible entities.

### WHAT WE DO

It falls to the Court of Auditors to control the legality and sound management of public resources.

### HOW DO WE EXERCISE OUR POWERS

The Court of Auditors has powers of surveillance and control over all public administrative and corporate entities and organisms, state owned companies and all private companies that are concessionaires of public works and services or that receive public money, including funds from European Union.

These competences are pursued in different ways; generically, there are three major areas identified: the prior control, the successive control and the enforcement of financial liabilities. It is also worthy to underscore the concomitant control, that is, the one which falls on the financial activity performed before the conclusion of the respective management account, in particular on the expenditure arising from acts and contracts that are not subject to prior control.

The Court of Auditors covers all the Portuguese judicial order, both on national territory and abroad.

It is composed, at the Headquarters, of three Chambers, which are particularly responsible of:

- 1<sup>st</sup> Chamber – Assess and decide upon the cases referred to prior approval and practise concomitant control;
- 2<sup>nd</sup> Chamber – Perform concomitant and successive control throughout the issuance of the Opinion on the General State Account and that of the Social Security as well as the accomplishment of audits and external verification of accounts and enforcement of financial liabilities;
- 3<sup>rd</sup> Chamber – Enforce financial liabilities.

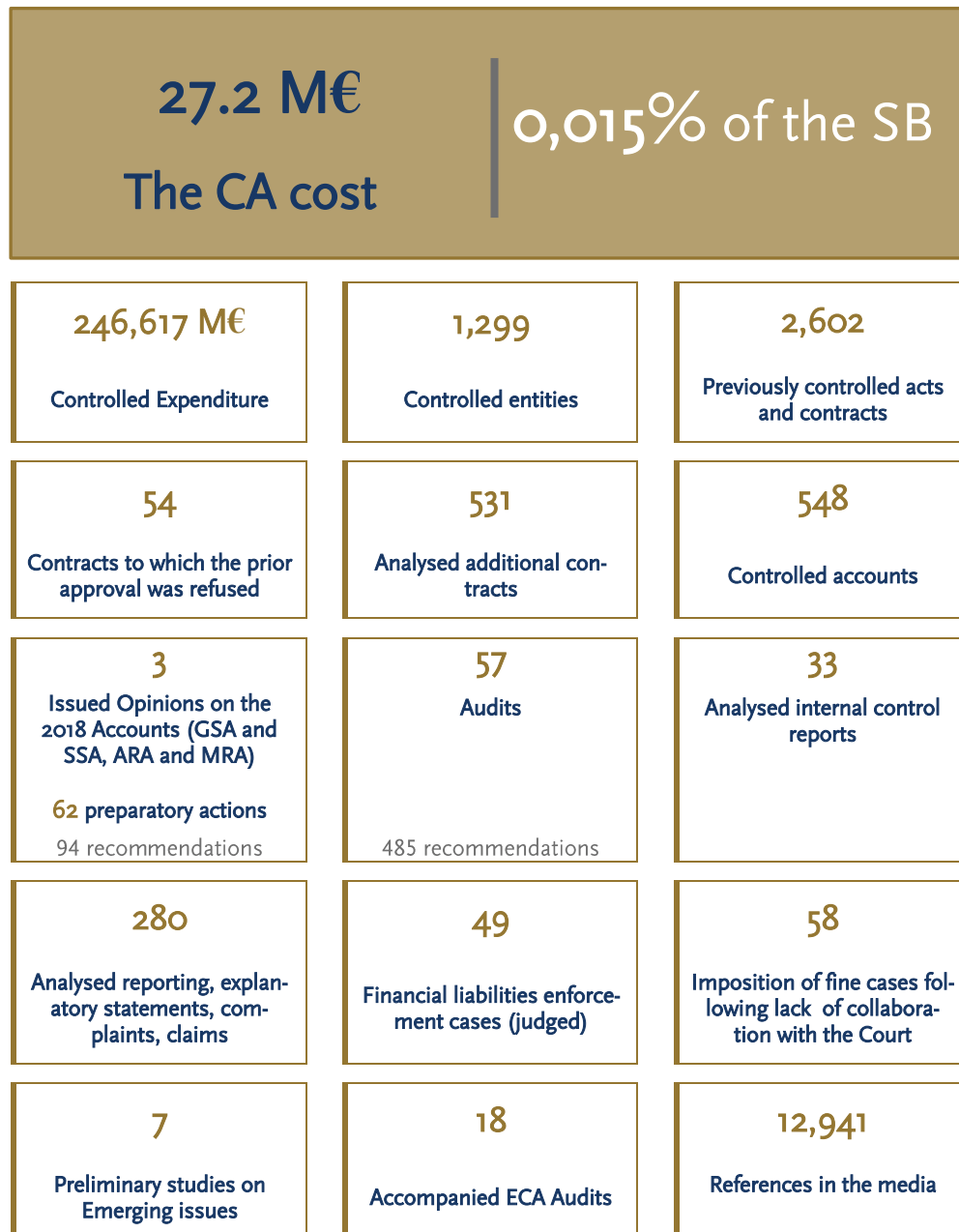
In the Azores and Madeira Autonomous Regions, the Court Regional Chambers operate. They perform all the control actions, as well as the conducting of trials for the financial liabilities enforcement.

STRATEGIC GOALS	VALUES	VISION	MISSION
<ol style="list-style-type: none"> <li>1 Contribute to the good governance, the accountability and the public finance liability.</li> <li>2 Improve the quality, timeliness and effectiveness of the Court control</li> <li>3 Consolidate the technical and organizational capacity for the examination of public accounts and the certification of the General State Account.</li> </ol>	<b>PRINCIPLES THAT GOVERN US</b> Independence, Integrity, Accountability and Transparency.	<b>WHAT DO WE WANT?</b> Promote the truth, sound management, the legality and liability in public finances.	<b>WHY DO WE EXIST?</b> The Court of Auditors mission is, in accordance with the Constitution and the Law, to: control the legality and the regularity of the public revenue and expenditure; judge on the Accounts which the Law has ordered to be submitted to it; give opinion on the General State Account and on the Autonomous Regions Accounts; assess the sound public financial management; enforce financial liabilities and exercise such other powers as are assigned to it by Law (Article 214 of the Constitution; Article 1 of the OPLCA).



## 1. HIGHLIGHTS OF THE YEAR

### MAIN RESULTS | IMPACTS



## POINTS IN TIME

### Full Counsellor Judges Panel

CA, November 2017 / July 2018



*Court of Auditors General Plenary*

The renewal of the Court of Auditors Judges Counsellors Panel has begun in 2017 and culminated with the last appointment in July 2018. The renewal of 10 Counsellor Judges and the stabilization of their College, with 18 Judges Counsellors, allow the Court to benefit from a diversity of knowledge and experiences conducive to a greater impact of its activity.

### Cycle of Seminars "Relevance and Effectiveness of Financial Jurisdiction in the XXI Century"

CA, October 2017/ May 2018

Another of this year highlights was the Cycle of Seminars final session on "Relevancy and Effectiveness of Financial Jurisdiction in the 21<sup>st</sup> Century". The President of the Republic made a very significant contribution on the Court of Auditors role in the Country, with a focus on the need to update the framework legislation and the efficiency and effectiveness of external financial control.

During this year, three of the five seminars that constituted this cycle were held. In addition, the debates between the magistrature, the academy and the public sector resulted in consensuses and challenges for the entities involved, and, first of all, for the Court of Auditors itself.



### Presentation of the Opinion on the 2016 General State Account, delivery of the Opinions on the 2017 General State Account and Azores and Madeira Autonomous Regions Accounts

Parliament, January and December 2018/Madeira Regional Chamber and Azores Regional Chamber  
December 2018



The Court of Auditors, through its President and the Counsellor Judges of the respective areas of responsibility, presented the Opinion on the 2016 General State Account to the Parliamentary Committee on Budget, Finance and Administrative Modernization. In December, the Opinion on the 2017 General State Account was delivered to the President of the

Assembly of the Republic and the Opinions on the 2017 Regional Accounts were delivered to the President and Vice-President of the Azores and Madeira Legislative Assemblies.

### Conferences cycle on relevant themes for financial control / Opening to Society

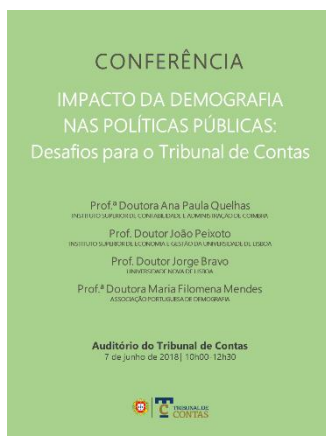
Lisbon, February and June 2018

*"Challenges of Regulatory Activity for the Court of Auditors"*, a series of four conferences held at the Court of Auditors aimed at understanding the origin, development, structuring and role of the regulatory activity, as well as providing a reflection on the specificities, risks and regulatory activity to the Court of Auditors.



*"Impact of Demography on Public Policies: Challenges for the Court of Auditors"*





This conference was the culmination of a training program of four actions, standing out, as main conclusions, that the Portuguese population is in a critical process of decline and aging and the downward trend is, in the short/medium term, irreversible, though it may be partly attenuated, in the long term, by the increase of immigration and birth.

### Ninth Meeting of *Task Force on Audit and Ethics (TFA&E)* Lisbon, October 2018

Organized by the Portuguese Court of Auditors, it was attended by delegates from 19 countries, as well as OECD representatives, national public institutions, International Transparency, among others, and it was a moment of sharing of experiences, tools and knowledge on this theme in its various dimensions. The Court of Auditors has chaired TFA & E since 2011. The President has underlined the importance of this Project Team, and stated "EUROSAI has developed a solid framework for the implementation of the INTOSAI Code of Ethics (ISSAI 30) and the promotion of integrity in the public sector, thanks to the valuable work it has done over the past seven years."



### Approval of the Court of Auditors Ethics Charter



December 2018



The Court of Auditors General Plenary Sitting approved its Ethics Charter, that contains the Values by which the Institution is guided - Independence, Integrity, Accountability and Transparency - and the principles of action to which they apply.

The preparatory process of this significant document had as a key element the participation and involvement of all those working in the Court. It should be pointed out, in this ambit, the seminar *Contributions to an Ethical Control System at the Court of Auditors*, where there was opportunity to participate in several interactive exercises related to the importance of ethics, dilemmas and consequences of inappropriate behaviours

## SEMINÁRIO

Contributos para um  
Sistema de Controlo Ético  
no Tribunal de Contas

14 de setembro de 2018

## Public discussion of the ASS-PA Electronic Accountability / Opening to society December 2018

These instructions are of the utmost importance in the context of accounting reforms and the dematerialisation of the Court cases and procedures. Following an internal process actively participated in the those instructions preparation, the respective project was opened for public discussion in line with the principle of transparency, with a view to their enrichment and improvement, notably through the contributions of entities under the Court jurisdiction.

