

MINISTRY OF ENVIRONMENT AND ENERGY:

EU NATURA 2000 INTEGRATION PROJECT

Management Board's report as at 31 December 2016 together with
Independent Auditor's report

Contents	Page
Independent Auditor's Report	2
Sources and Uses of Funds	4
Bank Reconciliation Statement	5
Uses of Funds by Project Activity	6
Summary of Summary Reports (SOEs)	7
Notes to financial statements	8

Independent Auditor's Report

To the Management of the Ministry of Environment and Energy

Opinion

We have audited the financial statements of Ministry of Environment and Energy, EU Natura 2000 Integration Project ("the Project"), which comprise Project Sources and Uses of Funds, Bank Reconciliation Statement, Uses of Funds by Project Activity and Summary of Summary Reports (SOEs), as at 31 December 2016, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements of the Ministry of Environment and Energy, EU Natura 2000 Integration Project for the year ended 31 December 2016 are prepared, in all material respects, in accordance with the financial reporting provisions of Annex A of the Contract for Consulting Services for the Annual Financial Audits of the EU Natura 2000 Integration Project No. MOC/CS/LCS/11/01 between Ministry of Environment and Energy and Ernst&Young d.o.o. ("the Contract") and EU Natura 2000 Integration Project Loan no. IBRD 80210 HR Project Operational Manual from December 2013.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Project in accordance with the ethical requirements that are relevant to our audit of the financial statements in Croatia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter - basis of accounting and restriction on use

We draw attention to Note 2 to the financial statements, which describe the basis of accounting. The financial statements are prepared to assist Ministry of Environment and Energy, EU Natura 2000 Integration Project to comply with the financial reporting provisions of the contract referred to above. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for Ministry of Environment and Energy, EU Natura 2000 Integration Project and The World Bank and should not be distributed to or used by parties other than the Ministry of Environment and Energy, EU Natura 2000 Integration Project or The World Bank.

Independent Auditor's Report (continued)

Responsibilities of management for the financial statements

Management is responsible for the preparation of these financial statements in accordance with the financial reporting provisions of Annex A of the Contract for Consulting Services for the Annual Financial Audits of the EU Natura 2000 Integration Project No. MOC/CS/LCS/11/01 between Ministry of Environment and Energy and Ernst&Young d.o.o. ("the Contract") and EU Natura 2000 Integration Project Loan no. IBRD 80210 HR Project Operational Manual from December 2013 and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Independent Auditor's Report (continued)

We communicate with management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Slaven Đuroković

Member of the Board and certified auditor

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12 May 2017

Ministry of Environment and Energy – EU Natura 2000 Integration Project
Sources and Uses of Funds
From 1 January 2016 to 31 December 2016

	Loan IBRD 80210 HR (up to 31 December 2015)	Loan IBRD 80210 HR (2016)				
	(Amounts in EUR)	(Amounts in EUR)				
	Cumulative to 31 December 2015	1 January 2016 to 31 March 2016	1 April 2016 to 30 June 2016	1 July 2016 to 30 September 2016	1 October 2016 to 31 December 2016	Cumulative to 31 December 2016
Opening cash balance						
Designated Account	1,357,848.37	1,326,902.91	1,206,248.67	1,374,478.32	1,734,568.79	1,326,902.91
Total opening balance	1,357,848.37	1,326,902.91	1,206,248.67	1,374,478.32	1,734,568.79	1,326,902.91
Add funds received						
Government funds		0.00	0.00	0.00	0.00	0.00
IBRD funds	4,314,410.76	0.00	1,209,856.28	1,496,993.91	706,465.18	3,413,315.37
Total funds received	4,314,410.76	0.00	1,209,856.28	1,496,993.91	706,465.18	3,413,315.37
Total funds available	5,672,259.13	1,326,902.91	2,416,104.95	2,871,472.23	2,441,033.97	4,740,218.28
Uses of funds						
G, W, CS, TR, IOC	4,345,356.22	120,654.24	1,041,626.63	1,136,903.44	1,583,963.14	3,883,147.45
PPF Expenditure (page 6)	0.00	0.00	0.00	0.00	0.00	0.00
Front end fee	0.00	0.00	0.00	0.00	0.00	0.00
Total uses of funds	4,345,356.22	120,654.24	1,041,626.63	1,136,903.44	1,583,963.14	3,883,147.45
Closing cash balance						
Designated Account	1,326,902.91	1,206,248.67	1,374,478.32	1,734,568.79	857,070.83	857,070.83
Total closing balance	1,326,902.91	1,206,248.67	1,374,478.32	1,734,568.79	857,070.83	857,070.83

