

## SALE OF SHARES AND BUSINESS SHARES IN STATE - OWNED COMPANIES

(April 2020)

### SUMMARY

The SAO conducted two performance audits in companies owned by the Republic of Croatia, namely a performance audit of the sale of shares in the Hrvatsko mirovinsko investicijsko društvo d.o.o. for the period 2016-2018 and a performance audit of the sale of shares and business stakes in Hrvatske ceste d.o.o. for the period 2015 - 2018.

The subject of the audit at **Hrvatsko mirovinsko investicijsko društvo d.o.o.** was the sale of shares of companies from the capital fund portfolio managed by the company.

The audit objectives were to verify whether the sale of the shares achieved the objectives in accordance with strategic and regulatory requirements, to verify whether the sale of the shares of the companies was planned and carried out in accordance with the regulations and to assess whether the purpose of the sale was achieved.

According to analytical records, at the end of 2016 the capital fund portfolio consisted of financial instruments (shares, investment in investment funds and bonds) of 42 companies with a total market value of HRK 1,355,226,443.00, and at the end of 2017 the portfolio consisted of financial instruments (shares, investments in money market funds and bonds) of 38 companies with a total market value of HRK 1,421,562,088.00, while at the end of 2018 the equity fund portfolio consisted of financial instruments (investments in money market funds and bonds) of HRK 1,77.31.

Depending on market conditions, in accordance with strategic and tactical allocation of assets, the company makes investment decisions on purchase or sale.

The criteria for expressing the assessment of effectiveness were:

- whether the sale of shares meets the objectives in accordance with strategic and regulatory requirements
- whether the sale of shares of companies is planned in accordance with the regulations
- whether it was performed in accordance with the regulations,
- whether the purpose of the sale has been achieved.

The audit covers the sale of shares of 24 companies in the capital fund portfolio. It covers shares of 21 companies sold from 2016 to 2018 for HRK 313,383,696.00. In addition to these shares, the audit also covers the sale of 3 899 297 shares of three companies with a nominal value of HRK 11,160,050.00. These companies were audited because they are in bankruptcy proceedings and the market value of the shares of these companies in the capital fund portfolio from 2016 to 2018 is HRK 0,00. Out of these three companies, the sale of shares of the two companies took place between 2016 and 2018 and the shares of one company were sold in 2019.

On the basis of the facts established and taking into account the objectives of the audit, the SAO assessed that the company was selling the shares from the capital fund portfolio **purposefully and cost-effective, requiring some improvements.**

## Audit findings

The audit revealed weaknesses and omissions related to the purpose of selling shares in eight companies, for which four recommendations were given, which presented in more detail in a report published on the SAO website.

The subject of audit in **Hrvatske ceste d.o.o.** were activities related to the sale of shares and business stakes of companies owned by the company.

The audit objectives were to verify whether the sale of shares and business shares achieved the objectives in accordance with strategic and regulatory requirements, to verify whether the sale of shares and business stakes of the companies was planned and carried out in accordance with the regulations and to assess whether the purpose of the sale was achieved.

From 2001 to 2014, the company acquired shares and business stakes of eleven companies (Poduzeće za ceste Varaždin d.d., Varaždin, Ceste d.d., Bjelovar, Ceste Karlovac d.d., Karlovac, Istarske ceste d.o.o., Pula, Ceste Sisak d.o.o., Sisak, Ceste Zadarska županija d.o.o., Zadar, Cesting d.o.o., Osijek, Privredna banka Zagreb d.d., Zagreb, Istarska kreditna banka Umag d.d., Umag, Pevec d.d. Bjelovar and Industrogradnja d.d. Zagreb) has a total nominal value of HRK 10,938,965.00 on the basis of a share transfer agreement and a business stakes in the privatisation process of companies concluded with counties and pre-bankruptcy settlement with one company (Industrogradnja d.d. Zagreb) for the purpose of settling claims.

The criteria for expressing the assessment of effectiveness were:

- whether the sale of shares and business stakes has achieved the objectives in accordance with strategic and regulatory requirements
- whether the sale of shares and business stakes of companies is planned in accordance with the regulations
- whether it was performed in accordance with the regulations
- whether the purpose of the sale has been achieved.

Based on the established facts and taking into account the objectives of the audit, the SAO estimated that **achieving greater effectiveness in the sale of shares and business stakes would affect the undertaking of certain activities.**

## Audit findings

The audit revealed irregularities and omissions relating to the planning of the sale of shares and business stakes of companies, the sale of shares and business stakes and the achievement of the purpose of the sale, for which eight recommendations were made, which is detailed in the report published on the SAO website.

The audit identified irregularities and omissions related to the planning of the sale of shares and business stakes in companies, the sale of shares and business stakes and the realisation of the purpose of the sale, for which eight recommendations were made, as detailed in the report published on the SAO website.

The SAO assessed that the implementation of these recommendations would increase the effectiveness of the sale of shares and business stakes while achieving a higher level of good governance of public property.