

REPORT ON THE CONDUCTED FINANCIAL AUDIT OF THE PORT AUTHORITY FOR 2017

(December 2019)

SUMMARY

The State Audit Office performed a financial audit of 24 port authorities, covering the financial statements and operations for 2017.

The objectives of the audit were to check the accuracy and credibility of financial statements, the application of acts, regulations and administrative provisions related to the organisation and financial accounting operations and the regularity of the acquisition of revenue and the realisation of expenditures, i.e. to check whether the funds were used exclusively to achieve the objectives set out in the work programme and the financial plan, to check the regularity of the execution of other transactions and the compliance of the activities performed with the work programme and to evaluate the efficiency of the port authorities in achieving the objectives set out in the annual work programme.

The revenues of the port authorities covered by the audit amounted to HRK 473.118.432,00, expenditures to HRK 387.077.245,00 and the surplus revenues at the end of 2017 amounted to HRK 86.041.187,00 (21 port authorities reported a surplus of revenue over expenditures in the amount of HRK 878.059,00 and three port authorities deficit in the amount of HRK 1.646.872,00).

16 unqualified and eight qualified opinions were expressed on the financial statements of the Port Authority for 2017, and 12 unqualified, eleven qualified and one adverse opinion on the compliance of operations (Opatija-Lovran - Moscenicka Draga Port Authority). The criteria for expressing opinions were acts, regulations and internal acts regulating the framework of financial reporting and the operation of port authorities.

Irregularities and omissions identified by the audit that affected the expression of opinions relate to the scope and internal organisation, internal control system, financial statements, planning (work programme and financial plan), accounting operations, revenues, expenditures and public procurement.

The audit found, inter alia, that:

- In the part relating to the scope and internal organisation, it has been established that certain port authorities have not or have partially published on their websites general acts, activity reports and other relevant documents and information related to the area of work of the Port Authority. Certain omissions in the work of the Governing Council were also identified, and decisions and minutes of the Governing Council were not accurate, reliable or harmonised with other acts of the Port Authority.

- Some port authorities have not established an efficient system of internal controls in view of established omissions and irregularities in business operations (among other things, in the field of the work of the Governing Council, planning and reporting on execution of plans, accounting operations, calculation and collection of revenue, realisation of expenditures and public procurement).

- Certain port authorities did not realistically plan revenues and expenditures in the financial plans, did not bring amendments to the financial plan and the financial plan does not contain the explanation of groups of revenues and expenditures, nor the explanation of programmes, activities and projects, as well as a link to the work programme and the necessary funds for their implementation. Annual work programmes (and port development) have not been adopted in due time, port administrations have not adopted their amendments and no reports on the work and execution of the annual work programme are prepared or submitted to the competent ministry. Also, the realisation of expenditures has not been monitored by activities from the Annual work Programme, nor have the sources of financing necessary for the implementation of planned activities in the Annual work Programme been expressed, which makes it difficult to monitor the spending of financial resources to achieve the objectives foreseen in the work programme (and the development of ports).

- Within the framework of accounting operations with most port authorities, irregularities and omissions were found in the part relating to the recording of business events and the list of assets and liabilities. Individual expenditures and assets are not recorded in the accounts or in the financial statements shown in the prescribed accounts of the business plan for non-profit organisations; certain assets, liabilities, revenues and expenditures are not recorded in the accounts and are shown in exact and true amounts (but in larger/smaller amounts). For maintenance services, works and services are paid on the basis of established invoices without verifying that the aforementioned activities have been performed and the attached credible documentation from which it can be confirmed that the business event was actually incurred. Also, omissions were found in the use of official vehicles (keeping of travel documents and records on the use of vehicles). When performing the list of assets and liabilities, it was established that individual port administrations did not complete the list; liabilities and claims were listed in the total value according to the main ledger, without expressing claims on individual customers and liabilities on suppliers and types and deadlines of due payments; the value of the list of covered fixed assets produced is not equal to the value recorded in the accounts and expressed in the financial statements; and no adjustment of the book balance with the situation determined in the list has been made.

Investments in port construction and upgrading, the port authorities registered in the business books and expressed in the financial statements, but not off-balance sheet (in the business books and in the financial statements) the value of the assets related to the suburbs and upgrades over which they acquired the right of use and utilisation.

- With regard to concessions fees, inter alia, it was established that some port authorities did not adopt an annual concession plan, although a concession was granted for the economic use of the port area and concession contracts were concluded; the concessions were awarded upon request, without a previous decision of the Governing Council; no supervision of the operation and execution of the concession holder's plan and programme was performed, nor was there a report on this to the Governing Council, nor did the performance of the concession holders' obligations to carry out the economic activity of lifting and demerging of yachts and boats; one port authority did not follow the execution of the obligation under the concluded concession Agreement for investing in current and investment maintenance.