Nino Gunjača
 Nino Gunjača, Procurement specialist

Igor Kreitmejer
 Igor Kreitmejer, Assistant Minister



Ministry of Environment and Energy – EU Natura 2000 Integration Project

Bank Reconciliation Statement

From 1 January 2016 to 31 December 2016

¹ Interest is calculated and paid to a separate Interest and Fee Account that is not considered to be part of the Designated Account of EU Natura 2000 integration Project. Balance of Interest and Fee Account was EUR 4,157.25 as at 31 December 2016 (31 December 2015: EUR 4,479.66).

	Loan IBRD 80210 HR (2016)					Loan IBRD 80210 HR (up to 31 December 2015)
	(Amounts in EUR)					(Amounts in EUR)
	1 January 2016 to 31 March 2016	1 April 2016 to 30 June 2016	1 July 2016 to 30 September 2016	1 October 2016 to 31 December 2016	Cumulative to 31 December 2016	Cumulative to 31 December 2015
Designated account opening balance	1,326,902.91	1,206,248.67	1,374,478.32	1,734,568.79	1,326,902.91	1,357,848.37
Plus: Advance during the quarter	0.00	1,209,856.28	1,496,993.91	706,465.18	3,413,315.37	4,314,410.76
Interest earned ¹	0.00	0.00	0.00	0.00	0.00	0.00
Less: Refund to DA	0.00	0.00	0.00	0.00	0.00	0.00
Amount of eligible expenditures paid during the period	120,654.24	1,041,626.63	1,136,903.44	1,583,963.14	3,883,147.45	4,345,356.22
Closing Balance	1,206,248.67	1,374,478.32	1,734,568.79	857,070.83	857,070.83	1,326,902.91


Nino Gunjača, Procurement specialist



Igor Kreitmeyer, Assistant Minister

Ministry of Environment and Energy – EU Natura 2000 Integration Project
Uses of Funds by Project Activity
From 1 January 2016 to 31 December 2016

	Loan IBRD 80210 HR (2016)					Loan IBRD 80210 HR (up to 31 December 2015)
	(Amounts in EUR)					(Amounts in EUR)
	1 January 2016 to 31 March 2016	1 April 2016 to 30 June 2016	1 July 2016 to 30 September 2016	1 October 2016 to 31 December 2016	Cumulative to 31 December 2016	Cumulative to 31 December 2015
1. Ecological Network Investments						
1.1 Protected Area-Driven Investments (works)	60,558.38	133,480.97	488,808.51	626,108.85	1,308,956.71	2,029,958.47
1.2 Equipment (goods)	0.00	0.00	438,917.56	0.00	438,917.56	16,513.44
Total	60,558.38	133,480.97	927,726.07	626,108.85	1,747,874.27	2,046,471.91
2. Ecological Network Data Systems						
2.1 Biodiversity Inventory and Monitoring	13,529.29	722,892.12	141,370.93	450,883.50	1,328,675.84	881,391.41
2.2 INSPIRE Harmonization	0.00	0.00	0.00	0.00	0.00	288,827.34
Total	13,529.29	722,892.12	141,370.93	450,883.50	1,328,675.84	1,170,218.75
3. Ecological Network Capacity Building						
3.1 Inter-Sectoral Cooperation & Pilot Programs	0.00	23,431.21	0.00	296,884.08	320,315.29	194,725.89
3.2 Training & Public Outreach	9,589.86	120,950.50	19,224.38	166,979.81	316,744.55	752,047.81
3.3 Project Management and Operating Costs	36,976.71	40,871.83	48,582.06	43,106.90	169,537.50	181,891.86
Total	46,566.57	185,253.54	67,806.44	506,970.79	806,597.34	1,128,665.56
Total Project Expenditure	120,654.24	1,041,626.63	1,136,903.44	1,583,963.14	3,883,147.45	4,345,356.22

Nino Gunjača
Nino Gunjača, Procurement specialist



Igor Kreitmeyer, Assistant Minister

**Ministry of Environment and Energy – EU Natura 2000
Integration Project
Summary of Summary Reports (SOEs)
From 1 January 2016 to 31 December 2016**