## The Court Self-Assessment Report

December 2018

Following an extensive evaluation procedure of the Court activity various dimensions, using the IN-TOSAI tool "SAI's Performance Measurement Framework", a self-assessment report was prepared and presented, which was the subject of IDI quality certification. The Court General Plenary welcomed the accomplished work and took note of its results.

The detailed analysis made it possible to conclude that the Court of Auditors is an entity with a solid independence and adequate mandate. There were also identified areas where the Institution can improve its performance and organization, enabling it to develop a plan of action for the adoption of improvement and adjustment measures.

In January 2019, the mentioned report was broadly disseminated through a presentation session addressed to all the General Directorate staff and through a written summary sent to all stakeholders heard in the scope of this work and it is accessible on the Court website.

## 2. THE ACTIVITY IN 2018

The Court activity is essentially exercised through prior, concomitant and successive financial control, as well as through the enforcement of financial liabilities. The following shows the most relevant of this year actions.

### 2.1. PRIOR FINANCIAL CONTROL

Under the terms of the OPLCA, the prior control exercised by the Court assesses the financial legality of acts, contracts and other instruments that generate expenses or represent financial liabilities before they are performed.

#### Controlled 5,356 M€

In 2018, the a priori controlled amount increased by 15.9%, although there was

a decrease of 4.7% in cases brought before the Court and 25.6% in the controlled cases.

The activity of prior control, exercised in 2018, was influenced by several factors, namely:

- Changes to the municipal credit and debt schemes, introduced in the years immediately preceding and also in the year of 2018 itself, by the State Budget Law;
- Difficulties experienced by the controlled entities in complying with the multiannual burden and commitment coverage regime, as well as, in general, with the commitments and late payments regime;
- Application of the local company activity legal regime (LCALR) and its successive changes;
- The legal framework specific nature for public-private partnerships (PPPs), as well as the respective conjunction with the Public Procurement Contracts (PPC) and the scope of the Court of Auditors jurisdiction;
- Difficulties still experienced by the audited entities in the application of the public procurement regime, both in terms of the choice of procedures and in the application of its rules and proceedings;
- Decree-law no. 111-B/2017, of August 31, came into force, which made a significant change to the PPC and raised greater doubts in its application by the audited entities.

This year, 4,100 cases brought in the Court.

Of the 4,613 cases for analysis in 2018, which included 513 carried over cases, not all of them were subject to the Court control, in particular because they were cancelled (37), returned by the Court because they were not subject to prior approval (194) or because they had been tacitly prior approved (1,089).

**There were returned 3,194 cases for clarification or requests for additional elements, leading to reduction of costs of € 14.8 M.**

The Court may, before pronouncing the final decision, request further clarifications or additional elements. These requests contributed significantly to remedy the irregularities and irregularities detected, leading, in some cases, to a reduction in the costs incurred by the respective entities (€ 14.8 million).

Some situations that led to the reduction of costs are listed below:

- Reduction of the contracted amounts, in order to be compatible with the actual financing needs and / or their indebtedness limits, in the case of local loan agreements;
- Other amendments to the contractual clauses, in order to bring them into line with legal requirements, such as:
  - a) those arising from the budget implementation Decree-Law, the Public Procurement Code, the Local Company Activity Legal Regime (LCALR) and, in particular with regard to
  - b) contracts of a financial nature, by expelling them from unlawful or disproportionate

schemes and guarantees in case of the borrower's default.

The number of cases with a decision to grant<sup>1</sup> or refuse a prior approval totalled 2,602, referring to 532 entities.

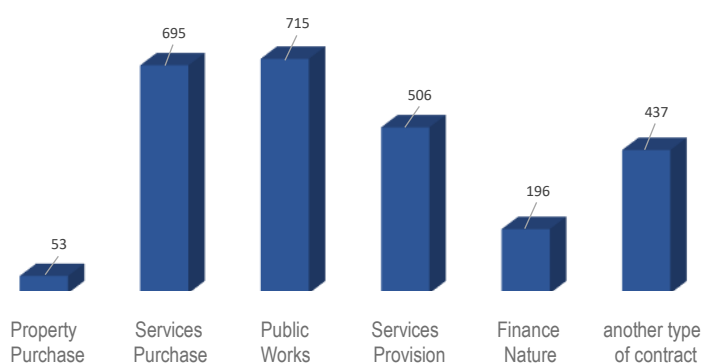
The largest number of cases, entities and financial volume came from the Local Administration.

Cases subject to prior control

Local Administration	State Owned Companies Sector	Central Administration	Regional Administration	Others
1,126 cases 284 entities 2,287 M €	739 cases 45 entities 1,709 M €	531 cases 83 entities 1,083 M €	157 cases 23 entities 248 M €	49 cases 97 entities 29 M €

The cases relate mainly to public works (715), followed by service procurement (695) and of the supply contracts (506).

Cases subject to prior control by species



The other types of contract, whose cases have increased significantly (about 55% compared to 2017), represent 30.2% of the controlled

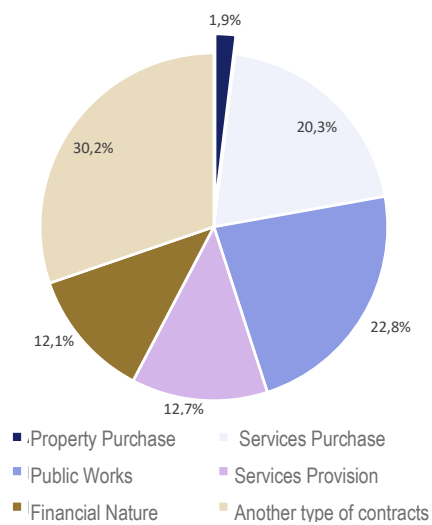
amount, including highly complex legal and financial instruments, such as concessions and public-private partnerships. The analysis and

<sup>1</sup> Includes cases with compliance statement endorsed and prior approved with or without recommendations.

decision of these cases was demanding regarding the personnel involved and implied a permanent concern of empowerment and professional training.

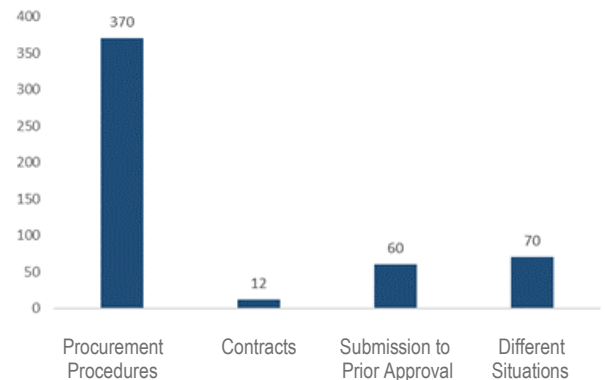
recommendations corresponding to a financial volume of 1,004 M€.

Percentage of the controlled amount by procedural species



Most of the 512 issued recommendations has remained connected with **illegalities practised within the contracting proceedings** (72%), by poor implementation of the Public Procurement Code (PPC), namely, as regards the procedural rules themselves and their launching.

Recommendations issued by type



2,548 cases were prior approved. Of these, 16.4% were prior approved with

Where there is no nullity, lack of budgetary provision or violation of financial regulations, but only illegality that alters or is liable to change the financial result, the Court may, depending on the circumstances, choose to concede the prior approval recommending the audited entities to suppress or prevent such illegalities in the future. The Court may also, in general terms, make recommendations with a view to improving legislative, administrative or financial procedures.

## Main recommendations

### With regard to procedures:

Selection	<ul style="list-style-type: none"> <li>• Rationale for decisions to choose non-competitive procedures</li> <li>• Rationale for the conclusion of mixed contracts; adequate advance notice for the procedures launching</li> </ul>
Rules	<ul style="list-style-type: none"> <li>• Rationale for the need to set a contractual deadline of more than three years</li> <li>• Publication of tendering procedures notices</li> <li>• Technical qualifications required</li> <li>• Requirements for financial capacity in restricted procedures for pre-qualification</li> <li>• No need for excessive requirements</li> <li>• Requirement of the Single European Public Procurement Document in contracts of value greater than the directives</li> <li>• Rationale for the basic price fixed for the procedures</li> <li>• Respect for the abnormally low prices regime, in particular grounding the need to fix this regime and the specific criterion adopted</li> <li>• Adequacy of the assessment models to the objectives, also allowing the graduation and differentiation of all the presented proposals</li> <li>• Rationale of the adopted assessment model, with explicit grounding of the concrete factors and sub-factors that integrate it and its respective weighting, demonstrating that with this model the necessary result is achieved to the best satisfaction of the public interest</li> <li>• Definition of tie-breaking criteria based on aspects that are not merely formal</li> <li>• Some of the factors relate to aspects of the contract implementation which have not been submitted to the competition through the tender set of specifications</li> </ul>
Launching	<p>Respect for the authorization rules for expenditure, ensuring pre-budget coverage and compliance with the multi-annual burden regime</p>
Proceeding	<ul style="list-style-type: none"> <li>• Correct and complete completion of the tender procedures opening announcements</li> <li>• Legal basis for the exclusion of tender proposals</li> <li>• No requirement of documents that should only be presented during the qualification phase</li> <li>• Non-exclusion of proposals for not joining documents that can only be required of the contractor</li> <li>• Need to ground the award decision to the only accepted proposal, in particular by applying the award criterion</li> </ul>

	<ul style="list-style-type: none"> <li>• Need for a more adequate rationale in the reports related to the proposal analysis</li> <li>• Elimination of one of the factors requirements, during the time period for tenders submission, without the extension of that deadline and the respective disclosure by means of a notice</li> </ul>
Contracts	<ul style="list-style-type: none"> <li>• Timely contract conclusion</li> <li>• Introduction of maximum expenditure ceilings; Renewal and complaint report</li> </ul>
Subjection to prior approval	<ul style="list-style-type: none"> <li>• Compliance with the deadlines for referral to the Court and the need for prior approval on related contracts</li> </ul>
Others	<ul style="list-style-type: none"> <li>• Respect for the rules regarding commitments assumption and available funds, particularly in the event of assumption of commitments that constitute a payment obligation in a subsequent economic year</li> <li>• Need for segregation and individualization of projects and actions when preparing the IMP (Investments Multiannual Plan), so as not to include in the same project several work contracts</li> </ul>

The Court may **refuse the prior approval** based on non-compliance with the applicable law that implies nullity, burden without budgetary availability, direct violation of financial rules or illegality that changes or may alter the financial result.

