

REPORT ON THE WORK OF THE STATE AUDIT OFFICE FOR 2019

(March 2020)

Mission

The State Audit Office was established by the Constitution of the Republic of Croatia as the supreme audit institution of the Republic of Croatia. It audits the financial statements and operations of audited entities determined by law, checks the compliance of their operations with applicable regulations, assesses the effectiveness, efficiency and economy of managing public funds and gives recommendations to eliminate irregularities and improve operations. It reports on its work to the Croatian Parliament and other interested public.

Vision

The State Audit Office is focused on good governance in the public sector, transparency, public accountability and action in the interest of citizens.

Values

The values represent the starting point or guidelines that determine the actions of the State Audit Office and its employees. They refer to autonomy, independence, integrity, responsibility and reliability in the work of the State Audit Office, as well as professionalism, responsibility and reliability, impartiality, conscientiousness, ethics and team work of employees.

Core values related to autonomy, independence, integrity, accountability and reliability are a prerequisite for performing the tasks of the State Audit Office in a way that will provide the Croatian Parliament and other interested public with the confidence and assurance that reports on conducted audits and the report on audit as a whole, contain accurate, objective and fact-based information, conclusions and recommendations, without the influence of audit subjects and other factors. All employees of the State Audit Office should respect the fundamental values of professionalism, responsibility and reliability, impartiality, conscientiousness, ethics and teamwork, because their work should directly contribute to the quality of work of the State Audit Office. Therefore the role of each employee is important for the successful operation of the State Audit Office.

Goals

The general objective of the State Audit Office is to perform tasks in accordance with the provisions of the State Audit Office Act, whereby the International Standards of Supreme Audit Institutions should be applied and the Code of Professional Ethics of State Auditors should be respected.

The specific objectives of the State Audit Office are: strengthening the institutional and legal framework, capacity development, further developing and harmonising the methodology and manner of work of the State Audit Office with the International Standards of Supreme Audit Institutions, increasing the efficiency of the State Audit Office and strengthening international cooperation.

What did we do during 2019?

- For the 2019 financial year, the State Audit Office submitted to the Croatian Parliament 242 reports on the conducted financial audit and 25 reports on the conducted performance audit, in order to inform the Croatian Parliament on the regularity and efficiency of audited entities in managing public funds.
- The mentioned performance audits covered 566 entities and 1 984 recommendations were given in order to increase economy, efficiency and effectiveness, improve the legal framework and improve services to citizens.
- For areas that are not or are not sufficiently normatively regulated and the subjects of audit act differently, the State Audit Office proposed that these areas should be regulated.
- The Committee on Finance and the State Budget of the Croatian Parliament discussed reports on the financial audit of political parties, independent representatives and members of representative bodies of local units elected from the list of voters in 2017, reports on the audit of state budget users, local units, student centres, national parks and nature parks, and the report on the audit of the annual report on the execution of the State Budget of the Republic of Croatia for 2018. These reports were also discussed at the plenary session of the Croatian Parliament. Furthermore, the said Committee also discussed the reports on the audit of the efficiency of the management and disposal of football stadiums and playgrounds; establishment and use of the information system of centralised payroll and on the audit of the effectiveness of the implementation of the concession agreement for the Adriatic Motorway (Istarski ipsilon) and the concession of the Zagreb - Macelj Motorway.
- In addition, 49 reports were compiled on the verification of the implementation of the given recommendations in previous audits.
- Furthermore, the State Audit Office conducted 102 reviews of the financial statements of non-parliamentary political parties and members of representative bodies of local and regional self-government units elected from the list of a group of voters.
- The State Audit Office submitted to the State Attorney's Office of the Republic of Croatia all reports on conducted audits and notifications on established violations of the Act on Financing Political Activities and Election Campaigns (which was in force until March 24, 2019), the Act on Financing Political Activities, propaganda and referendum and the new State Audit Office Act.
- Three press conferences were held, at which media representatives were provided with basic information on audits and identified irregularities, in order to acquaint the public with the work of the State Audit Office, but also with the regularity and efficiency of public funds management of audited entities.
- During 2019, the State Audit Office strengthened its capacity through training and employment, in order to ensure the preconditions for professional, ethical as well as responsible and transparent work of the State Audit Office.
- The State Audit Office participated in international activities that contributed to harmonising the methodology with international standards, achieving strategic goals of professional international organizations of which the State Audit Office is a member, monitoring the development of the audit profession worldwide, developing the audit profession based on its own knowledge and experiences, and exchange of knowledge and experience of supreme audit institutions.

