



REPUBLIC OF CROATIA
STATE AUDIT OFFICE

Zagreb, March 2025.

2024

REPORT ON
THE WORK
OF THE STATE
AUDIT OFFICE



SUMMARY

In this Report on the Work of the State Audit Office for 2024, information on the competence of the Office, audit procedures, expressed opinions and given evaluations, data on the Annual Program and Work Plan, as well as data on performed audits according to types of audit, groups of subjects and subject of audit, as well as the verification of the implementation of orders and recommendations, is briefly stated. The Report, among other things, contains information on other activities of the Office, activities from the Strategic Plan for the period 2023 - 2027, the internal audit activities carried out and the assessment of users and auditees on the quality of the Office's work. In addition, an integral part of this Report is the Independent Auditor's Report on the Audit of the Annual Financial Statements of the Office for 2024 and the Annual Report on the Execution of the Office's Financial Plan for 2024.

During 2024, the Office planned to conduct 220 audits (of which 194 financial audits, 22 performance audits and 4 compliance audits) and 90 verifications of the implementation of orders and recommendations.

181 audits were carried out (of which 156 financial audits, 22 performance audits and 3 compliance audits) and 69 verifications of the implementation of orders and recommendations.

38 financial audits, one compliance audit and 21 verifications of the implementation of orders and recommendations in the area of counties and the City of Zagreb, i.e. orders and recommendations given to 537 cities and municipalities in the performance audit, are ongoing.

A) FINANCIAL AUDITS

The financial audit covered 156 entities, namely: the state budget; eleven budgetary beneficiaries of the state budget; one extra-budgetary beneficiary of the state budget; 25 local and regional self-government units; 57 entities within the framework of the thematic audit – 18 hospital health institutions, 22 public health institutes and 17 health centers; one budgetary beneficiary of a local and regional self-government unit; two non-profit organisations; six companies owned by local and regional self-government units; 47 political parties and five independent representatives. The subject of the audit was the financial statements and operations of the audited entities. The objectives of the audit were to verify the truthfulness and credibility of the financial statements, the compliance of operations with laws and other regulations that have a significant impact on operations, the implementation of orders and recommendations from previous audits, as well as other activities related to the operations of the audited entities, and to express an opinion on whether the financial statements have been prepared in all material respects in accordance with the applicable financial reporting framework, and the operations have been aligned with laws, other regulations and internal acts.



In these audits, 87 unqualified opinions, 67 qualified opinions, one reserved opinion and one adverse opinion were expressed on the financial statements.

102 unqualified opinions, 51 qualified opinions, one reserved opinion and one adverse opinion were expressed on the compliance of operations.

For the Annual Report on the Execution of the State Budget of the Republic of Croatia for 2023, only an opinion on the financial statements was expressed.

The most common irregularities identified in the entities covered by the audit (which influenced the expression of a qualified, reserved and adverse opinion) related to: accounting and financial reporting (76 entities), public procurement (41 entities), expenditures and liabilities (32 entities), planning and execution of the plan, i.e. the achievement of the annual work program (30 entities), revenues and receivables (23 entities) and the internal control system (18 entities).

◆ ANNUAL REPORT ON THE EXECUTION OF THE STATE BUDGET

The audit of the Annual Report on the Execution of the State Budget of the Republic of Croatia was carried out for 2023. The audit was planned and carried out with the aim of expressing an opinion on whether the Annual Report for 2023 was prepared, in all material respects, in accordance with the prescribed reporting framework. The criteria for expressing an opinion were the regulations governing the framework of financial reporting on budget execution.

A qualified opinion was expressed on the 2023 Annual Report.

Total revenues for 2023 were reported in the amount of 27.366.288.523,46 euros, and total expenditures in the amount of 28.095.373.151,99 euros, and the state budget deficit was reported in the amount of 729.084.628,53 euros.

Receipts from financial assets and borrowings were reported in the amount of 7.242.222.856,83 euros, and expenditures for financial assets and loan repayments in the amount of 4.963.288.895,83 euros, and the surplus of receipts amounts to 2.278.933.961,00 euros. Uncollected receivables for revenues of the state budget and budget beneficiaries of the state budget at the end of 2023 amount to 2.167.161.599,40 euros, and due and outstanding liabilities of the budget and budget beneficiaries of the state budget amount to 260.539.111,37 euros.

According to the data from the Report on Borrowing on the Domestic and Foreign Money and Capital Markets for 2023, the debt of the state budget related to obligations for securities, credits and loans contracted or assumed by the Ministry of Finance at the end of 2023 amounted to 41.293.176.814,22 euros, of which 38.650.917.575,26 euros refers to long-term debt obligations, and short-term 2.642.259.238,96 euros.

Together with total guarantees as potential liabilities that could be paid from the state budget, which are stated in the amount of 6.760.963.779,25 euros, the total debt amounts to 48.054.140.593,47 euros.

In order to eliminate the irregularities identified by the audit in the areas of preparation and execution of the state budget, accounting framework and reporting, 15 orders



and recommendations were given, the implementation of which would contribute to increasing the transparency of the use of budget funds.