It was refused the prior approval to 54 cases, with a financial volume of 182 M€

**Detected illegalities** (that ground the prior approval refusal):

Spending	<ul style="list-style-type: none"> <li>• Commitments assumption without funds availability statement for this purpose</li> <li>• Conclusion of contract with retroactive effect and without observance of the rules associated with the authorization of the burden and expense, namely prior budgetary availability and commitment.</li> <li>• Expenditure commitment without respecting the applicable legal rules by the cause of the expenditure obligation</li> </ul>
----------	--

## Indebtedness

- Loan Contracting for "early settlement" of a payment agreement without the respective legal consent and without the effective anticipation
- The tender awarded infringes the conditions laid down in the invitation letter
- Lack of comparability within the submitted proposals
- The contract violates the conditions and rules set for the financial instrument under which it is concluded
- Change in short-term loans maturity beyond one year
- Amortization of short-term loans beyond the end of the fiscal year in which they are contracted
- Contracting short-term loans for purposes other than those arising from cash-flow difficulties

## Choice of procedures

- Adoption of direct agreement procedure by material criteria (imperative urgency, artistic motives and selection in previous design contest) without the respective legal preconditions
- Consultation within the framework agreement without observing the related terms
- Lack of decision to contract and consult under an expired framework agreement
- Adoption of the urgent public tender without the of legal preconditions
- Direct contracting without carrying out any procedure, with finalizing of its procedures a posteriori
- Full disregard of the due procedure on public-private partnerships, including contractual renegotiation
- Direct contracting with invocation that the services in question are not susceptible of being subject to market competition, without applying this provision
- Loan contracting without a competitive procedure

## Rules of Procedures

- Requirement of legal qualification to carry out the public works in violation of the law
- Presentation of required qualification documents already after the adjudication and conclusion of the contract

## Contracting Requirements

- Establishment of a local company without having the deliberation of its constitution been supported in the technical studies with the requirements of Local Company Activity Legal Regime (LCALR)
- Decision to conclude a contract with an entity that does not have the regularized tax situation
- Allocation by municipality of investment subsidy to the local company, violating the LCALR
- Award of proposal to a competitor who does not have the required qualification
- Allocation of a financial compensation to the transport undertaking in disregard of Regulation (EC) no. 1370/2007 and of Law no. 52/2015
- Adjudication of a company that is prevented from competing under the political offices holders' impediments and incompatibilities regime



- Contracting with invocation of an in-house relationship without the respective proof
- Res judicata
- Acquisition by a municipality of participation as an associate of financial institution, without stating the assumptions that the LCALR makes participation in cooperatives dependent and without being supported by the technical studies to which this regime also obliges
- Award of the graduated tender in a subsequent place after declaring the expiry of the initial award without the grounds for that expiration
- Illegal removal of competitors in the framework of public tender with international advertising

31 ordinary appeals lodged and 29 judgements and sentences pronounced

The appeals may be lodged for the plenary sitting of the First Chamber against the final decisions refusing the prior approval, as well as the fees fixed by the Court, either at Headquarters or in the Regional Chambers. Thirty one ordinary appeals were lodged and 29 judgements and decisions were delivered, in which the appellants were proved right in five cases and the original decision was maintained at 24 cases.

## AUDITS CONCERNING PRIOR CONTROL ACTIVITY

The Court may order the accomplishment of audits relating to the exercise of prior control, which shall include, inter alia, the notification to the Public Prosecutor Service of the financial infringements identified in the prior control cases.

During 2018, **3 audits for financial liabilities clearance** (2 at the Headquarters and 1 at the Azores Regional Chamber) were carried out.

### Illegalities detected

- Implementation of contracts without the Court of Auditors due prior control approval
- Authorization and enforcement of payments prior to the Court of Auditors approval
- Authorization of increased expenditure related to more, or new, services without legal foundation
- Authorization of expenditure without legal competence to that effect

### Recommendations

- Referral to the Court of Auditors prior control of the contracts subject to it with an amount, considered in isolation or in addition to that of other contracts which are related to them, that exceeds the threshold established annually in the State budget laws
- Choice, whenever possible, of contracting procedures that appeal to competition and prevent, for all stakeholders, the possible existence of conflicts of interest
- Compliance with the provisions of articles 20 and 454 of the Public Procurement Code, regarding the choice of procedure and complementary services

## 2.2. CONCOMITANT AND SUCCESSIVE FINANCIAL CONTROL

The Court of Auditors carries out concomitant and successive control, through:

- the issuance of Opinions, namely on the General State Account (GSA), including that of Social Security, and on the Accounts of the Autonomous Regions of the Azores (ARA) and Madeira (MRA) and
- the accomplishment of actions to monitor the budget implementation, audits and internal and external verification of accounts

## CONCOMITANT CONTROL

The Court accomplishes concomitant control by means of audits to the administrative procedures relating to acts involving personnel costs, contracts that are not to be referred for prior control by law, as well as audits of the financial activity before the end of its management account.

In the case of **contracts** that do not have to be submitted to the prior approval, those **relating to additional works** or to the supply of errors and omissions must be highlighted, and must be sent to the Court within 60 days after the respective implementation beginning. Concerning these contracts, the Court carries out

a thorough analysis of the grounding and legality of the additional works, as well as the identification of possible financial liabilities with the consequent Public Prosecutor Service notification and may select some of them for audits.

**Five hundred and thirty one contracts were registered in the Court**, which represents an increase of 18.3% over the previous year (449).

The total value of these additional contracts amounted to € 22.7 million, with a decrease of 39.6% over the previous year.

In 2018, **5 audits were completed** (2 at Headquarters, 1 at ARC and 2 at MRC)

### Main illegalities detected

- Regime for the supply of errors and omissions and for additional works and the respective competence for awarding, as to the public works contracts implementation.
- Payments, by municipalities to the invested municipal company, without contractual title that grounds them, and without the decision to contract the inter-municipal company being taken by the competent municipal authorities
- Conclusion, by municipalities, of debt settlement agreements with specific bank credit conditions, which have the effect of consolidating short-term commercial debt, converting it into medium-term financial debt, aside from any process of restructuring or financial rebalancing
- Unlawful authorization of payroll run of nominees appointed in a replacement scheme, when the due requirement of "absence or impediment of the respective holder" was not verified. These positions presuppose a previous entitlement
- Undue processing of the appointed directors' salaries whose procedures were not launched until the expiration of the legally established period of 90 days
- Payment of purchases of goods and services without prior confirmation of the beneficiaries' tax and contributory situation

## Recommendations

- Assumption of multi-annual charges without prior authorization of the Government member responsible for the area of finance
- Observe the legal system of municipal indebtedness, refraining from concluding contracts with financial entities or directly with creditors, with the purpose of consolidating short-term debt, whenever the duration of the debt exceeds the budget year
- Ponder the extinction of local inter-municipal company
- Respect the requirements and preconditions set out in the Managerial Staff Regulations for the substitution appointment for the exercise of managerial positions, triggering, in the case of vacant and unoccupied places, tender procedures prior to the appointment of middle managers
- In pre-contractual procedures of a competitive nature aimed at the acquisition of goods and services:
  - Ensure compliance with the legal and contractual requirements established for objective amendments to contracts, which include price increases
  - Ensure that payments are only made after confirmation of the regular tax and benefit situation of the beneficiaries

## SUCCESSIVE CONTROL

In the sphere of successive control, the Court examines the accounts of the entities subject to its jurisdiction, evaluates the respective internal control systems, assesses the legality, economy, efficiency and effectiveness of its financial management and ensures the control of national co-payment in Community own resources and the implementation of financial resources from the European Union. With regard to the successive control of the direct public debt, it verifies the compliance with the limits of indebtedness and other general conditions established by the Parliament in each budget year, as well as loans and financial operations of direct public debt management, and the respective burden.

## OPINIONS

The Court of Auditors is incumbent of the annual issuance of the Opinions on the Public Accounts.

In 2018, the Court issued the Opinion on the General State Account (GSA), including that of Social Security (CSS), the Opinion on the 2017 Accounts of the Autonomous Regions of Azores and Madeira.

The preparation of the Opinions relied on the development of 62 preparatory actions.

## OPINION ON THE 2017 GENRAL STATE ACCOUNT



In this Opinion, the Court of Auditors offered a judgment on the financial activity of the State for the 2017 economic year. The Parliament is one of the Opinion addressee for the purposes of appraising and approving the General State Account and the Government is the other addressee to promote the recommendations compliance. It is also an important resource to inform citizens of the public resources management by promoting transparency of public accounts.

In consolidated terms, the effective revenue from the central administration and social security amounted to € 74,240 million, representing 58% the tax revenue and 27% the social contribution tax; the effective expenditure amounted to 77,087 M €, mostly applied to pensions and other social benefits and to personnel expenses (41% and 21%, respectively). The increase in revenue (three times higher than that of expenditure) reduced the deficit by 41% compared to 2016.

### RECOMMENDATIONS

In this Opinion, the Court delivered a judgment with reservations on legality, financial correction and internal control, and issued 60 recommendations to remedy deficiencies affecting the budgetary procedure, the control systems, and the account reliability and transparency. These recommendations mostly result from deficiencies of a structural nature, which are expected to be exceeded as the reform of public finances takes place. In this regard, the Court recommended the preparation, in a trial version, of the 2020 Accounting Entity Account as one of the key elements for the reform implementation.

Also noteworthy are the following **recommendations**:

- in the central administration: the setting of objectives and indicators in the budgetary programs, which enable their evaluation in the General State Account, revaluation of tax benefits, implementation of fiscal expenditure control procedures, identification of the combating fraud results and tax and customs evasion and the inclusion of information on various patrimonial elements - public debt, financial assets and real estate;
- in social security: the preparation of procedures manuals and the implementation of an internal control system to ensure the

correct application of the rules for calculating pensions. There is also the adoption of mechanisms that allow compliance with the principle of accrual-based accounting (relative to accrued interest), the validation of taxpayers' debt and the recovery of amounts unduly paid to the beneficiaries.

In this Opinion, 55% of the recommendations issued in the 2015 GSAO and those non-reiterated of the 2014 OGSA were complied. Progress was also identified in the budgetary consolidating process, in the accounting for tax revenue, contributions and levies, in the quantification of fiscal expenditure, in the register of financial flows and in the information on expenditure financed by European funds.

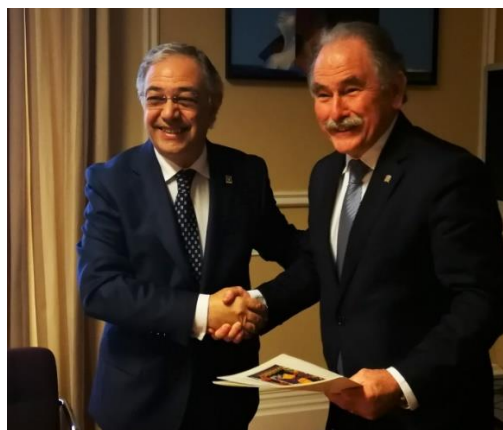
## RESERVATION

The Opinion includes 25 reservations on the 2017 General State Account for having been identified materially relevant errors, especially:

- in the central administration: the incorrect classification of a large set of revenue and expenditure operations and the omission of information on the public debt stock of autonomous services and funds, the financial assets portfolio and the inventory of real state;

- in social security: failure to institute enforcement proceedings relating to reimbursement of benefits, administrative offences and real estate rentals, non-compliance with legal provisions due to errors in the formulas for calculating special invalidity and anticipated pensions for long-term unemployment and the undervaluation of taxpayers' debt (for failure to comply with the accrual principle).