World Bank withdrawal application	Approval date	Summary Sheet /SOE ¹	Type	Amount documented	Amount paid to Designated Account
Loan 80210 HR, amounts in EUR					
023	15-Jun-2016	1	prior review	688,586.02	1,209,856.28
		2	SOE	521,270.26	
024	27-Jul-2016	1	prior review	720,322.66	783,870.81
		2	SOE	63,548.15	
025	12-Sep-2016	1	prior review	546,855.19	713,123.10
		2	SOE	166,267.91	
026	28-Dec-2016	1	prior review	135,473.27	706,465.18
		2	SOE	570,991.91	
027	10-Jan-2017 ⁱ	1	prior review	748,116.54	1,113,240.15
		2	SOE	410,696.25	
Totals (EUR)				4,572,128.16	4,526,555.52

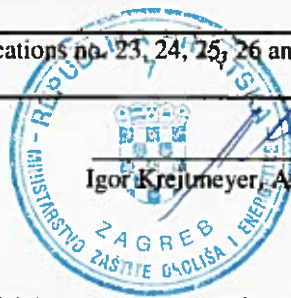
¹ Summary SOE sheets consist of individual expenditures by category as the basis for withdrawals.

² Designated account opening balance as of 1 January 2016 amounted to EUR 1,326,902.91. Total amount paid to Designated account for the period from 1 January 2016 till 31 December 2016 amounts to EUR 4,526,555.52. Designated account balance as of 31 December 2016 amounted to EUR 857,070.83 after payment of EUR 3,883,147.45 of Eligible expenditures from the Designated Account.

³

Expenditure related to five applications in 2016 and 2017 (until the date of audit report)	4,572,128.16
Expenditure related to 2015 as stated in WB Application no. 23	-673,097.09
Expenditure related to 2017 as stated in WB Application no. 27	-15,883.62
Expenditure related to 2016 as stated in WB Applications no. 23, 24, 25, 26 and 27	3,883,147.45


Nino Gunjača, Procurement specialist



Igor Krejtmeyer, Assistant Minister

ⁱ Amount of expenditure equals EUR 1,158,812.79 which is greater amount that was available on the loan account. With this application all funds available were withdrawn.

1. General

Ministry of Environment and Energy – EU Natura 2000 Integration Project Notes to Financial Statements From 1 January 2016 to 31 December 2016

The Republic of Croatia has received a loan from the International Bank for Reconstruction and Development (IBRD) to implement the Croatia EU Natura 2000 Integration Project (NIP). The project is implemented by the Ministry of Environment and Energy of the Republic of Croatia.

The World Bank Project Preparation Advance (PPA) was approved to the Republic of Croatia in the amount not exceeding USD 500,000. The Croatian Government signed the PPA Agreement on March 5, 2009. Refinancing date for the PPA and start of the five year project (loan financing) was 19 May 2011.

The body in charge of implementing the Project preparation was the Ministry of Culture, Nature Protection Directorate where the Project Preparation Unit (PPU) was set up, and consisted of a coordinator, procurement specialist and financial management specialist. The PPU was managed by the PPA Manager who was also the Director of Nature Protection Directorate. The PPU became the Project Implementation Unit (PIU) upon ratification of the Loan on 18 May 2011. As of 22 December 2011, according to Decision of the Government of Republic of Croatia, EU Natura 2000 Integration Project became an integral part of the Ministry of Environment and Energy.

Republic of Croatia signed a Loan agreement with the international Bank for reconstruction and Development on 22 February 2011. The Loan amount is EUR 20.8 million. The Project consists of the following parts: Ecological Network Investments, Ecological Network Data Systems and Ecological Network Capacity Building. As at December 31, 2016, PIU and support staff consisted of the following Consultants: coordinator and EU projects specialist, procurement specialist, financial management specialist, civil engineer/safeguard coordinator, economist and monitoring & evaluation specialist and project assistant.

NIP overall project objective is to support Park and County Public Institutions to implement Natura 2000 objectives in investment programs; strengthen capacity for EU-compliant reporting and biodiversity monitoring; and introduce programs that involve a wider group of stakeholders in Natura 2000 network management.

2. Accounting policies

Financial statements which comprise of Sources and Uses of Funds, Bank Reconciliation Statement, Uses of Funds by Project Activity and Summary of Summary Reports (SOEs) are prepared on the cash receipts and disbursements basis of accounting as prescribed in the EU Natura 2000 Integration Project Loan no. IBRD 80210 HR Project Operational Manual from December 2013. Project financing is recognized as a source of Project funds when the cash is received. Project expenditure is recognized as a use of Project funds when payment is made, irrespective of when goods or services are accrued.