The 2023 audit also examined whether the Ministry of Finance had acted on the orders and recommendations made in previous audits. It was found that, of the 53 orders and recommendations made in previous audits, 38 or 71,7% had been implemented, 12 or 22,6% were in the process of being implemented, while three or 5,7% had been partially implemented.

◆ STATE BUDGET BENEFICIARIES

The Office's Program and Work Plan for 2024 plans to conduct financial audits of 13 state budget beneficiaries, of which eleven budget beneficiaries and one extra-budgetary beneficiary have been audited, while the audit of one state budget beneficiary is ongoing.

The subject of the financial audit of two state budget beneficiaries (the Ministry of Justice and Administration and the Ministry of Tourism and Sports) was the financial statements and operations for 2022, while the subject of the audit of ten state budget beneficiaries was the financial statements and operations for 2023.

The total revenues and receipts of the two state budget beneficiaries whose financial statements and operations for 2022 were audited amounted to 221.417.328,29 euros, and total expenditures and expenses amounted to 223.041.664,58 euros. The value of the total assets, liabilities and own sources of these state budget beneficiaries was stated at 98.111.439,24 euros.

The total revenues and receipts of the ten state budget beneficiaries whose financial reports and operations for 2023 were included amounted to 5.996.275.428,19 euros, and total expenditures and expenses amounted to 5.874.819.713,37 euros. The value of the total assets, liabilities and own sources of these state budget beneficiaries was stated in the amount of 13.814.534.097,32 euros.

Eleven unqualified and one qualified opinion were expressed on the financial statements of state budget beneficiaries, as well as on the compliance of operations.

The financial audit identified irregularities and omissions that, for the most part, did not affect the expression of an opinion on the financial statements and the compliance of operations, except for the Ministry of Physical Planning, Construction and State Property and the Ministry of Science and Education. The audit areas in which irregularities were identified that affected the expression of a qualified opinion related to the scope of work, planning and execution of the plan, accounting and financial reporting, and expenditures.

For irregularities and omissions identified during the audit, the Office issued a total of 111 orders and recommendations to state budget beneficiaries, the implementation of which would contribute to more accurate and realistic presentation of data in financial statements and increased compliance with laws, other regulations and internal acts.

Furthermore, it was found that, out of a total of 127 orders and recommendations issued in past audits, 84 or 66,2% of orders and recommendations were implemented, 32 or



25,2% were partially implemented, six or 4,7% were not implemented, and five or 3,9% of orders and recommendations were not applicable due to changed regulations and circumstances.

◆ LOCAL AND REGIONAL SELF-GOVERNMENT UNITS

The Office's Program and Work Plan for 2024 plans to conduct financial audits of 46 local and regional self-government units, of which 25 local and regional self-government units have been audited, and the audit of 21 local and regional self-government units is in progress (hereinafter referred to as: local units).

The subject of the financial audit of the local units included in the audit was the financial statements and operations for 2022.

The total income and receipts of the local units included in the audit amounted to 1.031.169.813,76 euros, and the total expenses and expenditures amounted to 985.410.171,27 euros. The surplus of income and receipts reported by 17 local units amounted to 60.253.785,43 euros, while the deficit of income and receipts for eight units amounted to 14.494.142,94 euros. The total value of assets, liabilities and own resources of local units was reported in the amount of 4.071.144.586,62 euros.

13 unqualified and 12 qualified opinions were expressed on the financial statements and on the compliance of local units' operations.

The audit identified irregularities and omissions in the area of internal control systems, budget planning and execution, accounting and financial reporting, revenues and receivables, expenditures and business results, public procurement and asset management, and other irregularities.

A total of 326 orders and recommendations were given to local units.

In addition, the audit found that, out of 187 orders and recommendations given to these local units, 123 or 65,8% were implemented in previous audits, 23 or 12,3% were partially implemented, 27 or 14,4% were not implemented, and due to changes in regulations or because local units did not have activities for which orders and recommendations were given, 14 or 7,5% of orders and recommendations were not applicable.

◆ THEMATIC AUDITS

During this reporting period, the Office conducted 57 thematic audits, i.e. financial audits, covering 18 hospital health institutions, 22 public health institutes and 17 health centers.

HOSPITAL HEALTH INSTITUTIONS

According to the Program and Work Plan of the Office for 2023 and 2024, it is planned to carry out a financial audit of a total of 56 hospital health institutions, namely 13 clinical institutions, 21 general hospitals and 22 special hospitals.



During 2023 and 2024, an audit of all 56 hospital health institutions was carried out, of which 18 hospital health institutions were audited during 2024 (five clinical institutions, two general hospitals and eleven special hospitals).

The subject of the audit was the financial statements and operations for 2022. In addition to the individual audit reports, a consolidated report on the financial audits of hospital health institutions for 2022 was compiled, which, among other things, contains an analysis of the most significant indicators of the operations of hospital health institutions, a summary of the identified irregularities and omissions by audit area, and the orders and recommendations given to eliminate the identified irregularities and omissions.

The total income and receipts of the hospital health institutions included in the audit amounted to 389.415.468,71 euros, and the total expenses and expenditures amounted to 407.143.379,52 euros. The surplus of income and receipts reported by nine hospital health institutions amounted to 5.217.648,28 euros, while the deficit of income and receipts reported by nine institutions amounted to 22.945.559,09 euros. The total value of assets, liabilities and own resources was stated in the amount of 330.570.500,76 euros.

