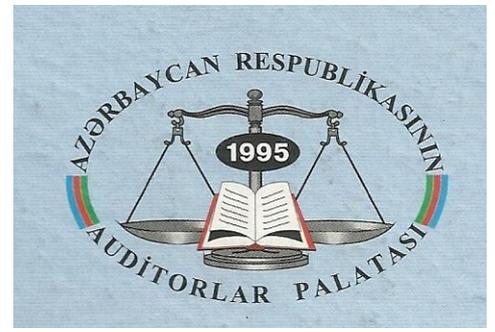


2017



Chamber of the Republic of Azerbaijan (Chamber)

Financial Statements and Independent Auditor's Report

Contents

INDEPENDENT AUDITOR'S REPORT	1
STATEMENT OF FINANCIAL PERFORMANCE	4
STATEMENTS OF CHANGES IN EQUITY	5
STATEMENT OF FINANCIAL POSITION	6
STATEMENT OF CASH FLOWS	7
NOTES TO THE FINANCIAL STATEMENTS	8
1. STATEMENT OF ACCOUNTING POLICIES	8
BASIS OF PREPARATION	8
MEASUREMENT BASE	8
ACCOUNTING POLICIES	8
REVENUE RECOGNITION	8
ACCOUNTS RECEIVABLE	9
EMPLOYEE ENTITLEMENTS	9
PROPERTY, PLANT AND EQUIPMENT	9
FOREIGN CURRENCY	9
FINANCIAL INSTRUMENTS	10
STATEMENT OF CASH FLOWS	10
CHANGES IN ACCOUNTING POLICIES	10
2. CHAMBER OF AUDITORS OF THE REPUBLIC OF AZERBAIJAN	10
3. PROPERTY, PLANT AND EQUIPMENT	11
4. CASH AND SHORT-TERM DEPOSITS	12
5. DUES RECEIVABLE	12
6. OTHER RECEIVABLE	12
7. INVENTORY	13
8. OTHER CURRENT ASSETS	13
9. ACCOUNTS PAYABLE	13
10. OTHER CURRENT LIABILITIES	13
11. CURRENT TAX LIABILITIES	14
12. COMMITMENTS	14
13. CONTINGENT GAINS AND LOSSES	14
INSURANCE	14
TAXATION CONTINGENCIES	14
14. RELATED PARTY TRANSACTIONS	14
15. RECONCILIATION OF NET SURPLUS WITH CASH INFLOW FROM OPERATING ACTIVITIES	15
16. RISK MANAGEMENT	15
17. SUBSEQUENT EVENTS	15

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF CHAMBER OF AUDITORS OF THE REPUBLIC OF AZERBAIJAN:

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Chamber of Republic of Azerbaijan (Chamber), which comprise the statement of financial performance as at December 31, 2017, and the statement of financial position, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Chamber as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Public-Sector Accounting Standards (IPSASs).

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 Chamber in accordance with the International Ethics Standards Board for Accountants' Code of the Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IPSASs, 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.

INDEPENDENT AUDITOR'S REPORT - CONTINUED

In preparing the financial statements, management is responsible for assessing the Chamber's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Chamber or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Chamber's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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 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 statement, 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 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 Chamber's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Chamber's ability to continue as a going concern. If such a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Chamber to cease to continue as a going concern.

INDEPENDENT AUDITOR'S REPORT - CONTINUED

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Chamber to express an opinion on financial statements. We are responsible for the direction, supervision and performance of the Chamber audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

