

REPORT ON THE PERFORMANCE AUDIT ON THE IMPLEMENTATION OF THE CONCESSION AGREEMENT FOR FINANCING, CONSTRUCTION, MAINTENANCE AND MANAGEMENT OF THE ADRIATIC MOTORWAY (*ISTARSKI IPSILON*)

(December 2019.)

SUMMARY

The State Audit Office conducted a performance audit on the implementation of the concession agreement for financing, construction, maintenance and management of the Adriatic Motorway (hereinafter: *Istarski Ipsilon*). The audit covered the period 1995 - 2018.

The subject of the audit were activities related to the award of the concession, financing, construction, maintenance and management of *Istarski Ipsilon* and monitoring and supervision of the execution of the concession agreement, as well as the results achieved by the end of 2018.

The subjects of the audit were the Ministry of the Sea, Transport and Infrastructure (hereinafter: the Ministry) and the company Bina Istra d.d., Lupoglav (hereinafter: the Concessionaire).

The objectives of the audit were to check the concession award procedure, to check whether the financing of construction and construction of *Istarski Ipsilon* was realized according to the model and conditions of the contract and within the prescribed deadlines, to check the correctness of calculation of financial contribution and concession fee, check the application of provisions, plans and internal acts related to the management and maintenance of *Istarski Ipsilon*, check whether the execution of the concession contract is monitored and supervised and assess whether the concession for financing, construction, maintenance and management of *Istarski Ipsilon* has achieved the agreement goals.

The audit found, inter alia:

- the Ministry does not monitor the annual implementation of the Plan for extraordinary maintenance and reconstruction of *Istarski Ipsilon*.
- the Ministry does not have data on the registration of the motorway as a public good in general use owned by the Republic of Croatia and the concession in the land register in the area of *Istarski Ipsilon*
- in the submitted documentation to the Ministry for calculation of available cash, the Concessionaire for 2017 and 2018 did not submit documentation on actually performed works related to the costs of extraordinary maintenance, in order to perform a complete control of documentation with the aim of monitoring the correct calculation of available cash
- according to the sub-concession agreement, facilities at *Bačva* and *Pula* rest areas are used without paying a fee to the Concessionaire, and the Ministry did not ask the Concessionaire to introduce a fee for performing ancillary activities with the sub-concessionaire in accordance with the provisions of the Rulebook on road land usage and ancillary activities on public roads

- the Ministry did not fully record the expenditures for the financial contribution in the financial records, and in accordance with the provisions of the Rulebook on budget accounting and the chart of accounts.

Based on the facts determined by audit, applying the established criteria, the State Audit Office assesses that the implementation of the concession agreement for financing, construction, maintenance and management of *Istarski Ipsilon* is effective, with some necessary improvements, because irregularities and omissions are identified but they do not significantly affect the implementation of the contract and the achievement of the objectives for which the concession was contracted.

The State Audit Office gave the following recommendations:

- monitor the annual implementation of the Plan for extraordinary maintenance and reconstruction of the *Istarski Ipsilon*

- request the submission of data from Hrvatske autoceste d.o.o., regarding the registration of a public good in general use owned by the Republic of Croatia and the concession in the land register in the area of the *Istarski Ipsilon*

- request timely submission of documentation from the Concessionaire on actually performed works (temporary and completed construction situations, handover records, etc.), so that a complete control of the documentation can be performed in order to monitor the correct calculation of available cash

- request the Concessionaire to introduce a fee for performing ancillary activities with the sub-concessionaire in accordance with the provisions of the Rulebook on the use of road land and conducting ancillary activities on public roads

- report expenditures in the financial records in accordance with the provisions of the Rulebook on budget accounting and the chart of accounts.

The State Audit Office is of the opinion that, although the construction, maintenance and management of *Istarski Ipsilon* is mostly carried out in accordance with the concession agreement, the implementation of which is subject to audit, not fully satisfactory activities were taken in relation to concession award, construction and financing of *Istarski Ipsilon*, because the Ministry does not have the documentation on the basis of which the concession was granted, by the time of the audit the highway was not completely built and on 48,0 km of road traffic is two-way (one lane was built), and loan repayment is still mostly made from financial contribution, which in the last ten years makes 57.0% of the sources of financing of the Concessionaire.

The State Audit Office is of the opinion that the implementation of stated orders and recommendations would contribute to the elimination of identified irregularities and omissions, which would increase the efficiency of the implementation of the concession agreement and the award of future concessions.