Six unqualified and 12 qualified opinions were expressed on the financial statements of hospital healthcare institutions for 2022, and seven unqualified and eleven qualified opinions were expressed on the compliance of operations.

The audit identified irregularities and omissions in the area of the internal control system, planning and execution of the plan, accounting and financial reporting, revenues and receivables, expenditures and business results, liabilities and revenue deficit, public procurement and other irregularities.

A total of 297 orders and recommendations were issued to hospital health institutions for identified irregularities and omissions.

It was also determined that, of the 136 orders and recommendations issued in past audits, 83 or 61,0% were implemented, 29 or 21,3% were not implemented, 16 or 11,8% were partially implemented, and eight or 5,9% of orders and recommendations were not applicable due to changes in regulations and other circumstances.

PUBLIC HEALTH INSTITUTES

During 2024, the Office conducted a financial audit of 22 public health institutes, namely the Croatian Public Health Institute, which is a budget beneficiary of the state budget, and 21 public health institutes that are budget beneficiaries of regional self-government units and the City of Zagreb (hereinafter referred to as: county public health institutes).

The subject of the audit of the Public Health Institute was the financial statements and operations for 2023.

Total revenues and receipts of the public health institutes included in the audit amounted to 278.890.049,97 euros, and total expenditures and expenses amounted to 279.773.389,57 euros. Surplus revenues and receipts were reported by the Croatian Institute of Public Health in the amount of 6.370.449,60 euros and nine county institutes in the amount of 1.604.052,58 euros, while a deficit of revenues and receipts was reported by 12 county institutes in the amount of 8.857.841,78 euros. The total value



of assets, liabilities and own resources of all institutes was reported in the amount of 186.329.938,64 euros.

Eight unqualified, 13 qualified and one adverse opinions were expressed on the financial statements of the public health institutes, and 15 unqualified, six qualified and one adverse opinions were expressed on the compliance of operations.

The audit identified irregularities and omissions in the areas of scope and internal organization, internal control system, planning and execution of the plan, accounting operations and financial reporting, revenues and receivables, expenditures and business results, public procurement and assets.

In order to eliminate the identified irregularities and omissions, the Office issued 261 orders and recommendations to public health institutes.

HEALTH CENTERS

During 2024, the Office conducted an audit of 17 health centers, which included the financial statements and operations of health centers for 2023. In addition to individual reports on the audit, a Consolidated Report on Financial Audits of Health Centers was also prepared, which contains an analysis of important indicators on the operations of health centers, grouped irregularities and omissions by audit area, as well as orders and recommendations that, if implemented by health centers, will contribute to improving the regularity of their operations.

The total income and receipts of these health centers amounted to 232.218.408,55 euros, and the total expenses and expenditures amounted to 239.358.931,12 euros. Five health centers reported a surplus of income and receipts in the amount of 1.388.799,36 euros, while 12 health centers reported a deficit of income and receipts in the amount of 8.529.321,93 euros. The total value of assets, liabilities and own resources of the health centers was 198.575.135,35 euros.

Five unqualified and 12 qualified opinions were expressed on the financial statements of health centers, as well as on the compliance of operations.

The financial audit identified irregularities and omissions in the areas of internal control systems, planning and execution of plans, accounting and financial reporting, expenditures, liabilities and revenue deficit, and public procurement. The largest number of orders was issued in the area of accounting, i.e. for irregularities that affected the accuracy and reality of data presented in financial statements.

A total of 327 orders and recommendations were issued to health centers for all identified irregularities and omissions.

◆ BUDGET BENEFICIARIES OF LOCAL AND REGIONAL SELF-GOVERNMENT UNITS

During this reporting period, the Office planned to conduct a financial audit of four budget beneficiaries of local and regional self-government units, of which one beneficiary (Bedečkovčina High School) was audited, and three audits are ongoing and will be completed during 2025.



BEDEKOVČINA HIGH SCHOOL

The subject of the financial audit of the High School was the financial statements and operations for 2023. The High School generated revenues in the amount of 3.484.362,85 euros and expenditures in the amount of 3.585.219,99 euros, and a revenue deficit in the amount of 100.857,14 euros. It reported assets, liabilities, and own resources in the amount of 4.713.047,23 euros.

An unqualified opinion was expressed on the financial statements of the High School, and a qualified opinion on the compliance of operations.

The audit identified irregularities and omissions in the area of planning, revenue, claims and public procurement, and seven orders and recommendations were issued to eliminate them.

◆ NON-PROFIT ORGANIZATIONS

The Office conducted a financial audit of two non-profit organizations, covering financial statements and operations for 2023.

The total income of these entities amounted to 2.108.815,57 euros, and total expenses to 1.529.222,60 euros. The reported income surplus of both non-profit organizations amounted to 579.592,97 euros, and the total value of assets, liabilities and own sources amounted to 2.375.532,97 euros.

Qualified opinions were expressed on the financial statements and compliance of the non-profit organizations' operations.