## OPINION ON THE AZORES AUTONOMOUS REGIONAL ACCOUNT OF 2017



## CONCLUSIONS

**Materially relevant errors and omissions affected the 2017 Azores Autonomous Region Account.**

It were issued reserves and emphasis, namely:

## RESERVATIONS

- Preparation of the Budget not included in a multiannual framework of budgetary programming;
- Absence of records regarding the Region treasury activity and non-compliance with the principle of the treasury unit;
- Non-adoption by the re-classified public entities of a budget accounting system;
- Undue accounting and recording of the Regional Direct Administration revenues, with relevant re-percussions in the current, capital and primary balances;
- Lack of accounting relief of community revenue;
- Incomplete information on the patrimonial position and non-existence of consolidated financial statements;
- Impossibility to certify the debt of the Direct Regional Administration and of the Services and Autonomous funds.

## HIGHLIGHTS

- The forecast, in regulation, of a supplementary period, which can be extended administratively up to 31 March of the following year, jeopardizes compliance with the annuality rule and makes it difficult the consolidation process.
- Failure to comply with the numerical rules of budgetary balance and of limits on regional debt provided by law.

The Court **recommended** the Legislative Assembly of the Azores Autonomous Region that:

- Take the appropriate legislative measures to ensure that the establishment of the supplementary period for the implementation of the regional administrative public sector budget. If it is deemed necessary, it should be compatible with the annuality rule, and should not go beyond the strictly necessary for the closing of operations.

The Court issued also **19 recommendations** with a view to, mainly, the improvement of the budgetary and accountability process, the resolving of omissions and information restriction situations, the legality compliance and the financial correction of the amounts presented.

## OPINION ON THE MADEIRA 2017 AUTONOMOUS REGION ACCOUNT



The Court of Auditors made a judgement generally favourable to the Madeira Autonomous Region Account, concerning the 2017 economic year.

Emphases were made on the following aspects:

- Impact of the non-existence in the entire Region public administration sector of consolidated financial statements - consolidated patrimonial balance account and other consolidated financial information – of all the Region public administrations sector;
- Failure to demonstrate compliance with the equilibrium criterion and the indebtedness limit, established in the Finance Law of the Autonomous Regions;
- Failure to approve a legislative solution to a new system for presenting, assessing and approving the Regional Account, harmonized with the Regional Finance Law and the Budgetary Framework Law, with a view to implementation of the ongoing public accounting reform.
- Influence on the result of the budgetary implementation of the financial debt replacement operations, commercial debt swap for financial debt and financial restructuring of the reclassified Public Entities.

It issued new **recommendations** to the Government in order to:

- Comply with the rules of budgetary balance and regional debt limits, set out in Articles 16 and 40 of the Autonomous Regions Finance Law, quantifying in the report attached to the Regional Account the situation of each one of them;
- Assess, in the Account annexed report, the implementation of the Budgetary Programming Multiannual Framework;
- Include in the Account report, on a systematic basis, a listing of the interest rate risk hedging contracts of all the Regional Public Administrations sector entities and of the same hedge operations under the Madeira Autonomous Region guarantee, with the main conditions, including marked-to-market, since they are contingent financial liabilities.

#### IMPLEMENTATION OF THE ASS-PA AND OF THE STATE ACCOUNTING ENTITY (SAE)

The Court has been monitoring the Public Finance reform process, which began in 2015 and is still in progress. In this context, in 2018, it was prepared the fifth progress report on the implementation of the new Accounting Standardization System (ASS-PA) and on the State Accounting Entity (SAE).

This report draws attention to the fact that risks that **still compromise the SNC-PA implementation** continue to be identified, highlighting the lack of a progress report that points out



weaknesses in the adaptation of local and central accounting systems, including the sector-specific solutions development.

It is also evidenced that essential steps for the SAE implementation are lacking, namely the timing and completion of processes to identify relevant entities, accounting operations to be recognized and information systems and circuits for the operations control and accounting.

#### NEW COURT OF AUDITORS INSTRUCTION FOR ACCOUNTABILITY

With the ASS-PA approval, there was a need to redefine and harmonize methodologies and procedures for an adequate accountability by the entities that implement the system.

As a result, a new procedural instruction for the rendering of accounts was concluded at the end of 2018, which was to be approved at the beginning of 2019.

This new instruction applies to all account provider entities irrespective of the accounting regime they use<sup>2</sup>. It simplifies the processing of financial information and its reliability. It

**completely dematerializes the accountability process, through the reformulation of the electronic platforms that support it;** and ensures articulation with the implementation and regulation of the BFL and with the construction and development of the Ministry of Finance information systems, in liaison with UniBFL<sup>3</sup> and other services.

Simultaneously, the platform for accountability was reformulated, with the previous one operating in parallel for entities that continue to use the previous accounting systems and until the respective transition to the ASS-PA.

#### CONTROL WORKS ON EMERGING ISSUES

In addition, there were accomplished **seven preliminary studies** in order to carry out control actions in fields of great social and financial relevance, leading to the identification of areas to be audited. Those highlighted include: "Reform of the fire prevention and control system model ", "Education policies for which demography (evolution and projections) represents a problem", "*Follow-up, monitoring and control of measures provided for in Ministers Council Resolution No. 101-*

<sup>2</sup> Except for Treasury cash services (Treasury and Customs) and Community Funds managers, who will be subject to specific instructions.

<sup>3</sup> UniBFL: Unit for the Budgetary Framework Law implementation, with the mission of ensuring this law application, in the legal, technical, communication, computer and control dimensions.

*A/2017, of 13 July, in the areas of Environment, Natural Resources and European Funds. "*

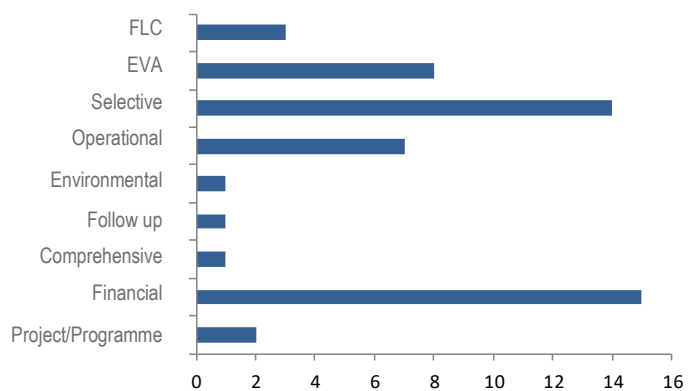
## AUDITS AND EXTERNAL VERIFICATIONAS OF ACCOUNTS

Fifty-two audits and external verification of accounts were concluded (31 at the Headquarters, 11 at the ARC and 10 at the MRC).

In these audits of a different nature, complexity and size, there are those relating to the external verification of accounts of the Republic

Presidency and to the opinions on the Parliament Account and on the Azores and Madeira Legislative Assemblies accounts.

The most frequent types of audits, among those completed, were financial (15) and selective audits (14).



### Noted shortcomings:

#### Financial, accounting and procedural strand

- Internal control systems weaknesses
- Information systems insufficiency and lack of integration
- Non-transparent financial and accounting relationships between entities
- Incorrect or insufficient accounting records
- Undervaluation and overvaluation of accounting categories and / or revenues and expenditures
- Inadequate or insufficient reconciliation procedures
- Insufficient inventory and asset control procedures
- Use of public goods without financial counterpart
- Lack of analytical accounting
- Inadmissible forms of institutional financing
- Worsening of indebtedness, especially among suppliers
- Lack of control and surveillance on the contracts enforcement

#### Legality issues

- Failure to comply with rules on the assumption of commitments and on the authorization, budgetary provision and spending
- Spending not allowed by law
- Payments without legal grounds or financial counterpart
- Failure to comply with rules on staff recruitment

- Allowances, supplementary remuneration and illegal benefits
- Violation of the regimes of exclusive dedication and accumulation of positions and functions
- Non-recovery of irregular payments
- Violation of public procurement rules
- Non-compliance with obligations

#### Aspects on good financial management

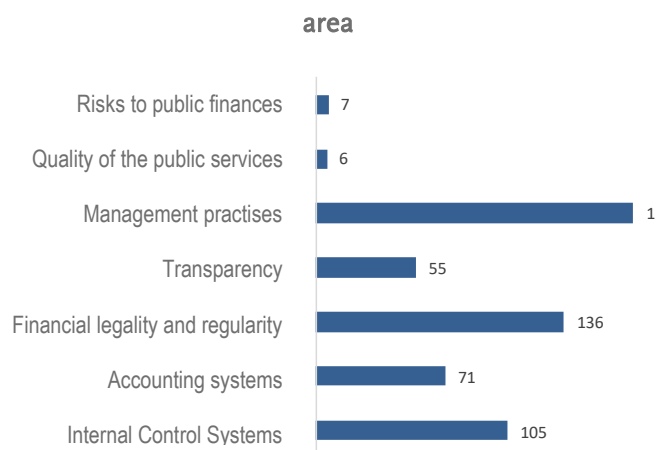
- Budgetary funding shortfalls
- Insufficient pursuit of certain sustainable development objectives
- Inadequate articulation between entities
- Entities with redundant assignments
- Entities without financial viability
- Use of third parties to perform acts not allowed to public sector entities
- Financing of the State own expenditure for taxable income
- No collection and lack of control over public revenue
- Insufficiency in the collection of revenues and debts
- Lack of assessments that underpin public policy options and that allow the evaluation of policies and programs effects
- Inefficiencies of expenditure
- Planning disabilities
- Insufficiency in the definition of goals, indicators and targets
- Inadequate functional structures
- Deficiencies in follow-up, monitoring, control and evaluation
- Failure to meet objectives
- Inefficiency and non-safeguarding of the public interest in privatization processes and shareholdings disposal
- Provision of excessive public guarantees
- Increased indebtedness

#### There were issued 554 recommendations.

The recommendations issuance is a Court action instrument, in order to address shortcomings in budget management, treasury, public debt and assets, financial management, as well as the organization and operation of the services.

The Court activity, concerning the issuance of Opinions on the General State Account and on the Azores and Madeira Autonomous Regions Accounts, as well as concerning the audits and external verifications of accounts completed during the year, resulted in 554 recommendations (94 related to the GSA and RA Opinions and 460 on audits and EVA).

### Issued recommendations issued by operation



Of the issued recommendations, most of them concerned improved management prac-

tices (31.4%), followed by matters related to legality and financial regularity (24.5%) and improvement of internal control systems (18.9%).

Another component of the Court's activity regards the follow-up of the respective recommendations implementation and the corresponding impacts.