SUMMARY

During 2019, the State Audit Office planned to perform 244 financial audits, 47 performance audits, 49 audits of the implementation of recommendations, and 102 reviews of financial statements. A financial audit of two entities (a non-profit organisation and a company owned by a local unit) and performance audits of Implementation of Health Development Strategy and Management of Magnetic Resonance Waiting Lists and Sale of Shares in a State-Owned Company are underway. All other audits were carried out and reports submitted to the Croatian Parliament. Within this Report on the work of the State Audit Office for 2019, the results of conducted audits of audited entities are briefly stated by groups, and more about the audit results can be read in individual and summary reports, published on the website of the State Audit Office (www.revizija.hr).

A) FINANCIAL AUDITS

The financial audit covered 242 entities at the state and local level: state budget and users; local units; budget users of local units; companies owned by local units; national parks and nature parks; political parties, independent representatives and members of representative bodies of local units elected from the list of a group of voters; port authorities; student centres; sports associations and other non-profit organisations. The subject of the audit was the financial statements and operations, while the objectives of the audit were to verify the truthfulness and credibility of the financial statements, to verify compliance with laws and other regulations that have a significant impact on operations, to verify the implementation of orders and recommendations from previous audits and other activities of regarding the business of the entity. In these audits, 130 unqualified, 109 qualified and three adverse opinions were expressed on the financial statements, and 140 unqualified, 98 qualified and three adverse opinions were expressed on the compliance of operations.

State budget and users

In addition to the audit of the Annual Report on the Execution of the State Budget of the Republic of Croatia for 2018, a financial audit of 25 users of the state budget was conducted.

A qualified opinion has been expressed on the Annual Report on the Execution of the State Budget of the Republic of Croatia for 2018. 14 unqualified and eleven qualified opinions were expressed on the financial reports of the users of the state budget for 2018, as well as on the compliance of operations.

Local units

The State Audit Office conducted a financial audit of 75 local units (20 counties, 29 cities and 26 municipalities), which included the financial statements and operations for 2018.

38 unqualified, 35 qualified and two adverse opinions were expressed on the financial statements, and 40 unqualified, 34 qualified and one adverse opinion on the compliance of operations.

Budget users of local units

The State Audit Office conducted a financial audit of five budget users, whose founders are the counties. The audit covered the financial statements and operations, for four entities for 2017 and for one entity for 2018.

Three unqualified and two qualified opinions were expressed on the financial statements, as well as on the compliance of operations.

Companies owned by local units

The State Audit Office conducted a financial audit of three companies owned by local units, which included the financial statements and operations for 2018.

One unqualified and two qualified opinions were expressed on the financial statements, and two unqualified and one qualified opinion on the compliance of operations.

National parks and nature parks

The State Audit Office conducted a financial audit of 19 public institutions that manage national parks and nature parks, which included their financial statements and operations for 2017.

Ten unqualified and nine qualified opinions were expressed on the financial statements, and 12 unqualified, six qualified opinions and one adverse opinion on the compliance of operations.

Political parties, independent representatives and members of representative bodies of local units

The State Audit Office conducted a financial audit of 45 political parties and six independent MPs, which included the financial statements and operations for 2018. Also, an audit of the submission of annual financial reports of political parties, independent MPs and members of representative bodies of local units elected from the list of group of voters, whose mandate is ongoing, and the publication of financial reports of political parties and independent representatives. In addition, the financial statements of 43 non-parliamentary political parties and 59 members of representative bodies of local units elected from the list of a group of voters who failed to submit annual financial reports with their constituent parts to the State Audit Office within the statutory deadline were reviewed.

27 unqualified and 18 qualified opinions were expressed on the financial reports of political parties, and 37 unqualified and eight qualified opinions on compliance of operations.