The audit identified irregularities and omissions in the areas of scope and internal organization, internal control system, planning, accounting operations and financial reports, revenues and expenses and public procurement.

In order to eliminate the identified irregularities and omissions, the Office issued a total of 36 orders and recommendations to non-profit organizations.

◆ TRADE COMPANIES OWNED BY LOCAL AND REGIONAL SELF-GOVERNMENT UNITS

In this reporting period, it was planned to conduct a financial audit of 16 companies owned by local and regional self-government units. Six companies have been audited, and ten companies are currently under audit and will be completed in 2025.

The subject of the audit was the financial statements and operations for 2023.

The total income of these companies amounted to 13.509.939,91 euros, and total expenses to 13.351.508,46 euros. Five companies reported a profit in the total amount of 13.351.508,46 euros, and one company reported a loss in the amount of 22.105,13 euros. The total value of assets, liabilities and capital of these companies was reported in the amount of 98.291.531,53 euros.



Three unqualified and three qualified opinions were expressed on the financial statements of companies owned by local units, and one unqualified and five qualified opinions were expressed on the compliance of operations.

The audit identified irregularities and omissions in the areas of internal control systems, planning, accounting and financial reporting, revenues and receivables, expenditures and liabilities, public procurement, and other irregularities.

In order to eliminate the identified irregularities and omissions, the Office issued 49 orders and recommendations in the audit of five companies. The company Vodovod Korenica d.o.o. was deleted from the court register in January 2025 (because it was annexed to the acquiring company) and the State Audit Office did not issue orders and recommendations to this company for irregularities and omissions determined by the audit.

In addition, it was determined that 12 orders and recommendations were issued in previous audits of these companies (which relate to two companies because for four companies the audit was carried out for the first time or orders and recommendations were not issued in previous audits), of which nine orders and recommendations were implemented, two were not implemented and one order was partially implemented.

◆ POLITICAL PARTIES AND INDEPENDENT REPRESENTATIVES

The Office conducted a financial audit of 47 political parties (of which 26 were parliamentary parties and 21 were non-parliamentary) and five independent representatives. The audit covered the financial statements and operations of political parties and independent representatives for 2023.

The Office also checked the submission (by entering it into the information system for monitoring financing) of annual financial reports of political parties, independent representatives and independent councilors whose mandate is ongoing, as well as the publication of financial reports of political parties and independent representatives on the website of the State Electoral Commission.

The total income of political parties amounted to 15.692.173,37 euros, and the total expenditure to 12.522.269,15 euros. The income deficit amounted to 234.094,99 euros (ten political parties), and the income surplus to 3.403.999,21 euros (37 political parties). The total value of assets, liabilities and own sources was reported in the amount of 17.465.157,42 euros.

The total income of independent representatives amounted to 273.216,99 euros, total expenses to 263.367,42 euros, and the surplus income amounted to 9.849,57 euros. The total value of assets, liabilities, and own sources was reported in the amount of 207.261,21 euros.

35 unqualified, eleven qualified and one reserved opinions were expressed on the financial statements of political parties for 2023, and 45 unqualified, one qualified and one reserved opinions were expressed on the compliance of business operations.

Unqualified opinions were expressed on the financial statements and compliance of the independent representatives' operations for 2023.



The audit of political parties for 2023 identified irregularities and omissions in the areas of scope and internal organization, internal control systems, planning, financial reports, accounting, income and expenses, and election campaigning. A total of 185 orders and recommendations were issued to political parties for the identified irregularities and omissions.

The audit of independent representatives determined that the financial statements for 2023 were prepared in all material respects in accordance with the provisions of the Act on Financing Political Activities, Election Campaigns and Referendums and the Act on Financial Operations and Accounting of Non-Profit Organizations. It was also determined that the operations of independent representatives were conducted in all material respects in accordance with laws, other regulations and internal acts.

The audit identified certain irregularities and omissions that did not affect the expression of opinions, and independent representatives were given a total of seven orders and recommendations to eliminate them.

Furthermore, it was found that, out of 265 orders and recommendations given in past audits to political parties and independent representatives, 130 or 49,0% of orders and recommendations were implemented, 62 or 23,4% were in the process of being implemented or partially implemented, 54 or 20,4% were not implemented, and due to non-implementation of activities or changed circumstances, 19 or 7,2% of orders and recommendations are not applicable.

In addition, the Office informed the State Attorney's Office of the Republic of Croatia about all identified irregularities and omissions, in accordance with the provisions of Article 94 of the Act on Financing Political Activities, Election Campaigns and Referendums, and submitted complete documentation on all identified violations of the Act.

In addition, in accordance with the provisions of the Act on the Financing of Political Activities, Election Campaigns and Referendums, 166 political parties (of which 15 political parties ceased to operate during 2023 and 2024), five independent representatives and 1.384 independent councilors were required to submit financial reports for 2023, with the prescribed attachments, by entering them into the information system for monitoring financing. 129 political parties (121 within the prescribed deadline, eight outside the prescribed deadline), five independent representatives and 956 independent councilors submitted their financial reports by entering them into the information system for monitoring financing. 37 political parties and 428 independent councilors did not submit their financial reports in the above manner (353 of them submitted statements waiving the right to regular annual financing from the budget, and 75 did not submit the aforementioned financial reports, statements or other documentation). Financial reports of political parties, independent representatives and independent councilors with prescribed attachments, submitted by entering them into the information system for monitoring financing, were published on the website of the State Electoral Commission.