On behalf of HLB Azerbaijan LLC

Islam Bayramov
Engagement Partner

Baku, Republic of Azerbaijan

February 21, 2018

Statement of Financial Performance

	Note	2017	2016
Operation revenue			
Membership dues, net		353,785	347,612
Training and examination fee		22,615	8,956
Grants and charitable		21,234	19,219
Total operating revenue		397,634	375,780
Operating expenses			
Employee costs		(201,855)	(193,930)
Travel and meeting costs		(13,283)	(17,420)
Communications and publicity		(29,504)	(23,575)
Printing and distribution		(2,193)	(26,463)
IT Support and office supplies		(16,482)	(4,623)
Bad debt expense		(135,710)	(31,233)
Depreciation and amortisation		(11,26)	(18,777)
Telephone and communications		(13,525)	(8,268)
Membership dues		(10,263)	(9,591)
Audit and consulting remuneration		(21,881)	(13,477)
Other operating expenses		(17,402)	(3,608)
Interest expense		(-)	(1,097)
Bank charges		(2,006)	(2,743)
Conference expenses		(30,547)	(19,425)
Rent expenses		(2,305)	(4,204)
Total operating expenses		(507,982)	(378,438)
Exchange rate differences		(2,011)	158
Surplus /(deficit) for the year		(112,359)	(2,500)

See notes to the financial statements.

Vahid Novruzov – Chairman

Vali Rahimov – Head of Financial Department

February 21, 2018

Chamber of Auditors of the Republic of Azerbaijan – Financial statements

For the year ended December 31, 2017

Amount in US Dollars

Statements of Changes in Equity

	Note	2017	2016
Equity at beginning of year		296,344	339,339
Exchange differences		(112,359)	(40,495)
Surplus /(deficit) for the year		12,305	(2,500)
Equity at end of year		196,290	296,344

Statement of Financial Position

	Note	2017	2016
Current assets			
Cash and short-terms deposits	4	471	60,134
Dues receivable, net	5	37,134	102,410
Inventory	7	22,896	23,569
Other receivables	6	5,818	4,268
Other current assets	8	55,261	8,204
Total current assets		121,580	198,585
Non-current assets			
Property, plant and equipment	3	93,519	98,805
Total non-current assets		93,519	98,805
TOTAL ASSETS		215,099	297,390
Current liabilities			
Bank loans		-	-
Accounts payable and accrued expenses	9	272	1,046
Other current liabilities	10	18,43	-
Tax payable	11	105	-
Total current liabilities		18,809	1,046
TOTAL LIABILITIES		18,809	1,046
Equity			
Chamber of Auditors equity		196,290	296,344
TOTAL EQUITY		196,290	296,344
TOTAL LIABILITY AND EQUITY		215,099	297,390

Statement of Cash Flows

	Note	2017	2016
Cash flows from operating activities			
<i>Cash was provided from:</i>			
Membership dues		304,402	350,347
Training and examination fee		22,530	8,956
		327,017	359,296
<i>Cash was disbursed to:</i>			
Employee costs		(301,146)	(193,930)
Other payments		(105,897)	(121,666)
		(407,042)	(315,596)
Net cash inflow from operating activities	15	(80,025)	43,700
Cash from investing activities			
<i>Cash was applied to:</i>			
Purchase of property, plant and equipment	3	(1,830)	(2,203)
Net cash outflow from investing activities		(1,830)	(2,203)
Cash flows from financing activities			
<i>Cash was provided from:</i>			
Short term bank loans			
Charitable endowments		21,234	19,219
<i>Cash was applied to:</i>			
Short term bank loans			(24,023)
Charitable endowments			(991)
Net cash outflows from financing activities		21,234	(5,796)
Net increase/decrease in cash		(60,621)	35,702
Cash and cash equivalents at beginning of year	4	60,134	30,162
Effect of exchange rate change on foreign currency balance		958	(5,730)
Balance of cash and cash equivalents at end of year	4	471	60,134

Notes to the Financial Statements

1. Statement of Accounting Policies

Basis of Preparation

The Chamber of the Republic of Azerbaijan's financial statements have been prepared in accordance with International Public-Sector Accounting Standards. Where an International Public-Sector Accounting Standard does not address a particular issue, the appropriate International Financial Reporting Standard/International Accounting Standards has been applied.

The preparation of financial statements in conformity with generally accepted accounting practices requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Although these estimates were based on management's best knowledge of current events and actions, accrual results ultimately may differ from those estimates.

The national currency of the Republic of Azerbaijan is the Manat.

For the purpose of presenting additional information in US dollars, all items in the financial statements have been translated into US dollars at the closing rate of official exchange ruling of CBAR at the statement of financial position date of December 31, 2017 – 1 USD = 1.7001 AZN (2016: 1 USD = 1.7707 AZN).