**In 2018, the Court was notified upon the compliance of 441 recommendations issued during the year or in previous years.**

### Impacts arising from the recommendations compliance:

#### In the context of the GSA and RA Opinions

- Progresses with impact on the qualitative and quantitative information disseminated in the GSA and the respective Report (financial impact of at least 4.400 M €)
- In the central administration - greater coherence of the information disclosed in the GSA and respective maps, reduction of situations regarding lack of information reporting and greater accuracy in the accounting of revenue and expenditure, including extra-budgetary operations
- In social security - improvements in the uniformity of the criteria applied by the various entities, greater control of fixed assets, improvements in the organization of procedures, in the accounting for revenue from contributions and levies, and in the articulation with external entities
- Progress in the application of accounting regulations, both in the central administration and in social security, particularly in relation to fixed assets and to the provision set related to the debt of doubtful taxpayers
- Issuance of instructions by the Budget Directorate General with positive impacts on the accounting and recognition of the extra-budgetary operations and approval of the fiscal expenditure quantification manual that provided improvements in the quantification of the fiscal expenditure reported in GSA
- Improvement of transparency and rigour in the accountability
- Greater coverage and specification of the information disclosed in the budget and in the Azores Autonomous Region Account, either at the level of the entities that make up the budgetary perimeter or of the financial activity domains
- Evolution regarding the dissemination of public subsidies

In the sphere  
of audits and  
EVA

- Approval by the Council for the Financial Policies Follow-up of the methodological document to support the operationalization of the budget balance rules, of the multiannual framework and the regional debt limit, provided for in Organic Law No. 2/2013, of September 2 (Law of the Autonomous Regions Finance)
- Adjustments have been made to health unit structures in order to adapt them to the needs of health care production and measures to correct errors and deficiencies in accounting records and deficiencies in the internal control system have also been implemented
- Publication of legislation to exceed audit observations, namely in the field of vocational education and training and of accounts certification for an elective nature sovereignty organisms
- Promoted tenders, namely for the provision of services related to medical-legal expertise
- Information systems developed or improvements made, namely in terms of their support
- Improvements in revenue collection and control
- Reinforcement of the internal control circuits and procedures, in particular, the organization and documentation of processes, establishment and settlement of working capital, contracting of services and respective invoicing, circularization of third-party debts, management and quality assurance, training and preparation of procedural manuals, recording, control and counting of inventories and fixed assets and preparation of standards and instructions
- Improved compliance with accounting procedures and accountability processes
- Improvement of procedures for supervising, monitoring and assessment of the programs, protocols and contracts implementation
- Regularization of debts, compensations, irregular payments and public real estate assets
- Correction of non-compliance with public procurement rules, publication of acts and contracts and submission of acts to the Court of Auditors prior control
- Regularization of unsuitable situations in the salaries processing, in the provision of supplementary work and in the attendance record
- Improvement of control procedures on public procurement and concessions
- Increased disclosure and transparency of financial management acts
- Adjustment of amounts paid improperly
- More rigorous budgeting
- Improvement of control procedures on public procurement and concessions
- Increased disclosure and transparency of financial management acts
- Adjustment of amounts paid improperly
- More rigorous budgeting
- Enhancement of compliance with legal obligations in respect of indebtedness and shareholding in companies

- Adoption of measures to comply with operating deficit limits established in concession contracts
- Increased disclosure of the forecast and accountability documents
- Advances in the processes of evaluation and assets inventory
- Adjustments in the organization and functioning of entities, including greater rigour in the definition of competencies exercised
- Defined multiannual strategic plans to recover economic and financial sustainability of companies

## INTERNAL VERIFICATION OF ACCOUNTS

Successive control also includes internal verification of accounts (IVA) of entities subject to the Court jurisdiction.

In the year 2018, 6 954 accounts were submitted to the Court of Auditors. It should be noted that, regarding the entities of the State Owned Companies Sector, in many cases, it was necessary to carry out additional steps for the provision of their accountability.

### Homologation (with and without recommendations) and refusal of homologa-

tion decisions were issued for 548 accounts with a financial volume of € 173,396 M.

With regard to approved accounts (520), the Court issued **143 recommendations** concerning 44 of those accounts.

Homologation was also refused for 28 accounts, 26 of which related to Local Administration and 2 to Regional Administration.

This year there has been a 26% decrease in the number of accounts under control, contrary to the trend observed in recent years, partly due to a deeper analysis in more complex cases.

### Shortcomings noted

- Failure to prepare mandatory accounting documents
- Poor accounting records
- Non-compliance with the treasury unit principle
- Divergences in budgetary implementation maps, notably between cash flow statements and budgetary control statements
- Weaknesses and ineffectiveness of internal control systems
- Disrespect for the expenditure authorization, commitment assumption and payment rules
- Differences between bank, cash and management balances
- Overrated budgets
- Failure to comply with legal indebtedness limits

### 2.3. INTERNAL CONTROL BODIES REPORTS

Pursuant to the OPLCA and under the special duty to cooperate, Internal Control Bodies are required to submit reports of their supervisory actions to the Court of Auditors.

These reports are analysed in order to be considered in risk analysis and control actions planning and to be forwarded to the Public Prosecution Service in case of financial infractions evidence.

**Of the 58 internal control reports for analysis in the year, 33 were completed.**

The majority of the reports with analysis completed, 76%, was referred to the Public Prosecution Service as it contained evidence of financial infractions.

#### Internal Control Systems Reports

	For analysis *	Concluded	Sent to the PPS
HQ	37	27	21
ARC	18	4	4
MRC	3	2	
<b>Total</b>	<b>58</b>	<b>33</b>	<b>25</b>

\* It includes the reports carried over and entered in the year.

### 2.4. REPORTING, EXPLANATORY STATEMENTS, CLAIMS AND COMPLAINTS

The Court of Auditors receives, from entities and individuals, reporting, explanatory statements, claims and complaints, proceeding with its analysis and, if there is pertinent factuality, they can be considered for the purposes of risk analysis, planning of control actions or communicated to the Public Prosecution Office if they identify any financial offenses.

**Of the 498 reporting, explanatory statements, claims and complaints, 280 were analysed.**

The irregularities most frequently reported in the complaints relate to breaches of public procurement rules and non-compliance with staff regulations.

The analysis of 56% of the cases was completed, and 6% of them were sent to the Public Prosecution Service because they contained information that could constitute financial offenses.

## Reporting, explanatory statements, claims and complaints

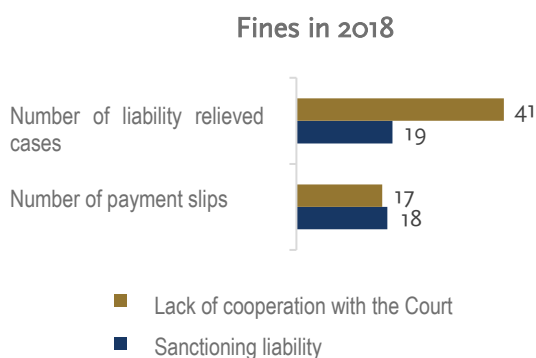
	For analysis *	Concluded	Sent to the PPS
HQ	441	252	
ARC	28	16	4
MRC	29	12	12
<b>Total</b>	<b>498</b>	<b>280</b>	<b>16</b>

\* It includes the reports carried over and entered in the year.

### 2.5. ENFORCEMENT OF LIABILITIES

This chapter deals with decisions that the Court takes in the context of the clearance and judgment (enforcement) of financial responsibilities. Financial liability may be punishable when the offense committed leads to the imposition of a financial penalty or fine or may be of reinstatement when it is required of those responsible to reimburse the amounts corresponding to the damage caused.

It is up to the Court 3<sup>rd</sup> Chamber and the Regional Chambers to enforce financial liabilities, although the other sections also have the power to impose certain fines.



There were 15 cases added to the prior control activity. These cases were integrated in the respective prior cases at the time of their creation or later in order to be considered and analysed.

For the payment of fines related to sanctioning liability cases 35 guides were issued, and 60 cases were found to have the liability relieved.

In this scope, the total number of defendants was 160, of which 76 related to documents issued for payment of fine and 84 for relief and fine waiving, amounting to 147 m € and 131 m € respectively.

The 1<sup>st</sup> and 2<sup>nd</sup> Chambers judges identify financial infractions evidence arising from (prior, concurrent and successive) control cases, and these infractions should be reported to the Public Prosecution Service (PPS) for an eventual referral of the case to the Court 3<sup>rd</sup> Chamber.

The financial sanctioning liability is extinguished, among other causes, with the payment of the fine, and the responsible person may do so voluntarily before the trial for the minimum amount of the fine (1<sup>st</sup> phase). In

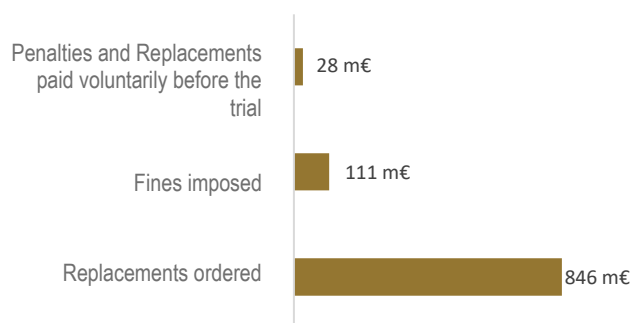


2018, there were 3 cases where this happened valued at € 11m.

When the voluntary payment does not happen, the cases are referred to the Public Prosecutor, who, before the opening of the liabilities enforcement case in the Court 3<sup>rd</sup> Chamber, notifies those responsible entities for the fine voluntary payment (2<sup>nd</sup> stage). In this sphere, 15 fines were paid totalling 118 m €.

### Financial Liability– 3<sup>rd</sup> Chamber and Regional Chambers

In 2018, 14 cases of the cases in which the PPS requested a trial to enforce financial liabilities in the Court 3<sup>rd</sup> Chamber and Regional Chambers were judged, of which 13 with enforceable sentence and 1 with acquittal sentence. As a result, reimbursements were ordered for 846 m €, fines were imposed in the amount of 111 m € and 28 m € were also paid voluntarily before trial, as follows:



In 2018, 94 Autonomous Fine Cases were under review for lack of collaboration with the Court. Sixty-five of them carried over from previous years and 29 were distributed in the year. Of these, 10 ended without trial 21 and were judged (with a condemnatory sentence 11, with an acquittal sentence 6, with liability relief 4).

Fourteen appeals were also judged, having been considered well-founded 6 and maintained the decision in 8.

## THE PUBLIC PROSECUTOR SERVICE NEXT TO THE COURT OF AUDITORS

**Five Assistant Attorneys General represent the Public Prosecutor Service alongside the Court.**

Public Prosecution Service magistrates follow up the pre-prior control cases. They also receive all audit reports to initiate jurisdictional proceedings where they consider that there is sufficient evidence of facts causing financial liability. In those cases, they propose actions of accounts judgment and of financial liabilities judgment.

In 2018, there were 116 cases with evidenced infringements in the Public Prosecution Service (66 carried over and 50 related to the year). 44 cases were decided, of which 16 cases were subject of a request for jurisdictional procedure, in 4 the liability for voluntary payment was extinguished and in 24 cases no jurisdictional procedure was requested.