B) COMPLIANCE AUDITS

During 2024, the compliance audit covered three entities, namely one financial institution and two companies owned by local and regional self-government units.

The objectives of the compliance audit were to check the compliance of the business with laws and other regulations that have a significant impact on the business, to check the implementation of orders and recommendations from past audits and other activities related to the business of the audited subjects.

◆ FINANCIAL INSTITUTION

In this reporting period, the Croatian National Bank's compliance audit for 2023 was carried out.

According to the provisions of the Act on the State Audit Office, the Office is responsible for:

- the process of assessing whether the activities, financial transactions and information relating to operating expenses in the area of administrative operations, acquisition, management and disposal of real estate, movable property and equipment are in all material respects in accordance with the relevant regulations under which the Croatian National Bank operates and
- the process of assessing whether the programs, projects and activities of the Croatian National Bank in the area of administrative operations, acquisition, management and disposal of real estate, movable property and equipment are being implemented efficiently, i.e. according to the principles of economy, effectiveness and efficiency, and whether they can be improved.

The audit procedures verified whether operating expenses in the administrative part of operations were incurred in accordance with the relevant regulations governing the operations of the Croatian National Bank, whether the acquisition, management and disposal of real estate, movable property and equipment were in accordance with the relevant regulations governing the operations of the Croatian National Bank, and whether the orders and recommendations from the previous audit were implemented.

An unqualified opinion was expressed on the compliance of operations.

Ten recommendations were given for the identified shortcomings, the implementation of which would contribute to greater compliance of operations with the law and internal regulations of the Croatian National Bank.

◆ TRADE COMPANIES OWNED BY LOCAL AND REGIONAL SELF-GOVERNMENT UNITS

During this reporting period, the Office planned to conduct a compliance audit of three companies owned by local and regional self-government units. Two companies have



been audited (ZAGREBACKI ELEKTRIČNI TRAMVAJ d.o.o. and ZAGREBAČKI VELESAM d.o.o.), and the audit of one company is ongoing and will be completed during 2025.

The subject of the audit of these companies was their operations for 2023.

The total income of these companies amounted to 221.711.710,79 euros, and total expenses to 220.872.735,97 euros. Both companies reported a profit in the total amount of 838.974,82 euros. The total value of assets, liabilities and capital of these companies was reported in the amount of 625.668.118,57 euros.

Qualified opinions on compliance were expressed for both companies.

For the identified irregularities and omissions, 38 orders and recommendations were issued to the companies, the implementation of which would contribute to greater compliance with laws and internal regulations. In addition, it was determined that, of the nine orders and recommendations issued to these companies in previous audits, six or 66,7% were implemented, and three or 33,3% were not implemented.

C) PERFORMANCE AUDITS

During this reporting period, the Office carried out 22 performance audits, covering 30 auditees. The following audits were carried out: Management of County and Local Roads in the Republic of Croatia, covering 20 auditees, Adaptation to Climate Change in the Republic of Croatia, covering one auditee, and Use of Funds Available from the Recovery and Resilience Mechanism in the Republic of Croatia, covering nine auditees.

◆ MANAGEMENT OF COUNTY AND LOCAL ROADS IN THE TERRITORY OF THE REPUBLIC OF CROATIA

The audit of the efficiency of county and local road management in individual counties in the Republic of Croatia included county road administrations in 20 counties, as institutions for the management of county and local roads in the counties.

The subject of the audit was the maintenance of records on county and local roads, financing of county and local road management, planning, construction, reconstruction and maintenance, as well as supervision of county and local road management and public information.

The total expenditure of county road administrations amounted to 154.926.470,32 euros in 2022 and 292.626.761,56 euros in 2023, the most significant of which related to the construction and maintenance of county and local roads. The aforementioned expenditure (for construction and maintenance) amounted to 121.451.402,26 euros in 2022, and to 249.880.060,23 euros in 2023.

To assess the efficiency of county and local road management, criteria have been established according to the audit areas (records on county and local roads; financing of



county and local road management; planning, construction, reconstruction and maintenance, and supervision of county and local road management and public information) that arise from laws and other regulations and activities undertaken by road administrations in relation to the management of county and local roads.

The audit identified irregularities and omissions relating to records on county and local roads; financing of county and local road management; planning, construction, reconstruction and maintenance, as well as supervision of county and local road management and public information.

The management of county and local roads in the counties under the jurisdiction of two road administrations was assessed as efficient, in 15 road administrations as efficient, with certain improvements needed, and in three road administrations as partially efficient.

For the identified irregularities and omissions, the Office issued a total of 116 orders and recommendations to increase the efficiency of managing county and local roads in the Republic of Croatia.

◆ CLIMATE CHANGE ADAPTATION IN THE REPUBLIC OF CROATIA

The Office conducted an efficiency audit of Climate Change Adaptation in the Republic of Croatia. The auditee was the Ministry of Environmental Protection and Green Transition. The audit subject was the Ministry's activities related to planning and implementing climate change adaptation activities.