The financial statements are prepared in United States dollars (USD).

Measurement Base

The accounting principles recognised as appropriate for the measurement and reporting of the financial performance, cash flows, and financial position on an accrual basis using historical cost were followed in the preparation of the financial statements.

Accounting policies

The following specific accounting policies that materially affect the measurement of financial performance and the financial position are applied:

Revenue Recognition

Membership dues revenue

Chambers of Auditors of the Republic of Azerbaijan recognised membership dues on a calendar basis. Dues are payable by the member body on receipt of an invoice in March for each respective year. Membership dues revenue were reported net of any approved discounts. The sum of a membership dues of members of Chamber is differentiated depending on the organizational form of members of Chamber. Membership dues make:

- for local independent auditors – 1,637 USD or 2,783 AZN (2016 – 1,572 USD or 2,783 AZN),
- for the local audit companies – 3,349 USD or 5,693 AZN (2016 – 3,215 USD or 5,693 AZN),
- for the branches and representatives of foreign audit companies in Republic of Azerbaijan 13,352 USD or 22,770 AZN (2016 – 12,820 USD or 22,770 AZN),
- for the foreign auditor companies and members of networks 4,412 USD or 7,500 AZN (2016 – 4,236 USD or 7,500 AZN).

Publications revenue

Revenue from sales of printed subscriptions were recognised when the publications were shipped.

Accounts Receivable

Accounts receivable were recorded at their estimated realisable value after providing for doubtful debts.

Employee Entitlements

Employee entitlements to salary, wages, annual leave, pension costs, and other benefits were recognised when they were accrued to employees. Annual leave has been calculated on an actual entitlement basis at current rates of pay.

Furthermore, Chamber of the Republic of Azerbaijan pays into the Azerbaijan state social security fund an amount of 22% of each employee's wage. These amounts are expensed as they are accrued.

Property, plant and equipment

Property, plant and equipment

Items of property, plant and equipment are stated at their purchase price or production cost less accumulated depreciation and impairment losses. Production cost for self-constructed assets includes the cost of materials, direct labor and an appropriate proportion of production overheads.

Depreciation

Depreciation is provided on a straight line basis over periods related to the estimated useful economic lives of assets and depreciated from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. The assets are depreciated using the tax allowable depreciation rates. The depreciation rates used for the major categories of assets are within the following ranges:

- Buildings - 20 year or 7%
- Office equipment - 5 - 8 years or 25%
- Furniture and fittings - 10 year or 20%
- Vehicles - 10 year or 25%

Maintenance and repair expenses on buildings and equipment incurred on renewal or conservation are recognised as expenses in the period in which they were incurred. Major maintenance and repair expenses are recorded as deferred expenses or written off as part of the reserve for fixed assets repair.

For operational fixed assets, which are not used for operational purposes, a provision is created. At each balance sheet date this provision is revised for any movements.

Foreign currency

Transactions in foreign currencies translated to United States currency at the approximate rates of exchange at the date of the transaction. Assets and liabilities at the balance date, denominated in foreign currencies, translated at the rates of exchange prevailing at the date. The resulting gains or losses recognised in the statement of financial performance.

Taxation

Income tax on the profit or loss for the year comprises current tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly to equity, in which case it is recognized in equity. The Chamber of Auditors is simple taxpayer in accordance with the 12th section of Tax Code of Azerbaijan Republic and tax rate is 4% of the revenue.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for in respect of the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Financial Instruments

Chamber of Auditors used non-derivative financial instruments as part of its normal operations. These financial instruments include bank accounts, certificates of deposit and accounts receivable.

Statement of Cash Flows

The following are definitions of the terms used in the statement of cash flows:

- (a) Cash comprise cash in hand, current bank balances and short-term deposits that can be converted to cash within two working days.
- (b) Operation activities include all transactions and other events that are not investing or financing activities.
- (c) Investing activities are those activities relating to the acquisition, holding, and disposal of fixed assets and investments. Investments can include securities not falling within the definition of cash.
- (d) Financing activities are those activities that result in changes to the size and composition of Chamber of Auditors' capital structure. This includes both equity and debt not falling within the definition of cash.