As regards port charges, it has been established that one port authority has not categorised ports and parts thereof are not classified in zones to determine the port tax for each zone; it has not established records of berths by number, zone and users in individual ports and berths and has no information on the total number of berths, as well as the number of used berths and available berths; for services related to the use of berths in municipal parts of ports, invoices have also been

issued to users with whom no connection agreements have been concluded and have been charged an annual berth fee for vessel length, instead of a berth fee for vessels located in a permanent berth space without a valid contract; the territorial competent city has not been paid the corresponding part of the berth fee for the nautical part of the port.

- The audit revealed irregularities related to the realisation of expenditures of individual port authorities, namely: stimulation payments to employees were not carried out in accordance with the established criteria, reimbursement of transportation costs to and from work were not paid on the basis of credible documents on actual expenditures which determine the prices of monthly or individual transport tickets, but in a flat-rate amount per employee, the services of maintaining green areas in the port area were not performed at prices determined by the bill of quantities, and the employees of the Port Authority did not assume mobile phones by signing, and it is not possible to determine which employee is in charge of which mobile telephone user number, nor can the achievement of monthly costs per employee be monitored (within the services of telephone, mail and transport).

- Individual port authorities did not publish internal documents regulating the rules, conditions and procedures of simple procurement and a list of economic operators with which the client's representative or persons associated with them is in conflict of interest or notices that such entities do not exist; they did not prepare a statistical report on public procurement for the previous year; contract on execution of construction works was concluded 45 days after execution of the decision on selection of the most favourable tenderer (instead of 15 days); after the completion of the works, no minutes on the handover have been drawn up; for individual purchases of goods and works the prescribed procurement procedure has not been performed (but the procurements have been carried out directly, without orders and contracts); individual procurements of works and services are not planned by the procurement plan (changes to the plan have not been adopted); and the Annual Report on public Procurement does not contain data on the procurement of goods and services up to 200.000,00 HRK, i.e. works up to 500.000,00 HRK.

For all irregularities and omissions in the operation of the port authorities, the State Audit Office issued orders and recommendations, the implementation of which would contribute to the true, reliable and accurate expression of funds, sources of funds and revenues and expenditures in the financial statements as well as to the increase of compliance of operations with laws, regulations and efficiency of the use of funds.

Besides verifying the financial reports and business compliance, the aim of the audit was also to assess the efficiency of the port authorities in achieving the objectives set by the annual work programme (and development of ports) and the State Audit Office assessed that the port authorities carried out planned activities and tasks and partially achieved the planned objectives (inter alia, due to lack of financial resources, the construction of infrastructure in the port area has not been completed and funding has not been realised in facilities and equipment by the port authorities; planned investments have not been realised; seawater and sewage works have been carried out and the environment has been regulated, and further phases of project implementation depend on the allocated funds for each budgetary year; due to the ongoing procedure of issuing construction permits, no planned investments in ports have been realised).

The State Audit Office is of the opinion that the area of obligations and collection of revenues from port fees and charges and fees from concessions, given the extreme complexity of regulations, should be regulated more clearly and precisely, in order to clearly define and separate

obligations of concessionaires and obligations of port administrations. Port charges are paid by port users for the services provided to them in ports open to public transport and are the revenue of the port authority and not by the concessionaire in the part of the port covered by the concession (the concessionaire cannot charge port berth fees while charging port fees). Furthermore, in the light of the different opinions and procedures of the port authorities concerning Article 22 The Ordinance on the criteria for determining the purpose of a particular part of a port open to public traffic of county and local significance, the manner of payment of berths, conditions of use and determining the maximum amount of compensation and distribution of revenue (revenues generated by charging berth fees on nautical part of a port open to public traffic are divided into the fact that the port authority pays 30.0% of net of these revenues to the territorial competent city which use them in accordance with the provisions of the Maritime goods and seaports Act) and that the regulations governing the collection of a certain amount for berths on vessels in the nautical part of the port use two expressions (fee and charges), the State Audit Office is also of the opinion, so that the regulations governing this area should be more clearly defined and supplemented by the criteria for the allocation of berths.

Also, given that according to the provisions of Article 3 Of the Act on Financial operations and Accounting of non-profit organisations, the operation of a non-profit organisation should be based on the principle of sound financial management and control and the principle of public and transparency, attention should also be paid to due claims on revenues from port charges and revenues from concession fees, in order to avoid their statute of limitations.