

INDEPENDENT AUDITOR'S REPORT

1. We have audited the attached Financial Statements for the year ended 31 December 2021 of the MODERNIZATION AND RESTRUCTURING OF THE ROAD SECTOR PROJECT (hereinafter: the "Project") financed under the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT LOAN No. 8749 - HR, which comprise the Statement of Assets and Liabilities, the Statement of Sources and Uses of funds, the Statement of Uses of funds by Project Activities, Statement of Expenditure (SOE) and Designated Account Statement (all together, the "Project Financial Statements").

2. The Project Financial Statements are the responsibility of the Project's management. Our responsibility is to express an opinion on the Project Financial Statements based on our audit.

3. We conducted our audit in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall statement presentation. We believe our audit provides a reasonable basis for our opinion.

The Project management's policy is to prepare the accompanying financial statements on the cash receipts and payments basis in conformity with International Public Sector Accounting Standards issued by the Public Sector Committee of the International Federation of Accountants. On this basis, cash receipts are recognized when received and cash expenditures are recognized when paid rather than when incurred.

4. In our opinion, Financial Statements of the MODERNIZATION AND RESTRUCTURING OF THE ROAD SECTOR PROJECT present fairly in all material respects the cash receipts and payments of the Project during the year ended 31 December 2021, in accordance with International Public Sector Accounting Standards issued by the Public Sector Committee of the International Federation of Accountants.

5. With respect to Summary Statement of Expenditure ("SOE") - Application for Loan Withdrawal:

(a) adequate supporting documentation has been maintained to support claims for reimbursements of expenditures incurred;

(b) the Summary Statement of Expenditure has been reconciled to the other Project Financial Statements and

(c) the expenditure disbursements underlying the Summary Statement of Expenditure have been made in accordance with the purposes intended in the Loan Agreement No. 8749 - HR.

6. Regard to the establishment of a severance package, which includes support for retraining, counselling and mediation in employment, we confirm the following:

a) Eligibility of reported expenditures included in PFS and Disbursement Withdrawal Applications ensuring that the funds were spent according to the intended purpose as agreed in the Loan Agreement and Project Appraisal Document.

b) The payments have been made to eligible beneficiaries

c) Due Personal Income Tax, Health Insurance, Social or other related charges in retrenchment payments have been paid in due time

d) Retrenchment payments have been calculated and paid in accordance with the respective law and regulations,

e) There have been proper authorizations of severance payroll,

f) There have been correct data transfer of calculated retrenchment amounts to the Remuneration Departments.

g) That employee release formal procedures have been fulfilled.

h) That sufficient internal control procedures are in place.

i) That new recruits in HAC were not past employees HAC which had received retrenchment payment,

j) That the retrenchment payments claimed to the World Bank have not been financed by a EBRD loan,

Zagreb, 06 April 2022

Audit d.o.o.

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Darko Karić, director, certified auditor