Port Authorities

The State Audit Office conducted the financial audit of 24 port authorities, which included the financial statements and operations for 2017.

16 unqualified and eight qualified opinions were expressed on the financial statements, and 12 unqualified, eleven qualified and one adverse opinion on the compliance of operations.

Student centres

The State Audit Office conducted a financial audit of 12 student centres, which included the financial statements and operations for 2017 (eleven student centres) and 2018 (one student center).

Six unqualified and six qualified opinions were expressed on the financial statements, and five unqualified and seven qualified opinions on the compliance of operations.

Sports associations

The State Audit Office conducted a financial audit of 24 sports associations, which included the financial statements and operations for 2018.

Eight unqualified and 16 qualified opinions were expressed on the financial statements, as well as on the compliance of operations.

Other non - profit organisations

The State Audit Office conducted a financial audit of three other non-profit organisations (two voluntary fire brigades and one tourist board).

One unqualified, qualified and adverse opinion was expressed on the financial statements, and one unqualified opinion and two qualified opinions on the compliance of operations.

B) PERFORMANCE AUDITS

In this reporting period, the performance audit covered the following topics: establishment and use of the information system of centralised calculation of salaries and human resources management in state administration bodies and other budget users; implementation of the Concession Agreement for financing, construction and economic use and maintenance of the Zagreb - Macelj Motorway and its ancillary facilities on the road land; implementation of the concession agreement for financing, construction, maintenance and management of the Adriatic Motorway; management and disposal of football stadiums and playgrounds owned by local self-government units and implementation of measures and activities taken to alleviate poverty in the Republic of Croatia.

C) VERIFICATION OF THE IMPLEMENTATION OF ORDERS AND RECOMMENDATIONS

The State Audit Office checks the implementation of recommendations given to audited entities in the previous audit.

Pursuant to the provisions of State Audit Office Act, which entered into force in March 2019, the audited entity is obliged to implement of orders and recommendations given in the audit report within the deadlines and in the manner specified in the plan of implementation of orders and recommendations, which is obliged to submit to the State Audit Office within 60 days of receipt of the final audit report. In addition, he is obliged to inform the State Audit Office in writing about the implementation of an individual order or recommendation within 30 days from the expiration of the planned implementation time.

The State Audit Office verifies the implementation of orders and recommendations to the extent provided for in the annual program and work plan, and submits a report on the verification of the implementation of orders and recommendations to the legal representative of the audited entity

and the Croatian Parliament. In addition, according to the provisions of the said Act, the State Audit Office notifies the State Attorney's Office of the Republic of Croatia of orders and recommendations that have not been implemented and of failure to submit the plan for the implementation of orders and recommendations within the prescribed period. Since the said Act entered into force in March 2019, notifications to the State Attorney's Office of the Republic of Croatia will be submitted for non-compliance with orders and recommendations given in audits for which the audit report became final after the entry into force of this Act.

In accordance with the above, the State Audit Office checks within each financial audit whether the entity has acted on the given orders and recommendations and whether it eliminates the identified irregularities and omissions within the deadlines specified in the plan for the implementation of orders and recommendations.

The status of orders and recommendations (implemented, partially implemented, in the process of implementation, not implemented or not applicable), is stated in the audit report.

Out of a total of 1,406 orders and recommendations given in previous audits, 795 or 56.5% were implemented, 112 or 8.0% were partially implemented, 111 or 7.9% were in the process of implementation, and 290 or 20.6% were not carried out, while 98 or 7.0% of orders and recommendations are not applicable.

In addition, within the specific audit procedures, the State Audit Office performed 49 verifications on the implementation of orders and recommendations for performance audits (public procurement, work of supervisory boards, economic justification of differences in utility prices, fraud prevention and detection, and achievement of results and business objectives) and financial audit of companies. The checks covered 196 companies. Of the 1,703 recommendations given, 840 were implemented and 863 were not implemented.

D) OTHER BUSINESS OF THE OFFICE

In addition to audit work, the State Audit Office also performs cooperation with judicial and other bodies, as well as international cooperation.