Changes in accounting policies

There have been no changes in accounting policies in the current year.

2. Chamber of Auditors of the Republic of Azerbaijan

Chamber of Auditors of the Republic of Azerbaijan is the independent financial body which is carrying out the organisation of state regulation and development of auditor service, protection of property rights of proprietors, interest of the state, managing subjects and auditors, the control over observance by independent auditors and the auditor organisations in the activity of the requirements following from act of the Republic of Azerbaijan.

The Chamber has started to function on April 4, 1996.

Chamber of Auditors of the Republic of Azerbaijan – Notes to the Financial statements

For the year ended December 31, 2017

Amount in US Dollars

Objectives - the organization of work of auditor service in republic and realization of measures on development and perfection of its activity according to the current legislation with a view of maintenance of exact and authentic conducting financial and book keeping in all managing subjects irrespective of a pattern of ownership.

Functions - gives out licenses to independent auditors and the auditor organizations; carries out the control over their work; prepares standards, instructions, recommendations and methodical instructions on carrying out of audit; spends repeated audits; gives out the auditor conclusions about reliability of an estimation of property of managing subjects at privatization and in connection with other purposes.

Powers - to check quality of the audit spent by independent auditors and the auditor organizations; to consider disputes of various character between independent auditors both the auditor organizations and their customers, to consider and solve complaints to actions of auditors; to render services to physical and legal persons in the field of auditor activity and on financial and economic attitudes; to solve other questions of auditor service entering into the competence of Chamber.

3. Property, plant and equipment

	Buildings	Office equipment	Furniture and Fittings	Vehicles	Other	Total
Amounts of fixed assets	84,996	26,528	16,020	147,120	3,828	278,492
Amounts of accumulated depreciation	(20,180)	(21,861)	(15,441)	(91,120)	(-)	(148,602)
Net book value at January 1, 2016	64,816	4,667	579	56,000	3,828	129,890
• Additions		2,203				2,203
• Disposal						
• Depreciation	(4,249)	(1,523)	(-)	(13,004)	(-)	(18,776)
• Depreciation on disposal						
• Exchange rate effect	(10,143)	(3,298)	(1,911)	(17,556)	(457)	(33,365)
• Exchange adjustments	2,662	2,700	1,842	11,649	-	18,853
Amounts of fixed assets	74,853	25,433	14,109	129,564	3,371	247,330
Amounts of accumulated depreciation	(21,767)	(20,684)	(11,599)	(92,475)	(-)	(148,525)
Net book value at December 31, 2016	53,086	4,749	510	37,089	3,371	98,805

Chamber of Auditors of the Republic of Azerbaijan – Notes to the Financial statements

For the year ended December 31, 2017

Amount in US Dollars

	Buildings	Office equipment	Furniture and Fittings	Vehicles	Other	Total
• Additions		1,830				1,830
• Disposal						
• Depreciation	(3,791)	(1,756)	(228)	(5,252)	(-)	(11,027)
• Depreciation on disposal						
• Exchange rate effect	3,108	1,095	585	5,380	140	10,308
• Exchange adjustments	(983)	(896)	(569)	(3,949)	(-)	(6,397)
Amounts of fixed assets	77,961	28,358	14,694	134,944	3,511	259,468
Amounts of accumulated depreciation	(26,541)	(23,336)	(14,396)	(101,676)	(-)	(165,949)
Net book value at December 31, 2017	51,420	5,022	298	33,268	3,511	93,519

4. Cash and Short-term Deposits

	2017	2016
Cash on hand	-	44,521
Bank accounts in national currency	16	15,142
Bank accounts in foreign currency	455	471
Total cash and short-term deposits	471	60,134

5. Dues Receivable

	2017	2016
Dues receivable	225,856	150,603
Provision for uncollectible dues	(188,722)	(48,193)
Total dues receivable – net	37,134	102,410