### 2.6. COOPERATION AND EXTERNAL RELATIONS

#### THE REPUBLIC PRESIDENCY, THE REPUBLIC ASSEMBLY, THE REGIONAL LEGISLATIVE ASSEMBLIES, THE GOVERNEMENT AND THE COURT OF AUDITORS

The relations and collaboration of the Court of Auditors with the Republic Presidency, Parliament, Government and remain sovereign bodies contribute to the Court action impact, as it depends on how public institutions use the results and recommendations issued.

Institutional cooperation also results in citizen better informed, which tends to strengthen his confidence in the State.

#### Examples of this institutional collaboration during 2018:

- The presence of the President of the Republic at the closing conference of the 5-seminar cycle on “Relevance and Enforcement of Jurisdiction in the XXI Century”;
- Delivery and Presentation of the Opinions on the GSA and on the Regional Accounts in Parliament and Regional Legislative Assemblies;
- Delivery of the Opinions on the Parliament and the Regional Legislative Assemblies accounts;
- Participation of the Court of Auditors as observer in the following Working Groups:
  - Regulation of the Accounts Legal Certification of Budgetary Statements

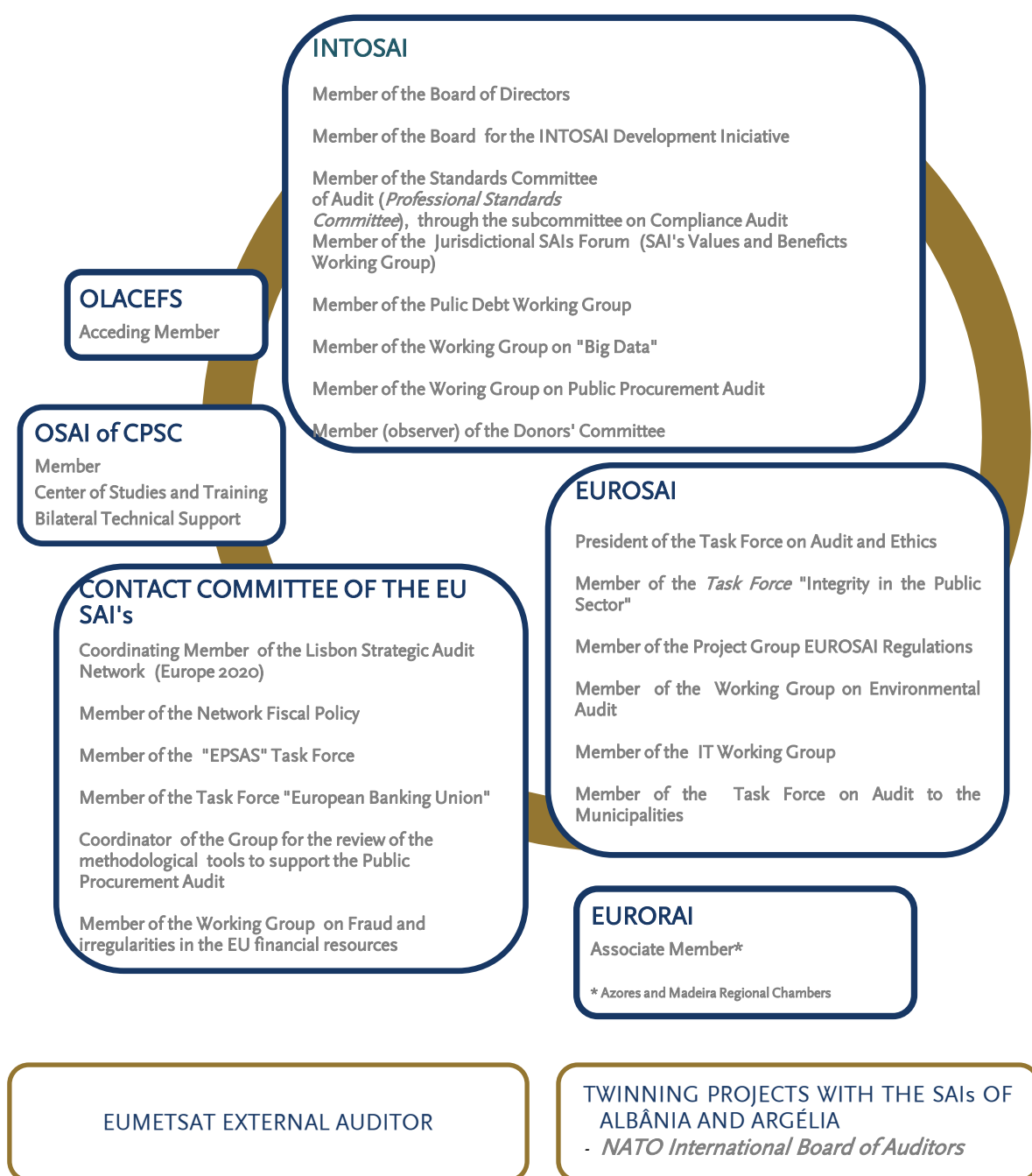
within the ASS-PA framework, developed by the Ministry of Finance through UniBFL;

– Accounting Standardization Committee for the preparation of standard and accounting uniform procedures.

## INTERNATIONAL RELATIONS

During 2018, the Portuguese Court of Auditors continued to work very actively within the international organizations of the Audit Courts and Similar Institutions of which it is a member (CPSC INTOSAI, EUROSAI and OSAI).

The benefit generated by this strong compromise has several aspects. From a wider perspective - across the border - sharing knowledge and experiences and comparing them with similar organizations are most relevant. Indeed, the Court has no “comparator” at national level, as it is unique in the country.



## THE PARTICIPATION IN THE INTERNATIONAL ORGANIZATIONS

The Court of Auditors Representatives participated in the initiatives of all the Working Groups, Task Forces, Project Groups and Committees of which the Institution is a member (see above Scheme). They are mentioned according to the importance of their developments in 2018:

**JURISDICTIONAL SAI's FORUM****(SANTIAGO DE CHILE, CHILE)**

Discussion and preliminary approval of the standard project on the fundamental principles of the SAI's jurisdictional activities and proposal of the respective level in the ISSAI classification framework.

**71<sup>ST</sup> INTOSAI BOARD OF DIRECTORS MEETING**

Among others, the 2018 INTOSAI Management and Accountability Report and the creation of a new Working Group on the Science and Technology Impact on Auditing (STIA).

In this Board of Directors, the Portuguese Court of Auditors noticed the organization of an AFROSAI-EUROSAI joint initiative on the Sustainable Development Goals (SDGs) to be held in Lisbon in November 2019.

**IDI – BOARD OF DIRECTORS MEETING****(OSLO, NORWAY)**

The Board of Directors reviewed and went along with the changes to the Organization risk management process and approved relevant management instruments such as the 2019-2023 IDI Strategic Plan, the Operational Plan and the 2019 Budget.

**49<sup>TH</sup> BOARD OF DIRECTORS MEETING****(GDANSK, POLAND)**

The meeting took stock of the Organization new structure and *Modus Operandi* implementation and provided a platform for the discussion of issues concerning the new Communication System. It paved the way for the evaluation of the topics degree preparation for the next INTOSAI Congress.

**9<sup>TH</sup> TASK FORCE ON AUDIT & ETHICS MEETING****(LISBON)**

This meeting included an information session and exchange of experiences between TFA & E and a broad range of Court members and staff.

As the Court presides over this work team, it is in charge of following up the dissemination of TF activity and products, including the guidelines on the implementation of the INTOSAI Code of Ethics (ISSAI 30) and the ethics audit, as well as cooperation with other partners, such as the OECD, IDI and other INTOSAI Regions.

#### WORKING GROUP FOR THE ENVIRONMENTAL AUDIT: COORDINATED AUDITS

- Conclusion and report on coordinated audit in the framework of the measures for “Energy Efficiency in Public Buildings”;
- Conclusion of the coordinated audit on “Marine Protected Areas”, together with SAIs in Cyprus, Malta, Albania, Slovenia and Greece, pending the publication of the joint report.

#### SEMINAR FOR THE PRESENTATION OF THE PFM *REPORTING FRAMEWORK* TOOL (LISBON)

This seminar took place under the coordination of German cooperation (GIZ), AF-ROSAI-E and PROPALOP-TL and intended to implement the public finance management evaluation tool (Public Finance Management Reporting Framework) in the CPSC Countries.

#### OSAI / CPSC

#### X CPSC OSAI GENERAL MEETING (DILI, EAST TIMOR)

All its members attended it and discussed the theme “The Impact of Public and Private Institutions collaboration on improving the Work of the Supreme Audit Institutions”. During the meeting, the Dili Declaration was signed, which reaffirmed the commitment to follow the Sustainable Development Goals (SDGs), deepening the tool implementation. “Reporting Board on Public Finance Management”.



The Court of Auditors maintains close cooperation and proximity relations with the European Court of Auditors and actively participates in the Contact Committee of the Presidents of the Courts of Auditors and similar institutions of European Union member countries.

#### **THE PORTUGUESE COURT OF AUDITORS IS THE NATIONAL INTERLOCUTOR OF THE EUROPEAN COURT OF AUDITORS (ECA).**

In this scope, the PCA supports the organization and monitors the implementation of the ECA controls on the application of European Union financial resources in Portugal.

In 2018, the ECA accomplished 18 audit cases, of which 8 with involvement in fieldwork.

#### **SEMINAR ON PUBLIC PROCUREMENT WITHIN THE EUROPEAN UNION (ATHENS, GREECE)**

The main purpose of the Seminar, co-organized by the Portuguese and Greek Courts of Auditors, was to present, to the managerial classes and auditors of the different European Union SAIs and of the candidate countries, the updated Public Procurement Audit documents approved in 2008 and were revised following the new 2014 European Public Procurement Directives.

The Court of Auditors, in addition to making a presentation entitled “The main changes introduced by the 2014 EU Directives on Public Procurement and the Guideline for Auditors”, prepared and coordinated the technical part and was responsible for the interactive exercises.

#### **ANNUAL MEETING OF THE CONTACT COMMITTEE (CC) OF THE UNION EUROPEAN SAIs PRESIDENTS (DUBROVNIK, CROATIA)**



The following activities among others were considered at this meeting by the CC:

- Presentation of the Public Procurement Audit, by the Court of Auditors
- Presentation of the Compendium on Youth Employment



The Court of Auditors President moderated the “In Camera” session, which was devoted to the theme “What makes CC meetings different from other Organizations”.

### OTHER MEETINGS

The Court of Auditors also participated in 9 meetings related to the Contact Committee of the European Courts of Auditors Presidents and/or to the European Union. Apart from the participation, through its Chairman, in this Committee annual meeting, it also attended at all meetings of the Working Groups and Task Forces of which it is a member.

During this year, there was a seminar focused on the relationship between SAIs and citizens, highlighting a constant concern with this aspect. Noteworthy is the publication of the Book “Public Procurement Auditing”, coordinated by the Portuguese Court of Auditors.