The main objective of the audit was to assess the effectiveness of the implementation of the Ministry's activities related to planning and implementing climate change adaptation activities after the signing of the Paris Agreement on Climate Change, i.e. the activities it undertakes to ensure that the Republic of Croatia is prepared to respond to the negative effects of climate change and to minimize the negative effects of climate change on the environment, society and economy and to exploit the potential positive effects of climate change. The specific objectives of the audit were to verify the establishment of a legislative and institutional framework related to planning and implementing climate change adaptation activities, to assess the provision of effective and comprehensive climate change adaptation planning and to assess the implementation of adaptation activities, the establishment of a system for monitoring and evaluating progress in the implementation of climate change adaptation activities and reporting on the implemented adaptation activities.

Criteria have been established for the assessment of effectiveness, according to the audit areas (legislative and institutional framework, climate change adaptation planning and implementation of adaptation activities, and monitoring, evaluation and reporting) that arise from the laws and other regulations in accordance with which the Ministry carries out its operations.

The audit identified irregularities and shortcomings related to the legislative and institutional framework, climate change adaptation planning and implementation of adaptation activities, as well as monitoring, evaluation and reporting.

The Office assessed that activities related to planning and implementing climate change adaptation activities were partially effective.

A total of 13 recommendations were given for the identified shortcomings to increase the effectiveness of climate change adaptation in the Republic of Croatia.

◆ USE OF FUNDS AVAILABLE FROM THE RECOVERY AND RESILIENCE MECHANISM IN THE REPUBLIC OF CROATIA

During 2024, an audit of the effectiveness of the use of funds available from the Recovery and Resilience Mechanism in the Republic of Croatia was carried out.

The audit covered activities related to the use of funds available from the Recovery and Resilience Facility in the Republic of Croatia to achieve the objectives of the National Recovery and Resilience Plan. The audit covered the achievement of key milestones and targets by the end of October 2024, as defined in the National Recovery and Resilience Plan, the use of funds disbursed based on approved payment requests, and the implementation of investments selected for the audit sample.

The main objective of the audit was to assess the effectiveness of the use of funds available from the Recovery and Resilience Mechanism in the Republic of Croatia in implementing reforms and investments from the National Recovery and Resilience Plan. Out of five components and one initiative from the National Recovery and Resilience Plan, the State Audit Office selected three components (Economy; Education, Science and Research; and Health), which account for 72,9% of the total funds of the National Recovery and Resilience Plan, and in which it conducted a detailed review of the activities that had been carried out for three projects of exceptional importance for the Republic of Croatia, which are also the most significant investments in terms of value within the aforementioned components:

- Increasing the capacity of the LNG terminal on the island of Krk and strengthening the gas infrastructure
- Construction, extension, reconstruction and equipping of primary schools for the needs of single-shift work and full-day classes
- Procurement of equipment for the prevention, diagnosis and treatment of people with cancer.

The audit covered nine entities, i.e. bodies responsible for managing and monitoring the implementation of activities within the National Recovery and Resilience Plan and bodies responsible for implementing investments from the selected audit sample.

The audit was conducted using an agile approach, which involves the preparation of shorter interim reports during the audit and the preparation of a final report at the end of the audit. Interim reports were delivered to the auditees with the aim of promptly implementing the orders and/or recommendations issued by the State Audit Office to the auditees, in accordance with the audit findings. Such an audit approach was based on continuous cooperation between team members and representatives of the auditees and focused on areas that pose the greatest risks in order to deliver audit results quickly, while ensuring quality.



The implementation of activities related to the use of funds available from the Recovery and Resilience Mechanism in the Republic of Croatia, to achieve the objectives of the National Recovery and Resilience Plan, was assessed as effective, with certain improvements needed.

During the audit, the State Audit Office gave ten recommendations to the entities (in two interim reports prepared), and by the time the final report was prepared, the audited entities had successfully implemented three recommendations, two were partially implemented, while five recommendations remained to be implemented in full.

D) VERIFICATION OF THE IMPLEMENTATION OF ORDERS AND RECOMMENDATIONS

In accordance with the Act on the State Audit Office and the International Standards of Supreme Audit Institutions, during 2024, the Office verified the implementation of orders and recommendations given to auditees in previous audits, as part of regular audits and as part of a separate verification procedure.

◆ VERIFICATION AS PART OF REGULAR FINANCIAL AND COMPLIANCE AUDITS

In accordance with the provisions of the Law on the State Audit Office (Official Gazette 25/19) and the adopted methodology of the Office's work, if the previous audit of the auditee was carried out after the adoption of the Act (March 2019) and the provisions of the Act regarding their implementation, as well as non-implementation (misdemeanor provisions) are applied to the given orders and recommendations, the audit reports state, among other things, the statuses of the orders and recommendations given in past audits and the explanations of the orders and recommendations that were not implemented in accordance with the implementation plan of orders and recommendations. The Office notifies the competent State Attorney's Office of non-implementation of orders and recommendations within the deadlines and in the manner specified in the order and recommendation implementation plan.

