

**BAKER TILLY****20**  
YEARS  
OF EXCELLENCE

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*This document is a translation of the original text in Bulgarian,  
in case of divergence the Bulgarian original is prevailing.*

## **INDEPENDENT AUDITOR'S REPORT**

*To the sole owner of FUND FOR LOCAL AUTHORITIES AND GOVERNMENTS – FLAG EAD*

### **Opinion**

We have audited the consolidated financial statements of FUND FOR LOCAL AUTHORITIES AND GOVERNMENTS - FLAG EAD („the Group“), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give true and fair view of the financial position of the Group as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs), as adopted by European Union.

### **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 Consolidated Financial Statements* section of our report. We are independent of the Group within the meaning of the *Code of Ethics for Professional Accountants* issued by International Ethics Standards Board for Accountants (IESBA Code) and the Independent Financial Audit Act (IFAA) applicable to our audit of the consolidated financial statements in Bulgaria and we have also fulfilled our other ethical responsibilities in accordance with the requirements of IFAA and IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Other information, different from financial statements and auditors report**

Management is responsible for the other information. Other information, which we have received before the date of our auditor's report consist of Annual consolidated management report, prepared by management in accordance with Chapter Seven from Accountancy Act, but does not include the financial statements and our auditor's report.

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Registered in Bulgaria (ID – 131 349 346). List of directors can be found at the Company's Registered Office.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance thereon, unless if it is explicitly stated in our report, and to the extent it is stated. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

#### **Additional matters for reporting required by Accountancy Act**

In addition to our reporting requirements in accordance with ISA, described above in the section „Other information, different from financial statements and auditors report“ in relation to the Annual management report we have performed the procedures added to those required by the ISAs, in accordance with guidelines of the professional organization of Certified Public Accountants and Registered Auditors in Bulgaria - Institute of Certified Public Accountants (ICPA), approved by Management board on 29.11.2016. These procedures comprise checks on the existence, as well as checks of the form and content of this other information with the purpose to support us in forming of opinion, whether the other information includes the disclosures and reporting requirements, provided in Chapter Seven of the Accountancy Act, applicable in Bulgaria.

#### *Opinion in accordance with Art. 37, para. 6 of Accountancy Act*

On the basis of the procedures performed, our opinion is that:

- a) The information, included in the Annual consolidated management report for the financial year is consistent with the consolidated financial statements for the same reporting period.
- b) The Annual consolidated management report has been prepared in accordance with the requirements of Chapter Seven from the Accountancy Act.

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

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRS, as adopted by EU and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. During the preparation of these consolidated financial statements management has the responsibility to make an assessment regarding Group's ability to continue as going concern, and to disclose when it is applicable, questions related to the going concern assumption and to using the accounting framework based on going concern assumption, unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

#### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

The objectives of our audit are to obtain reasonable assurance about whether the consolidated 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 Independent Financial Audit Act and 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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 Group'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated 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 and business activities within the Group to express an opinion on the consolidated financial statements.

We communicate with the management, 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.

  
**Liliya Rangelova**  
CPA, Registered auditor

19 May 2017  
Sofia



  
**Krassimira Radeva – Managing Director**  
**Baker Tilly Klitou and Partners OOD**

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