### OLACEFS

#### COORDINATED AUDIT TO THE SUSTAINABLE DEVELOPMENT GOALS (SDGs): PROTECTED AREAS

It began in 2018, in conjunction with the Audit Courts of Brazil, Spain and several Latin American countries.

### BILATERAL AND COOPERATION RELATIONS

The Court of Auditors maintained significant cooperative relations with the Courts of Auditors and similar institutions of Europe and of the Community of Portuguese Speaking Countries.

During the year, the Presidents of the Cape Verde and S. Tomé and Príncipe Courts of Auditors visited the Portuguese Court of Auditors for bilateral meetings, in order to monitor and

reinforce training and cooperation between the Institutions.

Also worth mentioning were the visits by the Finland and Latvia Auditors General, as well as the Germany, Romania and Ecuador Courts of

Auditors Presidents to discuss common issues and to strengthen relations between the Institutions.

.



There were several study visits during the year, most notably the visit by the Mozambique Administrative Court of Auditors and the São Paulo State Court of Auditors - Brazil.

## OTHER INITIATIVES

The following events took place in order to share knowledge and experience:

- **The IV Meeting – Spanish Court of Auditors and Portuguese Court of Auditors** – held in Trujillo, Spain on 19 and 20 April, where it was signed the Trujillo Declaration, the document guiding the development of bi-lateral relations between the two Courts. It resulted in a focus on the commitment to undertake a joint audit of natural resources. Following this, the preparation of coordinated audit work has started on preventive policies and measures, combat and mitigate desertification and forest fires;
- **The 1<sup>st</sup> edition of the Youth Congress ACAFC (Association of Courts of Auditors of Francophone Countries)** organized by the French Court of Auditors and the ACAFC on 28 and 29 June, dedicated to the impact of SAIs activities on citizens, in which PCA coordinated a working session devoted to ethical dilemmas;
- In 2018, it should be underlined several co-operation actions with the **Polish Court of Auditors and the Albanian Court of Auditors** in the area of Information Technology, supported by an institutional capacity-building project, signed by the by the respective 3 entities, that is, between the Portuguese Court of Auditors, the Polish Court of Auditors and the Albanian Court of Auditors.

### 3. OUR PERFORMANCE

#### 3.1. INSTITUTIONAL INDICATORS

In 2017, the Court approved institutional indicators to measure its activity performance.

Thus, a set of seven indicators was able to measure the effectiveness and efficiency of the Court resources and the quality and impact of its work.

The following is an analysis of their degree of achievement.

##### 3.1.1. Use of Resources

###### ACHIEVEMENT DEGREE OF THE ACTION PLAN

It aims to compare the actions completed in the year with those planned for that same year. The degree of achievement should be 100%.

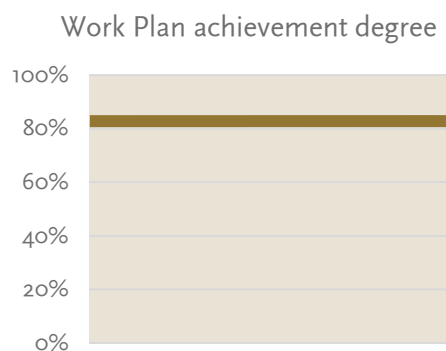
In 2018, the revised Work Plan implementation degree stood at 82.4%.

###### DECISION OF THE PRIOR CONTROL CASES WITHIN THE DEADLINE

Percentage of cases decided within the legal time limit. It is desirable to be 100%.

The Court found that 75.1% of prior control cases were decided in 2018 within the legal

timeframe. The remaining cases were considered tacitly approved according to the Law.



### Prior control cases decided within the timeline



### NUMBER OF AUDITS CARRIED OUT WITHIN THE FORECAST HORIZON OF 2018

Comparison between the number of audits completed within the timeframe of the year and the total number of planned audits completed in the same year.

The percentage of completion on time should be amid 90% and 100%.

The percentage of audits and external verification of accounts accomplished (concomitant

and successive control) within the expected time horizon of 2018 was 25%.

### Audits and EVA completed within the deadline



### AVERAGE TIME FOR LIABILITY ENFORCEMENT CASES AND FOR THE 1<sup>ST</sup> CHAMBER JURISDICTIONAL APPEALS

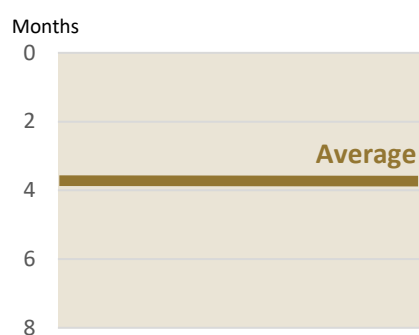
Time elapsed since the distribution of a given jurisdictional case and the closure of the cause, by the delivery of a sentence or a judgment. It should not exceed 6 months, without prejudice to the complexity of the specific cases.

The following table shows the average times (in days) of the liability enforcement cases in 2018:

	1 <sup>st</sup> C	2 <sup>nd</sup> C	3 <sup>rd</sup> C	ARC	MRC
Liabilities enforcement cases	-	-	244	104	152,7
Appeals	117	-	110	-	-

The total average in months is 4.8, which represents an improvement over the previous year by 0.8 months.

Average duration of the 1<sup>st</sup> Chamber liability enforcement cases and of the appeals



The 3<sup>rd</sup> Chamber financial liability judgment cases, completed in 2018, have an average length of 177 days.

### 3.1.2. Quality and Impact

#### SATISFACTION LEVEL OF THE STAKEHOLDERS

Result of the inquiry on the Court usefulness and impact nearby the stakeholders. The degree of satisfaction is measured by a scale of 0 (dissatisfied) and 4 (very satisfied). It is desirable that the average rating is greater than 3.

In 2018, the Court carried out, for the first time and on an experimental basis, a survey to the stakeholders in order to obtain their satisfaction level concerning the usefulness and impact of its activity.

#### FOLLOW-UP TO THE RECOMMENDATIONS

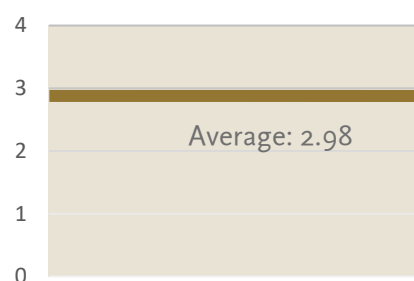
Percentage of the Court recommendations accepted and implemented during the years n-1, n-2 and n-3 and notified during the year n-Target > 60%.

From the follow-up accomplished by the Court, in 2018, to the recommendations issued in the three previous years, there was evidence that the compliance level average was

61%, raising 3% in comparison with the former year.

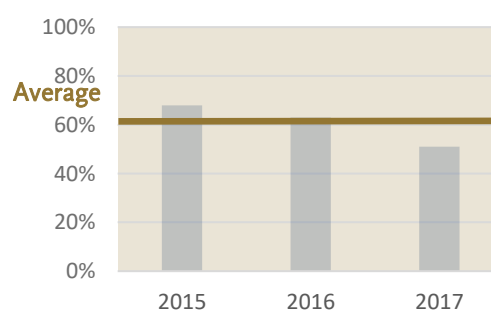
Of the 2301 issued recommendations, 662 were complied.

#### Stakeholder's satisfaction level



The average value of 2.98 results from the received answers 0 to 4 scale.

#### Recommendations compliance level



## PRESENCE IN THE MEDIA

Number of references in the media to the Court products during the year, compared to the observed in the year n-1.

In 2018, the media made 12.941 references to the Court, which represented a higher value regarding that of 2017 (more 48%).

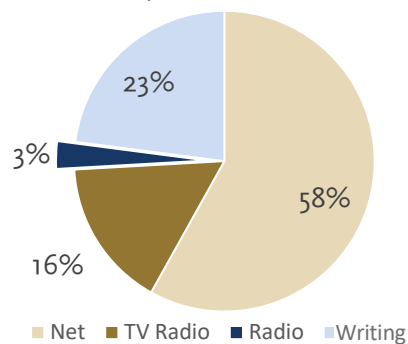
It is also worth mentioning, that almost 60% of the presence in the media occurred through internet. In particular, there was an increase, comparing to the previous year, of the Court social network followers (+48%) and in the access to the CA site (+42%).

### 3.2. OTHER INDICATORS

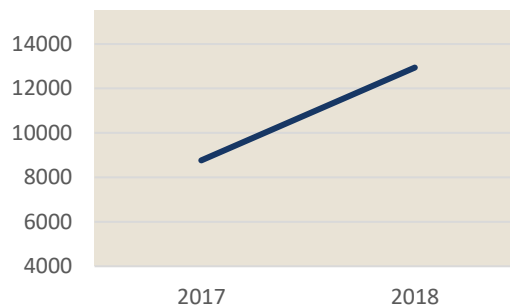
#### PROFESSIONAL TRAINING

There is evidence that, in 2018, the “number of hours by participant” of the control special body was 40, above the 2018 Work Plan established target value 2018 (30 hours), and the training costs decreased 8,6% in relation to the former year.

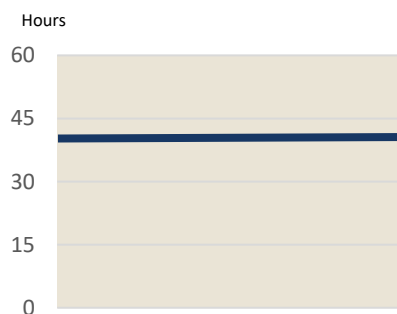
Media coverage  
Articles by broadcast channel



Evolution of the number of media references to the Court products in the year



Training hours by control special body staff



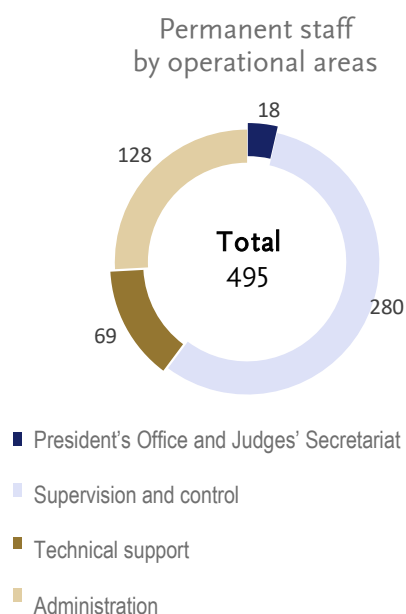


### 3.3. USED RESOURCES

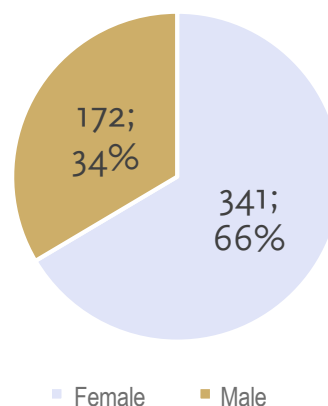
#### HUMAN RESOURCES

In 2018, in the Court of Auditors, the President, 18 Counsellor Judges (16 at the Headquarters, 1 in the Azores Regional Chamber and 1 in the Madeira Regional Chamber) and 495 permanent staff of the Support Services (416 at the Headquarters, 38 at the ARC and 41 at the MRC) performed their duties.