Furthermore, if the previous audit of the auditee was carried out before the adoption of the Act (March 2019), in the audits carried out during 2024, the implementation of the given orders and recommendations was verified, and for the identified irregularities and omissions (repeated from the previous audit, as well as all others), the auditees were given orders and recommendations for their elimination, and the verification of their implementation will be carried out in accordance with the provisions of the Act.

◆ VERIFICATION IN THE FRAMEWORK OF A SEPARATE PROCEDURE

As part of a separate procedure for verifying the implementation of orders and recommendations, 69 verifications of the implementation of orders and recommendations



given to auditees in the previous financial audit were carried out, for three budget beneficiaries of the state budget, 48 local units and 18 companies owned by local units. In addition, during 2024, verification of the implementation of orders and recommendations given in the performance audit began in 20 counties and the City of Zagreb, i.e. in 537 cities and municipalities, which will be completed during 2025.

Overall, during 2024, as part of regular audits and as part of a separate verification procedure, the implementation of 2.089 orders and recommendations was verified and it was determined that 1.461 or 69,9% of orders and recommendations were implemented, 253 or 12,1% were partially implemented, 47 or 2,3% were in the implementation process, 239 or 11,4% were not implemented, while 89 or 4,3% of orders and recommendations were not applicable, due to changed regulations or the business environment, as shown in the table below.

Given that 69,9% of orders and recommendations were fully implemented, 14,4% were partially implemented or in the process of implementation, or a total of 84,3% of orders and recommendations, it can be concluded that a significant number of auditees have undertaken activities to improve the regularity of operations, and that the share of implemented orders and recommendations has increased compared to previous years. The Office will continue to monitor the implementation of orders and recommendations that have not been implemented.

E) OTHER OFFICE ACTIVITIES

In addition to audit work, other activities and tasks of the Office are planned that relate to work methodology, cooperation with judicial and other bodies, international cooperation, public relations, procurement, IT, human resources, accounting and other tasks.

Cooperation with judicial and other bodies includes the submission of reports and documents, responses to inquiries, requests and submissions, provision of clarifications, data and other information at the Office's disposal, as well as participation in meetings related to audit cases.

All reports on the audit were submitted to the State Attorney's Office of the Republic of Croatia. Also, upon request, documentation, additional explanations or information for 38 auditees were submitted to the State Attorney's Offices, the Ministry of the Interior and other state bodies. Furthermore, notifications were submitted to the State Attorney's Office of the Republic of Croatia for 84 auditees that did not implement the orders and recommendations given in previous audits within the deadlines specified in the plan for the implementation of orders and recommendations. Notifications on established violations of the Act on Financing Political Activities, Election Campaigns and Referendums were submitted with complete documentation for 31 political parties and three independent representatives, for which irregularities in operations in 2023 were identified in the audit conducted in 2024.

As a member of the International Organization of Supreme Audit Institutions – INTOSAI and its regional organization – EUROSAI, the Office continuously participates in international congresses, conferences, seminars, workshops and activities of bodies,



committees and working groups of these bodies. During 2024, the Auditor General and his associates, among others, participated in the UNDESA conference on the involvement of supreme audit institutions in the assessment of national climate actions and in the UN/INTOSAI symposium on the implementation of the Strategic Goal of Sustainable Development No. 13 on climate action, where the Office's audit experience in the relevant area was presented as an example of good practice. The Auditor General and his associates also participated in the EUROSAI-OLACEFS conference on the resilience of supreme audit institutions. Representatives of the Office participated in the initial meeting of the INTOSAI Task Force on Citizen Participation and Civil Society Engagement, established within the framework of the INTOSAI Capacity Development Committee - an INTOSAI body of which the Office is a member, and at the EUROSAI Congress for Young Auditors, which discussed the role of artificial intelligence in audit processes.

At the EUROSAI virtual congress, the Office presented its activities and results in its capacity as Chair of the EUROSAI Ethics Network, which it continued to manage during 2024. It also presented the results of the audit of EUROSAI, of which the Office was the external auditor for three terms, ending in May 2024.

Activities related to conducting a parallel audit with the Supreme Audit Institutions of Hungary, Poland, Ukraine and Serbia regarding UN Sustainable Development Goal 6 "Drinking Water and Sanitation" have been completed, for which a joint report has also been prepared.

Representatives of the Office participated in the meeting of *liaison officers* of the member countries of the EU Contact Committee, as well as in the annual meeting of the Committee, where the possible role of supreme audit institutions in relation to migration measures and processes was discussed. The work of the representative of the Office in NATO's Group of Competent National Audit Bodies (CNAB) continued, whose role is to discuss and comment on audits and the Annual Report of the International Audit Board for NATO on NATO activities. A series of meetings were also held with representatives of international organizations, institutions and bodies, such as the European Commission in the framework of the preparation of the annual report on the rule of law, the OECD in the framework of the accession process of the Republic of Croatia to the OECD, OSCE/ODIHR and others.

Bilateral meetings were organized with leaders and representatives of other Supreme Audit Institutions, including Slovenia, South Korea, Kosovo, and the United States of America. As part of a bilateral meeting with the Auditor General of the United States of America, a seminar was organized on modern challenges for Supreme Audit Institutions, with special emphasis on the role of state audit in climate change, the application of an agile approach in audits, and the use of artificial intelligence in auditing. Several working meetings and trainings were held with colleagues from other Supreme Audit Institutions related to various current audit topics.