6. Other receivable

	2017	2016
Prepayment expenses	767	755
Personnel debt	4,478	3,057
Other debtors - tax prepayments	573	456
Total other receivable	5,818	4,268

Chamber of Auditors of the Republic of Azerbaijan – Notes to the Financial statements

For the year ended December 31, 2017

Amount in US Dollars

7. Inventory

The Chamber of Auditors of the Azerbaijan Republic publishes International Standards on Auditing in Azerbaijani language, scientifically-methodical materials and monthly scientifically-practical magazine "Economy and Audit ". The rest of finished goods under the scientifically-methodical publication accordingly at the end of 2017 and 2016 are the followings:

	2017	2016
Publication materials	17,382	17,509
Inventory	5,514	6,116
Total inventory	22,896	23,569

8. Other current assets

	2017	2016
Advance holders	55,261	8,204
Other current assets		
Total other current assets	55,261	8,204

9. Accounts payable

	2017	2016
Accounts payable	272	1,046
Employees liabilities	-	-
Total accounts payable	272	1,046

10. Other current liabilities

	2017	2016
Advance received	18,432	-
Grants and charitable received	-	-
Total other current liabilities	18,432	-

11. Current tax liabilities

	2017	2016
Tax liabilities	105	-
Social contribution liabilities	-	-
Total current tax liabilities	105	-

12. Commitments

Social commitments

The Chamber of Auditors of the Republic of Azerbaijan makes contributions to a number of mandatory social programs. The Chamber's social assets as well as local social programs benefit the community at large and are not normally restricted to The Chamber's employees. The Chambers of Auditors of the Republic of Azerbaijan has transferred certain social operations and assets to local authorities. However, the management expects that the Chamber will continue to fund these social programs for the foreseeable future. These costs are recorded in the year they are incurred.

13. Contingent gains and losses

Insurance

The insurance industry in the Republic of Azerbaijan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Chamber does not have full coverage for its plant facilities, business interruption or third party liability in respect of property or environmental damage arising from accidents on the enterprise property or relating to enterprise operations. Until the Chamber obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Chamber's operations and financial position.

Taxation contingencies

The taxation system in the Republic of Azerbaijan is relatively new and is characterised, by numerous taxes and frequently changing legislation, which may be applied retroactively and is often unclear, contradictory, and subject to interpretation. Often, differing interpretations exist among numerous taxation authorities and jurisdictions. Taxes are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges.

These facts may create tax risks in Azerbaijan substantially more significant than in other countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have differing interpretations and the effects could be significant.

14. Related party transactions

Chamber of Auditors of the Republic of Azerbaijan did not carry out any significant transactions with related parties.

15. Reconciliation of Net Surplus with Cash Inflow from Operating Activities

	2017	2016
Net surplus /(deficit) for the period	(112,359)	(2,501)
Add/(less) non-cash items:		
Depreciation	11,026	18,777
Net gain/(loss) on foreign currency balance	2,011	(158)
Add/(less) movements in working capital:		
Dues receivable	69,529	21,489
Other receivables	(1,373)	10,480
Inventory	1,651	5,610
Other current assets	(46,715)	7,723
Other payable	(786)	(2,946)
Other current liabilities	(3,114)	(14,017)
Tax payable	105	(758)
Accounts payable and accrued expenses		
Net cash inflow from operating activities	(80,025)	43,700

16. Risk Management

Credit risk

The financial assets which potentially subject the Chamber to concentrations of credit risk consist of cash and accounts receivable. The Chamber's cash deposits are placed with reputable financial institutions.

Interest rate risk

A majority of the Chamber's loans bear fixed interest. Interest expense connected with these loans was not hedged. Management believes that changes in their fair value due to interest rates fluctuation are not material.

Fair value

The carrying amounts of cash and cash equivalents, receivables, prepayments, other current assets, payables and current borrowings approximate their fair value due to the short-term maturity of these instruments except for the provision for bad receivables and inventory discussed in Note 3 and 5 respectively. Fair values of long-term borrowings with fixed rates may vary from their carrying values.

17. Subsequent events

There have not been any material subsequent events after the reporting period.