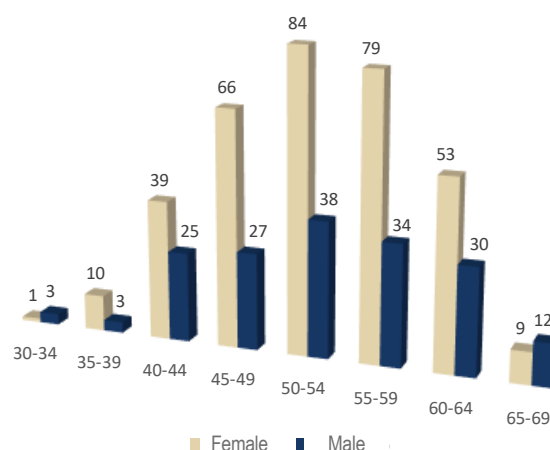
As to the previous year, there is a stabilization of the global permanent staff. The surveillance and control area still represents the majority of permanent staff (280).



By the end of 2018, the gender breakdown of the employees that carried out duties in the Court was of 66% women and 34% men.



Age profile and gender breakdown of the permanent staff



Of the age profile, 76% of permanent staff is between 40-59 years, 20% is in the 60-69 years (with 4% in 65-69 years), 3% is in the 35-39 years and the younger group has only 1% of the permanent staff. It remains, thus, compelling the need for a rejuvenation of the Court establishment plan, what may occur partially during 2019, with the completion of the external tender for recruitment of 30 technical staff launched in 2018.

## PROFISSIONAL TRAINING

To foster the competences strengthening and the professional performance improvement is a Court matter of great and permanent concern. It strives to promote qualification, development and gradual expertize of human resources, thereby contributing to the improvement of the effectiveness, efficiency and quality of the service provided.

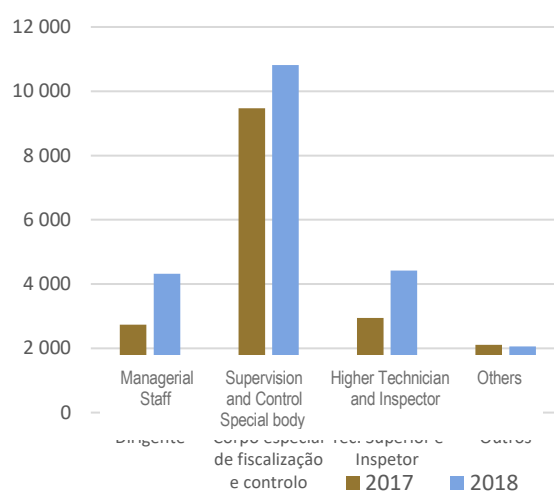
The Court carried out 154 internal and external training actions, with a total cost of 53 m €. These initiatives covered several thematic areas, highlighting those of law, informatics, accounting, and the creation of a new area “*seminars, conferences and awareness actions*”.

The accomplished training hours by professional groups related mainly to the permanent staff of the special supervisory and control body, the careers of higher technician, inspection and managers.

It should be stressed that in 2018, as in the previous year, the Governing body continues to record a significant increase in the number of training hours (more 58%) compared to the previous year. The reason for that growth is the significant participation in the new training area “seminars, conferences and awareness actions”.

Of these, the seminars on the “Relevance and effectiveness of the Financial Jurisdiction in the XXI century” and “Ethics and Deontology - contribute to an ethical control system in the Court of Auditors” stand out.

Evolution of the number of training hours by professional group



The permanent support services staff provided 9 training actions outdoors to other bodies.

With regard to training in the field of external relations, the Court organized 6 study visits for Brazilian Public Prosecutor Service magistrates, the São Tomé and Príncipe Court of Auditors technicians and German law students. It is also worth mentioning the organization of 2 internships and 1 training action for Magistrates and Technicians of the Mozambique Administrative Court.

In terms of costs, the direct costs of training - payment to trainers and payment of actions taken abroad represented 0.19% of the Court total expenditure.

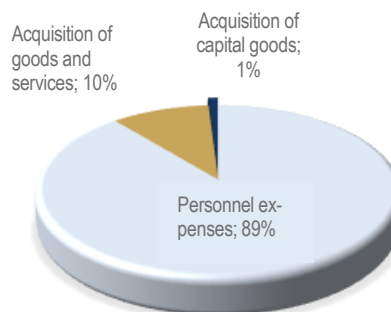
## FINANCIAL RESOURCES

The Court of Auditors accounts shall be audited by a specialized company awarded by a public tender, whose opinion shall be published together with the consolidated account annexed to this report in accordance with paragraphs c) and d) of Article 113 of the OPLCA.

The total expenditure incurred in 2018 was 27.2 M€, of which 78% refers to State budget appropriations and 22% to private coffers.

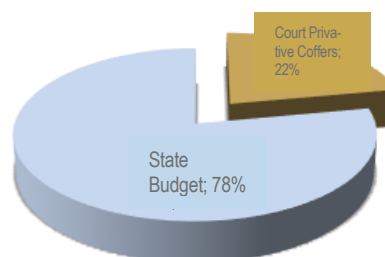
The cost of the Court in the State **Expenditure** Budget was 0.015%.

In the allocation of expenditure by economic grouping, 89% refers to personnel expenses, 10% to the acquisition of goods and services and 1% to the acquisition of capital goods.



### Funding sources

Regarding the sources of financing, the same is true of the previous year, that is, 78% from the State Budget, which was intended to cover most of the regular and permanent expenditure and 22% from the Court Private Coeffers.



### Development of expenditure by economic grouping

Unity: Euro

Grouping	2017	2018	Rate
	Amount	Amount	
Expenditure with the personnel	23,549,656	24,356,829	3,4%
Acquisition of current goods and services	2,386,484	2,623,563	9,9%
Acquisition of capital goods	233,641	202,290	-13,4%
<b>Total</b>	<b>26,169,780</b>	<b>27,182,682</b>	<b>3,9%</b>

### Personnel Expenditure

In 2018, total expenditure increased by 3.9% over the previous year. This fluctuation, essentially deriving from the upturn in personnel costs, is based on article 18 of Law no. 114/17, of 28 December, which enabled, from 1 January 2018, the valuations and remuneration add-on due to mandatory changes in remuneration positioning, progressions and changes

in level or bracket. This resulted in a costs growth with the remuneration charges. On the other hand, this amendment was supplemented by the completion of the full Counselor Judges collegiate of the Court of Auditors.

#### Development of the expenditure by entity

Unity: Euro

Entity	2017	2018	Rate
	Amount	Amount	
Headquarters	22,101,890	22,926,432	3,7%
Azores Regional Chamber	2,046,098	2,101,742	2,7%
Madeira Regional Chamber	2,021,792	2,154,508	6,6%
<b>Total</b>	<b>26,169,780</b>	<b>27,182,682</b>	<b>3,9%</b>

#### INFORMATION AND TECHNOLOGIES SYSTEMS

In 2018, and in the context of the Strategic Information Systems Development Plan - SISDP, approved by the General Plenary in conjunction with the 2017-2019 three-year plan, the work foreseen for the Court of Auditors and its support services information systems continued:

- Court Single Portal;
- Dematerialization of cases;
- Placing in operation of the integrated system for the audits accomplishment;
- Consolidation and development of internal information systems;
- Review and development of an integrated planning and management system for the Court and its support services;
- Strengthening technological infrastructures and the respective rules for their operation and use.

As far as the technological infrastructure is concerned, the server park was reinforced according to the blade architecture, with Windows Server operating systems, consolidation of the security infrastructure, along with the growth of backup systems, with the incorporation of new media, and the scrapping of older servers in compliance with the multiannual plan for increase service efficiency/energy consumption efficiency.

As for user jobs, with the gradual modernization of equipment, the migration model to the newer MS Windows operating system platforms and MS Office “family” productivity tools has been maintained.





# SIGLA

AAR	Azores Autonomous Region
AARA	Azores Autonomous Region Account
AFROSAI	African Organization of Supreme Audit Institutions
AFS	Autonomous Funds and Services
AISCCUF	Association des Institutions Supérieures de Contrôle ayant en Commun l'Usage du Français
AR	Assembly of the Republic
ASS-PA	Accounting Standardization System for the Public Administration
ARC	Azores Regional Chamber
BD	Board of Directors
BFL	Budgetary Framework Law
CA	Court of Auditors
CC	Contact Committee
CPSC	Community of the Portuguese Speaking Countries
DGCA	Directorate General of the Court of Auditors
EC	European Community
ECA	European Court of Auditors
EPSAS	European Public Sector Accounting Standards
EU	European Union
EUMETSAT	European Organisation for the Exploitation of Meteorological Satellites
EUROSAI	European Organization of Supreme Audit Institutions
EVA	External Verification of Accounts
FLC	Financial Liabilities Clearance
GIZ	Gesellschaft für Internationale Zusammenarbeit
GSA	General State Account
IDI	INTOSAI Development Initiative
IMP	Investments Multiannual Plan
INTOSAI	International Organization of Supreme Audit Institutions
IS	Integrated Services
ISSAI	International Standards of Supreme Audit Institutions
ISTA	<i>International Seed Testing Association</i>
IVA	Internal Verification of Accounts
LCALR	Local Company Activity Legal Regime
m€	Thousands of Euros
M€	Millions of Euros
MAR	Madeira Autonomous Region
MARA	Madeira Autonomous Region Account

<b>MRC</b>	Madeira Regional Chamber
<b>NATO</b>	North Atlantic Treaty Organisation
<b>OECD</b>	Organisation for Economic Cooperation and Development
<b>OLACEFS</b>	Organização Latino-Americana e do Caribe de Entidades Fiscalizadoras Superiores
<b>OPLCA</b>	Organizational and Procedural Law of the Court of Auditors
<b>OSAI</b>	Organization of the Supreme Audit Institutions
<b>PCA</b>	Portuguese Court of Auditors
<b>PPC</b>	Public Procurement Code
<b>PPP</b>	Public-Private Partnership
<b>PPS</b>	Public Prosecution Service
<b>PSAC</b>	Portuguese-Speaking African Countries
<b>RA</b>	Regional Account
<b>RC</b>	Regional Chamber
<b>RESCC</b>	Reporting, Explanatory Statements, Claims and Complaints
<b>SAE</b>	State Accounting Entity
<b>SAI</b>	Supreme Audit Institution
<b>SB</b>	State Budget
<b>SDG</b>	Sustainable Development Goals
<b>SISPD</b>	Strategic Information Systems Development Plan
<b>SSA</b>	Social Security Account
<b>UNDP</b>	United Nations Development Programme
<b>UniBFL</b>	Unity for the implementation of the Budgetary Framework Law