As part of public relations activities during this reporting period, the Croatian Parliament was submitted the Annual Report on the Work of the Office for 2023, all individual reports on the audit performed, seven consolidated reports, the proposal for the Office's financial plan for 2025, and the proposal of the Auditor General for the appointment of an independent external auditor of the Office. Representatives of the Office participated in the sessions of the Committee on Finance and the State Budget and



plenary sessions where topics within the competence of the Office were discussed. All reports discussed at the Committee on Finance and the State Budget and at the plenary session of the Croatian Parliament were accepted with 99,2% of the votes. 124 inquiries from legal entities and individuals and media representatives were answered, five statements were made, three *briefings for media representatives* were held and four press releases were issued. Of the 901 media publications about the work of the Office, 98,2% were positive.

F) STRATEGIC PLAN FOR THE PERIOD 2023 – 2027

The Strategic Plan of the State Audit Office for the period 2023-2027 sets out the main development goals of the Office for the period in question. In addition to the vision, mission, values and objectives, the Strategic Plan contains development requirements, types of audits, the scope of the Office and audited entities, areas of audit activities and a framework for the preparation of the Annual Program and Work Plan. The results expected from the implementation of the Strategic Plan relate, among other things, to further increasing the credibility, quality and professionalism of the work of the Office's employees and the achievement of organisational assumptions that include quality control, independence, transparency, accountability and ethics in the work of state auditors and other employees.

In addition to the Strategic Plan for the period 2023-2027, an Action Plan for the implementation of the Strategic Plan for the period 2023-2027 was adopted, which sets out in detail the activities, deadlines and persons responsible for their implementation, as well as indicators of the results of implementation. During 2024, the Office carried out activities in accordance with the Strategic and Action Plans, as well as the Annual Program and Work Plan for 2024.

G) ASSESSMENT OF THE QUALITY OF THE OFFICE'S WORK

During 2024, the Office conducted a survey among members of the Finance and State Budget Committee, which, as the parent committee, discussed all reports on audits performed during 2024.

In addition, questionnaires were also delivered to auditees where the audit was performed during 2024.

The members of the Committee assessed that the Office's reports are very useful and that they use them for informing and gaining insight into the regularity and efficiency of



the use of public funds, discussions at sessions of the Croatian Parliament and proposing measures for more efficient and proper management of public funds, as well as other professional interests. The members of the Committee also responded that the content and structure of the Office's annual report on its work are appropriate to their needs, and that the quality of the report on the audits performed and the Annual Report on the Office's work is very high, or high.

The auditees rated the work of the Office with an average score of 4.79.

H) EMPLOYEES

The Office has 370 job positions systematized, and by the end of 2024, 271 positions were filled. During 2024, ten employees left the Office, three employees passed away, and one employee was hired. The 99 vacant positions (26,8%) mainly relate to state auditors.

In order to strengthen capacities, in accordance with the Annual Program and Plan for Professional Development and Education, the Office organized and implemented professional development and education of state auditors and other civil servants, which is a prerequisite for a professional, ethical, responsible and transparent manner of performing audits and other tasks within the Office's jurisdiction.

During 2024, a total of 10.277 hours of professional development were achieved, or an average of 37,9 hours per employee, organized by the Office, other professional institutions, international institutions, and through employee self-education.

12 employees passed the exam for acquiring the title of certified state auditor.

I) AUDIT OF FINANCIAL STATEMENTS AND OFFICE OPERATIONS

According to the Budget Act, the Office is a beneficiary of the state budget, whose funds for work are provided in the state budget, in the manner prescribed by the provisions of Article 4 of the Act on the State Audit Office.

When keeping business books and preparing financial statements the Office is obliged to apply budgetary accounting in accordance with the provisions of the Budget Act (Official Gazette 144/21), the Ordinance on Budget Accounting and the Accounts Plan (Official Gazette 124/14, 115/15, 87/16, 3/18, 126/19 and 108/20) and the Ordinance on Financial Reporting in the Budget accounting (Official Gazette 37/22).

According to the provisions of the Act on the State Audit Office, the annual financial statements of the Office are subject to audit by an independent external auditor.



The independent external auditor to conduct the audit of the Office's Annual Financial Statements for 2024 was appointed by the Finance and State Budget Committee upon the proposal of the Auditor General.

The report on the audit of the Annual Financial Statements of the Office is an integral part of this Report.

J) EXECUTION OF THE OFFICE'S FINANCIAL PLAN

According to the Ordinance on the Semi-annual and Annual Report on the Execution of the Budget and Financial Plan (Official Gazette 85/23), the Annual Report on the Execution of the Financial Plan is part of the annual report on the work of budget beneficiaries who, pursuant to special laws, are obliged to submit such a report to the Government of the Republic of Croatia, i.e. the Croatian Parliament. The State Audit Office is obliged to submit an annual report on its work to the Croatian Parliament. An integral part of this Report is also the Annual Report on the Execution of the Office's Financial Plan for 2024.





**DRŽAVNI URED ZA
REVIZIJU**