Cooperation with other bodies includes the exchange of documents and reports, answers to inquiries, requests and submissions, providing clarifications, data and other information available to the State Audit Office, and participation in organised meetings related to audit matters. As a result, in this reporting period, reports, documentation and additional explanations were submitted to other state bodies for 90 audit entities (of which at the request of the attorney's office for 73 entities, the police for 15 and courts for two entities).

All reports on the conducted audit were submitted to the State Attorney's Office of the Republic of Croatia. In addition, documentation and information were provided for the audited entities to whom was expressed an adverse opinion on operations, as well as information regarding the untimely submission of the plan for the implementation of recommendations for five entities.

Furthermore, the State Attorney's Office of the Republic of Croatia received 36 notifications for political parties and independent representatives for which irregularities in operations were revealed during financial audit for 2018. Also, 27 notifications for political parties and 15 notifications for members of representative bodies of local units elected from the list of a group of voters were submitted to the State Attorney's Office, who did not submit financial reports for 2018 to the State Audit Office.

International cooperation of the State Audit Office is based on the following main goals: constant harmonisation of methodology with international standards, cooperation in achieving strategic goals of professional international organisations of which the State Audit Office is a member, monitoring modern directions of development of the audit profession in the world, contributing to development of an audit profession based on the own knowledge and experience and informing others about the work, results and professional achievements of the State Audit Office.

As a member of the International Organisation of Supreme Audit Institutions - INTOSAI and its regional organisation - EUROSAI, the State Audit Office achieves these goals by participating in international congresses, conferences, seminars and workshops by participating in various professional committees and working groups as well as by bilateral cooperation with the Supreme Audit Institutions of other countries.

In this reporting period, the State Audit Office continued to actively participate in the work of the EUROSAI Task Force on Audit and Ethics and EUROSAI Task Force on Municipality Audit. The State Audit Office performed a parallel audit with the Supreme Audit Institutions of Hungary, Bulgaria, Latvia and Slovakia, and initiated a parallel audit with the Supreme Audit Institutions of Italy, Slovenia, Bosnia and Herzegovina, Montenegro and Albania, coordinated by the State Audit Office.

Activities related to the Twinning project of capacity building of the Supreme Audit Institution of the Republic of North Macedonia, which the State Audit Office has been implementing since January 2018 with the National Audit Office of Bulgaria, have been completed. During 2018 and 2019, the State Audit Office, together with the State Audit Office of Poland, conducted a peer-review of the ethical framework of the European Court of Auditors.

As a member of the EU Contact Committee, the State Audit Office participates in the activities of the Committee and its working groups: for fiscal policy, for the EU Banking Union, for the prevention and fight against irregularities and fraud and for independent evaluation of national economic policies.

E) EMPLOYEES

For all tasks in the State Audit Office, which consists of the Central Office in Zagreb and 20 regional offices in the county headquarters, 370 vacancies were systematised, and on 31 December 2019, 291 vacancies were filled.

Of the stated number of employees, two are state officials, 214 are certified state auditors, ten state auditors (did not obtain a certificate of certified state auditor), and 17 are assistant auditors (did not obtain a certificate of certified state auditor). In addition to the above, 40 civil servants and eight employees perform IT, financial-accounting, personnel and administrative tasks, public and simple procurement, safety and protection at work, and general and technical tasks. Unfilled vacancies (21.4%) are mostly related to certified state auditors.

According to the qualification structure, 244 employees or 83.8% have a university degree (economics, law, IT or other relevant professions), of which four are doctors of science, 14 masters of science and four masters' specialists.

Of the total number of employees, 81.0% are women. The average age of employees of the State Audit Office is 47.4 years, and 137 or 47.1% of employees are 50 or older.

F) AUDIT OF FINANCIAL STATEMENTS AND OPERATIONS

The State Audit Office prepares its financial statements in accordance with the law governing budget processes and its bylaws. The annual financial statements are subject to audit, which is performed in accordance with audit regulations. In the opinion of the independent auditor, the financial statements in all material respects present truthfully and fairly the financial position of the State Audit Office as at 31 December 2019, and the financial efficacy of meeting the objectives (of operations) of the State Audit Office for 2019, in accordance with the Ordinance on budget accounting and chart of accounts. The Annual Financial Statements and the Independent Auditor's Report for 2019 are an integral part of the SAO's Annual Work Report.